Economic Regulation Authority

Our ref: D312743
Contact: Lipakshi Dhar

6 July 2026

[redacted]

Sent by email to [redacted]

Dear [redacted]

Response to request for guidance on the Offer Construction Guideline

I refer to your request for guidance on the Offer Construction Guideline (**Guideline**) dated 28 May 2026, on behalf of [redacted] The Economic Regulation Authority's (**ERA**) interpretation of your request is to provide guidance on calculating opportunity cost under various scenarios.

The Guideline outlines how the ERA assesses whether price offers are consistent with Economic Price Offers under the Electricity System and Market (**ESM**) Rules. It does not prescribe the treatment of every circumstance, and its application will depend on the relevant facts, including the Facility's characteristics, the Market Service concerned, and the operating circumstances at the time.

As a Market Participant with a Facility allocated to a Material Portfolio under ESM Rule 2.16C.1(c)(ii), [redacted] may request guidance from the ERA under ESM Rule 2.16D.5 in relation to the Guideline. In deciding whether it is required to provide guidance, the ERA has taken into account whether the request meets the requirements in ESM Rule 2.16D.6 and other considerations in ESM Rule 2.16D.10.

The ERA's responses to the matters raised in your letter are set out in Table 1.

Guidance is not binding and subject to change

Under ESM Rule 2.16D.11, except in relation to ERA's investigations under ESM Rules 2.16C.6 or 2.16C.7, any guidance provided by the ERA is not binding on the ERA, [redacted] or any other person; and the ERA may, at any time, reconsider, revise or withdraw any guidance provided.

This response is based on the current version of the ESM Rules (1 May 2026) and Guideline (1 February 2025) respectively.

The ERA must publish guidance

Under ESM Rule 2.16D.14, the ERA must publish on its website a public version of this guidance, with any confidential information redacted.

The ERA is *not* required to publish the guidance if it considers that this guidance cannot be redacted to ensure that a Market Participant's identity remains confidential.

The ERA requests you to, within 15 business days of this letter:

1. Identify what matters, if any, you consider must be redacted, including why a matter is confidential or commercially sensitive.

2. Inform the ERA if you consider that [redacted] identity cannot remain confidential even after redaction, and why.

Please refer to the ERA's confidential information policy for guidance on the types of information the ERA considers can be confidential. If you require additional time to identify the confidential matters as outlined above, please inform the ERA within 15 business days of this letter to discuss alternative arrangements.

Please direct any queries related to this matter to Market.Monitoring@erawa.com.au.

Yours sincerely

[redacted]

Rajat Sarawat

Deputy CEO, Energy Markets Division

Table 1: Response to the matters raised in your letter

Matter	The ERA's response
How to calculate opportunity cost where information regarding supply input costs (for example, diesel required for water pumping) is unreliable, and where the supplier does not control those inputs, particularly in the absence of formal supply arrangements.	The Guideline is principles-based and is not intended to provide prescriptive or operational guidance to Market Participants for specific circumstances. The ERA acknowledges that Market Participants operate under conditions of uncertainty and commercial risk in this market. Sections 2.1.1 and 3.2.7 of the Guideline outline general principles for a Market Participant to account for uncertainty and form its reasonable expectation of its efficient variable cost. Managing these risks and seeking to derive the greatest commercial benefit within the regulatory framework remain within a Market Participant's purview. Any decisions regarding risk management, contracting arrangements, and the approach to managing input cost uncertainty are matters for each Market Participant. The ERA does not prescribe specific commercial arrangements. In all circumstances, including where a Market Participant elects *not* to enter into formal supply arrangements for any inputs, the Market Participant remains responsible for forming and substantiating its reasonable expectation of efficient variable costs in accordance with the Guideline, including demonstrating how relevant risks and costs have been considered. The costs included in a Market Participant's price offer must be reasonable, verifiable and capable of independent replication. As illustrated in Example 16 in Section 3.2.7 of the Guideline on accounting for uncertainty, a Market Participant must make forecasts based on its assessment of information to form its price offers. As stated in Example 16 of the Guideline, a Market Participant must review its forecasts and offers regularly, and correct a persistent over- or under-recovery of its costs. Consistent with section 2.1.1 of the Guideline, a Market Participant's forecasts, and the resulting price offers, need to be based on a reasonable expectation on the information's reliability, including any uncertainty. Further, section 2.1.1 of the Guideline also requires a Market Participant to maintain sufficient evidence to enable the ERA to independently reach a similar assessment. Regarding the calculation of opportunity cost, section 3.2.5 of the Guideline sets out that the opportunity cost of electricity sales may be an efficient variable cost of producing electricity where the Market Participant is limited in the amount of electricity it may produce due to an unexpected disruption to its fuel supply. This extends to disruptions in inputs required for a Market Participant to produce electricity. The Market Participant must apply the principles outlined in the Guideline by considering how the limited input would be allocated over the period of the input shortage.
How to account for uncertainty of information/delivery/supply of an input in opportunity cost pricing.	Consistent with the response to the matter above, uncertainty arising from delivery, supply, or the absence of formal commercial arrangements is a matter for the Market Participant to manage when forming its opportunity cost assessment (as covered in sections 2.1.1 and 3.2.7 of the Guideline). A Market Participant

Matter	The ERA's response
	must make a reasonable determination on the availability of its relevant inputs and maintain sufficient evidence to enable the ERA to independently reach a similar assessment, based on the information the Market Participant knew, or ought reasonably to have known, as a reasonably acting Market Participant. Where there is uncertainty regarding the information, and delivery or supply of the input, it may be reasonable to assess the likely outcome by reference to previous comparable experiences, to the extent that that experience was sufficiently relevant. If no relevant previous experience is available, then the Market Participant must make a reasonable estimate that is justifiable to the level of a Market Participant acting reasonably in the circumstances, and able to be verified and independently replicated by another party.
How opportunity cost pricing can be implemented for prolonged periods of time when a facility isn't flexible. i.e. is unable to cycle daily.	The same principles as discussed in the response to the matters above apply to prolonged periods of constrained operation. A Market Participant must make a reasonable assessment, based on the information it knew or ought reasonably to have known at the time, as a reasonably acting Market Participant, and maintain sufficient evidence to enable the ERA to independently reach a similar assessment. Where a Facility cannot cycle daily due to an input shortage, the opportunity cost assessment may need to be undertaken over the likely duration of the shortage, having regard to the Facility's characteristics and operational constraints. This would involve allocating the scarce input or limited operating opportunities to the periods where its use is expected to provide the greatest value to the Facility, and constructing offers consistent with the value of preserving that capability for those periods, given the technical constraints of the Facility. The opportunity cost of operating now is the revenue that would be foregone from the alternative run that would not occur because the scarce input has been used and operating opportunity forfeited. In practice, this means pricing such that the Market Participant is indifferent between operating now and preserving the input or operating opportunity within the relevant period of the shortage, consistent with the response to Matter 1 above.