



THE HON CHRIS BOWEN MP
MINISTER FOR CLIMATE CHANGE AND ENERGY

MS24-000566

Ms Anna Collyer
Chair
Australian Energy Market Commission
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Dear Ms Collyer

Anna

I write in regard to proposed changes to the National Electricity Rules and National Gas Rules stemming from the recently completed Review of the Australian Energy Market Operator's (AEMO's) Integrated System Plan (ISP).

At its meeting on 1 March 2024, the Energy and Climate Change Ministerial Council agreed to the recommendations of the ISP Review, which considered whether the scope and function of the ISP remains fit-for-purpose to support the energy transformation given the rapidly evolving landscape. At the highest level, the review concluded that while AEMO was meeting the role established for it under the current ISP frameworks, there were opportunities for the ISP to provide more detailed advice on several matters of critical importance to the energy transformation.

Attached are a set of rule change requests that seek to give effect to key recommendations of the ISP Review. I endorse these rule change requests and ask the AEMC progress with their initiation.

Yours sincerely

CHRIS BOWEN

Enc



Australian Government

**Department of Climate Change, Energy,
the Environment and Water**

Rule Change Request

Incorporating community sentiment towards transmission expansion options in the Integrated System Plan.

May 2024

1. Request to make a rule

1.1 Name and address of the person making the request

The Honourable Chris Bowen MP
Minister for Climate Change and Energy
Parliament House
Canberra ACT 2600

2. Statement of issue

2.1 Background

The Australian Energy Market Operator (AEMO) is required to prepare the Integrated System Plan (ISP) in accordance with rule 5.22 of the National Electricity Rules, including through undertaking joint planning activities under rule 5.14. The legislated purpose of the ISP, as provided by NER clause 5.22.2, is to establish a whole of system plan for the efficient development of the power system needs for a planning horizon of at least 20 years for the long-term interests of consumers of electricity. Timely implementation of the projects identified in the ISP is critical to ensure consumers have access to reliable and affordable energy as the NEM transitions to net zero emissions.

In October 2022, the Energy and Climate Change Ministerial Council agreed to review the ISP to consider whether its scope and function remains fit-for-purpose to support the energy transformation given the rapidly evolving landscape. The review included a focus on opportunities to enhance the timely delivery of the projects identified in the ISP. In their response to the review, Ministers noted that ISP projects currently face several challenges, including delays from supply chain constraints, workforce limitations and localised community opposition¹, and that AEMO should have regard to community concerns or sensitive locations in the identification of the optimal development path (ODP).

This rule change request is aimed at ensuring that the relevant rules give commensurate focus to community sentiment in developing transmission expansion options, as that given to other factors deemed critical to establishing a deliverable ISP. This requires an amendment to clause 5.22.10(a)(5) to reflect the relative importance of AEMO having regard to known community concerns or sensitive locations in the ISP, and to clause 5.14.4 to explicitly require the sharing of this information with AEMO, to ensure it has access to high quality information to inform its decision making.

2.2 Incorporating community sentiment considerations into transmission expansion options

In recognition of the importance of social licence to support planning, there is significant focus being given to addressing community sentiment and other delivery challenges for ISP projects, including a focus on improving processes for community engagement and more monitoring and measurement of community sentiment indicators. New data regarding community sentiment issues are increasingly available from surveys being led by governments and research organisations. At a project-level, the recently enacted *Enhancing community engagement in transmission building* and proposed *Bringing*

¹ See ECOMC Response to the ISP Review at <https://www.energy.gov.au/sites/default/files/2024-04/ecmc-response-to-isp-review.pdf>.

forward early works to improve transmission planning rule changes are expected to support better data availability as a result of community engagement activities conducted by network operators as part of their preparatory activities. Use of these additional information sources can drive a better informed ODP in the ISP that better takes account of community sentiment and sensitive locations.

The ISP plays a direct role in informing investment across the NEM. The ISP development process encompasses the articulation of candidate options² for new or augmented electricity infrastructure, in large part relying on local-level information provided to AEMO through joint planning processes. For transmission projects, AEMO establishes these as candidate options through the Transmission Expansion planning process, which forms part of its Inputs, Assumptions and Scenarios for the ISP. The relative merits of these projects are tested through ‘candidate development paths’ using the Cost Benefit Analysis process, to identify the ODP which is comprised of the highest net benefit combination of generation, storage and transmission projects across the NEM, to meet identified investment needs. Under the rules, the ODP must be ‘based on a quantitative assessment of the costs and benefits of various options across a range of scenarios, in accordance with the Cost Benefit Analysis Guidelines’ (clause 5.22.6(a)(4)). The ISP informs investment in the NEM by triggering the commencement of the economic assessment process for transmission projects that are identified as ‘actionable’ ISP projects in the ODP (see Regulatory investment test for transmission (RIT-T) in section 5.15A).

