

Draft determination on treatment of jurisdictional policies and system costs in the ISP

The Australian Energy Market Commission (AEMC) has published a draft determination to not make a draft rule in relation to a rule change request submitted by the Centre for Independent Studies on 31 October 2024 proposed changes to the way the Australian Energy Market Operator (AEMO) develops the Integrated System Plan (ISP) and the information the ISP provides.

The Commission is of the view that the current rules already have sufficient flexibility to enable consideration of the risks raised by the proponent and that the proposed rule would not, or would not be likely to, contribute to the NEO.

We are seeking stakeholder feedback by 28 May 2026.

The purpose of the ISP is to contribute to the long term interests of consumers including with respect to achieving targets

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.

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.

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.

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 Commission considers that rule changes are not required to address the issues raised by the proponent

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

The Commission considers 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.

Changing from the current approach would require AEMO to exercise judgement about the likelihood and feasibility of emissions targets being achieved in the future. We consider it is not appropriate for AEMO to make a judgement as to which targets are acceptable to not meet. Should a jurisdiction not want a target supported by the framework, they can direct Commission to remove it from the targets statement.

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

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).

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.

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

The proponent proposed that the ISP should model and publish the effect on system cost of each individual jurisdictional target and policy included on the ISP. The Commission considers that costing of jurisdictional policies as proposed does not align with AEMO's role as the system planner. Jurisdictions are responsible for setting targets and policy and already have processes to cost and evaluate policy decisions both prior to and following implementation. The proponent's proposal would be duplicative of the roles of jurisdictions and lead to inefficient costs.

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

While the Commission's draft determination is to make no rule as this would better contribute to the NEO compared with the proposed rule and potential alternatives, we acknowledge that 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.

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.

The Commission will give further consideration to the purpose and role of the ISP through the Review.

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