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Ms Anna Collyer
Chair
Australian Energy Market Commission
Level 15, 60 Castlereagh Street
Sydney NSW 2000

Via online submission: ERC0406

Dear Ms Collyer

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

The Centre for Independent Studies (CIS) welcomes the opportunity to provide this additional submission in relation to the Draft Determination on our Rule Change Request.

The draft determination attempts to grapple with the purpose of the ISP. However, it fails to find a position that both acknowledges the potential for tension between the different limbs of the National Electricity Objective (NEO), and manages that tension in such a way that complies with the requirements of the National Electricity Law (NEL).

It is very widely acknowledged among many experts that there will be a net cost associated with transitioning from traditional baseload thermal generation. The AEMC's draft decision acknowledges this as a possibility. This means that there is a potentially significant tension between the first part of the NEO, which concerns itself with qualities of the supply of electricity including price, and the third, which relates to meeting government targets related to emissions reduction.

When changes were introduced to add the government targets around emissions to the NEO, it was explicitly discussed in Parliament that there was no intention for any one part of the objective to have priority or precedence over the others. The reasoning and conclusions in the Draft Determination make it clear that the current function of the ISP is to do exactly this, and that the AEMC's intention to preserve and protect this arrangement is a core motivation in reaching the draft determination.

CIS submits that this is inconsistent with the requirement that all limbs of the NEO be treated equally.

We further contend that the AEMC's Draft Determination portrays the ISP's proper role as being a passive receiver of jurisdictional policies. This is based on the assumption that the jurisdictions should have, and will do, their own research and analysis to support that policy position. This assumption is contradicted by ample evidence that jurisdictions can, and do, cite the ISP as evidence for the merit of their policies.

In fact, the idea that the ISP would be a central and coordinating document by which the competing interests of different jurisdictions and their associated network operators might be resolved appears to be central to the vision laid out for the ISP's creation in the Finkel Review. Indeed, requiring the ISP to objectively expose the cost implications of jurisdictional policies in a central analysis would involve far less complex and duplicative analysis than all of the jurisdictions undertaking their own separate analysis, each of which would need to be of similar scope and sophistication to the ISP in order to be effective.

We therefore request that the AEMC revise its decision in favour of making a Rule Change in accordance with our request.

Yours sincerely,

Aidan Morrison

Director, Energy Program

The Centre for Independent Studies

1 The Draft Decision elevates one component of the National Electricity Objective (NEO) above others

1.1 There is an inherent tension between the different limbs of the NEO, which must be acknowledged and managed

There is ample evidence that there will be a net cost to achieving emission reductions. This has been acknowledged by:

- The AEMC in the Draft Determination, which clearly acknowledges there could be lower cost pathways available if the policy constraints are removed.[1]

- The AEMC in the Residential Electricity Price Trends report 2025, which projects an overall price increase over the next 10 years, on a pathway that assumes government policy targets are met.[2]

- NSW Climate Change and Energy Minister Penny Sharpe, who when asked why NSW electricity prices were rising — despite wholesale costs falling over the previous year — said: "Because the way in which we are rebuilding the system means that there are network costs that are added to the system".[3]

- A host energy company CEOs who warned that the energy transition was going to create challenges for affordability.[4] Quotes include:

  > "My feel is that bills will increase for at least the next decade, given the scale of capital being deployed in the industry." — Gentailer CEO
  >
  > "The infrastructure required to do the renewable transition is all far more expensive than anyone expected. The build-out is way behind schedule on lots of critical matters. The cost of this hasn't been openly discussed as well as the associated impacts on Australia's economy" — Generator CEO
  >
  > "I think it's the calm before the storm, and I think the storm is coming around cost and competitiveness and international competitiveness, and industrialisation." — Gentailer CEO

