



Letter from Matthew C Brooks

22 May 2026

To: The Australian Energy Market Commission

Project reference code ERC0406

Submission on Draft Rule Determination (ERC0406)

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

Executive Summary

This submission makes three recommendations.

1. Require a formal ISP guideline

Rationale: The role, purpose and limitations of the ISP are not consistently understood across institutions, creating governance ambiguity and investment uncertainty.

2. Clarify the analytical and legal basis for rejecting a policy-off reference case

Rationale: The Draft Determination does not fully articulate the reasoning supporting the rejection of a baseline scenario, leaving gaps in transparency and analytical completeness.

3. Refer economy-wide efficiency assessment to an independent body

Rationale: No institution currently evaluates the economic efficiency of the ISP and its inputs, resulting in a systemic gap in accountability.

Relief Sought

The Final Determination should:

- Require publication of a formal, non-binding guideline clarifying the ISP's role and limitations
- Clearly state the analytical and legal basis for rejecting a policy-off reference scenario
- Acknowledge institutional limits of the ISP and refer efficiency assessment to an independent body (e.g. the Productivity Commission)

1. Governance Clarity: Define the Role and Limits of the ISP

There remains a lack of clarity regarding the ISP's purpose and institutional role. This creates inconsistency between formal regulatory explanations and public characterisations of the ISP.

This ambiguity has several implications:

- It introduces regulatory risk and increases the cost of capital
- It reduces confidence in long-term system planning
- It creates inconsistent expectations across policymakers, market participants, and investors

A formal guideline should therefore:

- Clearly define the ISP as a **technical planning instrument**
- Explicitly state what the ISP **does not do** (e.g. policy evaluation, economic optimisation of policy choices)
- Clarify how it should and should not be used by stakeholders

A clearer framework would improve transparency and support the long-term interests of consumers.

2. Clarifying Institutional Boundaries: Ministerial vs AEMC Positions

There is an observable divergence between public statements and the Commission's formal interpretation of the ISP. I have included an Appendix with a compilation and analysis of divergent statements.

Key Clarifications for the Final Determination

- The ISP is **not an authoritative roadmap**, but a technical planning exercise
- The ISP does **not validate or endorse government policy**
- “Least-cost” refers to **system optimisation under policy constraints**, not policy efficiency
- The ISP has **no implementation mandate**
- The ISP does **not assess policy correctness or feasibility**

Clarifying these boundaries explicitly would:

- Reduce risk of misinterpretation
- Improve regulatory coherence
- Align expectations across institutions

3. Analytical Completeness: The Case for a Baseline Scenario

The Draft Determination rejects the inclusion of a policy-off reference scenario. However, the reasoning raises questions regarding analytical completeness. I have included a Question/Answer/Critique analysis as an Appendix to my submission to expand on my call for analytical completeness in the Final Determination.

Key Issue

A baseline (counterfactual) scenario provides:

- A frame of reference for comparing system outcomes
- Insight into the cost and efficiency implications of policy settings
- A standard analytical tool widely used in economic and regulatory analysis

Core Concern

The Draft emphasises risks of misinterpretation but does not:

- Assess the likelihood or materiality of those risks
- Evaluate whether risks could be mitigated through clearer communication
- Compare those risks against the transparency benefits

Result

The absence of a baseline:

- Limits the ability to assess system-wide cost drivers
- Reduces transparency
- Constrains informed policy and investment decisions

4. Governance Consistency: Hydrogen Superpower Case Study (Condensed)

The evolution of the Hydrogen Superpower scenario highlights issues of governance clarity.

- A high-impact scenario was introduced and later significantly downgraded
- Changes reflected evolving evidence but were not supported by transparent benchmarking
- No independent review or counterfactual analysis accompanied these shifts

Implication:

This demonstrates that scenario selection already involves implicit judgement, which appears inconsistent with the strict institutional limits described in the Draft Determination.

5. Institutional Accountability for Economic Efficiency

Under the current framework, no institution is clearly responsible for assessing the economic efficiency of:

- The ISP as a whole
- Its underlying assumptions (jurisdictional policies)
- Its system cost implications

Consequences

- The ISP operates as a “**black box**”, incorporating policy inputs without efficiency testing
- Significant capital investment is influenced without economy-wide benchmarking
- Project-level efficiency (e.g. RIT-T) may not translate into system-level efficiency

Key Issue

An efficiency principle applied to individual projects is not applied to the overall system.

