

23 July 2024

Ms Anna Collyer
Chair
Australian Energy Market Commission
Sydney South NSW 1235

By online submission: ERC0395

Dear Ms. Collyer,

Enhancing the Integrated System Plan to support the energy transition

Thank you for the opportunity to provide comments on the *Enhancing the Integrated System Plan to support the energy transition* consultation paper.

The driver for these rule changes is the recent review of the Integrated System Plan (ISP) conducted by the Department of Climate Change, Energy, the Environment and Water (DCCEEW) at the request of the Energy and Climate Change Ministerial Council, which was endorsed by the Ministerial Council in March 2024. As a result of this review, DCCEEW has identified the need for a suite of regulatory changes.

AEMO supports the need for the rule changes requested by DCCEEW as necessary to implement the recommendations of the ISP review.

The proposed rule changes are important to ensure that additional factors can be considered by AEMO in the development of the ISP leading to enhanced planning of our energy system. The proposed rule changes will:

- amend the National Electricity Rules (NER) and the National Gas Rules (NGR) to require AEMO to expand its analysis of gas market information to better inform the electricity infrastructure investments required;
- amend the NER to require AEMO to expand its analysis of the uptake and availability of orchestrated CER and distributed resources and provide greater detail about the assumptions that underpin the analysis; and
- amend the NER to ensure that community sentiment is a factor to be considered in the development of the ISP.

A benefit of the proposed rule changes is that they will help provide clarity to stakeholders on the rationale for, and nature of, the expansion of the scope of the ISP which resulted in the recent increases in the National Transmission Planning fees. This clarity will also help stakeholders understand why AEMO needs to incur certain future expenditure in relation to these recommendations, which will provide both financial transparency and legal consistency.

We have provided some further perspectives on the consultation paper in Appendix 1 below.

If you would like to discuss anything further, please contact Kevin Ly, AEMO Group Manager – Reform Development & Insights (kevin.ly@aemo.com.au).

Yours sincerely,



Nicola Falcon
Acting Executive General Manager – Reform Delivery

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APPENDIX 1: AEMO'S VIEWS AND INSIGHTS ON THE CONSULTATION PAPER

This section discusses AEMO's views and insights with regard to the three rule changes proposed in the consultation paper.

1. *Better integrating gas market analysis into the ISP*

AEMO agrees that expanding the scope of the ISP to improve the consideration of gas market information would better inform the electricity infrastructure investments identified as part of future Optimal Development Paths (ODP), specifically the development of projections about gas demand, pricing, fuel costs as well as the possible utilisation of gas infrastructure.

The rules should be amended to explicitly require AEMO to undertake this analysis. The implementation of this recommendation will require a material step change in the ISP analysis undertaken by AEMO, as well as significant additional stakeholder consultation when developing 'gas development projections'. AEMO agrees with the proponent that *"the absence of clear direction provides uncertainty in how AEMO considers gas in the ISP's analysis"*. Further clarity as outlined in the rule change request will help to ensure AEMO is exercising clear functions under the rules in undertaking this analysis, and that stakeholders understand the expanded scope of the ISP (and related preparatory steps that will be taken by AEMO which may impact on stakeholders) as it relates to gas.

AEMO also agrees that the National Gas Rules should be amended to enable information provided to AEMO under the NGR to be used to fulfill its NER obligations, including the preparation of the ISP. The proposed new requirement for AEMO to develop gas development projections as part of the ISP goes beyond the current consideration of the impact of gas fired generators on the NEM.

To meet the proposed new requirement, AEMO would need to consider gas market information which it currently considers under AEMO's gas functions governed by the NGR, such as the preparation of the Gas Statement of Opportunities (GSOO) and Victorian Gas Planning Report (VGPR). Where AEMO obtains information through its gas functions (GSOO surveys and the Gas Bulletin Board), National Gas Law section 91FD allows AEMO, subject to NGL, NGR and Gas Regulations, to use information obtained in any way for any purpose connected with the exercise of AEMO's statutory functions. This includes AEMO's National Transmission Planner and ISP functions under the NEL and NER. As this provision is "subject to NGL, NGR and Gas Regulations", AEMO believes that the proposed amendments to the NGR provide necessary additional clarity to ensure the NGR does not inadvertently limit use of this gas information by AEMO for the ISP.

AEMO's view is the rule changes proposed would provide the appropriate obligations on AEMO to enable this additional analysis to be undertaken, for which costs will be recovered. However, the proposed rule changes would not provide AEMO with the authority to request additional gas market information to that already obtained under the Rules so the implementation of this recommendation by AEMO will necessarily be a 'best endeavours' approach that is dependent on the information available.

