

Draft rule determination

National Electricity Amendment
(Clarifying the treatment of
jurisdictional policies and system
costs in the ISP) Rule

Proponent

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About the AEMC

The AEMC reports to the energy ministers. We have two functions. We make and amend the national electricity, gas and energy retail rules and conduct independent reviews for the energy ministers.

Acknowledgement of Country

The AEMC acknowledges and shows respect for the Traditional Custodians of the many different lands across Australia on which we live and work. The AEMC office is located on the land of the Gadigal people of the Eora nation. We pay respect to all Elders past and present, and to the enduring connection of Aboriginal and Torres Strait Islander peoples to Country.



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Summary

- 1 The Commission has made a draft determination not to make a draft rule in relation to a rule change request submitted by the Centre for Independent Studies (the Proponent), which proposed changes to the way the Australian Energy Market Operator (AEMO) develops the Integrated System Plan (ISP) and the information the ISP provides.
- 2 The proponent raised three issues in its rule change request that relate to the way the ISP is currently developed:
 - **Treatment of jurisdictional policies:** The proponent suggested that 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. To address this issue, the proponent proposed that AEMO should be required to model a 'baseline' scenario with no jurisdictional policy constraints, and to consider plausible future policy changes by jurisdictions.
 - **Whole of system costs:** The proponent considered that the ISP analysis should include a broader range of costs in determining 'whole of system' costs and identifying the optimal development path.
 - **Publication of information:** The proponent suggested that additional information should be published relating to system costs and the cost implications of individual jurisdictional policies as part of the ISP.
- 3 The Commission is of the view that the current rules already have sufficient flexibility to enable consideration of the risks raised by the proponent. We consider that the additional analysis and information proposed by the proponent is either inconsistent with the governance arrangements of the national electricity framework (and as such would be likely to be inefficient and ineffective), can already be considered under the current rules, or would increase costs for limited benefits. The Commission also considers that the proposed rule in relation to the treatment of jurisdictional policies would create a level of uncertainty and confusion that would render the ISP ineffective as a plan.
- 4 For these reasons, further outlined below, the Commission considers that the proposed rule would not, or would not be likely to, contribute to the National Electricity Objective (NEO). It has therefore decided not to make a draft rule.
- 5 **We are seeking feedback on our draft determination by 28 May 2026.**

We consider rule changes are not required to address the issues raised by the proponent

- 6 The ISP is established under the National Electricity Rules (NER) with the purpose of setting out a whole of system plan for the efficient development of the power system over at least a 20-year time horizon, to contribute to achieving the NEO. It plays an important role in the planning and investment process for transmission projects in the National Electricity Market (NEM), and the inputs and outputs are used in other forecasting and planning processes by AEMO, jurisdictions and others.
- 7 In 2023, the NEO was updated to include, as an aspect of the long-term interests of consumers, the achievement of targets set by participating jurisdictions that are for (or are likely to contribute to) reducing Australia's greenhouse gas emissions. This includes emissions reduction targets, as well as renewable energy, electrification and energy productivity targets. Relevant targets are

included in the emissions [targets statement](#), which is maintained by the Commission, subject to direction from jurisdictions. The NEO also includes consideration of electricity price, quality, safety, reliability and security.

- 8 Jurisdictional governments are responsible for setting energy and emissions reduction policy, including emissions targets, under the national electricity framework. Energy market bodies, including AEMO and the AEMC, are required under the National Electricity Law (NEL) to have regard to the NEO in undertaking their functions. This includes AEMO when carrying out its transmission planning functions under the NEL and NER.
- 9 Consistent with this obligation, the purpose of the ISP as set out in the NER is to contribute to achieving the NEO. This means that the overall purpose of the ISP is to contribute to the long term interests of consumers with respect to achieving targets on the targets statement, as well as price, quality, safety, reliability and security of the supply of electricity.

The current rules provide appropriate mechanisms to consider uncertainty around the achievement of jurisdictional policies

- 10 Within the context of the national electricity regulatory framework, we consider that the current rules enable AEMO to appropriately assess the risk that jurisdictional policies may not be met on time. AEMO already uses sensitivity analysis to test the robustness of the ISP to future uncertainty, including cases where emissions targets are not met on time. We consider this the appropriate mechanism for addressing the risks raised by the proponent. This approach best supports the achievement of the NEO of the options considered.
- 11 This differs from the proponent’s suggested approach that AEMO should be required to include scenarios in the ISP with plausible future policy changes and a ‘baseline scenario’ with no jurisdictional policy constraints. The proponent suggested this would address the concern it raised that the current arrangements could result in unnecessary investment in transmission if generation investment occurs later than is projected in the ISP modelling.
- 12 Under the current approach, all development paths considered in the ISP are consistent with meeting all targets on the targets statement. AEMO uses sensitivity analysis to test the robustness of the optimal development path (ODP) to the ISP assumptions, including testing the impact of generation investment occurring later than implied by the targets on the targets statement. Examples include the *Constrained Delivery* and *Constrained Supply Chains* sensitivities in the Draft 2026 ISP and 2024 ISP, respectively.
- 13 The Commission’s draft determination is that this approach best contributes to achieving the NEO as compared to the other options we considered as it:
- Supports the achievement of emissions reduction targets, consistent with the NEO and NEL. Ensuring the ODP remains consistent with these targets enables them to be achieved in the future, as transmission capacity is an essential enabler.
 - Supports consistency and stability within the planning framework. Changing from the current approach would require AEMO to exercise judgement about the likelihood or feasibility of emissions targets being achieved in the future. This judgement would be highly contested and reduce the reliability of the ISP as a plan to support coordinated investment that delivers the greatest net benefits. Different approaches would also likely create more variability between ISPs, impacting investment certainty.
 - Helps to mitigate reliability and price risks. The risks to consumers of early investment in transmission are likely to be outweighed by the risks of late investment. Late delivery of transmission can delay the connection of new generation leading to higher wholesale market

prices, reduced reliability of electricity supply and/or higher greenhouse gas emissions. Earlier investment timing also mitigates the risk of construction delays, which are common. More and earlier integration of lower emission generation provides greater benefits as long as emissions reductions are valued.

- Can provide useful information to prompt jurisdictions to take action to improve the likelihood that the targets are met.

- 14 We considered alternative ways of addressing the risks identified by the proponent when making our decision, including approaches that relax, in some way, the current approach to maintain consistency with all targets in the targets statement. Examples include requiring emissions targets to meet a set of predefined criteria to be included in the ISP or delaying the assumed achievement date for all targets.
- 15 All of these alternative approaches would result in at least some development paths being considered that are not consistent with all targets in the targets statement. This would require independent judgement by AEMO or a third party as to which targets would not be met. Even setting objective criteria that targets must satisfy to be included in the ISP would still result in the decision to exclude targets being made by an entity other than the responsible jurisdiction.
- 16 We consider it is not appropriate for AEMO to make this judgement within the context of the national electricity regulatory framework. Setting policy remains the responsibility of governments. If a jurisdiction does not want a target supported by the framework, it can direct the Commission to remove it from the targets statement under section 32A(2) of the NEL. Maintaining the current approach is consistent with the broader regulatory framework, under which jurisdictions are responsible for determining which targets are considered by market bodies. Jurisdictions are responsible for ensuring that the targets included in the targets statement remain consistent with their policy ambition and intent.
- 17 While AEMO must consider the jurisdictional targets included in the targets statement in developing the ISP and the ODP, we expect AEMO to continue to undertake sensitivity analysis to ensure the ODP is robust to future uncertainties and to highlight key risks to its implementation. This should include key risks associated with jurisdictional policy targets. This is critical to supporting and maintaining confidence in the ISP's role as a roadmap for the energy transition.

Relevant whole of system costs can already be included in the ISP without rule amendments

- 18 We consider that amendments are not required to the NER to enable AEMO to consider relevant whole of system costs. The current NER provides flexibility for AEMO to consider other costs that it considers relevant if agreed by the AER, and for the AER to require AEMO to consider specific costs by including them in the Cost Benefit Analysis Guidelines (CBA Guidelines).
- 19 The proponent raised concerns with the current approach, stating that the ISP excludes significant costs such as those related to consumer energy resources (CER), distribution network upgrades, recycling and disposal of renewables and payments to coal generators for life extensions. The proponent suggested that the ISP should model and publish an assessment of whole of system costs as faced by consumers of electricity, in order to provide greater transparency to consumers.
- 20 The stated purpose of the ISP is to establish a 'whole of system plan' under the current NER. In developing the ISP, AEMO focuses on the relative costs of alternative development paths, for example, projects that change between development paths and can therefore be influenced by the plan.
- 21 We do not consider it the role or purpose of the ISP to attempt to determine the end-to-end cost of

every element of the electricity supply chain. In the Commission's view, it is appropriate to exclude costs from the ISP analysis that do not change between development paths, as is the current approach.

- 22 In addition, some of the specific examples provided by the proponent, such as CER costs and distribution costs, are already considered in the ISP to the extent they vary between development paths and have a bearing on broader investment decisions. We do not consider a more prescriptive approach in the rules to be necessary or appropriate. The current approach provides flexibility to evolve as technology and circumstances change. A more prescriptive approach on how, and which, costs should be considered may inadvertently constrain the responsiveness of the ISP methodology over time, decreasing its effectiveness.

Requiring AEMO to assess the impact of individual policies on system cost would not contribute to the NEO

- 23 The proponent proposed that the ISP should model and publish the effect on system cost of each individual jurisdictional target and policy included in the ISP. The proponent considered that this would provide information for governments and consumers to inform decision-making.
- 24 We do not consider the NER is the appropriate framework, nor AEMO the appropriate body, to assess the cost impact of individual jurisdictional policies. The proponent's proposal would be duplicative of the roles of jurisdictions and lead to inefficient costs.
- 25 Our key reasons are:
- Jurisdictions are responsible for setting targets and policies and already have processes to cost and evaluate policy decisions both prior to and following implementation.
 - The analysis would be incomplete. Governments implement policies for a range of reasons beyond the impact on the national electricity market.
 - Jurisdictions can already request that AEMO undertake sensitivity analysis as part of the ISP, showing the impacts of energy or environmental policies under clause 5.22.6(b)(3) of the NER.
- 26 Therefore, we do not consider that the proposal would contribute to the NEO.
- 27 The Commission supports the Productivity Commission's proposal for an independent body to evaluate the cost-effectiveness of emissions reduction policies on a consistent basis. We consider that this would provide the transparency that the proponent is seeking through a more appropriate framework.

The Commission has considered stakeholder feedback in making this decision

- 28 Some stakeholders supported further consideration of how jurisdictional targets and policies are incorporated into the ISP. Key concerns with the current approach included a lack of transparency into how targets are incorporated, the potential for unrealistic modelling outcomes, and the limits this creates on the ability to consider the implications of targets being achieved later than intended. However, stakeholders generally opposed AEMO assessing the likelihood of emissions reduction targets being achieved, with some noting it was not AEMO's role.
- 29 Stakeholders generally did not support the inclusion of the additional classes of costs identified by the proponent as they either considered that they were not costs borne by consumers or that they were already considered to the extent they were relevant. Some stakeholders expressed the view that decisions around the classes of costs that should be included in the ISP are better addressed through the AEMC's Review of the ISP framework, which the Commission initiated in December 2025 and is ongoing through 2026.

- 30 Many stakeholders agreed that there should be increased transparency regarding the cost impact of jurisdictional targets, but the vast majority considered that the ISP was not the appropriate place for this analysis. Concerns raised by stakeholders included that it would increase the complexity of the ISP and that AEMO cannot consider all costs and benefits of such policies.

We assessed our draft decision against the NEO by using five assessment criteria

- 31 **Emissions reductions:** Maintaining the current approach ensures that the ISP is consistent with achieving the emission reduction targets on the statement. It means that the transmission framework supports the achievement of targets and does not act as a limitation. The proponent proposal that the ISP should not be required to achieve the targets would not meet this assessment criteria.
- 32 **Principles of market efficiency:** The draft determination would promote efficient investment in electricity services. Under the current framework, AEMO can use tools like sensitivity analysis to select the ODP that has positive net market benefits under a range of conditions and is robust to uncertainty. The exclusion of some or all jurisdictional targets in the ISP would reduce the reliability of the ISP as a plan to support coordinated investment that delivers the greatest net benefits.
- 33 **Implementation considerations:** The changes proposed by the proponent are likely to be difficult and costly to implement. For example, additional scenarios that consider plausible changes to government policy would be unbounded and potentially arbitrary, increasing the resources required to undertake the modelling and reducing the ability to test modelling outcomes. This could render the ISP less credible, reliable and effective as a plan. Maintaining the current approach would not result in any additional implementation costs.
- 34 **Innovation and flexibility:** The current arrangements are sufficiently flexible to allow AEMO to consider the risks identified and undertake much of the additional analysis proposed by the proponent, in a way that is appropriate under the national electricity framework. For example, we consider the current rules provide appropriate flexibility to consider whole of system costs where necessary. The use of sensitivity analysis also provides an appropriate level of flexibility to consider the risks associated with jurisdictional targets being met later than intended.
- 35 **Principles of good regulatory practice:** Maintaining the current arrangements ensures a degree of predictability and consistency between ISPs, which is important for the long-term planning decisions for major infrastructure projects. The current approach also aligns with the broader direction of reform and is consistent with the direction set by jurisdictions. The draft determination promotes good regulatory practice by clarifying the roles of different bodies in the energy sector and promoting consistent goals across regulatory frameworks and processes.