The draft 2024 ISP acknowledges the need to improve consideration of community sentiment (or ‘social licence’) to support planning, and notes it as an issue that affects transmission, generation and storage developments. To address the importance of social licence issues, in the draft 2024 ISP AEMO used sensitivity analyses to test the impact of low social acceptance of large-scale energy infrastructure on the candidate development paths in the ISP, however this was conducted ex-post and at the necessarily high level of each NEM region (as a set parameter).

As part of the joint planning process under clause 5.14.4 of the NER, AEMO and TNSPs must take ‘reasonable steps’ to cooperate and consult with each other to enable preparation of a draft or final ISP. Under this existing provision, the development of new transmission or transmission augmentation options in the ISP sometimes includes the collection and sharing of data on community sentiment through the joint planning process, however TNSPs only provide information on social licence or community sentiment to AEMO where this is considered a ‘reasonable step’ in informing transmission development options. Unlike other specific matters listed out at clause 5.14.4(a), consideration of community sentiment is not explicitly listed as part of the joint planning process. As a result, its increasing relative importance is not captured by the rules, increasing the risk that AEMO does not receive such information from TNSPs.

Similarly, the current framework has also resulted in an inconsistent approach to the consideration of community sentiment towards transmission projects in the ISP, as this information is not explicitly listed as a requirement for AEMO to have regard to in its development of the ISP under clause 5.22.10. Given that this is increasingly critical in determining the eventual feasibility, costs and timeframes involved in proposed infrastructure projects, and that additional information is becoming available to support realistic assessments, there is an opportunity to drive consistency in the applied

² The ‘ISP candidate option’ means a ‘credible option specified in an ISP that the RIT-T proponent must consider as part of a RIT-T for an actionable ISP project’. As outlined in clause 5.15.2(a) of the NER, a credible option must be commercially and technically feasible (and be implemented in sufficient time to meet the identified investment need).

approach through providing clear direction in the rules, which would be commensurate with the importance of this information.

To effectively manage risks, AEMO's Cost Benefit Analysis needs to be informed by the best available information regarding project costs and timeframes for those transmission projects identified. The most efficient way to do this is by ensuring that the information shared during the development of Transmission Expansion Options is comprehensive. Where local concerns and sensitive locations are already known to TNSPs, amending the NER to require that this information is incorporated into the identification of candidate options could improve community sentiment towards ISP projects (without imposing additional costs from new data collection requirements). This is because areas with strong community opposition will have been factored in and accounted for in identifying the development options up-front and at a more granular level than can be achieved through the existing sensitivity analysis approach. This will strengthen the existing Cost Benefit Analysis process, help address the need for the ISP to effectively consider social sentiment, and ensure that the identified ISP projects are commercially and practically viable.

3. Description of the proposed rule change

This rule change request seeks to improve the timely delivery of actionable projects identified in the ISP by requiring that AEMO have regard to community concerns or sensitive locations in the identification of the ODP, and consider existing and available data on community sentiment, where available for the 2026 ISP and future ISPs.

The proposal is to:

- Amend rule 5.22.10(a)(5) to require AEMO to have regard to known community concerns or sensitive locations in setting the parameters for projects that may form part of the ODP, and to consider existing and available data on community sentiment, where available and provided to AEMO by TNSPs, the Commonwealth and/or jurisdictions, when preparing the ISP. This information would include any known community concerns and sensitive locations where the siting of proposed energy infrastructure is unlikely to be accepted by the local community, or conversely, information about preferable locations for new projects. For example:
 - where this information has been gathered by TNSPs as part of preparatory or early works activities for future or actionable ISP projects (and through associated community engagement processes)
 - where this information is available via published reports or surveys and provided to AEMO by TNSPs and/or NEM governments for planning purposes, and
 - where this information is available and provided to AEMO via jurisdictional planning processes (and for the purposes of informing AEMO's assessment of the costs, timing and feasibility of proposed projects).
- Amend clause 5.14.4 to explicitly require TNSPs to provide AEMO with information about community sentiment and/or local concerns relating to potential energy infrastructure projects as part of the joint planning process for the ISP, where this information is already held by TNSPs.

