

# SUBMISSION

## NATIONAL ELECTRICITY AMENDMENT (CLARIFYING THE TREATMENT OF JURISDICTIONAL POLICIES & SYSTEM COSTS IN THE ISP) RULE 2025: ERC0406

**6 NOVEMBER 2025**

The Energy Users' Association of Australia (EUAA) is the peak body representing Australian commercial and industrial energy users. Our members are the engine room of the Australian economy, producing many of the products that households and business use every day including bricks, glass, steel, aluminium, paper, food and beverages. Combined, our members employ over 1 million Australians, pay billions in energy bills every year and in many cases are exposed to the fluctuations and challenges of international trade.

EUAA members are focussed on making products that meet their own customers' requirements where energy is just one input to the process albeit a critical one. Their expectation is that the energy industry continues to provide energy services that are fit for purpose and consistent with the NEO/NGO so that our members can continue to provide a fit for purpose product for their customers.

We welcome the opportunity to provide this submission on Centre for Independent Studies ISP rule change.

### Introduction and Summary

The Integrated System Plan is designed to provide key information to assist Governments determining the best pathway to achieving jurisdictional net zero targets in a way that meets the National Electricity Objective of the 'long term interests of consumers'. However there are a number of factors that limit its ability to do that:

- the significant expansion of Commonwealth, State and Territory climate and energy policies in recent years (the Policy Setting section in the 2025 Inputs Assumptions and Scenarios Report was 27 pages<sup>1</sup>; in the 2020 ISP there were 4 pages<sup>2</sup>) means it is impossible for consumers to know whether a policy of one State might conflict with a policy of another State or the Commonwealth; yet all have to be included in all the modelling assuming their targets are all achieved in their stated timetable which arguably is very unlikely to happen
- the more that policy expansion continues, the less confidence consumers will have that the projects in the Optimal Development Path (ODP) are the best combination to meet the NEO e.g. is it really in the long-term interests of all consumers in the NEM to have 9GW of offshore wind in Victoria by 2040 when it is cheaper to develop onshore renewables in other States?
- up until the 2024 ISP at least, it has been a 'whole of transmission' plan rather than the 'whole of system' plan it is supposed to be because of the absence of detailed modelling of the distribution network; this is expected to change with the Draft 2026 ISP to be published in December, but we await to see by how much; NSW DNSPs

<sup>1</sup> See pp 26-52 [https://www.aemo.com.au/-/media/files/stakeholder\\_consultation/consultations/nem-consultations/2024/2025-iasr-scenarios/final-docs/2025-inputs-assumptions-and-scenarios-report.pdf?rev=63268acd3f044adb9f5f3a32b6880c27&sc\\_lang=en](https://www.aemo.com.au/-/media/files/stakeholder_consultation/consultations/nem-consultations/2024/2025-iasr-scenarios/final-docs/2025-inputs-assumptions-and-scenarios-report.pdf?rev=63268acd3f044adb9f5f3a32b6880c27&sc_lang=en)

<sup>2</sup> See pp 30-34 [https://www.aemo.com.au/-/media/files/electricity/nem/planning\\_and\\_forecasting/isp/2019/2019-to-2020-forecasting-and-planning-scenarios-inputs-and-assumptions-report.pdf?rev=abc8abf655dc48ef844fd3aeda18f0d6&sc\\_lang=en](https://www.aemo.com.au/-/media/files/electricity/nem/planning_and_forecasting/isp/2019/2019-to-2020-forecasting-and-planning-scenarios-inputs-and-assumptions-report.pdf?rev=abc8abf655dc48ef844fd3aeda18f0d6&sc_lang=en)

are still publishing their first Distribution System Plan next month as they seek to highlight the role that the distribution network can play given the community social licence and supply chain pressures delaying ISP projects

- because of these two factors (policy expansion and whole of transmission plan), the ISP results can be best described as a 'constrained optimal development path' so the risk of overinvestment in the transmission network is much greater than the risk of underinvestment in the transmission network
- the ISP says nothing about 'who pays'; it develops the ODP on the basis of net benefits of the constrained modelling but says nothing about affordability, especially in the near to medium-term that is crucial to the transition maintaining 'consumer social licence'
- the current approach means consumers have no idea whether alternative policies would result in a lower cost transition and improved affordability e.g. less risk of asset stranding as a result of moving away from a focus on the transmission network doing all the heavy lifting.

Given these factors, we think it is very timely to review how jurisdictional policies are considered by AEMO in its ISP modelling and whether the current approach meets the NEO. In summary we do not think it does. We generally agree with the problems the rule change has highlighted and fully or partially support many of the rule change proponent's proposed solutions.