Jurisdictions play an important role in deciding which policy targets are included in the targets statement for the purpose of developing the ISP

- 36 For the reasons outlined above, the Commission's draft determination is that making no draft rule would better contribute to the NEO compared with the proposed rule and potential alternatives.
- 37 At the same time, it is important to recognise there is a risk of unrealistic modelling outcomes in the ISP in cases where near-term policy targets are included by jurisdictions in the targets statement but are unlikely to be met. In these cases, ISP modelling will require increasingly rapid build rates as those targets approach. In practice, these build rates may be unrealistic and could

potentially impact planned developments in other jurisdictions, undermining the ISP's credibility and effectiveness as a roadmap for the energy transition.

- 38 These risks can be managed by jurisdictions ensuring the emissions and renewable energy targets in the targets statement are coordinated and consider the impact on the NEM and energy consumers more broadly. This is particularly important for near-term targets, which can directly affect transmission planning and investment decisions.
- 39 AEMO's ISP information, scenarios and sensitivities can be helpful to jurisdictions to assess these risks and consider any further action or initiatives that might be required to facilitate achieving the emission reduction targets.
- 40 The ISP is updated every two years. Jurisdictions can review the targets statement during each ISP cycle, supporting AEMO's planning and promoting a practical ISP that is in the long-term interests of consumers. This would also support achieving emissions reduction targets set by jurisdictions.
- 41 The Commission will further consider the purpose and role of the ISP through the Review.

How to make a submission

We encourage you to make a submission

Stakeholders can help shape the solution by participating in the rule change process. Engaging with stakeholders helps us understand the potential impacts of our decisions and contributes to well-informed, high quality rule changes.

How to make a written submission

Due date: Written submissions responding to this draft determination must be lodged with Commission by **28 May 2026**.

How to make a submission: Go to the Commission's website, www.aemc.gov.au, find the "lodge a submission" function under the "Contact Us" tab, and select the project reference code **ERC0406**.¹

Tips for making submissions on rule change requests are available on our website.²

Publication: The Commission publishes submissions on its website. However, we will not publish parts of a submission that we agree are confidential, or that we consider inappropriate (for example offensive, defamatory, vexatious or irrelevant content, or content that is likely to infringe intellectual property rights).³

Next steps and opportunities for engagement

There are other opportunities for you to engage with us, such as one-on-one discussions or industry briefing sessions.

You can also request the Commission to hold a public hearing in relation to this draft rule determination.⁴

Due date: Requests for a hearing must be lodged with the Commission by 23 April 2026.

How to request a hearing: Go to the Commission's website, www.aemc.gov.au, find the "lodge a submission" function under the "Contact Us" tab, and select the project reference code **ERC0406**. Specify in the comment field that you are requesting a hearing rather than making a submission.⁵

For more information, you can contact us

Please contact us with questions or feedback at any stage, noting the project code.

Email: aemc@aemc.gov.au

Telephone: (02) 8296 7800

1 If you are not able to lodge a submission online, please contact us and we will provide instructions for alternative methods to lodge the submission

2 See: <https://www.aemc.gov.au/our-work/changing-energy-rules-unique-process/making-rule-change-request/our-work-3>

3 Further information about publication of submissions and our privacy policy can be found here: <https://www.aemc.gov.au/contact-us/lodge-submission>

4 Section 101(1a) of the NEL.

5 If you are not able to lodge a request online, please contact us, and we will provide instructions for alternative methods to lodge the request.

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1 The Commission has made a draft determination

Our draft determination is not to make a rule in response to a rule change request received from the Centre for Independent Studies (CIS or the proponent) relating to the way jurisdictional targets and policies are incorporated and the cost information that is considered and published in the ISP.

The ISP is established under the NER with the purpose of setting out a whole of system plan for the efficient development of the power system over at least a 20-year time horizon, to contribute to achieving the NEO. It plays an important role in the planning and investment process for transmission projects in the NEM, and the inputs and outputs are used in various other forecasting processes by AEMO, jurisdictions and others.

The NEO was updated in 2023 to include, as an aspect of the long-term interests of consumers, the achievement of targets set by participating jurisdictions that are for (or are likely to contribute to) reducing Australia's greenhouse gas emissions.⁶ This includes emissions reduction targets, as well as renewable energy, electrification and energy productivity targets. Relevant targets are included in the emissions [targets statement](#), which is maintained by the Commission, subject to direction from jurisdictions.⁷ The NEO also includes consideration of electricity price, quality, safety, reliability and security.⁸

Jurisdictional governments are responsible for setting energy and emissions reduction policy, including emissions targets, under the national electricity framework. Energy market bodies, including AEMO and the AEMC, are required under the National Electricity Law (NEL) to have regard to the NEO in undertaking their functions.⁹ This includes AEMO when carrying out its transmission planning functions under the NEL and NER.¹⁰

Consistent with this obligation, the purpose of the ISP as set out in the NER is to plan the efficient development of the power system in a way that contributes to achieving the NEO.¹¹ This means that the overall purpose of the ISP is to contribute to the long term interests of consumers with respect to achieving targets in the targets statement, as well as price, quality, safety, reliability and security of the supply of electricity.

Within this context, the proponent raised three issues in its rule change request that relate to the way the ISP is currently developed:

1. **Treatment of jurisdictional policies:** The proponent suggested 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. To address this issue, the proponent proposed AEMO should be required to model a 'baseline' scenario that does not include any jurisdictional emissions reduction targets or other energy or environmental policies, as well as being required to consider plausible future policy changes by jurisdictions through other scenarios.
2. **Whole of system costs:** The proponent considered that the ISP analysis should include a broader range of costs in determining 'whole of system' costs and identifying the optimal development path.

6 *Statutes Amendment (National Energy Laws) (Emissions Reduction Objectives) Act 2023* South Australia, amending section 7 of the National Electricity Law (NEL).

7 NEL section 32A.

8 NEL section 7.

9 NEL sections 16, 32, 49.

10 NEL sections 49(2) and (3).

11 NER clause 5.22.2.

3. **Publication of information:** The proponent suggested additional information should be published relating to system costs and the cost implications of individual jurisdictional policies as part of the ISP.

Our draft determination is that the current rules enable AEMO to appropriately assess the risk that jurisdictional policies may not be met on time. AEMO already uses sensitivity analysis to test the ISP's robustness to future uncertainty, including cases where emissions targets are not met on time. We also consider the current rules provide sufficient flexibility to enable AEMO to consider whole of system costs that are relevant to an ISP development path. Finally, we do not consider the NER is the appropriate framework, nor AEMO the appropriate body, to assess the cost impact of individual jurisdictional policies, and as such the costs of AEMO doing so would outweigh the benefits. For these reasons, the Commission's draft determination is that the proposed rule would not contribute to the NEO.

We are seeking feedback on this draft determination by **28 May 2026**.

1.1 Stakeholder feedback and the flexibility of the current rules shaped our determination

Stakeholder input and feedback helped shape our draft determination. We received 18 written submissions to our consultation paper and conducted bilateral and multilateral discussions with a range of stakeholders, which further deepened our understanding of the issues raised in the rule change request.

The key findings and observations that shaped the Commission's draft determination included that:

- Some stakeholders supported examining the current approach to incorporating jurisdictional policies in the ISP. Key concerns with the current approach included a lack of transparency as to how targets are incorporated, the potential for unrealistic modelling outcomes and the limits it creates on the ability to consider the implications of targets being achieved later than intended. Most stakeholders opposed AEMO assessing the likelihood or impact of the jurisdictional policies being met in the ISP. Our draft determination aligns with most stakeholders' views and does not require AEMO to assess and make judgements on the achievement of jurisdictional policies. It recognises and supports AEMO's existing ability under the rules to use sensitivities to test robustness of development paths, including testing the impacts of targets being achieved later than identified. It also provides details to improve the transparency on how targets are incorporated into the ISP.
- The majority of stakeholders did not support the inclusion of additional classes of costs identified by the proponent (e.g. costs and recycling and disposal of renewables, and payment for coal life extensions), or additional prescription in the rules regarding ISP costs. Many suggested that the work being done to implement the AEMC's recent *Improving consideration of demand-side factors* rule change and the ongoing *Integrated distribution system planning* rule change is sufficient at this time. Our draft determination notes the flexibility of the existing rules to include whole of system costs, and that the rules allow the AER and AEMO to agree to additional costs being included in the ISP where they are relevant.
- Many stakeholders supported greater transparency around the cost of jurisdictional policies, however the majority of stakeholders considered that the ISP is not the appropriate mechanism for this analysis. Some stakeholders supported the Productivity Commission's recommendation in its recent report to commission an independent agency to assess policies against a benchmark and improve transparency. We also support the Productivity

Commission's recommendation and consider this to be more appropriate than AEMO being required to cost individual jurisdictional policies in the ISP

Some stakeholders commented on the risks of delays of transmission investment and the impact on renewable energy generation and in meeting jurisdictional emissions-related targets. Some stakeholders also cautioned against changes that could result in disruption to investment, stating that it could undermine reliability, security and cost of the electricity system.

Further stakeholder feedback on the issues raised in the rule change request can be found in chapters 3, 4 and 5 of this draft determination.

1.2 The draft determination clarifies accountabilities and the ISP review will further consider the purpose of the ISP

This draft determination clarifies the accountabilities under the national electricity framework for setting the emissions reduction targets and policies, and how emissions reduction targets and policies are included in the ISP, along with the other objectives under the NEO.

Our draft determination is that the current rules enable appropriate treatment of the issues raised by the proponent in the rule change request. The draft determination aligns with the direction of broader reforms in the electricity market, including a final rule we made in December 2024 to improve consideration of demand-side factors in the ISP.¹² The Draft 2026 ISP included the first Demand Side Factors statement, and AEMO is finalising consultation on the Demand Side Factors Information Guidelines,¹³ which already consider some of the specific inputs raised by the proponent in the rule change request around costs of CER and distribution network upgrades, to the extent they relate to projects on the development path.

The proponent argued that there is a risk of over-investment in transmission in its rule change request, due to policy uncertainty from participating jurisdictions.¹⁴ We have found no evidence that the ISP modelling approach has resulted in early or over-investment in transmission to date. Current and projected congestion metrics also do not indicate an existing over-supply of transmission capacity or that the ISP modelling approach has resulted in early- or over-investment in transmission to date.¹⁵

We consider it is important to recognise the risk asymmetry between early and late transmission investment, and over and underinvestment. Late or under-investment in transmission can have sharp and material impacts to reliability and wholesale costs, potentially outweighing any savings from deferred or avoided capital costs.¹⁶ By comparison, early or over-investment in transmission increases capital costs borne by consumers over the long-term, but this is generally outweighed by the benefits of improved reliability, reduced wholesale prices and reduced emissions. Wholesale cost components make up a larger proportion of a customer's bill than transmission cost components, and we consider that the risks associated with late or under-investment are larger than those of early or over-investment.¹⁷

However, we also recognise there is a risk of unrealistic build rates in the ISP in cases where near-term jurisdictional targets are included in the targets statement but are unlikely to be met. This

¹² AEMC, Improving consideration of demand-side factors in the ISP, <https://www.aemc.gov.au/rule-changes/improving-consideration-demand-side-factors-isp>.

¹³ [2025 Demand Side Factors Information Guidelines Consultation](#)

¹⁴ Rule change request, p. 4.

¹⁵ AEMO, 2025 [Enhanced Locational Information](#); AEMO, [Connections Scorecards](#).

¹⁶ For analysis on the consumer impacts of transmission delays, see Nexa Advisory, [The Consumer Cost of Transmission Delays](#), July 2024.

¹⁷ Assuming equal magnitudes of early, late, under, or over-investments, all else equal. Our view is supported by analysis of the AEMC's [Residential Electricity Price Trends 2025](#), where consumer impacts from early and late transmission and wind investment were modelled.

could potentially impact planned developments across jurisdictions and undermine the credibility and effectiveness of the ISP as a roadmap for the energy transition. These risks can be managed by jurisdictions ensuring the emissions and renewable energy targets in the targets statement are coordinated and consider the impact on the NEM and energy consumers more broadly. Jurisdictions can review the targets statement at any time.

1.2.1 The AEMC is undertaking a review of the ISP framework

The Commission is undertaking a review of the ISP framework in parallel to this rule change. Submissions closed to the consultation paper for the review in February 2026, and we are currently analysing submissions and undertaking further engagement on issues raised. Clarifying the purpose and role of the ISP was raised as a key area of focus by stakeholders. We will further consider the purpose and role of the ISP through the Review, and plan to publish a directions paper towards the end of the 2025-26 financial year.

2 The draft determination would contribute to the national electricity objective

2.1 The Commission must act in the long-term interests of energy consumers

The Commission can only make a rule if it is satisfied that the rule will or is likely to contribute to the achievement of the relevant energy objective.¹⁸ For this rule change, the relevant energy objective is the NEO. The NEO is:¹⁹

to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to—

- (a) price, quality, safety, reliability and security of supply of electricity; and
- (b) the reliability, safety and security of the national electricity system; and
- (c) the achievement of targets set by a participating jurisdiction—
 - (i) for reducing Australia’s greenhouse gas emissions; or
 - (ii) that are likely to contribute to reducing Australia’s greenhouse gas emissions.

The [targets statement](#), available on the AEMC website, lists the emissions reduction targets to be considered, as a minimum, in having regard to the NEO.²⁰

2.2 We have considered whether to make a more preferable rule

The Commission may make a rule that is different, including materially different, to a proposed rule (a more preferable rule) if it is satisfied that, having regard to the issue or issues raised in the rule change request, the more preferable rule is likely to better contribute to the achievement of the NEO.²¹

For this rule change, the Commission’s draft determination is to not make a draft rule in relation to the rule proposed by the proponent (that is, the Commission is not making the proposed rule or a more preferable draft rule). The reasons are set out in section 2.3 below.

