

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

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About the Justice and Equity Centre

The Justice and Equity Centre is a leading, independent law and policy centre. Established in 1982 as the Public Interest Advocacy Centre (PIAC), we work with people and communities who are marginalised and facing disadvantage.

The Centre tackles injustice and inequality through:

- legal advice and representation, specialising in test cases and strategic casework;
- research, analysis and policy development; and
- advocacy for systems change to deliver social justice.

Energy and Water Justice

Our Energy and Water Justice work improves regulation and policy so all people can access the sustainable, dependable and affordable energy and water they need. We ensure consumer protections improve equity and limit disadvantage and support communities to play a meaningful role in decision-making. We help to accelerate a transition away from fossil fuels that also improves outcomes for people. We work collaboratively with community and consumer groups across the country, and our work receives input from a community-based reference group whose members include:

- Affiliated Residential Park Residents Association NSW;
- Anglicare;
- Combined Pensioners and Superannuants Association of NSW;
- Energy and Water Ombudsman NSW;
- Ethnic Communities Council NSW;
- Financial Counsellors Association of NSW;
- NSW Council of Social Service;
- Physical Disability Council of NSW;
- St Vincent de Paul Society of NSW;
- Salvation Army;
- Tenants Union NSW; and
- The Sydney Alliance.

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The Justice and Equity Centre office is located on the land of the Gadigal of the Eora Nation.

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1. Introduction

The Justice and Equity Centre (JEC) welcomes the opportunity to respond to the Australian Energy Market Commission's (AEMC) consultation paper on clarifying the treatment of jurisdictional policies and system costs in the ISP (the consultation paper).

While we support the aims of increasing transparency and ensuring accuracy in the set of costs used as inputs to the Integrated System Plan (ISP), we do not support the change in the fundamental purpose of the ISP implied by the rule change proposal.

It is appropriate – indeed necessary – that the emissions reduction policies listed in the AEMC's *Targets Statement* are treated as given for the purpose of the ISP. Disrupting this would alter the fundamental purpose of the ISP, which is to identify the optimal path to achieve these targets as part of an efficient energy system transition that promotes the interests of consumers.

Introducing a 'baseline' scenario

We do not support the introduction of a baseline scenario with the intent to 'assess' the costs of policies listed in the Target Statement. This is fundamentally impractical for the stated task and would not provide a useful input into the ISP process. We do support the Australian Energy Market Operator (AEMO) increasing the scrutiny it places on jurisdictional policies, including assessing risks to targets being met on time. However, we propose that this is achieved using sensitivity testing, rather than introducing a new scenario.

Improving the ISP process and outputs

We support expanding the scope of costs included as inputs to the ISP. However, we consider this only one part of the changes needed to the ISP. The JEC intends to submit a rule change proposal, aiming at co-optimising the development of all resources in the energy system through the ISP, rather than limiting the outputs of the ISP to transmission augmentation. In this change we similarly propose expansions of the costs considered as inputs to the ISP. However, the rationale underpinning our proposal is more robust, and proposed with the purpose of enabling efficient co-optimisation of investment in energy resources to ensure the energy transition is effected at the lowest possible cost to consumers. We intend this rule change proposal to be considered alongside the ISP Review.

Transparency in the ISP

While we support the aim of improving transparency in the ISP, we disagree with the implication in the proposal that there is a democratic deficit at present. Jurisdictional policies are legislated policies produced by democratically elected Australian governments. Transparency improvements should be pursued with a view to more effective input from stakeholders to the ISP process. As noted above, scrutinising the validity of jurisdictional policies is not the primary task of the ISP.

2. Treatment of jurisdictional policies

2.1 The purpose of the ISP

Treating the policies listed in the *Targets Statement* as fixed parameters for the purposes of the ISP is appropriate and perfectly consistent with the functioning of Australian democracy.

While we support the aims of increasing transparency and improving the accuracy of the set of costs considered as inputs to the Integrated System Plan (ISP), we strongly disagree with the change in the fundamental purpose of the ISP implied by the rule change proposal.

The purpose of the ISP currently is to define the optimal development path (ODP) by which the energy system should be augmented to enable supply of the anticipated energy demand and fulfil the commitments and targets listed in the *Targets Statement* published by the AEMC. There is no appropriate role for the ISP to critique those targets or policies.

The aim of the rule change is to enhance voters' ability to assess the costs of jurisdictional policies. This is both impractical to do meaningfully and falsely based on a claim of a democratic deficit which, even if true, is not a legitimate concern of the energy rules. The policies listed in the *Targets Statement* are legislated by Australian governments who were democratically elected. They are intended to conform to Australia's international commitment to attempt to limit global warming to 1.5 degrees. The practice of the national energy planner of treating targets in the *Targets Statement* as pre-given parameters for the purpose of developing the ODP is completely appropriate and in no way a subversion of democracy.

