

06 November 2025

Ms Anna Collyer

Chair

Australian Energy Market Commission

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Sydney NSW 2001

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Dear Anna,

Clarifying the treatment of jurisdictional policies and system costs in the ISP – ENA submission on AEMC Consultation Paper

Energy Networks Australia (ENA) welcomes the opportunity to make this submission in response to the Australian Energy Market Commission's (AEMC) Consultation Paper on the Rule change proposal submitted by the Centre for Independent Studies (CIS).

ENA represents Australia's electricity transmission and distribution and gas distribution networks. Our members provide more than 16 million electricity and gas connections to almost every home and business in Australia. This submission is made on behalf of ENA's electricity Transmission Network Service Provider (TNSP) members.

ENA's starting point is that consideration of the CIS Rule change (and matters in the AEMC's forthcoming ISP review) should aim to make only targeted and proportional changes to the framework, to avoid any material disruption to investments which could undermine reliability of supply, power system security and increase the overall cost of the system.

The fundamental question raised in the AEMC's Consultation Paper is the role the ISP should play in developing the energy system and supporting the National Electricity Objective (NEO). ENA agrees that providing clarity on the appropriate role of the ISP provides the right lens through which to consider the changes proposed by the CIS, as well as potential alternatives, and will also be foundational in identifying whether the current ISP framework remains fit for purpose as part of the AEMC's broader ISP review.

To answer this question, ENA suggests the AEMC focuses on three key themes in evaluating the CIS rule change proposal. These are:

- the **increased role of state governments and state frameworks** (and consequently altered role for the ISP) in progressing the network investments that underpin the energy transition;
- **uncertainty** as to whether jurisdictional policy targets will be achieved by their intended date, and the desirability of ensuring the ISP optimal development path (ODP) reflects a realistic pathway and accounts for different rates of new renewable generation development, including potential shortfalls in meeting policy targets, to provide confidence that the investments remain prudent and efficient within this uncertainty; and
- the desirability of **transparency** around the costs and benefits of government policy intervention, and whether the ISP is the appropriate vehicle to provide this transparency.

ENA's view is that the role of the ISP is to support the NEO through providing a robust roadmap for network development in the NEM that consolidates committed government policies and provides a broader signal for

generation/storage investors. This roadmap – including the consulted-on, coherent set of inputs, assumptions and scenarios that sit behind it (as embodied in AEMO's Input, Assumptions and Scenarios Report (IASR)) – provides a central view of the optimal pathway for the sector to meet emissions targets, given government policies.

ENA agrees with the AEMC that the ISP is increasingly playing a central role in the energy sector, and now has a broader bearing on other processes outside of the National Electricity Rules (NER), including as a reference point for inputs and assumptions for jurisdictional policy setting, as well as for delivery mechanisms, such as the Commonwealth Government's Capacity Investment Scheme. The ISP may also play a role in relation to any future replacements of this scheme, such as the proposed Electricity Security Entry Mechanism (ESEM), and may also inform jurisdictional policies.

These wider processes draw on the IASR, and/or on the modelled NEM development pathway that forms the core output of the ISP. The IASR/ISP reports and modelling outcomes are regarded as suitable and sound inputs, due in part to the extensive joint planning and stakeholder engagement AEMO undertakes, including with TNSPs and other stakeholders. The value of the ISP to these non-NER processes therefore stems from the consultative and transparent nature of the development of robust input assumptions, and the inclusion in the ISP of an identified optimal pathway which achieves federal and state government policies.