2.3 How we have applied the legal framework to our decision

The Commission must consider how to address the issues raised in the rule change request and our consultation paper against the legal framework. We identified the following criteria to assess whether the proposed rule change, no change to the rules (business-as-usual), or other viable, rule-based options would be likely to better contribute to achieving the NEO:

- emissions reductions
- principles of market efficiency
- implementation considerations
- innovation and flexibility

18 Section 88(1) of the NEL.

19 Section 7 of the NEL.

20 Section 32A(5) of the NEL.

21 Section 91A of the NEL.

- principles of good regulatory practice.

These assessment criteria, particularly the first two, reflect the key potential impacts – costs and benefits – of the rule change request within the scope of the NEO. Our reasons for choosing these criteria are set out in chapter 4 of the consultation paper.

Four stakeholders commented on the assessment criteria in response to our consultation paper. AEMO and Origin supported the proposed assessment criteria.²²

The proponent suggested that ‘outcomes for consumers’ should be included in the assessment criteria, noting that the reason for its rule change request was its view that the current approach does not adequately protect consumers from risks of premature and over-investment in transmission.²³ We are considering outcomes for consumers as part of the rule change process as a whole, as all limbs of the NEO ultimately relate to the long term interests of consumers. We have not included a specific ‘outcomes for consumers’ assessment criterion in this instance as this criterion is generally used to consider aspects such as consumer behaviour, consumer protections and consumer vulnerability. We agree with the proponent that impacts on consumers more broadly are key considerations for this rule change request (as with all rule change requests), but consider the specific risks cited by the proponent are adequately and more appropriately covered by the ‘principles of market efficiency’ criterion, which includes consideration of risk allocation and concepts of efficiency.

EUAA commented on the way we characterised the ‘innovation and flexibility’ criterion in the consultation paper as needing to be considered as a tradeoff between flexibility and planning predictability. EUAA noted that instability in the planning regime should not be considered negatively if the outcome of a less stable framework results in positive consumer outcomes where expensive ISP projects are not built.²⁴ The Commission agrees that the ISP framework should only support projects that are in consumers’ interests, as defined by the NEO. We consider the assessment criterion reflects the intent indicated by EUAA.

The rest of this section explains why the draft rule determination best promotes the long-term interest of consumers when compared to other options and assessed against the criteria. For more information on our reasoning for this draft determination, see chapter 3, chapter 4, and chapter 5.

2.3.1 The draft determination would contribute to the achievement of the NEO

The Commission is of the view that, to the extent the issues the proponent raised are substantive, the current rules already have sufficient flexibility to enable AEMO to consider those issues. We consider that the additional analysis and information proposed by the proponent either can already be considered under the current rules, or would increase costs (and may make it harder to meet emissions targets) for limited benefits, and as such the proposed rule would not promote the NEO. In addition, it would be inconsistent with the governance arrangements of the national electricity framework. These issues are discussed in further detail in the following sections, structured around the assessment criteria.

The proponent argues that its proposed rule would promote the NEO (in particular, in relation to the price of electricity supply) by reducing the costs and risks of early investment or over-investment in transmission infrastructure. We acknowledge that transmission investment that is earlier or later than needed, and over or under-investment, can result in inefficiencies that impose

22 Submissions to the consultation paper: AEMO, p.6; Origin, p.4.

23 Submission to the consultation paper: Centre for Independent Studies, p.9.

24 Submission to the consultation paper: EUAA, p.5.

risks and costs on consumers. However, the risks of early or over- investment are offset by the risks of delays in the delivery of transmission projects. Late delivery of transmission can delay the connection of new generation leading to higher wholesale market prices, reduced reliability of electricity supply and/or higher greenhouse gas emissions. Earlier investment timing also mitigates the risk of construction delays, which are common. More and earlier integration of lower emission generation provides greater benefits as long as emissions reductions are valued. We consider that sensitivity analysis, as enabled under the current rules, can address potential risks and uncertainty in the transmission investment timing.²⁵ As such, the need for and potential benefits of the proposed rule are unclear.

2.3.2 The draft determination would contribute to the achievement of jurisdictional emissions reduction targets

The NEO includes the achievement of targets set by participating jurisdictions that are for (or are likely to contribute to) reducing Australia’s greenhouse gas emissions. This includes emissions reduction targets but also renewable energy, electrification and energy productivity targets.

We consider that our draft determination would contribute to the achievement of these emissions reduction targets. This is because, by retaining the current rules, the ISP would remain consistent with achieving the targets in the targets statement, supporting investment that is required to achieve jurisdictions’ targets.²⁶ This would be the result of the scenarios and development paths (including the eventual ODP) considered in the ISP being consistent with achieving these targets. Under the current rules and our draft determination, tools like sensitivity analysis are able to consider risks resulting from uncertainty around when targets will be met.²⁷ Additionally, by ensuring the ISP is consistent with the achievement of jurisdictional emissions reduction targets and using sensitivity analysis to test impact of delays, it allows jurisdictions to address shortfalls in investment needed to meet targets.

2.3.3 The draft determination would promote efficient investment in electricity services

We recognise that allowing additional scenarios where jurisdictional targets are excluded could allow for a wider range of development paths to be considered and assessed in the ISP. This has the potential to enable lower cost development paths to be considered as candidates for the ODP. However, such an approach would result in an ODP that is not consistent with meeting the targets in the targets statement, which could preclude the efficient achievement of the value of emissions reduction. We also consider that the exclusion of some or all jurisdictional targets in the ISP would reduce the reliability of the ISP as a plan to support coordinated investment that delivers the greatest net benefits.²⁸

Under the current framework AEMO can use tools like sensitivity analysis to select the ODP that has positive net market benefits under a range of conditions and is robust to uncertainty. We consider that the current approach should be maintained, as regulatory and investment uncertainty can be minimised and this sensitivity analysis can be used to deliver efficient investment and operational outcomes in the interests of consumers.²⁹ We consider this approach would best meet the NEO.

25 See chapter 3 for more information.

26 See section 3.3.2 for more information.

27 See section A6.7, Step 5b: Sensitivity analysis to test resilience of candidate development path in [Appendix A6](#) Cost benefit analysis of the *Draft 2026 ISP*.

28 See section 3.3.4 for more information.

29 See section 3.3.1 for more information.

2.3.4 We have considered implementation costs in making the draft determination

Maintaining the current approach would not result in any additional implementation costs. Sensitivity analysis is already undertaken by AEMO as part of the ISP development process, and this could be leveraged to further consider potential uncertainty around the achievement of jurisdictional targets, as required.

The proposed rule would result in implementation costs. Introducing new ISP scenarios that do not meet some or all jurisdictional targets, or filtering targets for inclusion in the ISP, would increase complexity, ultimately resulting in increased costs for consumers. In particular, there would be challenges in determining which targets from the targets statement should be included in the ISP, likely requiring either judgement from a market body on the feasibility of targets or the setting of a purely objective, arbitrary metric.³⁰

We consider that including additional cost categories, as suggested by the proponent, would also result in implementation costs, with no or very limited benefits.³¹ The Commission considers that cost categories that do not vary between development paths do not need to be included in the ISP. Requiring additional analysis to include cost categories that do not vary between development paths will increase the costs of developing the ISP, without an impact on the development paths chosen. We consider this would not meet the NEO.

The proposal to include the recycling and disposal costs of renewables, for example, would add complexity and cost to the process without significantly impacting outcomes, as raised by CSIRO in preparing the latest GenCost report.³² Further, the inclusion of payments for coal life extensions would be complicated to implement accurately given these are highly context specific, and commercial in confidence. We consider that including the total costs of CER would also require modelling the benefits of CER, further increasing implementation costs.

We also consider that the proposal for AEMO to include the cost of individual jurisdictional policies in the ISP would have material implementation costs and complexities, given the additional modelling that AEMO would need to undertake.³³ Additionally, any analysis from AEMO would likely be incomplete as AEMO would only have the expertise to consider costs and benefits within the energy sector, thereby ignoring economy-wide costs and benefits which may have material impacts on the overall value of a policy. We therefore consider that the draft determination, not to make the proposed rule, would contribute to meeting the NEO.

2.3.5 The draft determination supports innovation and flexibility

The Commission considers that this draft determination supports innovation and flexibility, which are important for efficient outcomes in the longer term. In particular, the current NER provides flexibility for AEMO to utilise sensitivity analysis when preparing the ISP and selecting the ODP. We consider this flexibility sufficient for AEMO to address the risks and uncertainties associated with achieving jurisdictional targets.³⁴ Conversely, introducing prescriptive rules for AEMO to assess specific sensitivities is unnecessary to achieve positive outcomes and may have adverse consequences in future as it may limit the analysis that AEMO could undertake.

We consider that requiring the ISP to include scenarios with specific assumptions (as proposed by the proponent) could increase the range of ways jurisdictional targets are included in the ISP, but

³⁰ See section 3.3.4 for more information.

³¹ See chapter 4 for more information.

³² CSIRO, GenCost 2024-25, p.111.

³³ See chapter 5 for more information.

³⁴ See section 3.3.1 for more information.

would not increase flexibility in a way that promotes the NEO. Such a change would likely reduce the benefits of the ISP as a long-term planning framework by increasing uncertainty and variability between ISPs and would not promote achievement of the emissions component in the NEO.³⁵

2.3.6 The draft determination promotes principles of good regulatory practice, supporting efficiency

The Commission considers that market bodies, including AEMO and the AEMC, should not assess the feasibility of jurisdictional targets.³⁶ Rather, it is the role of jurisdictions to set energy and emissions reduction policies, and determine what targets should be included in the targets statement. This draft determination promotes good regulatory practice by clarifying the roles of different bodies in the energy sector and promoting consistent goals across regulatory frameworks and processes. Specifically, ensuring the ISP is aligned with jurisdictional targets included in the targets statement promotes consistency with the NEO and reduces the likelihood of inconsistency between the ISP and individual jurisdictional planning processes (such as investment support mechanisms and jurisdictional transmission planning). Inconsistency with jurisdictional processes would likely be inefficient and increase the overall costs of the supply of electricity.

Similarly, we consider that it is not efficient for AEMO to include the costs of individual jurisdictional policies in the ISP.³⁷ It is the role of jurisdictions to assess the costs and benefits of their policies, and they have existing processes for this analysis. It would be duplicative for AEMO to conduct this analysis and would lead to inefficient costs. Instead, we support the Productivity Commission's proposal for an independent body with relevant experience and capability to assess emission policies.³⁸

³⁵ See section 3.3.4 for more information.

³⁶ See section 3.3.1 and section 3.3.4 for more information.

³⁷ See chapter 5 for more information.

³⁸ See section 5.3 for more information.

3 The current rules appropriately incorporate jurisdictional targets and policies in the ISP

Box 1: DRAFT DETERMINATION - The current approach to incorporating jurisdictional policies in the ISP should be maintained

The Commission's draft determination is to make no changes to the NER regarding how jurisdictional targets and policies are incorporated in the ISP. We consider that the current approach, including the use of sensitivity analysis, supports the selection of an optimal development path that appropriately accounts for uncertainty in achieving jurisdictional policies. This approach is in the long-term interests of consumers and best contributes to the NEO, as it:

- supports the achievement of emissions reduction targets that are set by jurisdictions and included in the targets statement
- supports efficient investment in transmission and generation by promoting consistency and stability within the planning framework
- helps to mitigate reliability, security and price risks associated with late investment in transmission.

Maintaining the current approach means market bodies are not required to assess which targets should be included in the ISP. We consider it is the role of jurisdictions, not market bodies, to set energy and emissions reduction policies and to determine which targets should be included in the targets statement and in the ISP.

3.1 The ISP plays an important planning role in the NEM

The ISP is established under the NER with the purpose of setting out a whole of system plan for the efficient development of the power system over at least a 20-year time horizon.³⁹ It plays an important role in identifying the long-term development plan for the power system that contributes to achieving the NEO.

More broadly, the inputs and outputs of the ISP are influential and used across a range of processes by AEMO, network service providers and jurisdictions. For example, the ISP and its inputs, assumptions, and scenarios play a role in:

- Regulatory Investment Test for Transmission (RIT-T) processes for actionable ISP transmission projects (and also often for non-actionable ISP projects when ISP assumptions are used)⁴⁰
- long-term electricity and gas supply adequacy forecasting under the *Electricity Statement of Opportunities* (ESOO) and *Gas Statement of Opportunities* (GSOO)⁴¹

³⁹ Clause 5.22.2 of the NER.

⁴⁰ NER clause 5.15A.3(b)(7).
AER, Regulatory Investment Test for Transmission Instrument, 2024, sections 2(b), 2(d), 2(f), and 3(a).

⁴¹ AEMO, [Electricity Demand Forecasting Methodology](#), August 2025.
AEMO, [Gas Demand Forecasting Methodology Information Paper](#), March 2025.

- jurisdictional schemes and processes, such as the Commonwealth’s Capacity Investment Scheme, the NSW’s *Infrastructure Investment Objectives Report*, and the Victorian Transmission Plan.⁴²

3.1.1 The ISP supports the achievement of the NEO, including emissions reduction targets

The ISP plays an important role in setting the long-term development plan for the electricity system that contributes to achieving the NEO, including contributing to emissions reduction targets. The NEO sets out the relevant considerations when assessing the long-term interests of electricity consumers, and the regulatory framework has been established to promote this objective.⁴³

In 2023, the NEO was updated to 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 the existing limbs of the NEO of price, quality, safety, reliability, and security.⁴⁴ The long-term interests of consumers has included emissions reduction since this update. A person or body must consider at a minimum the targets stated in the targets statement in having regard to the NEO.⁴⁵ It is the role of jurisdictional governments to set energy and emissions reduction policies, and determine which emissions reduction targets are included in the targets statement. The targets statement is maintained by the AEMC, subject to direction from jurisdictions.⁴⁶

Energy market bodies, including AEMO and the AEMC, are required under the NEL to have regard to the NEO in undertaking their functions.⁴⁷ This includes AEMO when carrying out its transmission planning functions under the NEL and NER.

