18 December 2025

Ms Anna Collyer
Chair
Australian Energy Market Commission
Level 15, 60 Castlereagh Street
Sydney NSW 2000

Submitted via AEMC portal at www.aemc.gov.au

Dear Ms Collyer

Re: Stanwell response to the National Electricity Amendment (Optimising contingency size in dispatch and Allocating FCAS contingency costs) Rule

Stanwell Corporation Limited (Stanwell) welcomes the opportunity to respond to the Australian Energy Market Commission's (AEMC) consultation on the National Electricity Amendment (Optimising contingency size in dispatch and Allocating FCAS contingency costs) Rule.

Stanwell is Queensland's leading provider of electricity and energy solutions to the National Electricity Market (NEM), and large energy users along the eastern seaboard of Australia. With over 40 years of continuous operations, Stanwell's experience in working with communities to build, operate and maintain reliable energy generation assets is also being applied to the rollout of renewable energy.

Stanwell is developing a pipeline of renewable energy and energy storage projects throughout Queensland, whilst maintaining a reliable supply of baseload power from two of the most efficient and reliable coal-fired power stations in Australia – the Tarong Power Station near Kingaroy, and Stanwell Power Station near Rockhampton.

This response contains the views of Stanwell only and should not be construed as indicative or representative of the views of the Queensland Government.

Introduction

Stanwell appreciates the AEMC engaging with the market on the proposals to consider contingency size optimisation and runway pricing for frequency control ancillary services (FCAS) arrangements in the NEM.

Various market dynamics have led to the decline in FCAS costs over time. Importantly, FCAS costs are a small fraction of the overall energy market turnover.[1] The proposals in this rule change, both individually and cumulatively, only consider a small proportion (i.e. the contingency portion) of this very small fraction of total electricity supply costs.

While there is arguably technical merit in both contingency optimisation and runway pricing being used together in some circumstances, Stanwell does not believe the proposed changes will provide the net benefits claimed in the paper. Where there are benefits, we believe they will be negated by the costs associated with implementation and the ongoing operational costs resulting from this rule change.

Stanwell is concerned that if these changes are implemented as proposed, they will ultimately result in unnecessary additional costs, regardless of whether the proposals are implemented individually or together.

[1] See for example, Joel Gilmore, Tahlia Nolan, and Paul Simshauser, 'The Levelised Cost of Frequency Control Ancillary Services in Australia's National Electricity Market' (2022), *University of Cambridge Energy Policy Research Group*.

Proposal 1: co-optimising the size of the largest credible contingency in dispatch

The *National Electricity Rules* (Rules) do not prevent the Australian Energy Market Operator (AEMO) from co-optimising the largest contingency – noting that FCAS costs are currently co-optimised with energy costs in the National Energy Market Dispatch Engine (NEMDE). Additionally, AEMO has the capability to find the overall least cost system solution for every five-minute interval.[2] FCAS and energy are bid simultaneously, which means that if FCAS prices rise, generators may bid their energy price higher to earn FCAS revenue. FCAS cost is then factored into dispatch, raising energy prices where the FCAS cost is high.[3]

However, the size of the FCAS requirement in NEMDE is a relatively fixed input which this rule change seeks to alter through additional co-optimisation. This additional co-optimisation is likely to result in a marginal slowdown of NEMDE, while also reducing the supply of low-cost energy to avoid procuring higher priced FCAS. We are of the view that for the vast majority of the time, when this slow-down occurs, it will be for no benefit – that is, NEMDE will typically minimise total costs by minimising energy costs, rather than by minimising FCAS costs.

In our view, FCAS markets are generally working well, and due to their small percentage of the energy market, any further adaptation will need to be at low cost. We believe the proposals will not lead to a low-cost outcome.

The co-optimisation proposal is unlikely to deliver the desired benefits

Comparably, FCAS costs are considerably less than energy costs, and contingency FCAS is considerably less again. On this point we acknowledge that co-optimisation of the largest credible FCAS contingency in dispatch is intended to improve dispatch outcomes, and may indeed result in the reduction of contingency FCAS costs.

However, further thought is needed here. Given generators bear the cost of the three contingency raise FCAS services,[4] the co-optimisation of the largest credible contingency in dispatch is also likely to increase the energy price by effectively forcing generators to reserve capacity for stability, thereby creating an opportunity cost for energy.[1] Importantly, generators will also consider the FCAS price relative to energy price when generating.[4]

AEMO's dispatch engine has the capability to, and does, adjust the energy and FCAS dispatch volumes in circumstances where it will provide an overall benefit to consumers. As noted by AEMO, NEMDE sets the FCAS price high and energy price low (or vice versa) as it simultaneously dispatches energy and FCAS to find the cheapest solution within the energy system.[5] Regardless of the FCAS price, in almost all cases, the energy price will always be the higher contributor to this optimisation and is also the most "visible" for generators, policy makers and consumers.

Although reduced contingency FCAS costs are cited as a benefit under the co-optimisation proposal, the proposal does not consider, or ignores, the increase in energy prices which would occur due to the reduction in low-cost energy being dispatched. While this outcome may be rare, it still ultimately results in the most visible price (i.e. the energy price) rising, while any short-term potential benefits for the market and consumers are negated over the longer term as a result of the higher energy price.

Added to this, the transition to more Battery Energy Storage Systems (BESS) in the energy system has effectively saturated the FCAS market, resulting in a significant reduction in the revenue opportunities previously available from the FCAS market. It is likely these revenue opportunities will continue to decline under this proposed rule change and as more inverter-based resources and BESS enter the system.[1]

Although the consultation paper does acknowledge that limited benefits may only occur during trading intervals of regional islanding or credible regional islanding, the paper has not provided any analysis to prove this will actually be the case or whether the results are material.

