

Clarifying the treatment of jurisdictional policies and system costs in the ISP

We have published a consultation paper considering a rule change request from The Centre for Independent Studies (the Proponent), submitted on 31 October 2024, that proposes changes to the way jurisdictions' emissions reduction targets and policies are incorporated in the Integrated System Plan (ISP), the categories of costs that are considered in the analysis, and the information that is published regarding costs.

Submissions to the consultation paper are due by 6 November 2025.

The AEMC is initiating this rule change process in parallel with a broader review into the ISP framework.

The AEMC is required to review the ISP framework by 1 July 2027 under clause 11.126.10 of the NER. Given this requirement and the interrelated nature of the rule change request submitted by the proponent, the Commission intends to commence a review of the ISP framework before the end of 2025, to run in parallel with this rule change process. We have published the terms of reference for this review.

The ISP identifies the development pathway for the electricity sector that maximises benefits and meets jurisdictional targets and policies

The ISP sets out a whole of system plan for the efficient development of the power system over at least a 20-year time horizon. It aims to meet power system needs to contribute to achieving the National Electricity Objective (NEO). The NEO sets out the relevant considerations when assessing the long-term interests of electricity consumers, which include the achievement of targets set by participating jurisdictions that are for (or are likely to contribute to) reducing Australia's greenhouse gas emissions, along with other considerations such as price, quality, safety, reliability, and security of supply of electricity.

Currently, all scenarios considered in the ISP are consistent with all jurisdictional targets that are for (or are likely to contribute to) reducing Australia's greenhouse gas emissions. The categories of costs that AEMO must quantify in the ISP are set out in clause 5.22.10(d) of the NER, with further guidance on how these costs should be defined set out in the AER's *Cost benefit analysis guidelines*. Broadly, costs that are currently included in the ISP relate to the construction, operation, maintenance and compliance of projects on the development path, as well as other costs deemed relevant by AEMO and/or the AER.

We are seeking your views on the issues identified and solutions proposed by the proponent

The proponent's rule change request suggests amendments to a number of aspects of the ISP that it considers would better contribute to meeting the NEO. The issues raised by the proponent are:

- **Treatment of jurisdictional policies:** The proponent suggests the ISP does not adequately account for uncertainty as to when jurisdictions' emissions reduction and renewable energy targets will be met or whether they may change in the future. Under AEMO's current approach, all ISP scenarios meet all included policies at the intended date set by governments, and AEMO does not assess the probability that any individual policy will or will not be achieved by the intended date. The proponent suggests that this creates a risk of over-investment in transmission infrastructure.
 - To address this issue, the proponent proposes that AEMO should be required to model a 'baseline' scenario with no jurisdictional policy constraints, as well as being required to consider plausible future policy changes by jurisdictions.

- **Whole of system costs:** The proponent considers that the ISP analysis should include a broader range of costs in determining 'whole of system' costs and identifying the optimal development path. The proponent suggests that the current approach does not adequately consider all costs that consumers pay.
 - To address this issue, the proponent proposes that AEMO should be required to include an assessment of 'whole of system' costs, including those relating to;
 - i. consumer energy resources (CER),
 - ii. distribution network upgrades,
 - iii. recycling and disposal of renewables, and
 - iv. payments to coal generators for life extensions.
- **Publication of information:** The proponent is seeking additional information to be published as part of the ISP relating to system costs and the cost implications of individual jurisdictional policies. The proponent considers that the current approach does not provide sufficient information for consumers to assess the implications of government policies.
 - To address this issue, the proponent proposes AEMO be required to publish the cost impact of each individual jurisdictional policy as part of the ISP.

We encourage you to provide your feedback

Stakeholders are invited to make online written submissions to the consultation paper by 6 November 2025. To make a submission, visit <https://www.aemc.gov.au/contact-us/lodge-submission> and select the project reference code **ERC0406**.

For information contact:

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