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Australian Energy Market Commission
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Submitted electronically via

Improving contingency FCAS arrangements – Draft determination – 4 June

EnergyAustralia is one of Australia's largest energy companies with around 2.2 million electricity and gas accounts across eastern Australia. We also own, operate and contract a diversified energy generation portfolio across Australia, including coal, gas, battery storage, demand response, wind and solar assets, with control of over 5,000MW of generation capacity.

EnergyAustralia welcomes the opportunity to provide feedback on the AEMC's draft determination. We support the Commission's decision to make a more preferable rule that formalises AEMO's existing co-optimisation practices, improve transparency, and retains current contingency FCAS cost recovery arrangements.

In our view, the draft rule decision represents a pragmatic and proportionate response to the issues raised by the proponent. It appropriately balances system security and reliability with opportunities for incremental efficiency improvements, while minimising implementation costs and delivery risks. As such, we consider it is consistent with the long-term interests of consumers. We support the incremental and transparency-led approach taken by the Commission.

Support for formalising co-optimisation

EnergyAustralia supports the Commission's approach to formalising AEMO's obligation to use "reasonable endeavours" to co-optimise the size of the largest credible contingency, without mandating its application in all circumstances. This approach appropriately:

- recognises that the benefits of expanded co-optimisation are incremental and concentrated in a relatively small number of intervals rather than across the market as a whole
- preserves operational flexibility by allowing AEMO to apply co-optimisation where appropriate while continuing to prioritise system security, reliability and real-time operating conditions
- avoids embedding complex operational decisions in the Rules that could constrain AEMO's ability to respond to evolving system conditions

- reflects existing practice, recognising that AEMO already undertakes co-optimisation in certain circumstances consistent with its obligation to maximise the value of spot market trading.

However, we note a potential disconnect between the policy intent described in the draft determination and the proposed rule drafting. The determination makes clear that co-optimisation is expected to remain a discretionary tool that can be applied having regard to system conditions, operational practicality and the likely benefits of its application. By contrast, the proposed "reasonable endeavours" obligation provides limited guidance regarding the circumstances in which co-optimisation would be expected.

From a market participant perspective, greater clarity would improve transparency and predictability regarding dispatch outcomes and FCAS procurement. Clearer articulation of the factors relevant to the exercise of the obligation would better assist participants in understanding how and when co-optimisation may influence market outcomes.

Transparency as a proportionate regulatory approach

EnergyAustralia supports the Commission's focus on improved transparency as the primary reform mechanism. This approach is effective because it enhances predictability and market confidence, while also creating an evidence base to assess whether further reform is warranted. The combination of weekly and quarterly reporting provides both timely operational insight and visibility regarding when and how co-optimisation is applied, supporting informed engagement over time.

Importantly, these benefits are achieved without introducing material implementation risk or constraining AEMO's operational discretion.

Retaining existing cost recovery arrangements

EnergyAustralia supports the Commission's decision not to progress changes to contingency FCAS cost recovery arrangements currently. The case for reform is limited. Contingency FCAS costs represent a relatively small share of overall market costs, inherently limiting the potential benefits of more cost-reflective allocation approaches.

The Commission's assessment also appropriately identifies the risk of unintended incentives by encouraging changes in output that do not reduce the underlying contingency requirement, potentially resulting in less efficient dispatch outcomes.

These concerns are compounded by significant implementation complexity and cost. Such changes would require significant system modifications and compete with higher priority market reforms. Given the uncertain and potentially limited benefits, these costs are difficult to justify. By contrast, the current framework remains simple, predictable and well understood. While not perfectly cost reflective, they continue to support stable and efficient market outcomes.

If you would like to discuss this submission, please contact me on (03) 9060 0713 or email at Ana.Spataru@energyaustralia.com.au.

Regards

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