At the outset we acknowledge the complex situation AEMO is placed in. They are not required to assess the merits or feasibility of any particular policy and they should not be. That is for the political process to decide. However, we do see an important role for AEMO in providing additional cost transparency to help inform that political debate that lacks significant transparency on policy costs.

## **Response to questions**

*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?*

AEMO's current approach is understandable. Under the rules AEMO is a 'taker' of Government policies in its modelling as long as the policy meets at least one of the criteria set out in Clause 5.22.3(b). It cannot, and should not be asked, to pass judgement on the likelihood that a particular policy will be implemented in the relevant Government's timetable. The result is that there is no formal way (apart from additional sensitivities runs and there are limits to the number AEMO can undertake given the time involved) for consumers to have a transparent understanding of what potentially conflicting targets and policies and delays in actual implementation might mean to the ODP.

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

Yes for overinvestment given the way costs have ballooned since the suite of projects first got included in the ODP e.g. Project Energy Connect, VNI West and Central West Orana (CWO) REZ has doubled in cost since they first appeared in the 2020/2022 ISPs. No for 'early investment' because of social licence and supply chain barriers which has contributed to the substantial increase in cost.

One data point for the overinvestment resulting from the focus on transmission to the exclusion of distribution is the capex cost for Ausgrid's Hunter-Central Coast REZ/GW transfer capacity vs that for say the CWO or Project Energy Connect<sup>3</sup>. We await the Draft 2026 ISP to see whether the inclusion of the distribution network modelling may partially mitigate that risk that has been very present up to the 2024 ISP. However it is very unlikely that any of the projects in the 2024 ODP will fall out in the 2026 ODP because of inclusion of distribution system modelling.

AEMO did attempt to develop a measure of consumers' willingness to pay to reduce uncertainty as part of the 2024 ISP but it proved complex to progress<sup>4</sup>. Given this we are unclear about how the Commission is going to quantitatively assess the value of under or over investment is assessing the rule change. We comment on this further below in our comments on the assessment framework.

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

There has been an ongoing debate on what costs to include in modelling. This was particularly seen in the debates over whether renewables were the lowest cost new generation given the initial CSIRO Gen Cost estimates did not fully include network and firming. Inclusion of those costs confirmed the initial conclusion of renewable relative costs and we have a much better-informed public debate on how to ensure the transition meets the NEO.

As the Consultation Paper notes, AEMO is expanding the cost categories in the 2026 ISP following recent rule changes e.g. distribution augmentation, CER exports and gas infrastructure costs. Again a good move to improve the publicly available data.

The more comprehensive the cost analysis the more transparent the debate on transition options can be and the more confidence consumers can place in the ISP results. We support inclusion of the costs proposed in the rule change including CER, recycling and disposal of renewables and coal generation life extension.

*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?*

While ideally all Government policies should be costed, we do not think it would be practical to do that for all the policies listed in the 26 pages of the 2025 IASR. We suggest an approach below where additional costs information is available on the most material policies via expanded sensitivity testing.

*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?*

We do not think the current ISP process is achieving the aim set out in clause 5.22.2 in the NER:

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<sup>3</sup> <https://www.aer.gov.au/industry/registers/determinations/hunter-central-coast-renewable-energy-zone-network-infrastructure-project-non-contestable>

<sup>4</sup> [https://www.aemo.com.au/-/media/files/stakeholder\\_consultation/consultations/nem-consultations/2023/draft-2024-isp-consultation/supporting-materials/summary-of-consumer-risk-preferences-project.pdf?la=en](https://www.aemo.com.au/-/media/files/stakeholder_consultation/consultations/nem-consultations/2023/draft-2024-isp-consultation/supporting-materials/summary-of-consumer-risk-preferences-project.pdf?la=en)

“...to establish a whole of system plan for the efficient development of the power system that achieves power system needs for a planning horizon of at least 20 years to contribute to achieving the national electricity objective.”

for three reasons – it is not a ‘whole of system’ plan, it does not provide consumers with a transparent way of assessing the cost of Government policies and it does not consider ‘who pays’. While:

“The Commission considers that achieving jurisdictional targets through efficient investment is aligned with the NEO.” (p. 12)

consumers have no way of knowing whether the jurisdictional policies and target are efficient. Having an ODP efficiently achieving an inefficient pathway is not consistent with the NEO. The more information AEMO can provide on the efficiency or otherwise of these policies, the more confidence consumers will have about the ISP achieving the rules’ aim.