This means that AEMO must develop an ISP that contributes to the NEO, with respect to achieving targets in the targets statement, as well as promoting price, quality, safety, reliability and security objectives.

3.2 The proponent raised concerns with the current approach to incorporating jurisdictional policies in the ISP

The proponent considered that the current approach to incorporating jurisdictions’ emissions reduction policies in the ISP does not adequately account for uncertainty around when emissions targets will be achieved or the possibility that they may be changed in the future.⁴⁸ The proponent considered that this increases risks to consumers, particularly in regard to the risk of over-investment in transmission arising from uncertainty in emissions reduction policies.⁴⁹ The proponent also considered that the current approach gives too much weight to the emissions reduction objective and fails to transparently account for price impacts on consumers.⁵⁰

42 Department of Climate Change, Energy, the Environment and Water, [Capacity Investment Scheme, Public Consultation Paper](#), August 2023, p. 4. AEMO Services, [2023 Infrastructure Investment Objectives Report](#), December 2023, p. 69. VicGrid, [2025 Victorian Transmission Plan](#), August 2025, p.42.

43 The regulatory framework for electricity is established with the objective of promoting the long-term interests of consumers, as defined by the NEO. See Section 7 of the *National Electricity Law*.

44 The NEO was updated to include consideration of emissions reduction on 21 September 2023 via the *Statutes Amendment (National Energy Laws) (Emissions Reduction Objectives) Act 2023*.

45 Section 32A(5) of the *National Electricity Law*.

46 Section 32A of the *National Electricity Law*.

47 Sections 32 and 49(3) of the *National Electricity Law*.

48 Rule change request, p.1.

49 Ibid.

50 Ibid.

For more information on the issue raised by the proponent, refer to the rule change request and section 2.1 of the consultation paper.

3.2.1 ISP development paths are consistent with jurisdictions' emissions reduction targets

AEMO's current approach to determining the ODP is always consistent with achieving all targets in the targets statement. This means that AEMO designs all ISP scenarios to achieve all targets included in the targets statement.⁵¹ These scenarios are then used to derive a range of candidate development paths which are all consistent with achieving the targets in the targets statement. The candidate development paths are also tested against these target-consistent scenarios as part of the cost benefit analysis process to identify the ODP.

AEMO does not assess the probability or feasibility of jurisdictional targets (such as whether or when they are likely to be achieved) when including them in the ISP. Stakeholders broadly agreed that these arrangements are appropriate and that AEMO should not be required to assess the feasibility of jurisdictional policies for the ISP.⁵²

While scenarios are consistent with meeting all targets in the targets statement, AEMO can and does conduct sensitivity analysis to test how various development paths perform if investment in generation, storage and other assets does not occur in line with meeting emissions reduction targets. For example, the Draft 2026 ISP includes a *Constrained Delivery* sensitivity which does not meet the 2030 renewable energy target and the electricity sector's contribution to the national emissions target.⁵³

Under the existing rules, AEMO is required to test the robustness of alternative development paths to future uncertainties through scenarios and sensitivities.⁵⁴ AEMO is also required to describe how development paths perform under any sensitivities AEMO considers reasonable.⁵⁵ The differences between scenarios and sensitivity analysis are relevant to this rule change, as we have considered potential options to amend how jurisdictional emissions reduction targets are incorporated in the ISP. The differences are summarised below in Box 2.⁵⁶

Box 2: Differences between scenarios and sensitivity analysis

A scenario is an internally-consistent projection of one potential, cohesive future for the energy system, with inputs and assumptions aligning with that future. Scenarios influence the design of development paths (including projects and project timings) that are considered as candidates for the ODP, in addition to being critical to the net benefits assessment of these candidate development paths.

Sensitivity analysis refers to a deviation from a scenario to one assumption, or a single combination of related assumptions, to assess the robustness of outcomes for a candidate development path to highlight key risks of dependencies. Sensitivity analyses may influence the relative ranking of candidate development paths and the selection of the ODP, but we understand they do not affect the design of development paths or their consistency with jurisdictional targets and policies.

51 The 2025 IASR has three scenarios: Step Change, Slower Growth, and Accelerated Transition.

52 Submissions to the consultation paper: AEMO, p.1; Alinta, p.2; Ausgrid, p.2; EnergyAustralia, p.3; EUAA, p.2; Origin, p.2; Shell, pp.1-2.

53 For more information on this sensitivity, refer to section 11 of the Draft 2026 ISP, found [here](#).

54 NER clause 5.22.5(d)(2).

55 NER clause 5.22.6(a)(3).

56 Clause 5.22.8 of the NER requires AEMO to develop, consult and publish a report on the inputs, assumptions and scenarios as part of the ISP preliminary consultations. Clause 5.22.10(a)(3) of the NER then requires AEMO to adopt those inputs, assumptions and scenarios in preparing the ISP.

For more information on the differences between scenarios and sensitivity analyses in the ISP, refer to appendix B.

Note: Clause 5.22.8 of the NER requires AEMO to develop, consult and publish a report on the inputs, assumptions and scenarios as part of the ISP preliminary consultations. Clause 5.22.10(a)(3) of the NER then requires AEMO to adopt those inputs, assumptions and scenarios in preparing the ISP. The framework in the AER's CBA Guidelines, required by clause 5.22.5(d)(5) of the NER, enables AEMO to change its choice of ODP based on sensitivity testing provided reasons are given.

3.2.2 We considered options to address the issues raised in the rule change request

Stakeholders had mixed views on the treatment of jurisdictional policies in the ISP.

Several stakeholders noted that further consideration was warranted regarding how the ISP addresses uncertainty about when jurisdictional targets will be met or that the current approach is not appropriate.⁵⁷ Others considered the current approach appropriate.⁵⁸ AEMO considered that, in relation to the broader scenario-based planning approach supplemented by sensitivity testing that it undertakes:⁵⁹

Whilst this approach can provide insights on impacts as a result of changes in assumptions, AEMO recognises that its treatment of jurisdictional policies in the ISP does not provide the same risk mitigation compared with other key assumptions made in the ISP.

We considered three options to address the issues raised in the rule change request:

1. Sensitivity analysis (status quo) - which can influence the selection of and test the robustness of the ODP
2. Diversified scenarios - where the requirement to be consistent with all targets would be relaxed in some way and not all development paths would meet all targets in the target statement
3. Alternative policies/no targets (proponent's suggestion) - scenarios and development paths with no policies as well as alternative government policies.

We also considered whether there was current evidence of over or early investment resulting from the ISP, as well as the corresponding risk of under or late investment.

3.3 We consider the existing rules sufficiently enable AEMO to assess uncertainty around when targets will be met

The Commission's draft determination is to make no rule regarding how jurisdictional targets and policies are incorporated in the ISP. We consider that the existing rules sufficiently enable AEMO to account for uncertainty around jurisdictional targets and policies in the ISP. AEMO can currently use sensitivity analysis to test how the ODP performs under a wide range of different assumptions. This includes testing cases where jurisdictional targets are not met in full.

Conversely, the Commission considers that a change in approach whereby the ISP considers development paths that are not consistent with achieving all targets in the targets statement or alternative policies are considered would not contribute to the NEO. This is because such an outcome could prevent (rather than contribute to) the achievement of jurisdictions' emissions reduction targets and could increase the risk of other adverse price and reliability outcomes by

57 Submissions to the consultation paper: Alinta, p.1; APGA, p.2; CIS, pp.1-4; Origin, p.2; Shell, p.1.

58 Submissions to the consultation paper: ENA, p.2; EUAA, pp.2, 2026 ISP Consumer Panel, pp.3,10-11; JEC, p.3.

59 Submission to the consultation paper: AEMO, p.1

reducing investment certainty and contributing to delays in the delivery of transmission, generation and storage.

We consider the current approach, where AEMO uses sensitivity analysis, best contributes to the NEO as it:

- Supports the achievement of emissions reduction targets, consistent with the NEO and NEL. Ensuring the ODP remains consistent with these targets enables them to be achieved in the future, as transmission capacity is an essential enabler.
- Supports efficient investment in transmission and generation by promoting consistency and stability within the planning framework. Changing approach would require AEMO to exercise judgement about the likelihood or feasibility of emissions targets being achieved in the future. This judgement would be highly contested and reduce the reliability of the ISP as a system-wide plan to support coordinated investment that delivers the greatest net benefits. Different approaches would also likely create more variability between ISPs, impacting investment certainty and potentially leading to inefficient investment outcomes.
- Helps to mitigate reliability and price risks. The risks to consumers of early investment in transmission are likely to be outweighed by the risks of late investment. Late delivery of transmission can delay the connection of new generation leading to higher wholesale market prices, negative reliability outcomes and/or higher greenhouse gas emissions. Earlier investment timing also mitigates the risk of construction delays, which are common. More and earlier integration of lower emission generation provides greater benefits through the value of emissions reduction.
- Can provide useful information to prompt jurisdictions to take action to improve the likelihood that the targets are met.

3.3.1 Sensitivity analysis can mitigate the risks of early or over-investment raised by the proponent

Under the existing rules, AEMO is required to:⁶⁰

- use sensitivities to test the robustness of development paths to future uncertainties
- describe how each development path performs under any sensitivities AEMO considers reasonable
- include sensitivities showing the impacts of energy or environmental policies of a jurisdiction when requested, and on variations to demand-side factors.

These rules provide AEMO with flexibility to design and run a wide range of sensitivities to assess future uncertainties, including sensitivities where jurisdictional targets are not met on time.⁶¹ This allows AEMO to test the benefits and robustness of development paths under potential futures where targets are not met. AEMO can select an ODP that is robust to futures in which targets are not met on time by considering the results of such a sensitivity analysis.

Stakeholders widely supported greater use of sensitivity analysis to account for future uncertainty, particularly in relation to when jurisdictional targets will be met.⁶² ENA said that:⁶³

ENA therefore supports improvements to the ISP framework that would result in more

60 NER clauses 5.22.5(d)(2), 5.22.6(a)(3) and (b)(3), and 5.22.6A(c)(3).

61 For example, the *Constrained Delivery* sensitivity in the Draft 2026 ISP tests the benefits of candidate development paths if there are delays in the delivery of generation, storage, and transmission investment, and there was not a requirement to achieve all targets in the targets statement.

62 Submissions to the consultation paper: APGA, p.5; Ausgrid, p.1; Climateworks, p.3; ECA, p.8; ENA, pp.7-8; EnergyAustralia, p.5; EUAA, p.4; 2026 ISP Consumer Panel, p.11; JEC, p.2; Origin, p.1; Shell, p.2.

63 Submission to the consultation paper: ENA, pp.7-8.

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.

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.

However, in its submission to the consultation paper, the proponent considered that:⁶⁴

Sensitivity analyses have little impact on AEMO's decisions around project actionability compared to the impact of scenario parameters. Limiting consideration of the most likely outcome (e.g., 82% renewables by 2030 target being missed) to a sensitivity analysis while continuing to include an unlikely outcome (e.g., the target being met on time) in every scenario is not an appropriate solution.

We note that sensitivity analysis does not change the design of development paths and that all development paths will include meeting the targets in the targets statement. We consider it would not be appropriate for AEMO to make a judgement on the achievement of jurisdictional policies within the context of the national electricity regulatory framework. Setting policy remains the responsibility of government. The NEO makes clear that the relevant targets are the "targets set by a participating jurisdiction".⁶⁵ At any time, jurisdictions can direct the Commission to include or remove a target from the targets statement under section 32A(2) of the NEL. Maintaining the current approach is consistent with the broader regulatory framework, under which jurisdictions are responsible for determining which targets are considered by market bodies. Jurisdictions are responsible for ensuring that the targets included in the targets statement remain consistent with their policy intent.

Our expectation is that AEMO will use sensitivity analysis to test the robustness of development paths to a range of potential future outcomes, including cases where jurisdictional targets are not met on time. By using sensitivity analysis to select an ODP that is sufficiently robust to future uncertainties, investment efficiency of transmission, generation, and storage is supported. A robust ODP is less likely to be significantly altered between consecutive ISP iterations, which promotes regulatory stability and investment certainty in transmission projects on the ODP. This supports investor confidence in the ISP, assisting in delivering coordinated investment in transmission, generation, and storage and potentially contributing to a lower cost of capital. In turn, this promotes efficient investment in electricity services for the long-term interests of consumers. We consider that appropriate use of sensitivity analysis in the ISP can deliver these benefits and does not require rule amendments.

We consider that providing prescriptive rules, or requiring the AER's CBA Guidelines to include a more prescriptive approach for AEMO to conduct sensitivities is unnecessary to achieve the desired outcome. It may unnecessarily constrain AEMO's ability to respond to future changes in circumstances. The existing rules provide AEMO with flexibility to use sensitivity analysis to assess the effect on the ODP for a broad range of uncertainties, including if jurisdictional targets are not met. This view is consistent with our rules drafting philosophy which preferences a principles based approach over a prescriptive approach where possible.

⁶⁴ Submission to the consultation paper: CIS, pp.6-7.

⁶⁵ Section 7(c) of the *National Electricity Law*.

It also supports achievement of the NEO by enabling AEMO to adapt to changing circumstances and use sensitivity analysis to assess the impact of the most consequential factors at that point in time. This supports the process of identifying an ODP that is robust to uncertainty and maximises benefits to consumers. The publication of the *Constrained Delivery* sensitivity in the Draft 2026 ISP, which considered the impact on the ODP of delayed generation and transmission investment, supports our conclusion that the current rules enable AEMO to undertake this type of sensitivity analysis.

3.3.2 Using sensitivity analysis ensures the ISP contributes to achieving targets in the targets statement

Maintaining the current approach ensures the ODP remains consistent with all targets in the targets statement and contributes to the achievement of the emissions objective in the NEO.