2. *Improving demand forecasting and demand-side data in the ISP*

AEMO has worked closely with DCCEEW in the development of the recommendations relating to CER and distributed resources in the ISP Review and agrees with the predominant stakeholder view that

greater consideration of distribution network constraints in the ISP is beneficial. The rule change request and consultation paper correctly acknowledge that the ISP currently assumes an unconstrained distribution network. The change in approach recommended by the ISP Review requires AEMO to work closely with DNSPs to better understand the information they currently have in relation to hosting capacity across their network. This process is already underway, with the creation of a forum in which DNSPs and AEMO are members, meeting regularly to enable co-creation of a process to collect data across DNSPs to implement recommendations from the ISP Review. This process aims to better understand the granularity and consistency of data DNSPs hold, and how this information could be used to provide a more accurate picture of the distribution network as a whole.

AEMO sees value in the proposed requirement for AEMO to include in the ISP a statement on the expected development and operational behaviour of CER and distributed resources, noting this is likely to require AEMO to engage widely to obtain information beyond that provided by DNSPs. Whilst the 2026 ISP will be the first attempt at implementing this recommendation, future ISPs will continue to develop our approach to this recommendation. In the first instance we are already engaging with DNSPs and will look to broaden this engagement more widely in the future. In the absence of the proposed rule changes, there would be a lack of clarity and an inconsistent level of specificity of the content requirements for information and analysis to be considered in preparing the ISP. AEMO agrees that the Optimal Development Path (ODP) should not be co-optimised to include investments in CER.

The proposed change to the NER to require AEMO to develop guidelines for its process for gathering data from DNSPs, including improving its analysis of CER through consideration of operational demand, would help to provide clarity to these stakeholders that AEMO will be expecting to consult with them and obtain this information.

Finally, the proposed change to require DNSPs to disclose the information as set out in AEMO's guidelines will ensure that AEMO is able to obtain the information from all DNSPs and implement the relevant recommendations of the ISP review in a credible and consistent manner across the distribution networks.

Through discussions with DNSPs, AEMO understands that they should not have any major challenges in complying with the new information obligations. The obligations themselves are necessarily high level, thus allowing AEMO and DNSPs to collaborate on the approach to data definition and provision, including ensuring that data requests are informed by the DNSPs' ability to provide this.

AEMO does not see the need for transitional measures to support the implementation of the proposed rule changes. AEMO understands the final rule is scheduled to be in place by the end of the 2024 calendar year. This will ensure that it is in place to inform the ISP Methodology for the 2026 ISP on a best endeavours basis.

3. *Better integrating community sentiment into the ISP*

AEMO recognises and agrees that community sentiment and social licence for transmission infrastructure projects is an important consideration as part of project delivery and through the planning process. Across the energy sector, there has been significant feedback from consumers, landholders, industry and governments about the need to better consider community sentiment and work effectively together for the benefit of communities.

AEMO agrees with the ISP Review's finding that understanding and considering community sentiment for ISP projects is important, and looks forward to building on the work undertaken in the 2024 ISP which involved inclusion of a social licence appendix and consideration of a social licence sensitivity for the first time. Greater awareness and understanding of community sentiment will better inform delivery of these projects, as well as the ISP analysis and outcomes.

AEMO would like to work collaboratively with TNSPs and other relevant stakeholders to incorporate community sentiment and has strong working relationships with TNSPs to facilitate the flow of relevant information. We note that TNSPs also place a strong value on community sentiment and social licence as part of their own planning and development processes and are well-placed to provide input to the ISP's consideration of these matters.

AEMO would like to work with the AEMC to ensure that the Rules:

- reflect the increasing importance of community sentiment as a consideration in system planning and project delivery; and
- provide clarity around reasonable community sentiment information to be used to assist overall planning in the ISP and ensure it continues to meet identified needs for the energy system. It will also be important that AEMO and NSPs work together to ensure communities are engaged appropriately while minimising the burden and risk of confusion.

AEMO also recognises that there is some flexibility currently in the joint planning obligations to enable collection of this information to occur. Our support for these changes to the Rules is in no way intended to be a reflection of any deficiency in the joint planning process, which is highly collaborative and collegiate between AEMO and the TNSPs. Rather, we view this as an opportunity for the Rules to:

- provide greater clarity to both AEMO and TNSPs in what information needs to be prepared and provided;
- reduce the potential for inconsistency of content and content requirements between the TNSPs; and
- ensure that community sentiment has 'equal footing', from a Rules perspective, as other matters that AEMO must consider in preparing the ISP. We view this as both important to AEMO's consideration of matters, and also important from the perspective of community interests being clearly represented in the Rules themselves.

Clarity, consistency and equality within the Rules are all important considerations for AEMO in development and preparation of the ISP.

AEMO agrees with the costs and benefits highlighted in the consultation paper. Additionally, there may be benefits to the timely delivery of ISP projects as a result of greater consideration of community sentiment in the ISP through the use of improved information as and when this becomes available.