ENA's submission (Attachment 1) unpacks the above three themes further, and provides responses to the AEMC's specific consultation questions which flow from these considerations. In summary, ENA considers that:

- the current framework for treatment of jurisdictional policies in the ISP is sound but that incremental changes to guide AEMO in more fully testing the robustness of the ODP where there is uncertainty around the achievement of policy targets in future ISPs should be explored (noting that AEMO is already moving in this direction);
- reform to the cost categories that must be considered in the ISP, outside of the distribution augmentation and gas infrastructure changes already being progressed, is unnecessary given the broad nature of cost categories that can currently be considered and given the purpose of considering costs in the ISP to rank development pathways; and
- while transparency over the cost impacts of individual government policies is important, in practice the ISP is not the appropriate instrument for this purpose. Assigning such a responsibility to the ISP could compromise the key role it plays as the most robust reference point possible. Transparency in the cost of energy policy impacts remains important, but is appropriately the responsibility of state governments and bespoke agencies created specifically for that task, such as the Parliamentary Budget Offices, given the broader policy justifications and accountabilities.

ENA looks forward to working with the AEMC as it considers both the CIS Rule change proposal and the broader review of the ISP framework. If you would like to discuss this submission, please contact Verity Watson, Head of Transmission (vwatson@energynetworks.com.au).

Yours sincerely,



Dominique van den Berg
Chief Executive Officer

Attachment 1

1. The role of the ISP

Question 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?

ENA's view is that the role of the ISP is to provide a robust roadmap for major network development in the NEM that is consistent with committed government policies and provides a broader signal for generation/storage investors. This roadmap – including the consulted-on, coherent set of inputs, assumptions and scenarios that sit behind it (as embodied in AEMO's IASR) – provides a central view of the optimal pathway for the sector to meet emissions targets, given government policies. This forms a core part of its role in advancing the NEO.

In theory the ISP could also play a valuable role in highlighting the costs of specific government policies, relative to a counterfactual without those policies, to provide strong transparency and encourage government accountability. This transparency is important as jurisdictional policies ultimately have significant cost implications for energy consumers, including those outside of the jurisdiction where a specific policy originates.

However, ENA considers that in practice it is likely to be both impractical and unrealistic for AEMO and the ISP to also play this role because it would:

- inevitably politicise the ISP and thereby compromise its current standing as a clear plan for the future, working within those government policies; and
- add further complexity to an already intensive modelling and planning task, which is likely to make AEMO's ISP task unmanageable.

Therefore, in practice, ENA considers that the appropriate role for the ISP is to set out a robust investment pathway which takes government policies as exogenous inputs and stress-tests – based on clear guidance principles – the investment pathway to key real-world considerations (such as the deliverable rate of build across generation, storage and transmission) that may result in changes and /or delays in government policy outcomes (discussed further below). Providing greater transparency over the cost impacts of government policies is more appropriately the responsibility of bespoke agencies equipped for that role, outside of the ISP framework.

In determining the appropriate role of the ISP going forward, ENA suggests the AEMC explore the following three key themes:

- the increased role of state government frameworks in driving major network investment;
- ensuring the ISP is robust in light of policy uncertainty; and
- the desirability for transparency around the costs of government policies.

The remainder of this section expands on each of these themes.

Increased role of state governments in driving major network investment

As the AEMC highlights in its Consultation Paper, the ISP (and associated IASR)'s influence has grown beyond its role under the NER. However, at the same time its role in identifying and driving major transmission investments has been increasingly supplanted, as jurisdictions develop their own roadmaps and use their own frameworks to progress these investments.

These large-scale transmission (and in some cases distribution) projects play a significant role in the development of state economies with impacts that extend beyond their contribution to the NEM. It is natural that state governments have a keen interest in these projects, and it is realistic to expect jurisdictional policies to continue to drive major projects underpinning the energy transition.

ENA considers this reality should be reflected in the role of the ISP, through acknowledging that the ISP will largely take state government policies as exogenous inputs (although with appropriate stress-testing – see below) and that AEMO's role is not to re-make government policy decisions.

As a consequence of increased state government influence, the ISP's role in setting out a roadmap for the transition is shifting to:

- bringing together jurisdictional policies into an integrated and coordinated plan so that investors and other stakeholders can see how the pipeline of state government-driven investment is developing;
- identifying any interconnector investment required to complement the state government investment pipeline (noting that state government policies may also have direct implications for interconnector investment); and
- modelling incremental additions, adjustments or contingency plans to this state-government driven pipeline that would contribute to the NEO by maximising net economic benefits.

