

6 November 2025

Anna Collyer
Chair
Australian Energy Market Commission
Via online Portal
REF: ERC0406

Dear Ms Collyer

Ausgrid response to AEMC Clarifying the treatment of jurisdictional policies and system costs in the ISP consultation

Ausgrid is pleased to provide this submission to the Australian Energy Market Commission (**AEMC**) in response to its 'Clarifying the treatment of jurisdictional policies and system costs in the ISP' consultation. Ausgrid operates a shared electricity network that powers the homes and businesses of more than 4 million Australians living and working in an area that covers over 22,000 square kilometres from the Sydney CBD to the Upper Hunter.

The ISP currently attempts to identify the optimal pathway to meeting all of the National Electricity Market's (including each jurisdictions') energy and climate change targets and policies that affect the electricity system. It does not seek to evaluate the relative merits of all possible future energy scenarios. In part, that reflects the practical aspects of modelling.

The ISP provides a valuable service to the industry and policy makers. However, despite improvements being made over time, some flaws remain. There is merit in the sector and AEMO attempting to address those flaws and improve the accuracy of the ISP's outputs. However, the ISP should be assessed against reasonable expectations of what can be achieved through modelling and should not be expected to deliver a degree of forecasting perfection or detail that is unachievable. The ISP is already a long process with a 2-year development cycle; opening it up to a much broader range of possible futures with fewer constraints applied to them will inevitably add further complexity and time to this process. Ausgrid supports some elements raised in the rule change proposal, disagrees with others, and views some as being desirable but not appropriate for implementation via the ISP process.

Ausgrid supports including in the ISP:

- Sensitivity analysis of the impacts of jurisdictional targets and policies not being achieved.
- More detailed incorporation of the costs *and benefits* of distribution network capabilities and consumer energy resources, in line with recent reforms such as the "Improving consideration of demand-side factors in the ISP" (ERC0396) and "Better integration of gas and community sentiment into the ISP (GRC0073)" rule changes.

Ausgrid does not support:

- Changing the focus of the ISP from identifying the optimal pathway to meeting jurisdictional energy and climate change targets and policies to evaluating the relative merits of all possible future energy scenarios.

- AEMO having to take a view on, or assess the probability of, whether jurisdictional policies and targets will be achieved.
- An imbalanced inclusion of costs without also considering countervailing benefits of different options in the ISP analysis.
- Selective inclusions of costs (and benefits) that require, for example, the decommissioning costs of renewables but not fossil fuelled generation, or the costs of electric vehicles but not petrol-fuelled cars, to be assessed in the ISP.

Ausgrid considers there is scope for more thorough and transparent analysis of the costs and benefits of proposed jurisdictional and national energy policies. However, we do not consider it is the role of the ISP to conduct this analysis of adopted policies. Rather, we encourage the rule change proponent to continue to work with jurisdictional governments to support best practice energy policy development.

Detailed responses to the consultation paper questions can be found in Appendix A. We welcome further collaboration with the AEMC and industry on this rule change proposal. Please contact Simon Moore, Senior Policy Advisor at simon.moore@ausgrid.com.au should you wish to discuss further.

Regards,

A handwritten signature in blue ink, appearing to read 'T. Jarratt'.

Timothy Jarratt
Group Executive, External Affairs & Strategy

Appendix A: Responses to consultation questions

1: What are your views on AEMO's current approach to incorporating jurisdictional targets and policies into the ISP and its alignment with the NEO?

Ausgrid has not held significant concerns about the treatment of jurisdictional targets in past ISPs. Our feedback on the 2024 ISP focused on other areas where the ISP needed to be strengthened, such as better accounting for the hosting capacity on distribution networks and demand forecasting.¹ However, as we get closer to 2030, the flexibility to meet jurisdictional energy and emissions targets reduces and the scale of shortfalls in some areas becomes more apparent. As described in more detail in the response to Question 6, we do see some value in considering sensitivities to the Optimal Development Pathway (ODP) where jurisdictional targets and policies are not met.