2.2 A new baseline scenario

We do not support the introduction of a 'baseline' scenario ostensibly to attempt to identify the costs of jurisdictional policies. There is a risk that jurisdictional targets may not be met at the designated deadlines. However, any attempt to create a baseline scenario excluding the jurisdictional policies cannot capture this risk or fulfil the stated aim of meaningfully describing the cost of the policies.

Further, the implication that the failure of a jurisdiction to achieve a given target in time, or abandoning a target altogether means the investments made elsewhere in the grid can retrospectively be said to have been unnecessary is not supportable. In fact, the opposite is true. If a jurisdiction abandons an emission reduction target, as Queensland has done, but the national commitment to make reasonable efforts to limit global warming to 1.5 degrees remains, the implication is that other jurisdictions will need to reduce their emissions at a faster rate to compensate for the failure of the jurisdiction opting out of the task. This implies that emissions-reducing investments elsewhere in the energy system would be retrospectively rendered below the level necessary.

The scenario the Centre for Independent Studies wishes to examine appears to be one where all jurisdictions abandon all the policies listed in the *Targets Statement* and Australia opts to break its commitment under the Paris Treaty. This is grounded in an assumption that the 'cost' of emissions reduction can be simply calculated against the absence of action to transition the energy system. Even were this a reasonable task to undertake, this approach would not be a

meaningful or accurate way to do it. In any case, this scenario is extremely unlikely to the point that describing it in the ISP would have no impact on the development or assessment of candidate development paths.

The JEC does support increasing the ability of AEMO to assess risks to jurisdictional policies being achieved, however. The rollback of hydrogen targets is a good example where an assessment of a policy's viability, made on the basis of AEMO staff and contributing stakeholders' expertise and updated evidence, would have been valuable and may have led to different and improved outputs of the ISP.

The implications of these assessments should be operationalised primarily using sensitivity testing. Sensitivity testing would allow assessment to be done on a policy-by-policy basis, rather than capturing the extremely unlikely scenario of all jurisdictional policies being abandoned, and allow the planner to capture the relative impact that failure to achieve different targets would have on each of the candidate development paths.

3. The JEC will propose its own rule change

The JEC supports the aim of more comprehensively capturing the costs associated with the energy transition as part of a process to plot the most efficient pathway. However, additions to the costs considered in the ISP must be made in good faith, and be even-handed. They must contribute to the task of identifying the optimally efficient path of the transition.

The JEC intends to submit a rule change proposal that seeks to enable AEMO to more efficiently co-optimize investments in generation, storage, distribution, transmission and demand side developments. The intent is to ensure the ISP fulfils its mandate of producing a whole-of-system plan and that the transition is effected at least cost to consumers.

In this rule change, we will propose expanding the costs included as inputs to the ISP. In particular, we propose that investments in consumer energy resources (CER) and distribution network upgrades be included as costs in the ISP. Crucially, however, our rule change proposal is driven by the imperative to expand the outputs of the ISP out beyond transmission augmentations. We support the expansion of the inputs to the ISP insofar as it is done in the service of this task of expanding its outputs and specifically co-optimising the investments in all aspects of the energy system to better achieve the fundamental purpose of the ISP.

We will request that the JEC rule change proposal is also considered alongside the ISP Review.

We see no clear evidence that the addition of the costs of recycling and disposal of renewables and payments to coal generators for life extensions would lead to more efficient assessment of the candidate development paths.

4. Publication of information

The JEC supports the aim of increased transparency in the ISP.

However, we do not support the change proposed by the CIS. The proposal appears to request increased transparency regarding the costs of jurisdictional policies only, and excludes the benefits of the policies or the costs of their absence. Such an unbalanced approach will not enhance AEMO's ability to assess candidate development paths and so does not contribute to the purpose of the ISP.

As noted above, the JEC is intending to submit a rule change proposal aimed at enabling AEMO to fulfil its mandate of producing a whole of system plan and co-optimize investments in all elements of the energy system.

In order to effect this AEMO will need increased information about the costs and benefits of jurisdictional policies and regular updates concerning the degree of success jurisdictions have in achieving their policy targets. We propose a mechanism to enable this information to be tabled publicly, and define the new reporting and verification functions AEMO would need to take on in relation to jurisdictional policies.

While we do not support the proposals regarding transparency made by the CIS, we urge the Commission to consider our rule change alongside this rule change proposal and the ISP Review.

5. Continued engagement

We welcome the opportunity to meet with the AEMC and other stakeholders to discuss these issues in more depth. Please contact Michael Lynch at mlynch@jec.org.au regarding any further follow up.