We note too, that in developing robust inputs and assumptions, the ISP may also form the basis for revisions of the jurisdictional roadmaps and policies, and so form part of a broader planning cycle.

The interaction of the ISP framework with state-based regimes is an area that requires further consideration and one which the ENA will be addressing in its engagement with the AEMC in the ISP review.

Ensuring ISP pathway is robust in light of policy uncertainty

One of the concerns behind the CIS Rule change proposal is that the ISP ODP does not currently reflect uncertainty around whether government policies (particularly those included in the Targets Statement¹) will be achieved, either in full or in line with the expressed timing. This is separate to the question of transparency around the costs of those policies.

For the ISP to provide a robust roadmap, ENA considers that it is important that the ISP ODP is an achievable plan (even if ambitious) given realistic assumptions for the pace at which generation, storage and transmission can be built (both at an individual project level but also cumulatively). Although AEMO carries out 'deliverability' sensitivities, they do not currently feature strongly in the ISP. It is crucial that AEMO appropriately stress-tests the modelled development pathways to real-world conditions, and how these may impact potential policy outcomes and/or timing. Sensitivity

¹ https://www.aemc.gov.au/sites/default/files/2025-09/Targets%20statement%20for%20greenhouse%20gas%20emissions%20September%202025_0.pdf

testing for robustness of policy outcomes is particularly important because delays to policies in one jurisdiction can affect NEM-wide outcomes.

This additional modelling effort to inform the ODP will help ensure the resulting ODP is more robust and more likely to be consistent between ISPs. This is in-line with the approach applied by AEMO to all other major inputs and assumptions, such as transmission costs, project timing, generation costs and demand forecasts, in the interests of ensuring an ODP that is resilient to a range of uncertainties.

This issue is discussed further in section 2 below, in response to Question 1.

Transparency around costs of government policies

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

What are your views on the proponent's proposed solution?

Are there alternative solutions that would be more appropriate or effective?

ENA supports transparency around the drivers of electricity costs for consumers, including how costs may be impacted by specific government policies.

There are often tensions between the interconnected nature of the NEM and the interests of individual states. State policies may be contrary to the long-term interests of NEM energy consumers as a whole if they promote specific state economic outcomes but lead to higher long term electricity costs. These policies may be justifiable based on benefits external to the NEM, but ENA considers that it is valuable for consumers to understand how such policies affect electricity costs.

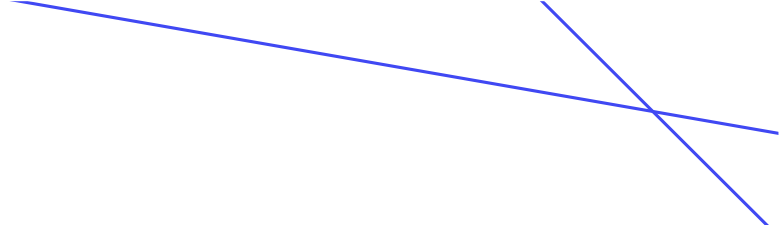
The CIS Rule change proposal envisages a role for the ISP in providing transparency on the cost impact of government policies relative to a counterfactual with no exogenous policies. As discussed above, ENA is concerned that, while this may be a helpful goal in theory, in practice it would make the ISP political and risk diluting the value the ISP currently provides in identifying the policy-constrained ODP.

On a practical level, given the scale and complexity of the modelling task already undertaken by AEMO in developing the ISP, assessing the impact of individual government policies is unlikely to be achievable. ENA also notes that the ISP does not currently provide the total cost impact of the ODP, so there is no obvious basis to compare the costs of different policy scenarios without substantial work on AEMO's part.

It follows that costing the impact of the policies of both current and potentially alternative government policies is a role best performed by bespoke agencies, relying on structures that provide independence from the government of the day (via accountability directly to Parliaments). Such agencies exist for the Commonwealth, NSW and Victoria, while divisions of Treasury Departments perform the function in some other jurisdictions. Regulatory impact statements are another tool that can be used to provide this transparency.