2: Do you consider that the current approach increases the risk of overinvestment or early investment in transmission?

- 1) Do you consider that this risk is material? What evidence supports this view?
- 2) Do you consider the requirements set out in clause 5.22.10(a)(5)(ii) of the NER - which requires AEMO to consider the risks to consumers arising from uncertainty, including over investment, under-investment, premature or overdue investment - are sufficient to address this issue?
- 3) What are your views on the corresponding risks of under-investment or overdue investment, for example if targets are added or strengthened over time, or there are delays to transmission build? What evidence supports this view?

While Ausgrid does not take a view on whether *in aggregate* the current approach increases the risk of overinvestment, the approach taken in the ISP historically has tended towards focussing on *certain types of investment*. The ISP's roots are in transmission planning, and this still dominates the approach of the ISP. ISPs have focused almost exclusively on transmission and transmission-connected generation investments, missing the potential of what sits between the home and large-scale generation, that is the sub-transmission lines, local substations and lower-voltage distribution network. This potentially drove higher investment in transmission and transmission-connected projects, and underinvestment in distribution and distribution-connected projects. We encourage continued inclusion and uplift of distribution and CER capabilities.

For example, as upcoming analysis from NSW's DNSPs in the NSW Distribution System Plan Opportunities Report concludes, making better use of distribution networks may be able to defer transmission investments by 2-5 years.² In New South Wales alone, existing distribution network infrastructure could enable over 20 gigawatts of new renewable generation and storage to be connected with minor network investments (estimated at ~\$0.15m/MW). These are projects that can be delivered quickly and with greater community support as they are not greenfield builds. Large-scale transmission projects, which remain

¹ https://www.aemo.com.au/-/media/files/stakeholder_consultation/consultations/nem-consultations/2023/draft-2024-isp-consultation/draft-submissions/ausgrid.pdf?rev=f406826642974952bdf27c5fd78faf1d&sc_lang=en

² NSW Distribution System Plan Opportunities Report; publication pending. See also <https://reneweconomy.com.au/why-the-middle-matters-its-no-longer-about-targets-its-about-the-cost-of-getting-there>

essential to linking Australia's renewable heartlands in the long term cannot be replaced, but could be de-risked by adding options into the overall planning process now. An approach to the ISP that understates the contribution that distribution networks can provide to connect renewable generation and storage will support transmission upgrades sooner than they may be needed – potentially exacerbating supply chain and workforce constraints by advancing a higher volume of simultaneous transmission build.

Recent reforms to the ISP process (such as the “Improving consideration of demand-side factors in the ISP” (ERC0396) and “Better integration of gas and community sentiment into the ISP (GRC0073)” rule changes) have led to a discernible and very welcome uplift in the ISP's consideration of distribution network capabilities in the current cycle. We await the Draft 2026 ISP to see what impact this has had on the projects identified for investment as part of the ODP, but it seems likely that the balance will shift from giving almost exclusive prominence to transmission solutions, towards greater consideration on the opportunities for more cost-effective distribution level solutions.

However, incorporating distribution network opportunities into system planning is a complex task and there is clear scope for further improvements in understanding and evaluating distribution network opportunities for future ISP cycles. We expect AEMO to build on the progress it has made in the 2026 ISP in future cycles, refining its modelling at the sub-transmission, medium and low voltage distribution levels. Furthermore, distribution networks will mature their generation hosting capacity modelling of their networks over time. Further collaboration with AEMO and transmission networks on this front will uplift modelling, leading to more cost-effective solutions being identified in future ISPs. Other rule changes in progress (such as Energy Consumers Australia's Integrated distribution system planning (ERC0410) proposal, and the recently announced Demand-side Statement of Opportunities) go some of the way to supporting greater consideration of the role of distribution networks in the energy system and the ways they can facilitate the energy transition.