Transmission capacity is an enabler and prerequisite to connecting most of the renewable generation capacity required to achieve many of the targets in the targets statement. The current approach ensures transmission investment is consistent with, and does not act as a barrier to, achieving the targets set by jurisdictions.

Maintaining a system plan that is consistent with achieving jurisdictions' stated targets provides jurisdictions with the ability to achieve targets in the future, through jurisdictions introducing mechanisms to support the achievement of their targets if there are gaps in investment needed to meet targets. Conversely, a system plan that does not build to meet targets could prevent targets from being achieved in the future, which would not contribute to the achievement of jurisdictional targets, and therefore the NEO.

AEMO's submission to the consultation paper noted the role of the ISP as the optimal plan to achieve targets.⁶⁶

It is not the role of the ISP to assess the benefits or appropriateness of government policies, but to set out the optimal pathway to achieve these policies within the context of the National Electricity Market (NEM).

This approach supports our emissions reduction assessment criteria, in assessing our decision against the NEO, as it best supports the achievement of jurisdictions' targets, when compared with alternative approaches.

3.3.3 Current arrangements help mitigate the risks of late investment in transmission capacity which can impact price and reliability

The proponent considered that the current treatment of jurisdictional policies in the ISP increases risks to consumers, particularly in regard to the risk of over-investment in transmission arising from uncertainty in emissions reduction policies.⁶⁷

Transmission investment that is earlier or later than needed, and over or under-investment in capacity, can result in inefficiencies that impose risks and costs on consumers. We recognise that the current arrangements could result in transmission capacity being built earlier than would be implied by generation investment expected under current market settings. All else equal, early or over-investment in transmission increases costs borne by consumers due to the time value of money and lower asset utilisation. However, these risks must be considered against the risks of transmission capacity being delivered too late, which we consider to be asymmetrically larger.

⁶⁶ Submission to the consultation paper: AEMO, p.1.

⁶⁷ Rule change request, p.1.

We also have not identified evidence to suggest there is an existing oversupply of transmission capacity for new generation investments, having considered current and projected network congestion and connection proposals.⁶⁸

There were mixed views from stakeholders on whether the current approach increases the risk of early or over-investment in transmission:

- Alinta agreed with the proponent that the current approach increased risks of early and over-investment in transmission⁶⁹
- EUAA considered there would be increased risks of over-investment given recent cost increases for transmission projects, but not for early investment due to social licence and supply chain barriers⁷⁰
- EnergyAustralia considered that the current approach did not materially increase risks of over-investment due to other factors that are leading to investment delays⁷¹
- ENA's view was that there is an equal risk of under-investment if jurisdictional targets are changed or not met.⁷²

Late or under-investment in transmission can have sharp and material impacts on reliability and wholesale costs. In Endgame Economic's 2024 analysis for Nexa Advisory it found that delays in transmission investment would:⁷³

- cause significant increases in wholesale prices and reliability risks
- increase consumer bills, with increased wholesale costs significantly outweighing any deferred transmission costs.

Similarly, analysis from the AEMC in 2025 found that delays in transmission and wind generation investment would increase consumer costs, with substantial increases in wholesale prices outweighing reductions in transmission costs.⁷⁴ The same analysis also found that early transmission and wind generation investments can reduce consumer costs by lowering wholesale costs, which outweigh any increases in transmission costs.

We also consider that the risks to consumers from over-investment, or early investment identified by the proponent are mitigated by other factors. Major transmission projects have been delivered on average two years later than intended.⁷⁵ This indicates that the likelihood of transmission projects being delivered early is unlikely. Given the likelihood of delays, the current approach mitigates reliability and price risks associated with delays in transmission delivery. The price risks to consumers of surplus transmission capacity being under-utilised are also likely to be mitigated due to meshed nature of the transmission network, as additional capacity in one area can relieve congestion elsewhere and create consumer benefits through more efficient operation of the network.

We therefore do not agree with the proponent that the current approach is increasing risks to consumers through early or over-investment. We consider that the current approach allows for the risk to consumers of inefficient investment to be appropriately addressed and promotes allocative

68 For example, see AEMO's [2025 Enhanced Locational Information Report](#) and [Connections Scorecards](#).

69 Submissions to the consultation paper: Alinta, p.1; CIS, pp.1-4.

70 Submission to the consultation paper: EUAA, p.2.

71 Submission to the consultation paper: EnergyAustralia, p.5.

72 Submission to the consultation paper: ENA, p.7.

73 Nexa Advisory, [The Consumer Cost of Transmission Delays](#), July 2024.

74 AEMC, [Residential Electricity Price Trends 2025](#), December 2025.

75 Analysis from the CEIG's 2025 [Transmission Bottleneck Analysis](#) found that, for 11 recent and current major transmission projects, the planned completion year is delayed by 2 years on average.

efficiency. As such, we consider that the current approach supports the NEO and the principles of market efficiency assessment criterion.

3.3.4 We consider that different treatment of jurisdictional targets and policies would not contribute to the NEO

In considering the issues raised by the proponent, we considered the solution proposed by the proponent and by other stakeholders in submissions to the consultation paper. We consider that these alternatives to the current arrangements are not consistent with the governance arrangements of the national electricity framework and would not contribute to achieving the NEO.

The proponent proposed that AEMO be required to model and publish:⁷⁶

- a 'baseline' scenario with no constraints to meet jurisdictional policies
- scenarios considering plausible future policy changes.

The proponent expanded on this proposal in its submission to the consultation paper, suggesting:⁷⁷

if AEMO is not comfortable with taking on a more explicit role in assessing the deliverability of emissions reduction targets, it can employ an objective approach to scenario design. For example, AEMO may choose to model five scenarios including an unconstrained 'baseline' scenario, a fully target-constrained scenario, a scenario in which targets are achieved two years in advance and two scenarios with, say, two- and 10-year delays to targets being achieved.

We also considered other proposals including:

- Introducing additional scenarios in which not all targets are achieved on time. This could involve a scenario where expected progress against individual policies is assessed, or all policies are delayed by a consistent factor.
 - Alinta proposed new scenarios that reflect changes in jurisdictional policies that do not require AEMO to assess the likelihood of targets being met. For example, a scenario where all states meet 80% of set targets.⁷⁸
 - Shell supported greater variation of scenarios to take into account the full range of potential future outcomes, but considered AEMO should not assess the feasibility of jurisdictional targets and that careful examination of the firmness of targets is required.⁷⁹
 - Origin supported enhancing scenarios to reflect delivery and policy risks without requiring AEMO to assess government policy effectiveness. For example, scenarios should test delays or partial achievement of targets, variations in renewable build trajectories, and alternative technology pathways.⁸⁰
- Filtering targets to be included in the ISP using a set of criteria. This could include a requirement for policies to be funded, legislated or some other measure of being sufficiently developed.

76 Rule change request, p.3.

77 Submission to the consultation paper: CIS, p.7.

78 Submission to the consultation paper: Alinta, p.2.

79 Submission to the consultation paper: Shell, pp.1-2.

80 Submission to the consultation paper: Origin, pp.1-2.

- ECA proposed that AEMO consult on jurisdictional energy policies (defined as major infrastructure projects, e.g. REZs, offshore wind, energy efficiency and CER incentives) that could be included or excluded in scenarios.⁸¹
- EUAA proposed a scenario that only includes a net-zero target for 2050, with no other jurisdictional policy constraints.⁸²
- The ISP Consumer Panel proposed that AEMO establish more specific and rigorous criteria for determining policies or targets not specified in the targets statements to be included in the ISP and introduce a ‘filter’ on the number of policies and targets included in the ISP.⁸³

These alternative approaches would all consider one or more scenarios that are not consistent with achieving all targets on time, or the development of alternative policies. The practical implication of this is that this would result in one or more development paths being considered as a candidate for the ODP that is not consistent with achieving all targets in the targets statement. We do not consider this to be appropriate, or that this would meet the NEO

Market bodies should not determine which targets are included in the ISP

We do not consider these alternative approaches to be consistent with the governance arrangements of the national electricity framework. All options would require independent judgement by an entity other than the responsible jurisdiction on what basis to include targets in, or exclude targets from, the ISP.⁸⁴ Jurisdictions are responsible for setting energy and emissions reduction policies and determining which emissions reduction targets are included in the targets statement under the national electricity framework. Jurisdictions are ultimately responsible for determining which targets are included in the targets statement and, therefore, which targets impact the ISP. We do not consider that this judgement should be made by either AEMO or the AEMC.

We do not consider the proponent’s suggestion to include a scenario with no jurisdictional policies to be realistic or consistent with the NEO. This scenario would disregard and potentially undermine jurisdictional policies and targets, including the targets in the targets statement that market bodies must consider as a minimum in having regard to the NEO.⁸⁵ This would not meet the emissions reduction component of the NEO and would be inefficient. We also consider it to be highly unlikely that there would be a future where no jurisdiction sets any emissions reduction policies or targets (both in the near-term or long-term), and that inclusion of such a scenario for transparency of costs would not deliver material benefits.⁸⁶

Approaches that involve varying when targets are achieved, the extent to which they are achieved, or including different or new government policies would require subjective judgement by AEMO or another entity. This could require, for example, AEMO assessing the expected progress against jurisdictions’ targets. This assessment would be subjective and it would be difficult to account for the fact that jurisdictions can implement new policies or market reforms in the future to support the achievement of their targets. Fundamentally, it is not AEMO’s role to assess the feasibility or progress of jurisdictions targets and policies. It is also not AEMO’s role to develop alternative

81 Submission to the consultation paper: ECA, pp.3-4.

82 Submission to the consultation paper: EUAA, p.4.

83 Submission to the consultation paper: 2026 ISP Consumer Panel, p.6.

84 This includes options where targets are assessed, as well as objective approaches to the treatment of targets. For example, if there was a scenario where the achievement of targets is delayed, it would require judgement from an entity to decide how long the delay is.

85 Section 32A(5) of the *National Electricity Law*.

86 Our reasoning here is consistent with the reasoning outlined in chapter 5.

government policies. The targets relevant to the NEO are the targets set by participating jurisdictions.

Many stakeholders agreed that it would be inappropriate for AEMO to assess the feasibility and likelihood of targets in the targets statement.⁸⁷ Applying a purely objective approach, such as a consistent delay to all targets in one or more scenario as proposed by some stakeholders, would avoid the need to individually assess policies, however it would result in arbitrary and inaccurate treatment of many policies.⁸⁸

The other primary approach we considered would involve filtering targets and policies according to a set of objective criteria, that must be met in order for a policy or target to be included in the ISP.⁸⁹ This approach would still require judgement by AEMO or the AEMC as to what the criteria should be and whether the target meets the criteria. We consider this would be inappropriate, and outside of the roles of AEMO and the AEMC, and it could undermine the achievement of targets set by jurisdictions. Further, designing robust and non-arbitrary criteria would be challenging and policies may still be included that are unlikely to be achieved as stated.

These approaches would result in one or more development paths that are not consistent with achieving all targets being considered. If the ISP were to produce an ODP that is inconsistent with meeting jurisdictional targets, this would increase regulatory and investment uncertainty for investors. For example, jurisdictions might guide investment outside the ISP that aligns with their targets, resulting in multiple development plans that potentially overlap or conflict with each other. Such outcomes would have impacts by materially increasing the uncertainty of investment cases for transmission and generation projects and reducing the effectiveness of the ISP as a plan to support coordinated investment in the NEM. It could also result in transmission and generation investment being progressed under both the ISP and jurisdictional programs/schemes, resulting in inefficient and/or over-investment in the NEM. Inefficient investment would not meet the NEO.

Instability in the ISP could arise when there are material changes between iterations. If frequent and significant changes are expected between ISP iterations, this would result in increased regulatory and investment uncertainty. This would not support achievement of the NEO due to potential increases in wholesale prices and increased risks to reliability and security. Additionally, this would not promote principles of good regulatory practice.

Further, as discussed in section 3.3.1, if the ODP is inconsistent with meeting targets, this may lead to transmission investment that prevents jurisdictions from being able to achieve their targets.

We considered Climateworks' proposal which sought to increase the jurisdictional policies included in the ISP

Climateworks proposed a different approach to incorporating policies in the ISP, citing concern that the current approach bases analysis around what is most likely instead of what is most consistent with government policy ambition. Climateworks' proposed changes were to:⁹⁰

- Require the AER to adjust the Cost-Benefit Analysis Guidelines, for AEMO to:
 - develop an ODP with a positive net benefit in the scenario 'most consistent with government policy commitments'

87 Submissions to the consultation paper: AEMO, p.1; Alinta, p.2; Ausgrid, p.2; EnergyAustralia, p.3; EUAA, p.2; Origin, p.2; Shell, pp.1-2.

88 Submissions to the consultation paper: Alinta, p.2; CIS, p.7; EUAA, p.4; Origin, pp.2-3; Shell, pp.1-2.

89 Submission to the consultation paper: ECA, pp.3-4; EUAA, p.4; 2026 ISP Consumer Panel, p.6.

90 Submission to the consultation paper: Climateworks, pp.2-3.

- embed contingency planning in scenarios, where there is uncertainty in energy system needs and/or policy achievement.
- Require AEMO to consider a broader set of policies that affect the energy system, including firm and established government commitments (such as Future Made in Australia).
- Establish a framework and review mechanism to enable AEMO to systematically and transparently assess which policies to include in the ISP ODP, and to reassess those policies proportionally and efficiently when fundamental settings change. This would include a framework with specific rules for resolving policy conflicts, as well as transparency and accountability measures.
- Recommend the Australian Government employ risk-allocation mechanisms, such as the proposed Electricity Services Entry Mechanism (ESEM) and/or direct government investment, to further address overbuild risk.