Recommendation

The Final Determination should:

- Acknowledge this institutional gap
- Recommend review by an independent body (e.g. Productivity Commission)

This approach would:

- Preserve AEMO's technical role
- Improve transparency and accountability
- Better align with the National Electricity Objective

Call to Action

To strengthen the ISP framework and support the long-term interests of consumers, the AEMC should:

- **Publish a guideline** defining the ISP's role, purpose and limitations
- **Clarify the reasoning** for rejecting a policy-off reference case
- **Establish accountability** for system-wide efficiency through independent review

Conclusion

This submission supports the AEMC's objective of maintaining clear institutional roles, but identifies areas where:

- Governance clarity can be improved
- Analytical completeness can be strengthened
- Institutional accountability can be enhanced

Addressing these issues would improve transparency, investment certainty, and the overall effectiveness of Australia's electricity system planning framework.

I would be pleased to clarify any part of my submission and to discuss it further at a mutually convenient time.

Regards,

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Appendix 1

Ministerial Characterisation of the ISP vs AEMC Draft Determination Position

Theme	Chris Bowen - Public Statements about the ISP	AEMC - Draft Determination Position (my interpretation based on reading the Draft)	Task for the Final Determination by AEMC
ISP as a roadmap	“The ISP is a world-class document that is a sensible, well-crafted roadmap.” ¹	The ISP is characterised as a technical planning exercise , not an authoritative roadmap directing outcomes; it identifies an optimal development path given policy inputs, not a plan that should be relied upon for delivery certainty.	State clearly the limitations and lack of authority of the ISP as a 'roadmap'. Define clearly its narrow scope as constructed by the AEMC.
Expert authority	“We are blessed... with a rich architecture of experts... And our plan is designed by experts.” (said in direct discussion of the ISP) ²	The AEMC insists that expert modelling does not imply judgement of policy quality, efficiency, or feasibility; expertise is used only to implement jurisdictional policies.	Make a clear and unambiguous statement that the ISP does NOT assess the efficiency of government's (federal and state) energy policies.
Policy validation	Holding up the ISP: “We base our plan on the experts.” ³	The AEMC explicitly rejects any interpretation that the ISP validates, endorses, or justifies government policy , and rejects mechanisms (e.g. a policy-off baseline) that would enable that reading.	State more clearly that the ISP does NOT validate government policy and should not be relied upon to endorse government policy. It is neutral. Electors should conduct their own judgement and cannot rely on the ISP as a beacon for efficient energy policy.
Policy efficiency / correctness	“AEMO's comprehensive modelling shows State and Federal policy settings are right...” ⁴	The Draft Determination repeatedly states the ISP does not test efficiency or correctness of policy and must not be interpreted as showing policies are “right” or least-cost in a policy sense.	Make a clear statement that the ISP does NOT validate government policy as being least cost or affordable to consumers.
Least-cost outcomes	“The ISP is designed to ensure the lowest-cost plan...” ⁵	The AEMC stresses that “least-cost” refers to system optimisation given policies , not least-cost policy choices; project efficiency is tested later through RIT-T / RIT-D processes.	The ISP does NOT identify least-cost policy choices for government and cannot be relied upon as the least cost system plan for electricity development. Make this statement more

Theme	Chris Bowen - Public Statements about the ISP	AEMC - Draft Determination Position (my interpretation based on reading the Draft)	Task for the Final Determination by AEMC
			explicit in the Final Determination.
Implementation role	"I'm not here to suggest that AEMO produce the ISP and that automatically becomes reality." ⁶	The AEMC maintains that the ISP has no implementation mandate and should not be relied upon by investors, networks, or governments as an execution or delivery instrument.	The ISP does NOT have an implementation mandate and that other instruments and processes actually deliver the build out of the electricity network (e.g. RIT). Review whether the ISP adheres to international standards for system planning, currently, it does not.
Policy assessment boundary	"The ISP is not a tool to evaluate government policy. It's a tool to say what needs to be delivered for that policy to succeed." ⁷	This sentence closely mirrors the AEMC's formal position: the ISP must not judge, audit, or contest policy , and must avoid comparisons (e.g. policy-off baselines) that would enable that judgement.	The ISP has a narrow scope in its ability to support analysis of energy policy and does NOT provide comparisons to alternatives for the System Planning.