Given the relative importance of information about community sentiment and local concerns in preparing the ISP, by listing this new requirement under 5.22.10(a)(5) and 5.14.4, the rule change would be commensurate with the listing of other specific requirements in these clauses. This would

ensure the rules are balanced, and reduce the risk that AEMO does not receive high quality information by relying on the existing “catch-all” provisions of the rules.

For clarity, the proposed changes do not seek to result in AEMO selecting a more costly ODP in favour of community preferences, but would involve AEMO factoring in timing and cost considerations that are linked to community sentiment and sensitive locations in determining the lowest cost pathway.

The proposed rule change also does not seek to mandate that TNSPs vary their planning processes from those already required by the NER, rather it would require the sharing of relevant information provided by those processes. It also does not mandate a specific list of reports or information sources that AEMO must consider when preparing the ISP, as these sources would change frequently over time and this level of prescription would therefore not be appropriate to be included in the NER. Instead, it is expected that AEMO will have regard to location-specific information about community sentiment towards proposed or potential projects as it increasingly becomes available to TNSPs, NEM jurisdictional governments and the Commonwealth, and as this information is provided to AEMO by these parties specifically for the purposes of informing the development of Transmission Expansion Options component of the IASR.

This may extend to information about native title, the requirements for environmental approvals (and associated costs), or other development planning requirements, only where that information is already available to a relevant joint planning party, the Commonwealth or NEM jurisdictional government, and is considered to be of relevance for planning (for example, information about sensitive environmental areas that are likely to require high-cost biodiversity offsets). It is expected that the amendments would require that AEMO more consistently apply existing processes for evaluating the utility of the information and having regard to it in determining the ODP as appropriate and in accordance with relevant AER guidelines, as it currently does in an ad-hoc fashion.

4. How the proposed rule change will address the issue

The proposed rule changes will remove ambiguity in the NER by explicitly requiring that community sentiment considerations are regarded as part of the strategic planning and decision-making process of the ISP.

If taken up, the proposed changes would provide greater definition than currently exists within the NER regarding:

- a) AEMO’s responsibility to consider and incorporate community sentiment considerations as part of its ISP development process.
- b) The responsibility of TNSPs to share information about revealed community sentiment where relevant to the ISP, and where this information is already held by TNSPs.

These changes will help ensure that the proposed transmission expansion options that are assessed as development paths in the ISP include all relevant and available data about community sentiment (or anticipated community opposition), allowing a more up-front and accurate assessment of costs, timeframes, feasibility and risks for their implementation (in contrast to the current reliance on sensitivity analysis ex-post). By including this expanded information at an earlier stage in the ISP development process, the quantitative assessment that AEMO undertakes to identify the lowest cost ODP for electricity consumers will be better informed. This means that subsequent RIT-T processes will be informed by more accurate estimates of the costs, timeframes, and overall feasibility of

credible options in the ISP, reducing the likelihood of large deviations in eventual projects costs and timeframes from what is modelled in the ISP.

By requiring that AEMO appropriately factor in community concerns and sensitive locations to the joint planning of transmission expansion options, the proposed rule change will also ensure greater consistency in process. The proposed rule change will also require that TNSPs provide relevant available information to AEMO to help inform the joint planning process, which will facilitate the achievement of these outcomes. This will also contribute to the outcomes of broader transmission planning reforms by ensuring that the new information arising from enhanced and/or earlier community engagement being conducted by TNSPs as part of preparatory activities or early works³ will be appropriately shared through joint planning, and appropriately regarded by AEMO in developing the ISP.

5. How the proposed rule change will or is likely to contribute to the achievement of the National Electricity Objective

The National Electricity Objective (NEO), set out in section 7 of the National Electricity Law, is:

“to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to:

- (a) price, quality, safety, reliability and security of supply of electricity; and
- (b) the reliability, safety and security of the national electricity system; and
- (c) the achievement of targets set by a participating jurisdiction—
 - i. for reducing Australia's greenhouse gas emissions; or
 - ii. that are likely to contribute to reducing Australia's greenhouse gas emissions.”

A founding assumption for this rule change request is that a more accurate ISP, that increases the chances of the ODP being delivered on time and at expected cost, will better serve the interests of energy consumers. Improvements to the ISP planning framework, as proposed by this rule change request, would increase dynamic efficiency as defined by the AEMC⁴, by ensuring that electricity services are provided at the lowest cost to consumers over time.