3: Do you consider that the categories of costs included/excluded in the ISP analysis are appropriate? If so, how material is this?

As noted above, AEMO's efforts to better reflect and incorporate costs and benefits associated with distribution networks and CER are welcome. The AEMC's Consultation Paper notes “the rule change proponent considers... the following examples of ‘whole of system’ costs that should be included in the ISP:

- consumer energy resources (e.g. rooftop solar PV installed within the distribution network)
- distribution network upgrades
- recycling and disposal of renewables
- payments to coal generators for life extensions.

We consider that any assessment of costs must be balanced by an assessment of benefits. In order to determine an ODP (the ISP's current purpose) or to provide a wider assessment of energy policy and planning options (as proposed by the rule change proponent) it is not adequate to assess costs without also considering corresponding benefits. The rule change proposal appears to omit any mention or consideration of any benefits that these additional cost categories may yield. In some cases, these benefits will be realised outside of the electricity system and electricity costs. For example, consumers transitioning from petrol to electric vehicles are likely to see an increase to their electricity costs due to increased consumption, but are expected to see much larger offsetting savings from eliminating fuel costs. Analysis that focuses exclusively on the electricity costs of this picture will omit material savings and benefits.

We also note that the list of cost examples provided by the rule change proponent does not include all current technologies being used. For example, the proponent lists costs associated with “recycling and disposal of renewables” but not the decommissioning of legacy fossil fuel infrastructure. Further, it considers

household purchases of CER and electric vehicles to be an energy system cost, but does not include the payment of gas bills and purchases of non-electric vehicles. Any attempt to incorporate additional costs into the ISP must include the costs and benefits of all current technologies being used.

4: Is the range of cost information published as part of the ISP sufficient, or do you consider it too limited? If you consider it is too limited, then how material is this problem?

See response to Question 8.

5: What are your views on the role the ISP should play in the development of the energy sector and the way it can best support achievement of the NEO?

As highlighted earlier, this rule change raises the fundamental question of ‘what is the ISP for?’. Is it, as has been its historical intent, a document to identify the optimal pathway to meeting Governments’ energy and emissions policy objectives and targets including the NEO? Or is it, as the proponent appears to consider, a document for evaluating the relative merits of all possible future energy scenarios? In Ausgrid’s view, the purpose of the ISP is not to produce a perfect forecast, but rather to devise a plan that is robust to various possible future scenarios.

The ISP is not a forecast

In the 2024 ISP, AEMO assigned likelihoods to its different scenarios. The assessment, informed by the “views of over 30 expert panellists” assigned likelihoods of 43% for the Step Change Scenario, 42% for the Progressive Change Scenario and 15% for the Green Energy Exports Scenario.³ Yet despite a difference between the Step Change and Progressive Change scenarios of just 1 percentage point, the Step Change Scenario is discussed 3x more than Progressive Change Scenario in the 2024 ISP Final Report.⁴ Despite a marginal difference in assessed likelihood, the desire to identify and plan around a ‘central’ or most likely scenario leaves both the ISP and the commentary surrounding it focused on the Step Change Scenario. Even with the limited number of scenarios and sensitivities currently assessed, non-central scenarios are de-emphasised. It is not clear that broadening the range of scenarios or sensitivities, to include various configurations of jurisdictional targets being met, would in practice result in a ODP that is more robust to different plausible futures.

The ISP needs to be able to inform real investment decisions, through the identification of an ODP and priority actionable projects. An ISP that includes a much wider breadth of scenarios, with subjective judgements about which ones are more or less likely to materialise, risks leading to less clarity about future investment decisions and demand forecasts.