References^{1,2,3,4,5,6,7}

Below is a record of the references of each quoted statement reproduced in my table *"Ministerial Characterisation of the ISP vs AEMC Draft Determination Position"*.

1. **"The ISP is a world-class document that is a sensible, well-crafted roadmap."**
Source: Statement attributed to **Chris Bowen**, made in public commentary referring to the Integrated System Plan (ISP), as reproduced in the table under *"Chris Bowen - Public Statements about the ISP"*.
2. **"We are blessed... with a rich architecture of experts... And our plan is designed by experts."**
Source: Statement attributed to **Chris Bowen**, made in direct discussion of the Integrated System Plan (ISP), as noted in the table.
3. **"We base our plan on the experts."**
Source: Statement attributed to **Chris Bowen**, publicly invoking the ISP as an expert-designed foundation for policy, as reproduced in the table.
4. **"AEMO's comprehensive modelling shows State and Federal policy settings are right..."**

Source: Statement attributed to **Chris Bowen**, referencing AEMO modelling outcomes in public discourse, as reproduced in the table.

5. **“The ISP is designed to ensure the lowest-cost plan...”**

Source: Statement attributed to **Chris Bowen**, characterising the ISP in public statements, as reproduced in the table.

6. **“I’m not here to suggest that AEMO produce the ISP and that automatically becomes reality.”**

Source: Statement attributed to **Chris Bowen**, publicly addressing the implementation status of the ISP, as reproduced in the table.

7. **“The ISP is not a tool to evaluate government policy. It’s a tool to say what needs to be delivered for that policy to succeed.”**

Source: Statement attributed to **Chris Bowen**, publicly describing the intended boundary of the ISP, as reproduced in the table.

Appendix 2

Examining the AEMC's logic based on interpreting the Draft Determination and finding the gaps in the AEMC's reasoning requiring remediation in the Final Determination

Below is a list of questions to highlight the analytical gaps in the AEMC's reasoning.

Question 1.

*If the AEMC considers that requiring AEMO to publish an ISP scenario with jurisdictional policies removed would cause AEMO to “judge” or “audit” government policy feasibility, how does the Commission reconcile that view with the fact that such a policy-off scenario **could** involve no probability assignment, no assessment of likelihood, and no recommendation—only a transparent comparison of system outcomes with and without those policies?*

Interpreting the AEMC's Draft Determination in relation to Question 1

Even without explicit probability weighting or recommendations, the act of publishing a policy-off scenario would necessarily invite **normative interpretation** by stakeholders.

A side-by-side comparison of “policy on” and “policy off” outcomes would unavoidably be read as a commentary on the **value, efficiency, or merit** of jurisdictional policies. This would place AEMO in a position of effectively auditing or contesting those policies, which is outside its statutory role.

The side-by-side comparison could, on this view, be misinterpreted or misused by some market participants, and that interpretive risk is treated as a sufficient reason not to provide a policy-off baseline.

The Problem:-

The AEMC appears to justify rejection of the rule change on the basis of possible misinterpretation of what could otherwise be informative analysis.

However, the Draft Determination does little to identify and assess the potential benefits of the proposed rule change.

The risks of misinterpretation are presented largely as perceived risks, but the Draft does not evaluate their likelihood, likely consequences, or whether they could be mitigated.

Nor does it compare those risks with the potential transparency and analytical benefits of the proposed change.

This raises the further question of whether those risks could be reduced through clearer explanation by the AEMC and AEMO of the role and purpose of the ISP.

In the Draft Determination, the AEMC states that the governance arrangements around the ISP does not permit AEMO to judge, audit, compare or evaluate the ISP's inputs or outputs. I will now refer to a case study within the 2022 ISP.

This case study of the Hydrogen Superpower scenario illustrates the lack of clarity, roles, purpose and limitations of the ISP, under the AEMC's governance and the contradiction to its governance of the ISP.

A Case Study on the ISP's Governance Incoherence: Hydrogen Super Power Talked Up then Dropped Out.

The **Hydrogen Superpower** scenario was introduced by AEMO as one of the scenarios in the **2022 Integrated System Plan (ISP)**.

At the time, AEMO stated that the scenario was designed to explore a plausible future in which Australia developed a **large-scale renewable hydrogen export economy**, materially increasing electricity demand and driving substantial investment in generation, transmission and storage infrastructure. The scenario was framed as a **progressive, high-electrification pathway** and was intended to ensure that long-term system planning did not underestimate potential infrastructure needs if hydrogen exports scaled rapidly.

