18 December 2025

Australian Energy Market Commission
Project Sponsor – Mr Sebastien Henry

Submission lodged via the Project Page.

Dear Mr Henry,

SUBMISSION TO CONSULTATION PAPER OPTIMISING CONTINGENCY SIZE IN DISPATCH AND ALLOCATING FCAS CONTINGENCY COSTS

Delta Electricity ('**Delta**') welcomes the opportunity to comment on the Australian Energy Market Commission's ('**AEMC**') consultation paper on optimising contingency size in dispatch and allocating FCAS contingency costs.

While Delta supports the AEMC's ongoing focus on efficient market outcomes and system security, we do not consider the proposed changes would promote the long-term interests of consumers. We are concerned that the proposals would undermine long-term investment signals, reduce transparency and predictability, and introduce unnecessary complexity and uncertainty into dispatch and cost recovery arrangements.

Optimising contingency size in dispatch (ERC0359)

Long-term investment and contracting signals

Explicit economic optimisation of contingency size in dispatch would introduce a new and discretionary intervention into energy market outcomes. Large generators could be constrained for economic reasons unrelated to their bids or underlying system security requirements. This weakens the relationship between bidding, dispatch, and revenue outcomes, increasing basis and volume risk for contracts. Over time, this additional uncertainty is likely to discourage long-term contracting and raise investment risk premiums, particularly for large-scale dispatchable assets that are critical to system reliability during the transition.

Transparency and predictability of dispatch

The current dispatch framework is well understood by participants and provides a high degree of transparency. Introducing contingency size optimisation based on assessments of relative FCAS and energy costs would reduce predictability and make dispatch outcomes more difficult for participants to anticipate or explain.

Reduced transparency increases the risk of unintended behavioural responses and undermines confidence in market outcomes.

Existing arrangements already address extreme conditions

The circumstances identified by the proponent primarily arise during rare and extreme system events. AEMO already has tools and obligations to manage these conditions where required for system security. We are not convinced that these infrequent events justify a permanent rule change that alters dispatch incentives across all conditions.

Delta Power & Energy (Vales Point) Pty Ltd (trading as Delta Electricity) ABN 75 162 696 335 | ACN 162 696 335
SYDNEY OFFICE Suite 9.02, 580 George Street, Sydney NSW 2000 | PO Box 7285 Mannering Park NSW 2259
Telephone 02 4352 6111 | Facsimile 02 4352 6460 | www.de.com.au

Allocating contingency FCAS costs using runway pricing (ERC0360)

Long-term investment signals and risk allocation

Runway pricing would significantly alter the allocation of contingency FCAS costs by concentrating financial exposure on the largest generators and loads. These costs are highly volatile and driven by low-probability, high-impact events that are largely outside the control of individual participants. Concentrating this tail risk on individual assets would increase revenue volatility, raise the cost of capital, and ultimately increase costs to consumers. This outcome is inconsistent with providing stable, efficient long-term investment signals.

Transparency and cost predictability

While the current proportional cost allocation framework is not perfectly cost-reflective, it is transparent and predictable. Participants can understand their likely exposure and manage risk accordingly. Runway pricing would reduce transparency by linking costs to dynamic system conditions and relative unit size, making FCAS exposure difficult to forecast. This lack of predictability would complicate operational and commercial decision-making and reduce confidence in the market framework.

Risk of unintended behavioural outcomes

Concentrating FCAS costs on large units risks encouraging inefficient outcomes, such as asset reconfiguration or bidding behaviour driven primarily by cost avoidance rather than efficient dispatch. These distortions could reduce overall market efficiency and undermine the objectives of the FCAS framework.

Conclusion

Considered together, the two proposed changes would materially increase uncertainty and complexity in both dispatch and cost recovery. The interaction between discretionary dispatch intervention and concentrated FCAS cost exposure further amplifies financial risk for large participants and weakens long-term contracting and investment signals.

For the reasons outlined above, we do not support either optimising contingency size in dispatch or allocating contingency FCAS costs using runway pricing. The proposed changes would weaken long-term investment and contracting signals, reduce transparency and predictability, and introduce additional risk and complexity into the NEM. We therefore recommend that the Commission not proceed with ERC0359 or ERC0360 and instead continue to rely on existing arrangements while exploring more targeted, transparent, and incremental approaches to managing contingency FCAS risks and costs.

For further discussion, please contact Delta's Market Compliance and Regulation Manager, Joel Aulbury at joel.aulbury@deltapae.com.au.

Yours sincerely,

ANDY YOUNG
ENERGY MARKETS RISK MANAGER