We consider that the current ISP methodology is appropriate for considering scenarios that are consistent with government policies, noting that currently all scenarios are designed to meet jurisdictional targets in the targets statement. Additionally, the existing rules already provide sufficient scope for AEMO to consider broader energy or environmental policies that affect the energy system, if they are sufficiently developed to meet the criteria set out in clause 5.22.3(b)(2) of the NER. We consider that the current NER and CBA Guidelines are appropriate for how AEMO considers policies in the ISP and testing key uncertainties through utilising differing scenario designs and sensitivity analyses. We therefore consider no changes to the rules are required at this time.

3.3.5 Jurisdictions play an important role in deciding which policy targets are included in the targets statement for the purpose of developing the ISP

The Commission's draft determination is that making no draft rule would better contribute to the NEO compared with the proposed rule and potential alternatives.

At the same time, it is important to recognise there is a risk of unrealistic modelling outcomes in the ISP in cases where near-term policy targets are included by jurisdictions in the targets statement but are unlikely to be met. In these cases, ISP modelling will require increasingly rapid build rates as those targets approach. These build rates may be unrealistic and could potentially impact planned developments in other jurisdictions, undermining the ISP's credibility and effectiveness as a roadmap for the energy transition.

These risks can be managed by jurisdictions ensuring the emissions and renewable energy targets in the targets statement are coordinated and consider the impact on the NEM and energy consumers more broadly. This is particularly important for near-term targets, which can directly affect transmission planning and investment decisions.

AEMO's ISP information, scenarios and sensitivities can be helpful to jurisdictions to assess these risks and consider any further action or initiatives that might be required to facilitate achieving the emission reduction targets.

The ISP is updated every two years. Jurisdictions have the opportunity to review the targets statement during each ISP cycle, supporting AEMO's planning and promoting a practical ISP that is in the long-term interests of consumers. It also supports achieving emissions reduction targets set by jurisdictions.

The Commission will further consider the purpose and role of the ISP through the Review.

4 The current rules allow AEMO to consider relevant system costs

Box 3: DRAFT DETERMINATION - AEMO can consider relevant whole of system costs under the current rules

The Commission considers that no amendments to the NER are required to enable AEMO to consider relevant whole of system costs when developing the ISP. We consider that the current rules have sufficient flexibility to enable AEMO to consider relevant classes of costs that relate to projects on a development path and that making a rule to require consideration of a broader range of costs would not contribute to achieving the NEO.

The rules provide flexibility to enable AEMO to consider any other classes of costs that it considers relevant if agreed to by the AER, and the AER can require consideration of specific classes of costs by including them in the Cost Benefit Analysis Guidelines.

The Commission's draft determination is to not make a rule regarding this issue raised by the proponent.

4.1 The existing rules provide sufficient flexibility for AEMO to consider relevant whole of system costs

The purpose of the ISP, as set out in the NER, is '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' (emphasis added).⁹¹

The proponent suggested that the ISP should include consideration of "currently excluded but significant costs" that, in the proponent's view, are relevant given the purpose of the ISP is to establish a whole of system plan.⁹² It proposed amending the NER in relation to the Cost Benefit Analysis Guidelines (the CBA Guidelines) and the ISP to require AEMO to "include an assessment of whole of system costs as faced by consumers of electricity".⁹³ The proponent considered that this would promote transparency around whole of system costs and therefore the price of electricity supply.⁹⁴ The proponent provided four examples of such 'whole of system costs'.⁹⁵ These costs related to:

1. distribution network upgrades
2. consumer energy resources (CER)
3. recycling and disposal of renewables and
4. payments for coal life extensions.

The NER currently requires AEMO to consider specific classes of costs that relate to projects on a development path (see Box 4). These projects are typically large transmission projects, for which the planning framework can co-ordinate and influence investment decisions, as well as the corresponding large scale generation investment that transmission projects would enable.

91 NER clause 5.22.2

92 Rule change request, p.2.

93 Rule change request, p.8.

94 Rule change request, pp.1-2.

95 Rule change request, p.2.

Increasingly the ISP also considers actions that could be taken at the distribution network level to facilitate greater utilisation of CER.⁹⁶ The rationale for focusing on these categories is that these costs change between development paths and so are the relevant costs to consider when comparing development paths and identifying the optimal development path.⁹⁷

Box 4: Costs that AEMO must consider in preparing an Integrated System Plan

Clause 5.22.10 (d) of the NER outlines the classes of costs AEMO must quantify in preparing an ISP. These include:

1. costs incurred in constructing or providing the projects in the development path;
2. operating and maintenance costs in respect of the projects in the development path;
3. the cost of complying with laws, regulations and applicable administrative requirements in relation to the construction and operation of the projects in the development path; and
4. any other class of costs that are:
 - (i) determined to be relevant by AEMO and agreed to by the AER in writing before the publication of the draft Integrated System Plan; or
 - (ii) specified as a class of cost in the Cost Benefit Analysis Guidelines

Clause 5.22.10 (c) of the NER outlines classes of market benefits that AEMO must consider in preparing an ISP, which is also relevant when evaluating costs.

Our determination is that the changes proposed by the proponent to expand the classes of cost would not solve its stated issue that the ISP is not a whole of system plan. We consider that the current rules regarding which costs must be included in the ISP are appropriate and provide sufficient flexibility for relevant whole of system costs to be included in the ISP. The rules focus on costs that are relevant for determining the development paths and are not a barrier to whole of system costs being considered, in line with the purpose of the ISP. Recent rule changes have increased consideration of other system components such as gas and demand-side factors, as well as transmission.⁹⁸

Our view is that it is not the role or purpose of the ISP to attempt to cost every element of the electricity supply chain end-to-end. Rather, the ISP seeks to identify a development path that meets power system needs and best supports the achievement of the NEO. Shell Energy supported greater transparency of relative costs where they vary markedly between scenarios, however, it noted that some costs may be very time-consuming and may not add materially to the insight provided by the ISP.⁹⁹ In the Commission's view, it is appropriate to only consider costs that relate to projects in a development path when assessing the relative performance of the candidate development paths. Embedding a broader range of costs within the rules that do not materially impact the development paths would increase complexity and cost of the ISP without providing clear benefits.

⁹⁶ The requirements introduced under the AEMC's *Improving considerations of demand-side factors in the ISP* rule change include: 1) requiring AEMO to publish a demand-side factors statement to provide a transparent and consolidated explanation of the expected development of demand-side factors and AEMO's assumptions around distribution network developments; 2) requiring AEMO to develop information guidelines to establish and provide clarity to stakeholders on information requirements and processes; 3) requiring DNSPs to comply with the information requirements and processes in the information guidelines subject to confidentiality obligations; and 4) requiring AEMO to publish information provided by DNSPs in its ISP database unless the information is commercially sensitive.

⁹⁷ This process is set out in detail AEMO's ISP Methodology (2025) and summarised on p.6 of that document.

⁹⁸ AEMC, 2024, [Better integration of gas and community sentiment in the ISP](#); and AEMC, 2024, [Improving consideration of demand-side factors in the ISP](#).

⁹⁹ Shell Energy, submission to the consultation paper, p. 2.

The proponent suggested changes to the rules to more explicitly require the ISP to include an assessment of whole of system costs would provide a benefit of increased transparency for energy consumers.¹⁰⁰ However, in our view, it is not clear how the inclusion of cost categories that are largely borne by private individuals (such as CER) would improve transparency or how this additional information would improve the long term interests of consumers as defined by the NEO, including consideration of electricity price, quality, safety, reliability and security, or emissions reduction outcomes.

The rules also already include a high degree of flexibility for AEMO to consider additional classes of costs (other than those that relate to projects on a development path) if different or new classes of costs arise that are important to ISP outcomes. AEMO can consider 'any other class of costs' in the ISP if deemed relevant by AEMO and agreed to by the AER.¹⁰¹ AEMO is also required to quantify any other class of costs specified in the AER's CBA Guidelines. The Commission considers these existing provisions provide sufficient scope to consider relevant costs as necessary, including the classes of costs raised by the proponent, if required.

Stakeholders had mixed views on the proposed rule change, including the four classes of costs identified by the proponent. While some stakeholders considered there may be benefits of including additional system costs, others agreed that existing classes of costs are appropriate and that expanding them would increase complexity without a significant benefit. Further, some stakeholders expressed that expanding classes of costs in ISP modelling would be closely linked to the broader purpose of the ISP and felt this issue would be better addressed in the Review of the ISP framework which is currently underway.¹⁰²

The consideration of our assessment criteria to assess the decision against the NEO supports that no changes to the NER are required with regard to this issue. The current approach aligns with 'principles of good regulatory practice' because it supports predictability and stability of the framework, and aligns with recent reforms. We recognise that considering a broader range of costs in the ISP could provide additional information and therefore promote transparency, but this would be offset by implementation considerations of increased cost and complexity. We therefore consider that any information that cannot already be included under the current rules is likely to be of limited value and would increase costs without a commensurate benefit and would not meet the NEO.

4.2 Specific system costs raised by the proponent

A more prescriptive approach on how, and which, costs should be considered may inadvertently constrain the responsiveness of the ISP methodology over time. In our view there is no strong rationale for being prescriptive in the rules regarding classes of costs. This aligns with our rule drafting philosophy which preferences a principles-based approach where possible.¹⁰³

We have considered the four example classes of costs provided by the proponent in its rule change request in more detail below to test the proponent's view that relevant costs were not being included. The four specific classes of costs were evaluated against the current approach, stakeholder views, and our assessment criteria. Taken together, the Commission concludes that there is no strong rationale for broadening the categories of costs that must be considered by AEMO when developing the ISP. Our assessment is that the proposal would not lead to material

100 Rule change request, p.4.

101 NER clause 5.22.10(d)(4)(i) and (ii). The AER may amend the CBA Guidelines in accordance with the Rules consultation procedures.

102 Submissions to the consultation paper, Alinta Energy, p.1; ISP Consumer Panel, p.3; Origin Energy, p.3 and AEMC, [Review of the Integrated System Plan framework](#).

103 AEMC, *October Rule drafting philosophy*, 2020.

benefits but would increase complexity and cost, and therefore not contribute to achieving the NEO.

As noted above the rules allow the AER to include additional classes of costs in its *Cost Benefit Analysis guidelines*.¹⁰⁴ We consider that these guidelines would be the most appropriate instrument for identifying specific classes of costs to be included, should additional classes of costs be required in the future. As we have not identified any gaps, we are not recommending that the AER review its guidelines at this time.

4.2.1 Costs of distribution network upgrades

The Commission does not consider amendments to the NER are required to enable AEMO to include distribution-related costs in the ISP, to the extent they are relevant to identifying development paths.

The costs of distribution network upgrades that relate to projects in the development path must be considered in the ISP. Following the *Improving consideration of demand-side factors in the ISP* rule change.¹⁰⁵ AEMO published its first Demand Side Factors statement in December 2025, alongside the Draft 2026 ISP.¹⁰⁶ ¹⁰⁷ The Demand Side Factors statement covered costs relating to the distribution network, including voltage management optimisation or distribution network augmentation, to the extent that they relate to a project in the development path.

A number of stakeholders agreed that the current work underway through the Demand Side Factors statement, as well as the ongoing *Integrated distribution system planning* rule change¹⁰⁸ enable AEMO to adequately consider planning and investment at the distribution level in the ISP.¹⁰⁹

We consider that including other distribution-related costs in the ISP, beyond those that relate to a development path, is not required at this stage. Including these costs would increase complexity and incur additional costs without providing a benefit to consumer outcomes. Investment decisions are made by distribution network service providers through their individual planning processes and are not determined by the ISP. AEMO outlined this rationale in the 2024 ISP, and Alinta Energy also supported this approach in its submission to the consultation paper.¹¹⁰ We note that AEMO has an ongoing work program to continue to increase consideration of distribution-level planning and investment in the ISP.

4.2.2 Costs of consumer energy resources (CER)

The Commission considers that the current rules provide sufficient flexibility to consider CER costs in the ISP to the extent that they are relevant to identifying development paths. We also consider that there are valid reasons why costs that individual consumers incur when investing in CER are not included in the ISP.

Investment in CER is generally treated as an ISP input, not a variable cost that changes between development paths.¹¹¹ This is because investment in CER is largely an individual choice, with costs and benefits mostly accruing to private individuals, and the national electricity regulatory

¹⁰⁴ AER, *Cost Benefit Analysis guidelines*, 2024.

¹⁰⁵ AEMC, *Improving consideration of demand-side factors in the ISP*, December 2024.

¹⁰⁶ AEMO, [Draft 2026 ISP - Appendix A9 Demand side factors statement](#).

¹⁰⁷ Clause 5.22.6(a)(9) and 5.22.6A of the NER.

¹⁰⁸ AEMC, [Integrated distribution system planning](#).

¹⁰⁹ Submissions to the consultation paper: Ausgrid, pp.1-4; ECA, p.5. ENA, p.9; Origin, p.2; SAPN, p.2.

¹¹⁰ Alinta Energy, 2025, submission to the consultation paper, p. 2

¹¹¹ Noting that assumptions around CER investment and other factors do change between scenarios.

framework lacks direct investment or incentive mechanisms to influence CER uptake. Including the individual costs of CER would add to modelling complexity and costs and would not impact the relative ranking of the development paths or selection of the optimal development path, therefore it would not have any impact on the costs to electricity consumers.

Some stakeholders shared this view and did not support further prescription around including CER costs in the ISP.¹¹² The ISP Consumer Panel argued that the proponent’s proposal ignores non-cost factors such as independence from the grid, sustainability and supply security.¹¹³

Some stakeholders did support efforts to better integrate CER costs into the ISP¹¹⁴ ECA and SAPN, support the inclusion of the marginal cost of CER uptake, instead of the full cost of CER adoption.¹¹⁵ Stakeholders in favour of including CER costs expressed the view that its inclusion would increase transparency on the total system costs of the development paths, aligning with the rule change proposal.