Industry stakeholders, including the Australian Hydrogen Council, welcomed the inclusion of hydrogen in the 2022 ISP and acknowledged that the Hydrogen Superpower scenario reflected heightened government and public investment interest. At the same time, stakeholders noted that hydrogen demand was highly uncertain and difficult to forecast, and that the scenario represented an **early-stage, speculative future**, rather than a most-likely outcome.

By the mid-2020s, AEMO's public planning documents indicate a **material reassessment of hydrogen demand assumptions**. In later IASR updates and preparatory work for subsequent ISPs, AEMO reduced projected hydrogen consumption significantly and re-characterised hydrogen-driven futures as less likely than previously assumed.

In commentary on scenario revisions, AEMO acknowledged “setbacks for green hydrogen” and explicitly accepted that large-scale hydrogen exports were “not happening anytime soon” in the timeframes originally envisaged. Reflecting this change, scenarios were **renamed and rebalanced**, with hydrogen-export-heavy futures losing their distinct status as a core scenario and being subsumed into broader transition narratives focused on domestic electrification, consumer energy resources, and more moderate industrial demand growth.

By the time of the **2024 Integrated System Plan**, hydrogen exports no longer appeared as a dominant or standalone driver of the optimal development path. While hydrogen remained present in modelling as a potential load, it was no longer treated as a defining system-shaping assumption comparable to the earlier Hydrogen Superpower scenario.

AEMO’s later explanations link this retreat to revised evidence on technology readiness, costs, global market development and policy maturity, rather than to any single formal decision document announcing abandonment. The net effect, however, is that the Hydrogen Superpower scenario—once presented as a plausible planning future—has been **quietly downgraded and effectively abandoned** as a central reference case within the ISP.

The rise and fall of the Hydrogen Superpower scenario highlights the **sensitivity of the ISP to speculative policy narratives**, and the absence of a clear institutional process for testing economy-wide efficiency or feasibility of such assumptions before they materially influence system planning outputs. Its inclusion and subsequent removal were achieved within AEMO’s technical scenario-setting processes, without an explicit independent review of the economic consequences of either decision. **The role of AEMO with regards to the inclusion and removal of the Hydrogen Superpower scenario shows that they are willing to judge, assess and audit policy and scenarios**, that is what they did for hydrogen, quite contrary to the position that the AEMC, in its current Draft Determination invokes over the role and governance of AEMO.

This episode illustrates the governance concern raised in this submission: that major system-wide assumptions can be incorporated into, and later excised from, the ISP without transparent benchmarking, counterfactual analysis, or external scrutiny—potentially undermining confidence in the ISP as a stable and coherent planning framework.

This case study demonstrates the lack of credible governance exercised by the AEMC over the ISP and AEMO, when it is taken in isolation or compared to the position expressed in the current Draft Determination.

Question 2.

*On what **legal** or **analytical** basis does the AEMC use or rely upon to distinguish between modelling policy consequences (which AEMO already does through sensitivities) and impermissibly judging policy feasibility when the only difference is the presence of an explicit policy-off reference case?*

Interpreting the Draft Determination in relation to Question 2

AEMC would probably say, "Sensitivity analysis explores uncertainty *within* a given policy framework.

A policy-off reference case is categorically different because it removes or negates democratically determined policy settings. That distinction is not mathematical but **institutional**.

The Commission considers that once modelling steps outside the accepted policy framework, it ceases to be technical sensitivity testing and becomes an implicit assessment of policy feasibility."

The Problem:

The AEMC appears to rely on assertion rather than a clearly defined analytical threshold. The proposed rule change is treated by the AEMC, in its reasoning, to be outside the proper scope of the ISP, and the AEMC imposes a quasi-prohibition on the use of a reference case in the ISP, although the AEMO appears to share that view based on their submission to the Draft. The scope of the ISP has been narrowed by the Draft Determination and this narrowing has been accepted by AEMO. Clear guidelines are required to communicate this narrow scope, particularly given the ministerial comments that have been highlighted that provide a much wider scope of action for the ISP in the economy and the energy policy landscape. AEMO's actions with respect to previous ISPs, particularly the Hydrogen Superpower scenario inclusion and deletion stand in contrast to the AEMC's position in the Draft Determination.

Question 3.