ENA also notes draft recommendation 1.4 in the Productivity Commission's recent Interim Report on 'Investing in cheaper, cleaner energy and the net zero transformation':²

² Productivity Commission, *Investing in cheaper, cleaner energy and the net zero transformation - Interim report*, August 2025, p.29. [Interim report - Investing in cheaper, cleaner energy and the net zero transformation](#)



The Australian, state and territory governments should improve the transparency of emissions-reduction policies by consistently including estimates of their cost-effectiveness in impact analyses. Those estimates should routinely be assessed against agreed national carbon values.

Implementing this recommendation would be an alternative, and likely more effective, way of providing the transparency being sought in the Rule Change proposal.

2. Treatment of jurisdictional policies

Question 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?

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

- Do you consider that this risk is material? What evidence supports this view?
- 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?
- 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?

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

- Do you consider that the proponent's proposed solution addresses the identified problem?
- Do you have views on how 'plausible changes in future government policy' could be assessed or defined?
- What are your views on the alternative solutions noted in section 3.1.1 of the consultation paper? Are there other solutions the Commission should consider?
- What do you think are the key considerations that the Commission should take into account when assessing potential solutions?
- 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?

CIS flags the risk of over-investment in the transmission network that could result if government policies do not eventuate as expected. ENA agrees with the AEMC that there is equally a risk of *under-investment* where government policies change or are not achieved. A failure to have adequately allowed for this in the ISP ODP may put at risk either the reliability of supply, the achievement of the emissions reductions targets or may increase the cost of meeting the targets (and therefore may affect all three aspects of the NEO).

The NER already provide AEMO with flexibility to consider which Targets Statement policies to include in the ISP assessment and sensitivity testing, which is further supported by Australian Energy Regulator (AER) guidance.³ Clause 5.22.10(a)(5)(ii) of the NER and the supporting AER guidance therefore enable over and under investment risks to be modelled and considered within the ISP.

However, ENA considers that AEMO's current approach, assuming all policies in the Target Statements are delivered on time and in full, is too restrictive to provide confidence that the ODP is realistic and robust. This risks making the ODP overly theoretical and unable to fully guide the decision making needed to deal with the practical realities and uncertainties of the energy transition. ENA therefore supports improvements to the ISP framework that would result in more expansive and appropriate sensitivity testing of policy timings and outcomes, in order to ensure robustness of the ODP across a more credible range of alternative futures, including delayed policy implementation.

³ See AER, Cost benefit analysis guidelines, 2024, pp 37-38.

As noted by both the Rule change proponents and the AEMC, AEMO already has the ability to conduct such sensitivity assessments. ENA's understanding is that AEMO is already considering more extensive sensitivity testing as part of the 2026 ISP.

Nonetheless, it is evident that AEMO has taken a conservative approach to sensitivity testing to date. ENA therefore supports the AEMC explore providing AEMO with clear, objective criteria and/or guidance on when and how sensitivity testing of government policies included in the Targets Statement should be considered in the ISP, as flagged in Section 3.1.1 of the Consultation Paper to increase its robustness and stakeholder confidence.

For example, sensitivity testing could reasonably be risk-based and therefore could be:

- targeted to policies that are;
 - at the highest risk of change or delay, based on specific criteria;
 - expected to be the most material in the context of the ODP as a whole;
 - most likely to have consequential impacts on transmission investment needs; and
- focused at a high level on the impact of, for example, a 2 or 3 year delay in policy outcomes, rather than seeking to be too specific.

The AEMC's alternative approaches build on the findings of the 2024 Energy and Climate change Ministerial Council (ECMC) review of the ISP, which found that stakeholders considered the wording of clause 5.22.3(b) to be appropriate as is, and recommended that AEMO provide clearer guidance on its approach to considering jurisdictional policies. While the ECMC review recommended AEMO itself develop this guidance, ENA considers that guidance may be more effectively and appropriately provided either by including criteria directly in the NER, or in the AER's Cost Benefit Analysis (CBA) guidelines.

