50 Camberwell Road Hawthorn East VIC 3123

17 February 2026

Mr Paul Martyn
Chief Executive of the Department for Energy and Mining
South Australian Government
Lodged online via email: dem.ferm@sa.gov.au

Dear Mr Martyn,

Response to FERM Market Liquidity Obligation Consultation

The Clean Energy Investor Group (CEIG) welcomes the opportunity to comment on the South Australian Government's Firm Energy Reliability Mechanism (FERM) – Market Liquidity Obligation (MLO) Consultation Paper (January 2026).

CEIG represents domestic and global renewable energy developers and investors, with approximately 18GW of renewable energy capacity in the NEM across 139 power stations and a combined portfolio value of more than $41 billion. CEIG members' project pipeline is estimated to be more than 150GW across Australia. CEIG strongly advocates for an efficient transition to a clean energy future on behalf of the investors who will provide the low-cost capital required for this transition.

Key Points

GENERAL COMMENTS

- South Australia's leadership in renewable integration has been built on policy certainty and investor confidence; the FERM Market Liquidity Obligation must reinforce this strength by operating as a proportionate, transitional and nationally aligned measure, rather than introducing new sources of regulatory or financing risk.

South Australia's energy transition and the role of contract markets

- Liquid contract markets are essential to project bankability, retailer risk management and competition; further deterioration in liquidity will increase risk premiums, raise financing costs and ultimately flow through to higher electricity prices for consumers.

The case for intervention, and the risks of getting it wrong

- While intervention to address declining liquidity is warranted, poorly targeted or overly rigid obligations risk distorting incentives, increasing compliance costs and deterring investment in the clean firming and storage assets required for the next phase of the transition.

Alignment with the NEM Review and national market reform

- CEIG supports the NEM Review Panel's recommendation to trigger a Market Making Obligation in South Australia as soon as possible, initially applying only to cap contracts.
- However, without clear alignment to the NEM-wide MMO, including clarity on transition timing, treatment of overlapping obligations and resolution of rule conflicts, the South Australian framework risks increasing regulatory fragmentation, elevating perceived sovereign risk and weakening South Australia's competitiveness for global clean energy capital.

Scope of obligated participants and investor impacts

- Mandatory market-making obligations must be targeted to participants with genuine market-making capability, scale and retail exposure; applying obligations indiscriminately to all Recognised Electricity Entities would materially increase financing risk for many assets.

Products, parameters and market evolution

- An initial focus on cap contracts is appropriate, particularly for firming services, but product design must reflect the growing importance of shape risk in a weather-driven system.
- As CEIG highlighted in its NEM Review submission, standardised or fixed-shape derivative products can expose renewable generators, particularly wind, to material and often unhedgeable shape risk over long timeframes, undermining bankability and increasing the cost of capital.
- Liquidity settings and product parameters must therefore remain flexible and evolve with market conditions, rather than locking in rigid assumptions that shift system risk onto individual projects and deter investment.
- Operational settings should minimise unnecessary cost and volatility, including by preferring an 11:00–11:30 am MMO trading window and allowing the use of trading platforms other than the ASX to reduce compliance costs and operational burden.

Exemptions, interaction with other obligations and regulatory clarity

- A clear and robust exemption framework is essential, particularly for FERM-contracted assets and assets subject to other underwriting schemes, with unambiguous interaction with the Retailer Reliability Obligation and any future NEM-wide Market Making Obligation.

Implementation timing and transitional arrangements

- Implementation should be phased and supported by early regulatory guidance, with explicit confirmation that the South Australian Market Liquidity Obligation is transitional and will be superseded by the NEM-wide framework once established.

GENERAL COMMENTS

South Australia's electricity system sits at the leading edge of the global energy transition. The state now regularly operates at or near 100 per cent instantaneous renewable generation and has committed to achieving 100 per cent net renewable electricity by 2027.[1] This transformation has been enabled by a rare combination of clear policy direction, evidence-based reform, and sustained private investment confidence.

A defining feature of South Australia's success has been its ability to anticipate emerging system challenges and respond early, while maintaining a stable and investable policy environment. The Firm Energy Reliability Mechanism reflects this approach, seeking to support the orderly exit of thermal generation and the entry of long-duration firming capacity. The proposed Market Liquidity Obligation is intended to complement this objective by addressing the structural decline in contract market liquidity that accompanies the transition away from thermal plants.

CEIG supports in principle the intent of the Market Liquidity Obligation and agrees that declining liquidity in South Australia presents a genuine risk to competition, retailer risk management, and ultimately consumer outcomes. Liquid contract markets underpin project bankability, enable new entrants, and allow retailers to manage exposure in an increasingly weather-driven system. Where liquidity deteriorates, risk premiums rise, financing costs increase, and barriers to entry harden.

