Your ref: ERC0359, ERC0360

16 July 2026

Australian Energy Market Commission
Level 15, 60 Castlereagh Street
Sydney NSW 2000

Submitted online at: www.aemc.gov.au

Dear Project Leader,

Submission: Contingency Frequency Control Ancillary Services rule change

CS Energy welcomes the opportunity to provide a submission in response to the Australian Energy Market Commission's (**AEMC's**) *draft determination – Improving contingency frequency control ancillary services (**FCAS**) arrangements rule* (**Draft Determination**).

About CS Energy

CS Energy is a Queensland Government owned corporation that provides power to some of the State's biggest industries and employers. We generate and sell electricity in the wholesale and retail markets, and we employ over 700 people who live and work in the regions where we operate.

CS Energy owns thermal power generation assets, and we are building a more diverse portfolio. We also have a renewable energy offtakes portfolio of almost 300 megawatts, which we supply to our large commercial and industrial customers in Queensland. CS Energy is developing a 400 MW gas-fired peaking generator at Brigalow near Kogan Creek in Queensland.

Overall views

As the National Electricity Market (**NEM**) transitions to a system with more variable renewable energy (**VRE**), the ability to effectively and efficiently manage grid security and reliability against this evolving landscape is critical. In this context, fit-for-purpose FCAS market frameworks are crucial to facilitate efficient investment, operation and maintenance of system security at least cost in the NEM.

CS Energy supports the AEMC's preferable draft rule that introduces:

- A 'reasonable endeavour' obligation for the Australian Energy Market Operator (**AEMO**) to formalise its current practice of undertaking contingency size optimisation during dispatch, instead of mandating such optimisation;
- No changes to the cost-recovery approach to contingency FCAS, instead of adopting a 'runway' methodology; and

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- New obligations requiring AEMO to report transparently on the instances and how contingency size co-optimisation constraints were applied and, where relevant, AEMO's evaluation of the impacts of optimisation in maximising the value of spot market trade.

Mandating contingency size optimisation and a runway cost recovery for contingency FCAS, as proposed by the rule change proponents, would likely lead to negative impacts on:

- Long-run investment efficiency by undermining the commercial viability of larger plants due to higher allocation of FCAS costs[1] and forgone revenues from the spot and derivative markets (owing to actual or potential curtailment). Larger units (both VRE and synchronous plants) provide broader efficiency benefits through economies of scale and higher operational efficiency. Larger synchronous units also supply a higher level of system strength and inertia due to their heavier mass. Unwarranted reduction in the commercial viability of larger plants would result in less investment in such units, which leads to material efficiency losses that would increase the costs for consumers in the long run; and
- Derivative contract market liquidity by decreasing the willingness of larger generators to offer swaps, caps and options due to the risks of curtailment undermining the ability of these plants to defend their contractual positions. Larger scheduled plants are the predominant source of electricity derivatives because of their controllability, which allows them to better manage price volatility within the NEM. Reduced contract liquidity will have detrimental effects not only on price discovery but also the ability of retailers to hedge price/volume volatility, ultimately increasing costs for consumers.

Importantly, the efficiency losses in the spot market and reduction in contract liquidity would significantly outweigh any potential benefits stemming from the proponents' proposals, given the substantially smaller FCAS market relative to both spot and derivative markets with the value of the FCAS market expected to decline further due to the influx of utility-scale batteries.

While CS Energy supports the 'reasonable endeavour' approach, we consider that refinements should be made to the draft rule to better reflect the intent of the AEMC's draft determination. Specifically, draft clause 3.8.1(b1) does not stipulate the factors that AEMO needs to consider when using its reasonable endeavours to undertake contingency size optimisation.

In its draft determination, the AEMC noted that in deciding whether optimisation is appropriate, '*…AEMO should give consideration to the materiality, practicality and system security implications…*' and AEMO is not expected to apply optimisation if it is *'…uncertain whether its application would improve market outcomes…*'. Without similar guidance incorporated into the rule, it is unclear how AEMO would, in practice, balance different competing factors, such as feasibility, benefits and costs, when applying optimisation.

If you would like to discuss this submission, please contact Wei Fang Lim, Market Regulatory Manager, on either 0455 363 114 or wlim@csenergy.com.au.

Yours sincerely

Dr Alison Demaria
Head of Policy and Regulation

[1] One of the key implications of the 'runway' methodology is the allocation of a greater share of costs to the larger units while substantially reducing the costs for smaller units.