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Australian Energy Market Commission

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Draft Rule Determination: Improving Contingency FCAS Arrangements

Origin Energy Limited (Origin) welcomes the opportunity to respond to the Australian Energy Market Commission's (AEMC) *Draft Rule Determination: Improving Contingency FCAS Arrangements.* The Draft Rule Determination represents a proportionate and well-reasoned response to the issues raised in the Rule change requests and would provide for regulatory stability at a time of significant change in the energy system, as discussed below.

Draft Rule on Co-optimisation

Origin supports the Commission's decision to make a more preferable draft Rule that formalises AEMO's existing obligation to use reasonable endeavours to co-optimise the size of the largest credible contingency in central dispatch, rather than mandating an expanded or routine application of co-optimisation.

As noted in our response to the initial Consultation Paper,[1] AEMO's existing Constraint Formulation Guideline already provides for co-optimisation in the circumstances where it is most beneficial. The ACIL Allen analysis commissioned by the AEMC confirms that the efficiency gains from broadening this practice beyond existing circumstances are modest, concentrated in limited dispatch intervals, and carry material implementation risk. Origin agrees with the AEMC's assessment that mandating broader co-optimisation would therefore not be justified at this time, particularly given the significant volume of other market reforms currently underway.

The draft Rule's approach of formalising AEMO's obligations while preserving the System Operator's discretion to respond to real-time system conditions strikes an appropriate balance. It provides regulatory clarity without prescribing a static technical solution, and creates a pathway for continuous improvement of co-optimisation practices as the grid evolves.

Cost Recovery Arrangements

Origin strongly supports the AEMC's decision not to proceed with changes to the contingency FCAS cost recovery arrangements at this time, including the proponent's proposed runway pricing mechanism and the alternative cost recovery approaches considered.

Runway pricing would concentrate financial exposure to contingency FCAS costs on the largest generators and loads. This would likely drive those participants to operate more conservatively to manage their exposure, reducing available capacity for energy and FCAS dispatch and, in turn, placing upward pressure on spot and contract prices. ACIL Allen's analysis supports this view, finding that runway pricing could create incentives that increase system costs during periods of scarcity.

We agree with the AEMC's assessment that the current cost recovery arrangements are well understood by market participants, and that the costs and complexity of reforming them would outweigh the likely benefits. Further, the draft Rule, through its transparency and reporting obligations (see below), creates

[1] Origin Energy, Submission to the AEMC Consultation Paper - Optimising contingency size in dispatch and allocating FCAS contingency costs, December 2025.

an appropriate evidence base to inform any future reconsideration of cost recovery arrangements, should the case for reform strengthen over time.

Improved Transparency and Reporting

A consistent theme in stakeholder engagement has been the difficulty in observing when and why co-optimisation has been applied in dispatch outcomes. The proposal for weekly and quarterly reporting through AEMO's Frequency Performance and Time Deviation Monitoring reports represents a practical and proportionate mechanism for addressing these concerns.

Origin suggests the AEMC consider the following in finalising reporting requirements:

- *Weekly reporting* should include the dispatch intervals in which co-optimisation constraints were applied, by ancillary service type, and whether any constraints were binding. This quantitative disclosure can be largely automated and avoids imposing material analytical burden on AEMO.

- *Quarterly reporting* should include AEMO's qualitative assessment of whether co-optimisation is being applied as broadly as is appropriate given prevailing system conditions, and commentary on any system security interactions observed during the period.

Origin supports the transitional arrangement requiring AEMO to review the constraint formulation guidelines by 1 October 2028, informed by the weekly and quarterly reporting data. This would provide a structured pathway for evidence-based improvement without locking in premature or overly-prescriptive obligations.

If you wish to discuss any aspect of this submission further, please contact Steve Williams at steve.williams@originenergy.com.au.

Yours sincerely,

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