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

We support the development of a ‘baseline scenario’ but we would frame it differently from the proponent. Our starting point for a baseline scenario would be to have it reflect what could be regarded as ‘core’ Government policy of the net zero by 2050 target that is achieved as intended. Then it would be a case of modelling the mix of investments that would most efficiently achieve that target without the constraint of any other jurisdictional policies. That would produce the ‘baseline scenario ODP’. The other ‘conventional’ scenarios would developed as is currently the case assuming all jurisdictional policies are achieved in their respective timetables.

This would allow a ‘big picture’ view of the impact of all but the ‘core’ policy on the ODP. AEMO could then use expanded sensitivity analysis to assess the impact of particular policies e.g. different timing, across the ‘conventional’ scenarios. However it is recognised that there is considerable work involved in developing a sensitivity so there will need to be a clear and robust process for their selection to cover those with the most material impact.

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

Yes – if it is meant to be a ‘whole of system’ analysis then it should include ‘whole of system’ costs including those proposed by the proponent.

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

Yes. The recent work by the Productivity Commission and the Climate Change Authority provides an excellent precedent for that additional information to be publicly available. AEMO has an important role to provide cost transparency of major policies to assist in the public debate and give consumers additional information to help them decided if indeed the ODP meets the NEO. This information would be an important output of the process prosed in our answer to Question 6.

We would suggest that it is unrealistic to expect that AEMO could develop cost information for each individual jurisdictional policy in the 2025 IASR given the two year ISP cycle and all the other analysis that has recently been

added to the ISP process. Again there needs to be a clear and robust process of stakeholder consultation to assist AEMO to decide which policies it fully costs.

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

We agree with the benefits outlined by the proponent. Our particular focus is on the increased transparency available to consumers on the cost of jurisdictional policies and increased confidence that provides to consumers that the ISP does indeed meet the NEO.

Under the Step Change scenario in the 2024 ISP, the annualised capital cost of all utility-scale generation, storage, firming and transmission infrastructure in the ODP has a present value of \$122 billion<sup>5</sup>. The forecast AEMO costs in 2025-26 for its National Transmission Planning role that covers preparation of the 2026 ISP is \$35.2m<sup>6</sup>. We think that consumers are very unlikely to be concerned about some small additional costs for AEMO to implement this rule change.

We are not concerned about the drawbacks discussed in the Consultation Paper. We think our suggestion on the baseline scenario mitigates the risk of a number of highly divergent scenarios making it difficult to select an ODP. If the changes mean a significant change in the ODP then that is not a reason to reject the rule change. The change in the ODP may be an excellent outcome for consumers if it means the risk of over investment is significantly reduced. Predictability of an ODP is not necessarily the best outcome – it could be predictably wrong.

*Question 10: What are the key implementation considerations?*

Given where we are in the 2026 ISP timetable and the need to revise the AER's Cost Benefit Analysis Guideline, we expect any changes from this rule change to apply from the 2028 ISP.

*Question 11: Assessment framework*

Our comments focus on the 'innovation and flexibility' criteria described as:

“Innovation and flexibility — The ISP's resilience to uncertainty and adaptability to external changes (especially with regard to government policy) will be a key consideration. This rule change could influence the flexibility of future ISPs; however the benefits of flexibility may need to be weighed against the benefits of stability for long-term infrastructure planning.”

Given the fast increasing cost of ISP projects, the costs of getting it wrong are enormous. This rule change is designed to increase the flexibility of the ISP process to better align it with the NEO. If that leads to instability in long term infrastructure planning then that is a good outcome for consumers where an expensive ISP project ends up not being built.

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<sup>5</sup> See p. 13 [https://www.aemo.com.au/-/media/files/major-publications/isp/2024/2024-integrated-system-plan-isp.pdf?rev=b811f5d66df24e0a980ce0df8eaa5687&sc\\_lang=en](https://www.aemo.com.au/-/media/files/major-publications/isp/2024/2024-integrated-system-plan-isp.pdf?rev=b811f5d66df24e0a980ce0df8eaa5687&sc_lang=en)

<sup>6</sup> See p. 22 [https://www.aemo.com.au/-/media/files/about\\_aemo/energy\\_market\\_budget\\_and\\_fees/2025/aemo-final-budget-and-fees-fy26.pdf?rev=ff1751e3ffb0461c8b8db025e74fedb0&sc\\_lang=en](https://www.aemo.com.au/-/media/files/about_aemo/energy_market_budget_and_fees/2025/aemo-final-budget-and-fees-fy26.pdf?rev=ff1751e3ffb0461c8b8db025e74fedb0&sc_lang=en)

Do not hesitate to be in contact with EUAA Director Policy and Regulation Mark Grenning, should you have any questions.



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