[2] Australian Energy Market Operator 'FACS Model in NEMDE' (3 June 2024).
[3] See Jonathon Dyson, 'Let's talk about FCAS' (March 2017), *WattClarity by Global-Roam* accessed at wattclarity.com.
[4] See Allan O'Neil, 'Don't forget about FCAS' (17 February 2020), *WattClarity by Global Roam*, accessed at wattclarity.com.au.
[5] Australian Energy Market Operator 'Guide to Frequency Control Ancillary Services' (October 2023).

Without further analysis, and based on the information we have to date, if the contingency co-optimisation proposal is to be implemented, it may provide a very occasional, very small benefit that is unlikely to outweigh the immediate and ongoing costs associated with implementation and operation.

Commercial risk and other considerations

In our view the impacts on the commercial viability of larger generators would be material when they are unnecessarily constrained off to accommodate smaller FCAS procurement volumes. Ultimately this erodes the value of the business case for both larger VRE and synchronous plant, resulting in less investment in these technologies.

The consultation paper states that:[6]

"… interventions like this in the central dispatch process can negatively impact operational or commercial outcomes for participants. Where these interventions would lead to long run costs (such as a reduction in the long run efficiency of bids or loss of investor or participant confidence) that outweigh the benefits of the interventions, these interventions should not be taken."

We understand that the intent of this passage is that AEMO would be able to, but not required to, make a co-optimisation decision. However, this does not seem a practical outcome. NEMDE optimisations need to be formulaic, not subjective, and AEMO appears to have no way of quantifying what long-run costs would be incurred by a short-run intervention.

Given AEMO have no visibility of financial contracts, it is unclear how it would then assess whether there is a negative impact on a participant in the event a large generating unit's output is constrained to co-optimise the size of the contingency requirement. For example, where a participant has hedged 90 per cent of their generation, and co-optimisation then reduces their ability to generate and subsequently manage their risk, the participant will be financially impacted. Given the participant's hedge position will not be visible to AEMO, it is not clear how AEMO will determine whether the intervention should or should not be taken. Equivalently, the impact may be that the participant decided to sell less hedges in the future to avoid a similar adverse outcome, affecting risk management for the participant and the hedge buyer.

This seems a flawed assumption in the proponent's justification. The logic that should be applied to the AEMC decision making is: do not intervene if there is a reasonable likelihood that the costs will outweigh the benefits of the intervention.

Proposal 2: Apportioning contingency FCAS costs using "runway" cost allocation

The concept of runway pricing may effectively incentivise large generators to reduce output. That is, they will be incentivised to generate less to avoid being the largest generator in that region, ultimately resulting in increased energy costs as plant operates less efficiently.

The rule change proposal considers that co-optimising FCAS contingency size in dispatch would lead to the economic curtailment of large generators through re-bidding, while smaller generators would be dispatched at higher levels.

If a generator is economically curtailed when offering their services into the market, as noted above, a rise in the energy price is likely. This energy price rise will overwhelm the drop in the FACS cost and ultimately negate any benefit the contingency co-optimisation is intended to provide for consumers.

The approach in the consultation paper as suggested in Proposal 2 seems to be the worst case outcome, in that generators will have little choice but to take action that will ultimately increase energy prices in order to marginally reduce FCAS costs for the market.

Runway pricing was also considered by AEMO's predecessor, the National Electricity Market Management

[6] Australian Energy Market Commission 'National Electricity Amendment (Optimising contingency size in dispatch and Allocating FCAS contingency costs) Rule' (2025), p 2, cl 3.1.

Company (NEMMCO) in their 2007 Review.[7] After detailed analysis, NEMMCO were unable to justify the introduction of runway pricing at the time.[7] Appreciating that the market has changed since 2007, it is even more prudent to consider further analysis before the implementation of runway pricing can be given any serious consideration.[7]

In particular, the observed implementation costs and complexity is significantly higher than would have been assumed in the 2007 review, meaning the anticipated benefit would need to be much larger in order to provide a net benefit.

The application of runway cost allocation to networks

As a general principle, if runway cost allocation were to be implemented, where networks contribute to a credible contingency event they should also be included in their share of the contingency costs pool. However, this would be a costly framework to implement and operate with little benefit for consumers.

While we do not support runway cost allocation, we do recognise that it may be implemented in any case. In the event this does occur, a better approach (in terms of costs and benefits) is to apply runway pricing to *networks in conjunction with co-optimisation*. This may work to produce sufficient benefits to justify the costs, and result in a fairer apportionment of contingency costs between large generators and networks. However, prior to any implementation, the actual benefits will need to be quantified and a cost benefit analysis performed to see whether there is indeed a tangible benefit.

Conclusion

The lack of detailed analysis, and our own experience with the operation of the FCAS market, make it difficult for Stanwell to support these proposals in their current form.

Although the proposals and the AEMC's views on the benefits to be gained do not seem unreasonable at first glance, given the relatively small portion of the market contingency FCAS represents, we do not see how the proposed benefits will outweigh the costs, especially given neither of the proposals provide any measurable analysis to adequately understand what the expected benefits and costs may be.

We do not support the application of runway cost allocation. However, as we have stated, any allocation of runways costs to networks while fair, may also be costly to implement. Given this, runway cost allocation (if implemented), should be applied to networks in conjunction with co-optimisation as a way to ensure that some benefits may be gained when compared to the implementation costs.

Stanwell welcomes the opportunity to further discuss any of the issues raised in this submission. Please direct any enquiries to Lya McTaggart via email at lya.mctaggart@stanwell.com

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[7] National Electricity Market Management Company, 'FCAS Review Report' (July 2007), p 27.