We do not consider that the inclusion of CER costs in the total system cost of each development path would increase transparency for consumers. It is not clear why costs that accrue to private individuals are a relevant consideration for consumers of electricity who do not bear these private costs.

Where costs and benefits related to CER can be influenced by the ISP and vary between development paths, they can already be included in the ISP as the rules provide sufficient flexibility. There has been increased consideration of CER and demand-side factors following the *Improving consideration of demand-side factors in the ISP* rule change, which was completed after the proponents’ rule change request was submitted.¹¹⁶ There is no evidence of a material gap remaining in the rules that needs to be addressed.

4.2.3 Recycling and disposal costs of renewables

We consider that the disposal of assets at the end of their life is not a class of costs generally considered to be part of “constructing”, “operating”, or “maintaining” an asset. The costs associated with the recycling and disposal of renewables are likely to be already included in wholesale costs or alternatively paid for by generators at the end of the asset’s life, not paid for by electricity consumers. If AEMO consider this class of costs relevant in the future the rules would enable it to seek the AER’s agreement to including them in the ISP under clause 5.22.10(d)(4).

The Commission does not consider a more prescriptive approach on this cost category is warranted now as:

1. Disposal and decommissioning costs have previously been considered by CSIRO as part of their GenCost 2024-25 process, which is used as an input to the ISP. CSIRO concluded that these costs do not have a large enough impact on each generation type’s levelised cost of electricity to warrant inclusion and that doing so would add complexity without changing the outcome of the comparison.¹¹⁷ Alinta Energy also noted this conclusion in its submission to the consultation paper.¹¹⁸

112 Submissions to the consultation paper; AEMO, p.4; Alinta Energy, p.2; ENA, p.9; 2026 ISP Consumer Panel, p.11; Origin, p.3; Shell Energy, p.2.

113 ISP Consumer panel, submission to the consultation paper, p. 12.

114 Submissions to the consultation paper: Ausgrid, p.3; EUAA, p.3; APGA, p.3

115 Submissions to the consultation paper: ECA, p. 5; SAPN, p.1

116 AEMC, 2024, *Improving consideration of demand-side factors in the ISP*.

117 CSIRO, GenCost 2024-25, p. 99.

118 Alinta Energy, submission to the consultation paper, p. 2.

2. All generation types should be treated equally in this assessment, rather than focusing only on the decommissioning costs of one generation type (renewables). A number of stakeholders also supported this view.¹¹⁹

Most stakeholders do not support the proponent's proposal to include recycling and disposal costs for renewables, citing that it would likely add cost and complexity without changing the outcome of the comparisons between development paths.¹²⁰ Those who did support the proposal considered that including additional classes of costs would increase transparency and improve confidence in the ISP.¹²¹

4.2.4 Payment for coal life extensions

We consider the rules need not be prescriptive to include 'payment for coal extensions' as a cost category in the ISP.

The costs incurred due to payments for coal life extensions are not currently included in the ISP, because these payments do not take place in a business-as-usual scenario and there is a high degree of uncertainty around whether they would be incurred.

Recent support arrangements to extend the operating life of coal-fired generators have been between an individual state government and the generator owner. Costs related to these arrangements are generally paid by state government taxpayers and are not a direct cost to electricity consumers. These payments are therefore not considered a system cost, within the parameters of the NEM, but rather a transfer between taxpayers and electricity consumers.

These payments are also highly context-specific, which makes it complex for AEMO to estimate these costs. For example, the recent extension of Eraring Power Station until August 2027 is not subject to payments from the government, as Origin Energy did not opt in to the underwriting agreement.¹²² The arrangements are often also commercial-in-confidence, further increasing the difficulty of estimating these costs, Alinta Energy and Energy Australia mentioned these arrangements in their submissions to the consultation paper.¹²³

Three stakeholders, including the proponent, EUAA and a private individual, supported the inclusion of costs in this category to increase the transparency of and improve confidence in the ISP. However, JEC and ENA, who disagreed with the proposal, noted that there is no evidence that including this cost category would lead to more efficient assessment of development paths¹²⁴ and that these payments can already be included as an external contribution to offset refurbishment costs (where relevant and known).¹²⁵

119 Submissions to the consultation paper: Ausgrid, p.4; ECA, p.6; ENA, p.9; Energy Australia, p.7; ISP Consumer Panel, p.12.

120 Submissions to the consultation paper: Alinta Energy, p.2; JEC, p.4; Shell Energy, p.2.

121 Submissions to the consultation paper: EUAA, p. 3; private individual, p.3.

122 [Media Statement - Eraring Power Station](#).

123 Submissions to the consultation paper: Alinta Energy, p.3; Energy Australia, p.7.

124 JEC, Submission to the consultation paper, p. 4.

125 ENA, Submission to the consultation paper, p. 9.

5 AEMO should not be required to cost individual jurisdictional policies

Box 5: DRAFT DETERMINATION: Our draft determination is to not make a rule requiring AEMO to include the cost of individual jurisdictional policies in the ISP

The proponent proposed that AEMO should be required to model and publish the impacts on whole of system costs of jurisdictions' individual energy and environmental policies that are included in the ISP.

We consider this proposal is not in line with the purpose of the ISP and would not contribute to achieving the NEO because the proposed analysis would increase the complexity and time taken to prepare the ISP. This would ultimately increase costs to consumers, with no material benefit as it would not impact the ODP or options considered in the ISP.

We additionally consider that no changes are required because:

- Jurisdictions are responsible for setting targets and policies and already have processes to cost and evaluate policy decisions both prior to and following implementation.
- The analysis would be incomplete. Governments implement policies for a range of reasons and the costs and benefits extend beyond impacts on the NEM.
- Jurisdictions can already request that AEMO undertake sensitivity analysis to assess the impacts of individual energy or environmental policies if desired.

On this basis the Commission's draft determination is to make no rule to address this issue raised by the proponent.

5.1 The proponent proposed the ISP assess the impact of individual jurisdictional policies on whole of system costs

The proponent proposed in its rule change request that AEMO should be required to model and publish the impacts on whole of system costs of each energy and environmental policy of each participating included in any scenario in the ISP.¹²⁶ The proponent suggested changes to the NER that would require the ISP to include this information and for the AER's CBA Guidelines to also require this information to be included in the ISP.¹²⁷

The ISP does not currently assess the cost impact of individual government targets or policies. Rather, it determines the most net beneficial development path that is consistent with meeting emissions reduction targets and other relevant energy or environmental policies set by participating jurisdictions.¹²⁸ The process, and rationale for this approach, is discussed in further detail in chapter 3.

The proponent is of the view that including the additional proposed analysis in the ISP would improve transparency and enable better decision making by consumers and policy makers regarding jurisdictional policies. Specifically, the proponent considered the proposal would have the following benefits:¹²⁹

126 Rule change request, p.8.

127 Rule change request, p.8.

128 The process for determining which targets and policies are included in the ISP is set out in clause 5.22.3(b) of the NER, which in turn reflects provisions of the NEL relating to AEMO's requirements to consider the NEO and the targets statement.

129 Rule change request, pp.5-6.

- increase the transparency around the costs of each jurisdictional policy for consumers and market participants
- improve decision-making, resulting in lower whole of system costs
- improve confidence that the optimal development path is robust to uncertainties around future policy changes.

5.2 We do not consider the proposal would support achievement of the NEO

Our draft determination is to make no rule changes with regard to this proposal. We do not consider the proposal would result in material benefits to electricity consumers, but would increase costs. We therefore do not consider the proposal would contribute to achieving the NEO. We also do not consider that the proposal aligns with the purpose of the ISP.

We considered the impact the proposal would have (if implemented) when making our draft determination. We concluded that the proposal would not lead to material benefits for consumers of electricity because the analysis would be duplicative of existing processes, would be costly to implement and would have no impact on the ODP. The proposal would increase transparency of costs, but it would not change scenarios, development paths considered, or the selection of the ODP. We consider that the additional costs in requiring AEMO to undertake this analysis would outweigh any transparency benefits.

The majority of stakeholders who commented on this issue in response to the consultation paper supported greater transparency regarding the costs of jurisdictional environmental and energy policies, but most did not consider the ISP was the appropriate mechanism to undertake this analysis.¹³⁰ A number of stakeholders noted the proposed analysis would not be compatible with the purpose of the ISP nor AEMO's role.¹³¹ We agree with these stakeholders that the proposed analysis does not align with the purpose of the ISP or AEMO's role.

Jurisdictions already have processes to assess the costs (and benefits) of implementing targets and policies both before and after implementation. For example, the Commonwealth Government's Regulatory Impact Assessment framework requires Impact Analysis for major policy proposals considered by Cabinet. Other jurisdictions have similar cost-benefit or impact assessment processes.¹³²

We consider that these processes are better able to comprehensively assess both the costs and benefits of targets and policies and to inform government decision making. Governments implement energy and environmental policies for a range of reasons, which may extend beyond impacts within the NEM, such as to achieve specific environmental outcomes, economic growth or regional development. AEMO noted in its submission to the consultation paper it only considers costs and benefits within the electricity sector when developing the ISP (consistently with the NEO). In AEMO's view, the proposed analysis would be an asymmetric assessment of benefits and costs given non-electricity related costs and benefits are excluded.¹³³ These limitations would significantly reduce the usefulness of the proposed analysis to electricity consumers and to policy makers.

130 Submissions to the consultation paper: AEMO, p.1; Alinta, p.1; Ausgrid, p.2; ENA, p.2; EnergyAustralia, p.3; 2026 ISP Consumer Panel, p.7; JEC, p.5; Nexa Advisory, p.1; Origin, p.3; Shell Energy, p.2.

131 Submissions to the consultation paper: AEMO, p.5; EnergyAustralia, p.3; 2026 ISP Consumer Panel, p.7; Shell Energy, p.2.

132 For example, the NSW Government's *Guide to better regulation* and Victorian Government's *Guide to better regulation* processes include similar requirements to the Commonwealth's Regulatory Impact Assessment framework.

133 Submission to the consultation paper: AEMO, p.5.

We also note that, to the extent that the proposed analysis would be useful to policymakers, the NER already enables jurisdictions to request that AEMO undertake this analysis. Clause 5.22.6(b)(3) of the NER enables AEMO to “include sensitivities showing the impacts of energy or environmental policies of a participating jurisdiction” in the ISP if requested by that participating jurisdiction. This existing mechanism provides sufficient scope for the analysis proposed by the proponent to be undertaken by AEMO in cases where it would add value to jurisdictions’ decision making process.

Of the stakeholders who did support the proposal in some form, most noted the practical limitations of the proposal, given the number of jurisdictional policies that are currently included in the ISP.¹³⁴ The proponent also acknowledged that the package of proposed changes would increase the costs of preparing the ISP.¹³⁵

We consider maintaining current arrangements meets our assessment criteria and contributes to the NEO better than the proponent’s proposed changes. In particular, maintaining the current arrangements better meets our implementation considerations criteria. The proponent’s proposal would likely decrease certainty and confidence in the ISP due to the incomplete nature of the proposed information. The proposal would also increase cost and complexity. In our view, these considerations outweigh any transparency benefits, considered under our principles of market efficiency criteria, given the incomplete and duplicative nature of the proposed analysis. For these reasons, the Commission considers the proposal would not promote the NEO (with specific reference to efficient investment in electricity services for the long term interests of consumers of electricity), and has therefore determined to make no draft rule on this point.

5.3 We support the Productivity Commission’s proposal for an independent body to assess emissions policies against a benchmark

While the Commission does not consider that requiring AEMO to analyse emissions policy costs in the ISP would promote the NEO, the Commission supports greater transparency on the costs and benefits of these policies more generally.

A number of stakeholders highlighted, in their submissions to the consultation paper, the Productivity Commission’s recommendation aimed at improving transparency and consistency in the assessment of emissions reduction policies in its *Investing in cheaper, cleaner energy and the net zero transformation* Inquiry Report (2025).¹³⁶ The Productivity Commission recommended that the Commonwealth, state and territory governments should consistently include estimates of the cost-effectiveness of their emissions reduction policies in the impact analyses that they undertake. It recommended that estimates should routinely be assessed against agreed national target-consistent carbon values.¹³⁷

The Commission supports this recommendation. The Commission considers this is the most appropriate means to achieve the outcomes sought by the proponent, rather than AEMO undertaking this analysis as part of the ISP.

134 Submissions to the consultation paper: Essential Energy, p.3; EUAA, p. 4. APGA’s submission to the consultation paper supported the proposal but did not comment on implementation challenges.

135 Rule change request, p.6.

136 Submissions to the consultation paper: AEMO, p.5; EnergyAustralia, p.4; 2026 ISP Consumer Panel, p.7.

137 Productivity Commission, *Investing in cheaper, cleaner energy and net zero transformation, Inquiry report no. 113*, December 2025, p.35.

A Rule making process

A standard rule change request includes the following stages:

- a proponent submits a rule change request
- the Commission initiates the rule change process by publishing a consultation paper and seeking stakeholder feedback
 - stakeholders lodge submissions on the consultation paper and engage through other channels to make their views known to the AEMC project team
- the Commission publishes a draft determination and draft rule (if relevant)
 - stakeholders lodge submissions on the draft determination and engage through other channels to make their views known to the AEMC project team
- the Commission publishes a final determination and final rule (if relevant).

The Commission has used a longer-than-standard process for this rule change due to the complexity of the issues involved. A notice under section 107 of the NEL extending the time for making the draft determination was published on 11 December 2025.

