18 July 2024

Ashwin Raj
Australian Energy Market Commission (AEMC)

Submitted via www.aemc.gov.au

Dear Mr Raj,

Enhancing the Integrated System Plan to support the energy transition (ERC0395)

Hydro Tasmania welcomes the opportunity to respond to the Australian Energy Market Commission's (AEMC's) consultation paper for the *Enhancing the Integrated System Plan to support the energy transition (ERC0395)* rule changes.

Since the inaugural Integrated System Plan (ISP) in 2018, the Australian energy landscape and policies have already shifted substantially. Changes in factors like global economic conditions, government policy and targets, supply chain issues, as well as consumer investment and sentiment have all had an impact on the inputs and outputs of the ISP. Hydro Tasmania strongly supports robust system planning that enables the transition of the energy sector and can ensure the security and reliability of Australia's long term energy supply. For the ISP to achieve this, it is essential that the scope of the document is refined and adjusted as the challenges and opportunities of the energy transition shift.

The Consultation Paper states that "the ISP is intended as the primary planning document to guide investment in electricity infrastructure to meet energy demand in the National Electricity Market (NEM)". We support the AEMC's work in improving the accuracy of this ISP through the three rule change proposals presented in this consultation paper.

Hydro Tasmania supports all three rule change proposals – it is our view that each rule change proposed will assist the Australian Energy Market Operator (AEMO) in forecasting a more realistic and accurate optimal development path (ODP) in the 2026 ISP. We particularly support the changes proposed under rule change 2 (Improved consideration of demand-side factors in the ISP) in providing more transparency in consumer energy resource (CER) growth and outlining alternative investments needed in generation and storage if CER and distributed resource growth does not eventuate at the level forecast.

We have included further comments on the three rule changes in Appendix A. Hydro Tasmania welcomes the opportunity to discuss any aspect of this submission further. If you wish to discuss, please contact Dani Williams at danielle.williams@hydro.com.au.

Yours sincerely,

Colin Wain
Manager Policy Development

Appendix A – Hydro Tasmania comments on the Enhancing the ISP to support the energy transition consultation paper

Rule change request one: Requiring AEMO to better integrate gas market analysis into the ISP

Hydro Tasmania supports the rule change request to expand AEMO's analysis and integration of gas markets into the ISP. Whilst renewable energy firmed by clean dispatchable storage has consistently been shown to be the cheapest long-term energy solution for Australia, Hydro Tasmania recognises that gas will continue to have a role in Australia energy mix for years to come.

A key feedback theme from the Draft 2024 ISP was regarding gas assumptions and integration into the ISP and we appreciate the AEMC's work in examining this issue further. The 2024 ISP forecasts nearly 15 GW of gas-fired generation will be needed in 2050 – it is essential that the assumptions underpinning this capacity are realistic and transparent. Hydro Tasmania supports the changes proposed in the Consultation Paper, including the intent to reflect updated gas generator fuel costs (assuming that there is a feedback loop between price and utilisation), upgrading assumptions regarding future utilisation of gas infrastructure, and better analysis of future gas demand, supply, and pricing. Hydro Tasmania also supports AEMO using gas information provided to it under other functions (including the National Gas Rules) for the purpose of the ISP.

Rule change request two: Requiring AEMO to improve its consideration of demand-side factors in the ISP

Hydro Tasmania supports the rule change request to improve the ISP's consideration of demand-side factors, including the assumptions and contingent factors underpinning the expected development of CER and distributed resources. The 2024 ISP forecasts that CER and distributed resources will play an increasingly important role out to 2050 and we support the AEMC facilitating incremental improvements to the ISP through rule changes like this.

Forecasts and assumptions of CER and distributed resources were also a key feedback theme from the Draft 2024 ISP. Hydro Tasmania commented on both the levels of CER growth and the levels of CER orchestration in our submission[1] to the Draft 2024 ISP. Whilst we recognise that the intent of the ISP is about forecasting the optimal pathway for the NEM and that ideally, CER and distributed resources will be invested in and operated in the most efficient manner for the NEM, we feel it is important for the ISP to highlight the risk in assuming efficient investment and operation at such a micro level.

CER uptake and orchestration of CER is largely exogenous to the ISP and completely dependent on individual consumer behaviour, which is not always rational. The 2024 ISP assumes there will be strong growth in orchestrated CER as it allows for more efficient use of individual resources. However, this relies on consumers being willing to relinquish control of their individual assets to achieve better efficiency on a macro level. The rates at which orchestration occurs will be heavily influenced by individual consumer's rationale for investing in such assets.

[1] Hydro Tasmania submission: https://aemo.com.au/-/media/files/stakeholder_consultation/consultations/nem-consultations/2023/draft-2024-isp-consultation/draft-submissions/hydro-tasmania.pdf?la=en

Considering these factors are outside of the control of the ISP, it is Hydro Tasmania's view that is it critical the ISP outlines what investment would be needed if CER growth, but particularly orchestrated CER growth, does not eventuate to the levels forecast in the ISP. Hydro Tasmania is supportive of the changes proposed under this rule change and believes that greater transparency and analysis in this area will be greatly beneficial to the 2026 ISP.

Rule change request three: Requiring AEMO to better integrate community sentiment into the ISP

Hydro Tasmania supports the rule change to better integrate community sentiment and local concerns into the ISP. Community sentiment is becoming increasingly important to the development of new energy projects – this is likely to increase as the scale of new energy build increases. The ISP forecasts the NEM will need a six-fold increase in variable renewable energy by 2050 (compared to 2024) and as renewable energy zones develop and energy projects are built in new areas, community support will have an increasing influence in the timing and costs of new projects. This has the potential to result in unplanned delays and an inability to achieve the ODP. Adequately considering the impact of unplanned delays (across all potential projects) will make the ISP more resilient to these uncertainties. We support TNSPs being required to share relevant information regarding community sentiment with AEMO as part of the joint planning process and Hydro Tasmania encourages the AEMC to work further with TNSPs on the specifics of how best to include community sentiment in the ISP.