Given the NER requires network service providers to use a base case ("do nothing") for their regulatory investment testing for large projects exceeding a threshold cost value, explain why the ISP should not have an analogous "base case" vs. "policy case" to cover the entire system being planned by the ISP? Why doesn't the same principle apply, according to the AEMC?

Interpreting the Draft Determination in relation to Question 3

Regulatory Investment Tests apply to **discrete, sponsor-initiated projects** and are decision-making tools that lead directly to investment approval or rejection.

The ISP, by contrast, is a **whole-of-system planning instrument** that does not approve projects and does not create legally binding outcomes.

Applying a "do-nothing" base case at the system level would mischaracterise the ISP as a decision-making framework, which it is not.

The Problem:

The difficulty with this view is that an efficiency principle regarded as necessary at the project level is treated as inappropriate at the system level. That distinction has not been justified adequately in the reasoning within the Draft Determination. On this reasoning, the regulatory investment tests may identify efficient individual projects while the overall system framework remains untested from an economy-wide efficiency perspective. The resulting outcome for the economy is to have efficient projects as components in an inefficient system, leading to an inefficient outcome for consumers (and other participants in the NEM).

Question 4.

Has the AEMC considered the approach of other peer-group system planners with regards to the use of counterfactual or policy-off baselines in their system planning? Is the AEMC required by its governance to consider the approaches of other international system planners?

e.g. United Kingdom's NESO, European Union System Operator ENTSO, United States Independent System Operators.

Is the AEMC's approach to the Australian ISP unusual or novel in comparison to its international peer group? Why is Australia a special case in this respect?

Interpreting the Draft Determination in relation to Question 4

International approaches to system planning reflect different institutional, legal, and constitutional arrangements.

The Commission does not consider it appropriate to directly import overseas frameworks into the National Electricity Market, which operates under a unique federated governance structure with jurisdictional sovereignty over energy policy.

The problem:

The difficulty with this approach is that it rejects international comparators without explaining why they are inapplicable. The objectives underlying the NESO sit within a broader international context of energy planning, policy and development, including net zero frameworks informed by international standards and agreements. The AEMC is adopting an isolationist policy to the system planning in the context of an international agreement on Net Zero.

In the UK, NESO's published Future Energy Scenarios framework explicitly **includes** a counterfactual scenario that does not meet statutory carbon targets, alongside net-zero pathways, thereby providing a documented baseline against which the effects of policy-aligned trajectories can be assessed.

In my view, the Draft Determination does not sufficiently engage with those international comparators and further contributes to the view that the AEMC's view of the ISP is isolated from international developments, 'novel' in its ideas and thought processes and untested and unproven as far as delivering on economically efficiency energy policy.

Question 5.

*Has the AEMC considered the planning guidance from the International Energy Agency which treats **scenario comparison, benchmarking, and counterfactual analysis** as core elements of integrated system planning best practice, aimed at improving affordability and allocative efficiency?*

Is the AEMC, under its existing governance, required to consider these international integrated system planning practices?

Does the AEMC believe that its approach to the ISP is best practice? Is the AEMC required under its governance and charter to strive for best practice and benchmark its performance and ideas to a peer-group?

Interpreting the Draft Determination in relation to Question 5

The Commission is required to comply with the National Electricity Law and National Electricity Objective.

While international guidance may be informative, it does not override the statutory framework governing the ISP.

The Commission does not consider itself obliged to adopt all elements of international best practice where those elements may conflict with established institutional roles or risk politicising technical processes.

The problem with this view:

The Commission considers that the 'costs' of introducing a policy-off requirement to the ISP – including role confusion, politicisation, and stakeholder misinterpretation – outweigh any incremental analytical, research or transparency benefits.

Implies that matters of economy-wide policy efficiency are better addressed through other forums and institutions and not within the ISP. The existing institutional boundaries, in the AEMC's view and definition, provides no clear owner of providing an efficiency test to the ISP and its inputs ('jurisdictional policies').

The proposed rule change request has the potential to improve allocative efficiency of resources used in producing electricity, improve information transparency for the entire cast of NEM actors and importantly improve price discovery on the economic cost of abatement. These are highly valuable and informative benefits that the AEMC has ruled 'out of bounds' for the ISP and therefore not obtainable for the economy.

The AEMC's inflexible approach will entrench systemic inefficiency in Australia's energy markets, particularly the growing electricity sector.

This is not in the long-term interests of consumers and other participants in the NEM, so that fails at least one of the NEO objectives.