You can find more information on the rule change process on our website.¹³⁸

A.1 The proponent proposed changes to the treatment of jurisdictional policies and costs in the ISP

The proponent submitted a rule change request on 31 October 2024, which proposes a number of changes to the way the ISP incorporates jurisdictional policies and costs, as well as the type of information that is published as part of the ISP. The key issues and solutions proposed by the proponent are summarised as follows:

- **Treatment of jurisdictional policies:** The proponent suggests the ISP does not adequately account for uncertainty as to when emissions reduction and renewable energy targets will be met or whether they may change in the future.¹³⁹ 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.¹⁴⁰ The proponent suggests that this creates a risk of over-investment in transmission infrastructure.¹⁴¹
 - To address this issue, the proponent proposes 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.¹⁴²
- **Whole of system costs:** The proponent suggests 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.¹⁴³
 - To address this issue, the proponent proposes AEMO should be required to include an assessment of 'whole of system' costs, such as those relating to consumer energy

¹³⁸ See our website for more information on the rule change process: <https://www.aemc.gov.au/our-work/changing-energy-rules>

¹³⁹ Rule change request, p.1.

¹⁴⁰ AEMO, *2025 Inputs, Assumptions and Scenarios Report*, July 2025, p.29.

¹⁴¹ Rule change request, p.1.

¹⁴² Rule change request, p.3.

¹⁴³ Rule change request, p.1.

resources (CER), distribution network upgrades, recycling and disposal of renewables and payments to coal generators for life extensions.¹⁴⁴

- **Publication of information:** The proponent suggests additional information should be published as part of the ISP relating to the jurisdictional policies. The proponent considers that the current approach does not provide sufficient information for consumers or policymakers to assess the cost implications of each jurisdictional policy.¹⁴⁵
 - 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.¹⁴⁶

The proponent also suggests transitional arrangements requiring an addendum to the 2024 ISP to be published outlining the cost information proposed above and for the rules to apply for the 2026 ISP.¹⁴⁷

The rule change request can be found on the AEMC project page [here](#).

A.2 The process to date

On 9 October 2025, the Commission published a notice advising of the initiation of the rule making process and consultation in respect of the rule change request.¹⁴⁸ A consultation paper identifying specific issues for consultation was also published. Submissions closed on 6 November 2025. The Commission received 18 submissions as part of the first round of consultation. The Commission considered all issues raised by stakeholders in submissions. Issues raised in submissions are discussed and responded to throughout this draft rule determination.

144 Rule change request, pp.2-3.

145 Rule change request, p.2.

146 Rule change request, p.3.

147 Rule change request, p.4.

148 This notice was published under section 95 of the NEL.

B Background on the ISP methodology

This appendix provides relevant background information on the methodology that AEMO uses to develop the ISP, in accordance with relevant rules and guidelines.¹⁴⁹ It outlines:

- the high-level methodology for determining the ODP
- the differences between scenarios and sensitivities, in terms of definition, purpose, and impact on the ODP.

B.1 Methodology used in determining the ODP

This section provides a brief summary of key, relevant steps in the ISP Methodology for determining the ODP. These steps are:

1. develop scenarios to be used for the ISP
2. identify the least-cost development paths for each scenario
3. construct a set of candidate development paths (CDP) based on the development paths identified in step 2
4. assess and rank CDPs based on scenario-weighted net benefits and least-worst regrets
5. assess high-ranking CDPs against sensitivities to test robustness in benefits and rankings
6. select the ODP from CDPs using professional judgement to consider and balance outcomes from previous steps.

For a more detailed and comprehensive description, refer to AEMO's ISP Methodology and the AER's Cost-Benefit Analysis Guidelines.¹⁵⁰

B.1.1 AEMO identifies candidate development paths for consideration

AEMO develops a collection of scenarios that represent plausible future 'worlds', covering various circumstances and external variables that can influence the NEM. These scenarios are consulted and developed through the Inputs, Assumptions, and Scenarios Reports (IASR). Each scenario should be internally consistent, such that its inputs and assumptions cohesively and collectively contribute to one plausible future for the electricity sector.

For each scenario, AEMO identifies the least-cost development path. This is done by modelling numerous combinations of projects and project timings using capacity outlook and time-sequential modelling, which incorporates scenario inputs and assumptions.

Using each scenario's least-cost development path as a base, AEMO identifies a broader set of CDPs. This broader set may consider adjustments to the previously identified development paths, such as including early works, project deferrals, or additional project and project timing combinations.

The collection of CDPs are the set of potential development paths options that AEMO considers for selection as the ODP. Each CDP has a fixed combination of potential actionable ISP projects (including timing) across all scenarios.

¹⁴⁹ AEMO is required to develop the ISP methodology under NER clause 5.22.8(d). It must be consistent with the AER's Cost Benefit Analysis Guidelines, which in turn must be consistent with the requirements in NER clause 5.22.5.

¹⁵⁰ AEMO's ISP Methodology (June 2025) can be found [here](#). The AER's Cost Benefit Analysis Guidelines can be found [here](#).

B.1.2 AEMO selects the optimal development path from candidate development paths

CDPs are assessed and ranked across scenarios by assessing the NPV of net market benefits for each CDP under each scenario. Using these results, the scenario-weighted average net market benefits and least-worst scenario-weighted regrets are calculated for each CDP.¹⁵¹ Net market benefits are calculated relative to a counterfactual development path which considers the development of the system without any actionable or future ISP projects, while least-worst regrets are calculated relative to the CDP with the largest net market benefits. CDPs are ranked separately for each metric. The use of these two metrics enables AEMO to consider which CDPs would likely deliver the most benefits and which CDPs are less sensitive to changes in scenario assumptions. However, it is worth noting that this approach is based on scenario-weightings and expected outcomes of scenarios.

Following the initial assessment of CDPs, AEMO further explores the robustness of high ranking CDPs to changes in key assumptions through sensitivity analysis. This involves AEMO changing one assumption (or a set of related assumptions) in a scenario and re-assessing CDP net market benefits and ranking for that sensitivity.

Finally, AEMO applies its professional judgement to select the ODP that it considers best balances risks and benefits for consumers. As outlined in the AER's Cost-Benefit Analysis Guidelines:¹⁵²

AEMO has full flexibility in its selection, subject to clause 5.22.5(e)(3) of the NER, which states the optimal development path must have a positive net benefit in the most likely scenario. That is, AEMO can rely fully, partly or not at all on the results from any decision-making approach it uses.

This allows AEMO to consider consumers' level of risk neutrality or risk aversion in determining the ODP, in addition to the net benefit and least-worst regrets assessments.

¹⁵¹ For the 2026 ISP, AEMO determined scenario weightings as the relative likelihood of each scenario, determined by a panel of expert and diverse stakeholders. For more information, see [here](#).

¹⁵² AER, Cost-Benefit Analysis Guidelines (November 2024), p.36.

B.2 Comparison between scenarios and sensitivity analysis

This section provides a side-by-side comparison of scenarios and sensitivity analysis in the context of the ISP. It draws from AEMO’s ISP Methodology, the AER’s Cost-Benefit Analysis Guidelines, and previous ISPs.^{153 154}

Table B.1: Comparison between scenarios and sensitivity analysis in the ISP

| | Scenario | Sensitivity analysis |
|---|--|---|
| General definition | <p>A scenario is an internally-consistent projection of one potential, cohesive future for the energy system, with inputs and assumptions aligning with that future.</p> <p>Scenarios are critical to cost-benefit analysis, for the selection of the ODP as well as RIT-T assessments.</p> | <p>A sensitivity is a change to one assumption, or a set of related assumptions, in one or more scenarios, aiming to assess the robustness of CDPs in that scenario or those scenarios.</p> <p>Sensitivity analysis can influence the selection of the ODP, but are not required to be used in RIT-T assessments (even if they are influential in the ODP selection).</p> |
| How does it affect the designs of development paths considered? | Each scenario produces a least-cost development path, from which a set of more diverse ‘candidate development paths’ (CDPs) are derived. Therefore, changes to scenarios would change the designs of CDPs (such as actionable projects and project timings). | Sensitivity analyses do not change the project timing and configuration of CDPs. |
| How does it affect the selection of the ODP? | In determining the ODP, AEMO assesses scenario-weighted net market benefits and least-worst regret costs for CDPs. These scenario-weighted metrics are used in both initial assessments and rankings, as well as in sensitivity analyses. Therefore, changes to a scenario can directly affect the metrics used to assess and rank CDPs, in turn potentially affecting the selection of the ODP. | <p>Sensitivity analyses test the robustness of CDP rankings, which could affect the selection of the ODP when AEMO applies its professional judgement. For example, sensitivity analysis could inform the selection of an ODP that does not have the highest net benefits but is optimal under a risk-averse approach.</p> <p>In general, AEMO has a degree of discretion in deciding</p> |

153 AEMO’s ISP Methodology (June 2025) can be found [here](#). The AER’s Cost Benefit Analysis Guidelines can be found [here](#).

154 AEMO’s Draft 2026 ISP can be found [here](#) with the *Constrained Delivery* sensitivity discussed in section 11.1, with the associated 2025 IASR found [here](#) which describes scenarios.

| | Scenario | Sensitivity analysis |
|--|--|--|
| | Additionally, the influence of scenarios on the set of CDPs considered also affects which ODP is selected. | <p>which sensitivities to assess and how they may influence the ODP selection.</p> <p>Note that ranking of CDPs in sensitivity analyses is still based on scenario-weighted metrics.</p> |
| How are emissions reduction targets and policies considered? | <p>Emissions targets and other relevant policies are a pre-determined input assumption for scenarios.</p> <p>Currently, as discussed in section 3.1 of the 2025 IASR, AEMO includes all policies and targets included in the targets statement as inputs for all scenarios.</p> <p>See section 3.1 of the 2025 IASR for more discussion.</p> | <p>AEMO has discretion in deciding which sensitivity analyses to run, and hence may run sensitivities with different emissions targets or policies assumptions, if relevant and consistent with other changed assumptions for that sensitivity.</p> <p>For example, see the <i>Constrained Delivery</i> sensitivity in the Draft 2026 ISP (section A6.7.1) or the <i>Constrained Supply Chains</i> sensitivity in the 2024 ISP.</p> <p>See also section 6.8 of the ISP Methodology.</p> |
| Examples | <p>The 2025 IASR has three scenarios:</p> <ul style="list-style-type: none"> • Step Change - reflects actions that limits global temperature rise to below 2°C compared to pre-industrial levels and growth in the Australian economy in line with historical trends and an emerging trend for growth in data centres • Slower Growth - reflects less action to limit global temperature rise compared to Step Change, in a future with slower economic growth amid weaker domestic and international economic conditions • Accelerated Transition - reflects ambitious and rapid actions to limit temperature rise to 1.5°C above pre-industrial levels, supported by a positive, fast-growing economy. | <p>The Draft 2026 ISP includes the <i>Constrained Delivery</i> sensitivity analysis, which considered limitations in rates of generation and transmission investment compared to the <i>Step Change</i> scenario assumptions. Specifically, this sensitivity analysis made the following adjustments in inputs:</p> <ul style="list-style-type: none"> • up to three-year increase to all transmission augmentation lead times, including project timings in each CDP but excluding committed and anticipated projects • NEM-wide annual build limits on generation and storage development until 2034-35, and increased costs. <p>This sensitivity analysis could be considered to be a proxy for assessing the robustness of CDP net market benefits, if</p> |

| | Scenario | Sensitivity analysis |
|--|----------|--|
| | | 2030 emissions reduction targets were not met. Under this sensitivity, renewable energy share was 75% by 2030, lower than the Commonwealth target in the target statement of 82% renewable energy by 2030. |

C Legal requirements to make a draft determination

This appendix sets out the relevant legal requirements under the NEL for the Commission to make a draft rule determination.

C.1 Draft rule determination and no draft rule

In accordance with section 99 of the NEL, the Commission has made this draft rule determination to not make a draft rule in relation to the rule proposed by the proponent.

The Commission's reasons for making this draft rule determination are set out in chapters 3-5.

C.2 Commission's considerations

In assessing the rule change request the Commission considered:

- its powers under the NEL to make a draft rule
- the rule change request
- submissions received during first round consultation
- stakeholder input received through one-on-one discussions
- the Commission's analysis as to the ways in which the proposed rule would, or would be likely to, contribute to the achievement of the NEO.

There is no relevant Ministerial Council on Energy (MCE) statement of policy principles for this rule change request.¹⁵⁵

C.3 Civil penalty provisions and conduct provisions

The Commission cannot create new civil penalty provisions or conduct provisions. However, it may recommend to the energy ministers that new or existing provisions of the NER be classified as civil penalty provisions or conduct provisions, after consulting with the AER.

The draft rule determination is to not make a draft rule, and therefore the Commission has no recommendations regarding classification of new provisions of the NER as civil penalty provisions or conduct provisions. Nor does the Commission propose to recommend:

- that any existing provisions of the NER be classified as civil penalty provisions or conduct provisions, or
- changes to the classification of any existing civil penalty provisions.

¹⁵⁵ Under s. 33 of the NEL and s. 73 of the NGL the AEMC must have regard to any relevant MCE statement of policy principles in making a rule. The MCE is referenced in the AEMC's governing legislation and is a legally enduring body comprising the Federal, State and Territory Ministers responsible for energy.

Abbreviations and defined terms

| | |
|------------|---|
| AEMC | Australian Energy Market Commission |
| AEMO | Australian Energy Market Operator |
| AER | Australian Energy Regulator |
| CER | Consumer energy resources |
| Commission | See AEMC |
| ESEM | Electricity Services Entry Mechanism |
| ESOO | Electricity Statement of Opportunities |
| GSOO | Gas Statement of Opportunities |
| ISP | Integrated System Plan |
| NEM | National Electricity Market |
| NEL | National Electricity Law |
| NEO | National Electricity Objective |
| NER | National Electricity Rules |
| ODP | Optimal Development Path |
| Proponent | The individual / organisation who submitted the rule change request to the Commission |
| RIT-T | Regulatory Investment Test for Transmission |
| TNSP | Transmission Network Service Provider |