However, CEIG emphasises that liquidity interventions must be carefully calibrated. Market making is not a neutral or costless activity. It requires systems, expertise, risk appetite and balance-sheet capacity that not all market participants possess. Poorly targeted obligations risk increasing costs, distorting incentives, and undermining investor confidence at a critical moment in the transition.

For these reasons, CEIG considers that the success of the FERM Market Liquidity Obligation will depend on whether it is clearly positioned as a transitional, proportionate and nationally aligned measure that strengthens market confidence rather than adding regulatory risk. The obligation must work with the grain of South Australia's clean energy transition, not against it.

South Australia's Energy Transition and the Role of Contract Markets

South Australia has become a global leader in renewable energy integration, regularly operating at or near 100 per cent instantaneous renewable generation and targeting 100 per cent net renewable electricity by 2027. This achievement has not occurred by

[1] CEIG Report: South Australia Denmark Down Under

accident. It reflects more than a decade of consistent policy direction, early adoption of innovative system security solutions, and strong private sector investment in wind, solar, batteries and other firming technologies.

A defining feature of South Australia's success has been its ability to maintain investor confidence through periods of rapid change. Investors have continued to commit capital because policy objectives have been clear, reforms have been evidence-based, and market interventions have been designed with an understanding of how risk is priced and managed in practice.

Contract markets sit at the centre of this system. Liquid and functional contract markets underpin project bankability, retailer risk management, competition, and efficient price discovery. Where liquidity deteriorates, risk premiums rise, financing costs increase, and barriers to entry for new retailers and generators grow. These costs ultimately flow through to consumers.

CEIG therefore agrees with the Consultation Paper's diagnosis that declining contract market liquidity in South Australia presents a genuine policy challenge that warrants intervention.

The Case for Intervention, and the Risks of Getting It Wrong

CEIG acknowledges that previous measures, including the Market Liquidity Obligation associated with the Retailer Reliability Obligation and voluntary market-making initiatives, have not reversed the decline in South Australian contract liquidity. Structural changes in the generation mix, particularly the exit of thermal plants that historically underpinned contracting, have reduced the availability of natural counterparties in the market.

At the same time, CEIG cautions that liquidity is not an end in itself. Poorly targeted or overly rigid liquidity obligations risk creating new distortions. If compliance obligations are imposed on participants that lack the capability, systems or commercial rationale to act as market makers, the result may be higher costs, lower participation, and reduced willingness to invest in new clean capacity.

This risk is particularly acute in South Australia, where the next phase of the energy transition involves not just replacing thermal generation, but scaling firming and storage to support a predominantly renewable system. These assets are capital-intensive, sensitive to financing conditions, and heavily reliant on investor confidence in stable and predictable market frameworks.

Alignment with the NEM Review and National Market Reform

CEIG supports in principle the Consultation Paper's intent to align the FERM Market Liquidity Obligation with the National Electricity Market (NEM) Review's proposed Market Making Obligation (MMO). From an investor perspective, harmonisation between state-based mechanisms and national market reforms is critical to maintaining confidence and avoiding unnecessary regulatory complexity.

CEIG supported the NEM Review Panel's final recommendation that an MMO be triggered as soon as possible in South Australia, recognising the structural decline in contract market liquidity and the importance of early intervention. CEIG also supported the Panel's recommendation that, while both cap and baseload swap contracts may ultimately be designated, the MMO should initially apply only to cap contracts in South Australia, reflecting current market conditions and the established role of cap products in managing risk.[2]

As set out in CEIG's submission to the NEM Review, CEIG supports an MMO that is targeted, proportionate and flexible, applying mandatorily only to participants with the scale, portfolio diversity and retail exposure necessary to perform a genuine market-making function. This approach recognises that market making is not a neutral or costless activity. It requires sophisticated systems, trading expertise, risk appetite and balance-sheet capacity that many renewable generators and storage providers, particularly standalone or single-asset owners, do not possess.

Alignment with the NEM Review must extend beyond conceptual similarity. CEIG understands that the South Australian framework is intended to be harmonised with the NEM-wide MMO to support a smooth transition to the national approach, and that the South Australian MMO is intended to supersede the previously proposed FERM Market Liquidity Obligation parameters.

However, there remains insufficient clarity on the transition timeline to a NEM-wide MMO, the management of potential overlapping obligations during any interim period, and the resolution of conflicts between state-based requirements and future national rules. Without this clarity, there is a material risk that participants could face duplicative or inconsistent obligations, increasing regulatory risk and undermining investor confidence at a critical moment in South Australia's energy transition.

Scope of Obligated Participants and Investor Impacts

CEIG is concerned that applying the SA MMO to all Recognised Electricity Entities risks imposing obligations on entities for whom market making is neither commercially appropriate nor operationally feasible.

Many renewable generators and storage assets operate as standalone or single-asset businesses. They do not have retail exposure, do not maintain trading desks, and are often constrained by financing arrangements that prohibit speculative or two-sided trading activity. For these entities, mandatory bid–offer obligations introduce new risks without delivering commensurate system benefits.