These proposed amendments will advance the NEO through supporting efficient and robust joint planning processes and decision making for AEMO in developing candidate development paths and subsequently assessing and determining the ODP. The ODP is aimed at informing the lowest cost investment pathway for electricity consumers in the NEM and must be identified through the manner specified in the Australian Energy Regulator's *Cost Benefit Analysis Guidelines*, which requires that the ODP have a positive net benefit in the most likely scenario (under NER clause 5.22.5(e)(3)). Improving the information base that informs AEMO's assessment and determination of the ODP would support electricity consumers to achieve a positive net benefit via investments through:

- more effectively anticipating any potential delays in transmission project delivery related to community opposition, and/or

³ Via the *Enhancing community engagement in transmission building* and proposed *Bringing forward early works to improve transmission planning* rule changes.

⁴ [AEMC \(2024\) How the national energy objectives shape our decisions](#)

- identifying preferable project configurations or locations through the joint planning process with TNSPs (and thereby minimising eventual costs and timeframes).

These proposed amendments would support the NEO and help protect the long-term interests of consumers of electricity by reducing the risks of unanticipated project delays or costs and helping ensure the efficient and timely delivery of actionable and future ISP projects, which is critical to efficient investment in electricity services in the NEM. This directly flows through to the development of transmission projects on the ground through the established RIT-T process, which ultimately determines the reliability and security of the supply of electricity in the NEM, wholesale costs, and the prices paid by consumers.

6. Expected costs, benefits and impacts

6.1 Expected benefits

As noted by the ISP Review, improving the inputs to the ISP transmission expansion options is expected to increase the overall deliverability of the ISP and therefore improve outcomes for electricity consumers, particularly with regard to the efficient investment in electricity services to ensure the reliability and security of supply. Through better sharing and incorporation of information about community sentiment and potentially sensitive locations, AEMO and TNSPs will enhance the joint planning process which will lead to an improved understanding of the expected costs, feasibility, and likely timing for candidate projects in the ISP, which will directly lead to more efficient investment in the NEM, and benefits to electricity consumers from the acceleration of renewable energy integration, contributing to emissions reduction, and reducing risks to security and reliability of supply.

To the extent that the changes may lead to communities feeling better represented in planning processes, there may be system-wide benefits associated with greater trust in the ISP and in energy investment frameworks more generally.

The changes are expected to enhance the implementation of other transmission planning reforms and result in incremental benefits to communities from the recent *Enhancing community engagement in transmission building* and proposed *Bringing forward early works to improve transmission planning* rule changes. Local communities and other stakeholders affected by ISP projects will benefit by the assurance that their efforts in participating in community engagement activities, surveys and other research have effectively contributed to energy system planning.

6.2 Expected costs

The proposed amendments to incorporate community sentiment considerations in transmission expansion options are not expected to impose any significant new costs on AEMO, TNSPs or consumers. The *Enhancing Community Engagement in Transmission Building* rule change (enacted in 2023) requires more effective community engagement processes for TNSPs, which will result in the collection of the information about community sentiment and sensitive locations that will be needed to implement the proposed amendments. As the information will already be gathered by TNSPs, the additional requirements placed on them will be on information sharing only, which is expected to come at minimal additional cost. For AEMO, the proposed amendments would require consideration of existing and relevant data where provided to them by TNSPs, NEM jurisdictional governments or the Commonwealth (where provided for the purposes of informing project planning), so there is no additional research required. Costs will be limited to analysis only, and AEMO has estimated this cost to be very minor/negligible in the context of the overall cost of preparing the ISP.

The ISP is currently funded by fees charged to TNSPs under AEMO's National Transmission Planner function. The Commonwealth expects this arrangement to continue to apply, with additional AEMO costs met through higher TNSP fees, as per existing arrangements for cost recovery for the ISP. Therefore, the proposed amendments will likely impose new costs on TNSPs and consumers. However, any additional fees that are ultimately passed through to electricity consumers would be minor once spread across the NEM, and are expected to be offset against more effective energy system planning.

6.3 Expected impacts

It is expected that AEMO will be impacted by being required to have regard to additional information in preparing the *Transmission Expansion Options Report* and the ISP, and TNSPs will be impacted by being required to provide specific information to AEMO as part of the joint planning process.

These impacts are expected to be minor, particularly in the context of the existing joint planning process which should easily facilitate the sharing of information between parties. The proposed amendments are aimed at leveraging the significant focus being given to addressing community sentiment and other delivery challenges by governments and other stakeholders, and are therefore not expected to pose a significant resourcing impact on either AEMO or TNSPs.