

18 December 2025

Anna Collyer
Chair
Australian Energy Market Commission

Submitted online: www.aemc.gov.au

Dear Ms Collyer

Optimising contingency size in dispatch and Allocating FCAS contingency costs – Consultation Paper

Origin Energy Limited (Origin) welcomes the opportunity to provide comment on the Australian Energy Market Commission's (AEMC) Optimising contingency size in dispatch and Allocating FCAS contingency costs Consultation Paper.

Origin considers the existing approach to co-optimising frequency control ancillary service (FCAS) and energy, and the allocation of liabilities, to be operating effectively. The current shared allocation of contingency FCAS liabilities is well understood by market participants and supports a more resilient NEM than the proposed approach, which would concentrate liability among fewer participants. In contrast, the proposed rule changes would increase market complexity and could lead to adverse, unintended consequences at a time of heightened change in the energy transition. Coupled with the potential cost of implementation, we are not supportive of progressing the proposed reforms.

The two rule change proposals suggest reforms are needed to efficiently manage the size of the largest credible load and generation contingency event, which influences the volume of contingency FCAS AEMO is required to procure. However, the materiality of the issue and associated case for change in a transitioning market appears limited. As noted by the AEMC:

- AEMO's existing Constraint Formulation Guideline already co-optimises contingency size with the price of FCAS when system security risks are greatest;¹
- the significance of individual generation unit contingencies is likely to decline over the course of the transition, potentially reducing the value and benefit of runway pricing and contingency size optimisation of these units over time;² and
- market participants would need to be able to sufficiently act on the change in cost allocation to drive any change in participant bidding and investment behaviour.³ If the costs of contingency FCAS continue their structural decline as large battery energy storage systems (BESS) continue to enter the market, these signals and any potential efficiency gains are likely to be low.

We also agree the proposed rules (particularly runway pricing) could give rise to a range of additional risks / costs and distort participant behaviour. Concentrating financial exposure to contingency FCAS

¹ AEMC, 'Optimising contingency size in dispatch and Allocating FCAS contingency costs – Consultation Paper', 20 November 2025, pg. 9.

² Ibid, pg. 23.

³ Ibid, pg. 21.

costs on the largest participants would likely drive those providers to operate more conservatively to ensure sufficient capacity is available to manage their exposure. This could reduce the level of capacity available for dispatch and contracting (i.e. as energy swaps or caps), which may in turn put upward pressure on spot / contract prices and reduce allocative efficiency.

A major unplanned outage of one of the large generators would also shift the provision of these services to the next largest generator. Under this scenario, the exposure would be difficult to estimate in real time and, for contingency raise services, could trigger a cascading response as generators ramp down to avoid these costs, driving higher spot prices. Market participants that do not hold the first-order liability could therefore also be incentivised to hold capacity that could otherwise contribute to energy or FCAS provision, in reserve. Power purchase agreements (PPA's) also often include "reasonable endeavours to generate" clauses that allow operators to consider commercial interests and provide the option to reduce output or switch off if FCAS raise liability is attributed to them, which could drive further volatility in energy / FCAS markets as the existing fleet progressively transitions to a higher levels of variability renewable energy (VRE).

There would also be other cost impacts. As noted by the AEMC, the proposals could result in additional investment premiums, with VRE / BESS developers needing to factor in the provision or contracting of contingency FCAS services into their project economics. It is possible this could result in large projects not maximising their potential if it risks triggering an additional liability. Further, costly IT system upgrades could be required for both AEMO and market participants – we support the AEMC engaging further with AEMO to understand the potential magnitude of those costs.

Noting the above, we do not consider there would be net benefits to implementing the proposed changes. On balance, we also see value in regulatory stability and certainty at this time with so many other significant / critical changes underway.

If you wish to discuss any aspect of this submission further, please contact Liz Robertson at elizabeth.robertson@originenergy.com.au.

Yours Sincerely,

A handwritten signature in dark ink, appearing to read 'S Cole'.

Shaun Cole
Group Manager, Regulatory Policy