From an investor perspective, these risks translate directly into higher costs of capital. Lenders and equity providers price regulatory and compliance risk conservatively, particularly where obligations are novel or untested. Over time, this can reduce the pool

[2] CEIG Submission: NEM Review Draft Report

of willing investors, slow project development, and increase the cost of electricity for consumers.

CEIG therefore considers it essential that mandatory obligations be targeted to participants with genuine market-making capability, with flexibility and exemptions available for other entities.

Products, Parameters and Market Evolution

CEIG supports in principle an initial focus of the South Australian Market Liquidity Obligation on cap contracts, reflecting their established role in managing price risk and their familiarity to market participants. Cap products remain a well-understood hedging instrument, particularly in a system where scarcity events continue to play a material role in price formation. CEIG has also supported the use of cap contracts for firming services in national market reform processes, including through the ESEM, where cap-style products were identified through pilot contract co-design as appropriate for firming.

However, CEIG cautions against extending standardised contract approaches beyond firming services to bulk energy services, particularly wind generation. As the electricity system becomes increasingly weather-driven and dominated by variable renewable energy and storage, liquidity mechanisms and product design must reflect the growing importance of shape risk, the risk that a generator's actual production profile diverges from the temporal assumptions embedded in standardised contracts.

As CEIG highlighted in its submission to the NEM Wholesale Market Settings Review,[3] fixed-shape or purely financial derivative products can expose renewable generators, especially wind projects, to material and often unhedgeable shape risk over long timeframes, undermining project bankability and increasing the cost of capital. This risk cannot be easily diversified at the project level and, where pushed onto individual assets through rigid product definitions or inflexible liquidity requirements, will be priced conservatively by investors or deter investment altogether.

CEIG therefore strongly cautions against liquidity settings that assume uniform or predictable generation profiles. Fixed minimum trading volumes, rigid bid–offer spreads, or narrowly defined contract shapes risk distorting price signals, shifting system-level risk onto individual projects, and crowding out efficient bilateral contracting.

Instead, CEIG supports a flexible and adaptive framework, where product scope, volumes and parameters can evolve in response to market conditions and observed outcomes. Ensuring that liquidity mechanisms accommodate, rather than exacerbate, shape risk, supporting cap contracts for firming services while exercising caution for bulk energy, particularly wind, will be critical to maintaining investor confidence and delivering the firming and storage investment required to sustain South Australia's clean energy leadership.

[3] CEIG Submission: NEM Review Draft Report

Operational parameters: trading windows and platforms

In addition, certain implementation parameters will materially influence compliance cost and market efficiency.

With respect to the proposed MMO trading window, CEIG has a preference for the 11:00–11:30 am window, as this period typically exhibits lower intra-day volatility compared to the 3:30–4:00 pm window. Concentrating trading obligations in a more stable period reduces pricing distortions, limits unintended exposure to short-term volatility and supports more orderly market participation. From an investor perspective, unnecessarily exposing obligated entities to heightened volatility through trading window selection would increase compliance risk without improving liquidity outcomes.

CEIG also recommends that the South Australian Government allow for the use of trading platforms other than the ASX for compliance with the Market Liquidity Obligation. For entities that do not regularly trade on the ASX, mandatory reliance on a single platform may introduce avoidable transaction costs, collateral requirements and operational burdens. Allowing alternative, appropriately regulated trading platforms would promote competition, reduce compliance costs and ensure the obligation operates efficiently across different participant types.

Ensuring that operational parameters such as trading windows and platform access are calibrated to minimise unnecessary cost and volatility will be important to maintaining investor confidence and supporting efficient market participation

Exemptions, Interaction with Other Obligations and Regulatory Clarity

CEIG supports in principle the inclusion of a clear exemption framework as an integral part of the SA MMO. Exemptions are not a concession; they are a necessary mechanism to ensure the obligation operates efficiently and fairly.

In particular, clarity is needed on how the SA MMO interacts with:

- FERM-contracted assets;
- other government underwriting schemes; and
- the Retailer Reliability Obligation and any future NEM-wide MMO.

Ambiguity in these interactions risks creating compliance uncertainty and discouraging investment at a time when South Australia is seeking to accelerate deployment of firming and storage capacity.

Implementation Timing and Transitional Arrangements

CEIG recognises the urgency of addressing declining liquidity and supports timely action. However, CEIG also notes that the proposed implementation timeframe coincides with the early operation of the FERM, ongoing national market reform, and heightened sensitivity among investors to policy uncertainty.

Clear transitional arrangements, phased implementation, and early guidance from the Scheme Regulator will be essential to ensure that the SA MMO enhances, rather than undermines, confidence during this period.

CEIG thanks the South Australian Government for the opportunity to provide feedback on its Consultation paper and looks forward to continued engagement on those issues. We would be happy to discuss any elements of this submission.

Yours sincerely,

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