This plays out despite weaknesses inherent in the ISP approach being widely recognised and understood. AEMO states in a disclaimer at the start of the 2024 ISP document “Modelling work performed as part of preparing this publication inherently requires assumptions about future behaviours and market interactions, which may result in forecasts that deviate from future conditions. There will usually be differences between estimated and actual results, because events and circumstances frequently do not occur as expected, and

³ 2024 Integrated System Plan, page 9

⁴ Step Change is mentioned 60 times in the 92 page 2024 Integrated System Plan document; Progressive Change is mentioned 20 times. Green Energy Exports is mentioned 15 times.

those differences may be material.”⁵ Those limitations will continue to exist, in spite of any efforts to introduce greater levels of detail into the ISP analysis.

The ISP needs to be manageable

The ISP process is already long and resource-intensive. Efforts to improve the ISP have sought to add greater levels of detail, and additional categories of information, into the modelling. The ISP is becoming inexorably more complex, putting greater burdens on stakeholders to advise and scrutinise assumptions, and on AEMO itself to deliver the project against set timelines. Significantly increasing the scope of the ISP is unlikely to result in satisfactory outcomes and risks undermining the ISP’s ability to deliver on its core objective.

6: What are your views on the proposed solution to include a ‘baseline’ scenario and plausible changes in government policy in the ISP?

- 1) Do you consider that the proponent’s proposed solution addresses the identified problem?**
- 2) Do you have views on how ‘plausible changes in future government policy’ could be assessed or defined?**
- 3) What are your views on the alternative solutions noted above in section 3.1.1? Are there other solutions the Commission should consider?**
- 4) What do you think are the key considerations that the Commission should take into account when assessing potential solutions?**
- 5) What is AEMO’s role, if any, in assessing the deliverability or likelihood of emissions reduction targets being met on time as intended? What impact could a change in AEMO’s role have?**

Ausgrid considers that there may be some merit to considering sensitivities where jurisdictional targets and policies are not met. AEMO can assess the impacts of targets and policies not being achieved, without needing to take a view on, or assess the probability of, whether those policies and targets will be achieved (i.e. AEMO could assess sensitivities where particular constraints are deactivated in the model, without needing to take a view on the likelihood of the policy not being met.) We consider making a rule which enabled sensitivities to jurisdictional targets and policies not being met would be consistent with the requirement for the AEMC to consider jurisdictional emissions targets under the NEO.⁶ This is because jurisdictional emissions targets would continue to be considered in the ISP, and in determining the ODP.

The ISP already considers sensitivities where projects do not deliver on their targeted timetable, and this analysis has proven valuable in highlighting the most significant vulnerabilities of the ODP to unplanned changes in circumstances. Sensitivities that relax one or more constraints related to jurisdictional targets would provide a similar level of scrutiny and allow for better identification of optimal or least regrets pathways. This may be analytically similar to the qualitative assessment that was conducted in the 2024 ISP to incorporate consideration of social license impacts on projects.

The rule change proposal states that “the ISP should include:

- a ‘baseline’ scenario which does not assume that any jurisdictional targets are achieved, and

⁵ 2024 Integrated System Plan, page 2

⁶ Under section 32(A)(5) of the NEL, a person or body must consider, as a minimum, the jurisdictional greenhouse gas emissions targets stated in the targets statement when having regard to the NEO.

- additional scenarios representing plausible changes in future government policy, including where targets are missed or change.”

A sensitivity test where national/NEM-wide targets are achieved and is unconstrained by whether or not any jurisdictional targets are achieved is potentially useful in the context of testing sensitivities to the policy choices of individual jurisdictions. However we note that describing it as a ‘baseline’ is perhaps unhelpful as this implies that it would represent the most likely or ‘default’ outcome.

The proposal to include ‘plausible changes in future government policy’ is more difficult to assess, as it is potentially very open-ended. Defining what constitutes ‘plausible’ would be highly subjective, inevitably contested, and as a result is unsuitable for inclusion in the NER for the ISP. If a workable understanding of ‘plausible’ can be put forward, it could be considered as a sensitivity by AEMO in the ISP. We would also note that considering plausible future policies would not only include those where “targets are missed, reduced or removed”,⁷ as in the original rule change request, but also those where policies and targets are added or strengthened. AEMO would need to clearly identify assumptions and potential sensitivities where there is no current policy position. However, in the absence of a workable definition in the rule change proposal and Consultation Paper, Ausgrid does not support this aspect of the proposal.