In setting out these criteria, it is important that AEMO is not required to 'second-guess' government policies, which would undermine the effectiveness and value of the ISP, but rather to undertake a risk assessment in relation to government policy outcomes, as it does with other key inputs and assumptions. It is also important that sensitivity testing is fit for purpose (rather than mandated to apply to all policies as a default, which would be impractical) and not be so extensive as to put at risk the usefulness of the ISP as a tractable, clear roadmap. This will enable the ISP to continue to support rather than hinder the stability and predictability around the future NEM investment pathway, and give confidence that the ODP is robust to uncertainty and built on least-regrets decision making.

3. Classes of costs to be considered in the ISP

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

Question 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?

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

- Do you consider the proponent's proposed solution to expand the categories of costs considered in the ISP addresses the identified problem?
- 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?
- 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.

The inclusion of cost categories in the ISP should be aligned with the purpose of the ISP – ie, providing a robust roadmap for network development in the NEM that provides a broader signal for generation/storage investors. Costs are included in the ISP primarily for the purpose of comparing different development paths. In this context, AEMO should not be required to undertake costly exercises to identify particular categories of costs where they do not assist in comparing development paths, as this will add to what is already a complex modelling task for AEMO and impact on assessment timeframes.

Clause 5.22.10(d) of the NER provides appropriate flexibility for AEMO and the AER to identify costs most relevant to the selection of the ODP for a given ISP. ENA does not consider that there is a need to make changes to the NER or AER CBA guidelines in relation to classes of costs to incorporate in the ISP.

In relation to the additional cost categories proposed by the Rule change proponent:

- distribution upgrade costs and related benefits are already being incorporated in the 2026 ISP as a result of separate Rule changes following the 2024 ECMC ISP review;
- AEMO has previously concluded that CER costs are a private purchase by consumers, and therefore do not require inclusion;
- recycling and disposal costs are highly uncertain, may depend on specific local planning requirements and would need to be estimated across all technologies to enable an effective comparison, which is likely to compromise more important parts of the ISP development process; and
- payments to coal generators for life extensions do not impact the fuel and operating costs of these plants, which are included in the ISP assessment. These payments can already be included as an external contribution to offset refurbishment costs (where relevant and known).

In relation to broader cost transparency, ENA notes the wide range of cost categories that can already be considered in the ISP. ENA supports the publication of costs in the ISP consistent with its intended purpose as a roadmap for the energy transition and where necessary to support informed decision making in relation to the ODP. It is not the role of the ISP to determine how much the whole energy transition is costing.

4. Other questions

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

- Do you agree with the costs and benefits identified by the proponent?
- Are there other relevant costs and benefits that should be considered?
- 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?

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

Question 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?

ENA's notes that some aspects of the rule change proposal – such as the extent of policy changes that would need sensitivity testing – would come at a cost to the ISP's usefulness as a long-term planning document. A larger number of highly divergent scenarios will affect the ISP's ability to support coordinated investment and provide a useful set of assumptions and a tractable roadmap.

In relation to the implementation of the outcomes from this rule change, changes to work already done on the 2026 ISP are likely to be costly and disproportionate to any incremental benefits. Equally, given the passage of time, re-publication of the 2024 ISP would serve little purpose. As a consequence, any changes would be most appropriate to come into effect for the development of the 2028 ISP. This is consistent with ENA TNSP members' view that the ISP framework is currently working reasonably well, and that at this juncture it is appropriate to only consider incremental and forward-looking changes to the framework, so as not to increase uncertainty and disrupt the significant investment which is already underway to support the energy transition.

In relation the assessment criteria, ENA considers that the AEMC's proposed criteria are largely appropriate, but that the criteria should also emphasise the long-term interests of consumers with respect to network reliability, which is currently absent, for consistency with the NEO.