7: Should additional cost categories be included in the ISP?

- 1) Do you consider the proponent’s proposed solution to expand the categories of costs considered in the ISP addresses the identified problem?**
- 2) Do you consider that there are any costs that should be added to the ISP analysis? If yes, what are these costs, why should they be added, and what is the materiality?**
- 3) If additional categories of costs are included, are there any related benefits that would not be captured and should be included? For example, distribution network upgrades would increase costs but could also have corresponding benefits such as increased CER export capacity and potential emissions reduction.**

See response to Question 3.

8: Should AEMO publish additional information on policy costs as part of the ISP?

- 1) What are your views on the proponent’s proposed solution?**
- 2) Are there alternative solutions that would be more appropriate or effective?**

Ausgrid has significant concerns about the workability of this part of the rule change proposal. We do not view this task as being part of the purpose of the ISP. It is not the role of AEMO, nor the energy market bodies collectively, to conduct cost-benefit or impact analysis on jurisdictional governments and their policies. Carrying out such impact analysis is a valuable part of policy development and we note this analysis is already undertaken by jurisdictional governments as part of assessing policy alternatives. We encourage governments to continue to conduct and publish detailed analysis of the costs and benefits of their policies in the interests of transparent and thorough policy development.

We also consider it may not be practical for AEMO to assess the effect of individual jurisdictional policies as proposed by the rule change proponent. Policies and targets can often not be readily disaggregated from each other, but rather form a relationship of mutually reinforcing commitments and actions – often also interacting with national/NEM-wide policies. Attempting to disaggregate this to discern “the effect of each

⁷ Centre for Independent Studies; “Rule Change Request: Making the ISP robust to policy change and clear on costs”; <https://www.aemc.gov.au/sites/default/files/2024-11/New%20rule%20change%20proposal%20-%20Centre%20for%20Independent%20Studies%20-%2020241031.pdf>; p. 1

individual jurisdictional policy” would be unachievable, and the results of any attempt to try are likely to result in information that could be misleading.

As a result, we do not think that it is appropriate to make this component of the rule change proposal. Rather, we encourage the rule change proponent to continue to work with jurisdictional governments to support best practice energy policy development.

9: What are the key costs and benefits of the proposal and alternatives?

- 1) Do you agree with the costs and benefits identified by the proponent?**
- 2) Are there other relevant costs and benefits that should be considered?**
- 3) Are stakeholders able to provide quantification or other supporting evidence as to the scale of the various costs and benefits of the options under consideration?**

Ausgrid shares the concerns raised in the AEMC’s Consultation Paper that considering a larger number of highly divergent scenarios may reduce the usefulness of the ISP as a long-term planning document. As discussed in the response to Question 5 above, ISP scenarios and outcomes are support investment and regulatory outcomes, including for Ausgrid. The inclusion of a larger number of divergent scenarios in the ISP is likely to result in less clarity about future investment decisions and regulatory outcomes.

10: What are the key implementation considerations? Are there additional implementation considerations, not noted above, that the Commission should consider in its decision making?

Considering the extent of progress already made on the 2026 ISP, Ausgrid views any changes resulting from this rule change as best implemented in the 2028 ISP cycle.

11: Assessment framework Do you agree with the proposed assessment criteria? Are there additional criteria that the Commission should consider or criteria included here that are not relevant?

Ausgrid agrees with the proposed assessment criteria. As outlined above, there are elements of the proposal that we view as best being progressed outside of the ISP and the NER/NEL framework. We encourage the AEMC, in assessing the proposal against ‘principles of good regulatory practice’ to consider whether the ISP, via the NER, is an appropriate channel for advancing the outcomes proposed, and if not, to assist the proponent in identifying other means by which they may be more suitably progressed.