[1] AEMC, *Clarifying the treatment of jurisdictional policies and system costs in the ISP — Draft rule determination*, 16 April 2026 ("Draft Determination"), section 2.3.3.
[2] AEMC, *Residential Electricity Price Trends 2025*, 2025, p. 11.
[3] NSW Legislative Council, Portfolio Committee No. 7 — Planning and Environment, *Budget Estimates 2025-2026 (Sharpe)*, 24 February 2026, transcript p. 15, https://www.parliament.nsw.gov.au/lcdocs/transcripts/3690/Transcript%20-%20PC7%20-%2024%20February%202026%20-%20Budget%20Estimates%20(Sharpe)%20-%20UNCORRECTED.pdf.
[4] Australian Energy Council, *Delivering Australia's Energy Transition Affordably: CEO Survey*, https://www.energycouncil.com.au/media/1idlduj0/ceo-survey-final.pdf.

- Expert witnesses obtained by renewable energy developers to provide inputs on the economic and policy implications of new renewable developments. The witnesses also do not dispute that the system being built to reduce emissions would not be cheaper than one that does not include that constraint. Specifically, Richard Bolt, Chairman of Hydro Tasmania, said:

  > All of the system modelling with transparent disclosure of assumptions that I have seen suggests that the lowest cost pathway to a net zero energy system is one that is based on wind and solar with all of the firming accoutrements I mentioned earlier … That doesn't mean that the system will be cheaper than not constraining emissions, and I make that clear in my submission.[5]

- Net Zero Australia's latest report, which states it will cost more to reduce emissions than to do nothing.[6]

The Draft Determination fails to acknowledge that this tension is potentially very significant. It should be noted that there aren't any countries globally that have achieved high penetrations of weather-dependent energy (wind and solar) and still maintained globally competitive low-cost electricity.[7]

The potential for these two different objectives to be in tension requires conscious management of how a balance between these competing objectives will be struck. The Draft Determination avoids directly acknowledging this tension, and the necessity that the ISP manage the tension in a deliberate and transparent way.

1.2 The third component of the NEO (emission reductions) should not be elevated above the other components, which the Draft Determination does

The Second Reading Speech and surrounding debate for the introduction of the emissions targets to the NEO make it clear that no single limb should be elevated above another. In particular, it was stated:

> Under this framework, decision makers under the national energy laws, will be obliged to consider the emissions reduction component alongside the other components in making their decisions. In this way, the emissions reduction component is not intended to sit above, or be prioritised over, any other component within the objectives. This will ensure that the national energy

[5] Warracknabeal Energy Park Inquiry, evidence of Richard Bolt (hearing of 27 November 2025), https://www.youtube.com/watch?v=czd8nJ5U0TQ.
[6] Net Zero Australia, *Updated Net Zero Pathways for Australia*, September 2025, p. 41, https://www.netzeroaustralia.net.au/publications/.
[7] Zoe Hilton, Jae Lubberink, Michael Wu and Aidan Morrison, *The Renewable Energy Honeymoon: Starting is Easy, the Rest is Hard*, Centre for Independent Studies, Analysis Paper 89, October 2025, Figure 1, https://www.cis.org.au/publication/the-renewable-energy-honeymoon-starting-is-easy-the-rest-is-hard/.

> objectives continue to promote the long-term interest of consumers through efficient investment, operation, and use of energy services.[8]

During subsequent debate the question about whether and how a judge might consider potential legal actions brought on this topic was discussed between The Hon Anastasios 'Tom' Koutsantonis and Mr Stephen Patterson. This re-affirms specifically that no element is to be elevated above another:

> Mr PATTERSON: In the consultation paper, it was outlined that by placing emissions reductions into the objectives of the National Electricity Law, each of the objectives in there (price, quality, safety and reliability, security of system supply and then, equally, reliability, safety and security of the national electricity system) and then also by this change achieving targets set by participating jurisdictions, as per the amendment (I will not read it all). Your second reading speech seemed to allude to that. To help any sort of future judges who may look at this very entertaining discussion we have — to confirm that each of those will be treated equally, so price is treated just as equally as safety is treated just as equally as reliability is treated just as equally as reductions, emissions; they are each discretely looked at, not just the whole price, reliability, reductions equal to emissions targets.
>
> The Hon. A. KOUTSANTONIS: That is certainly our intent, and I would refer anyone, any judge looking at this, to my second reading remarks for the intent of the legislation and what it is that the energy ministers wanted to change. ***I love all my children equally, and all those principles are as important, and one shall not be taken into consideration over another.*** It should be taken into consideration as a whole, as a package.[9] (emphasis added)

This gives important context to what the word "consider" should mean in the NER, including in NER 5.22.3(b), where the requirement that the emissions targets be considered is set out:

[8] South Australia, House of Assembly, *Hansard*, 31 August 2023, p. 37, https://hansardsearch.parliament.sa.gov.au/daily/uh/2023-08-31/37.
[9] Ibid.

> **(b)** In determining *power system needs* and in determining how the *Integrated System Plan* would contribute to achieving the *national electricity objective*, in relation to *participating jurisdictions*, *AEMO*:
>
> **(1)** must consider the *emissions reduction targets* stated in the *targets statement*; and
>
> **(2)** may consider a current environmental or energy policy of a *participating jurisdiction*, including an *emissions reduction target* which is not set out in the *targets statement*, where that policy has been sufficiently developed to enable *AEMO* to identify the impacts of it on the *power system* and at least one of the following is satisfied:
>
> **(i)** a commitment has been made in an international agreement to implement that policy;
>
> **(ii)** that policy has been enacted in legislation;
>
> **(iii)** there is a *regulatory obligation* in relation to that policy;
>
> **(iv)** there is material funding allocated to that policy in a budget of the relevant *participating jurisdiction*; or
>
> **(v)** the *MCE* has advised *AEMO* to incorporate the policy.

Here the requirement for AEMO to consider the emissions reductions targets is set within the requirement "determining how the Integrated System Plan would contribute to achieving the National Electricity Objective". NER 5.22.2 also makes it clear that the achievement of the NEO is core to the purpose of the ISP.

Just because the NER has made it explicit that the emissions reductions targets of jurisdictions should be considered, this does not mean that other limbs of the NEO should not be considered on equal terms, as required by the NEL.

Moreover, it is clear the intention of AEMO and the AEMC is that the ISP should operate this way, supporting the achievement of emissions reductions targets above consideration of other limbs of the NEO.

This is made explicitly clear in section 2.3.3 of the Draft Determination.

> **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]

The fact that an alternate pathway that is not bound by the targets could be lower cost clearly acknowledges the potential for tension between the different limbs of the NEO.

However, in saying that consideration of this pathway is unacceptable because "it would result in an Optimal Development Path that is not consistent with meeting the targets" amounts to elevating those targets above concerns for price, which would favour a lower cost pathway.

Additional statements by Anna Collyer to The Daily Telegraph also confirm the intent to treat the targets as a binding constraint, which don't require any active consideration:

> The Integrated System Plan's role is to plan the electricity system to achieve emissions targets that jurisdictions have democratically set, not to second-guess those policy decisions … The ISP is a planning tool, not a policy evaluation tool. It identifies the optimal pathway to meet the National Electricity Objective, including achieving targets governments have set.[10]

Again, this is a clear expression that the achievement of policy targets for emissions is regarded as a minimum, non-negotiable, non-fungible requirement in the meeting of the NEO. This contradicts the idea that no element of the NER should be elevated above another.

AEMO has also been explicit about its intent to treat the government policies as given, and provides no assessment of how there might be tension with other limbs of the NEO.

In its submission AEMO said:

> The purpose of the ISP is to set out the mix of generation, storage and network investments required to meet both consumer needs and government energy and emissions targets between now and 2050. The setting of government policies is a matter for Governments and is informed by a range of economy-wide factors and considerations. 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).[11]

Again, this explicit statement that it is not the role of the ISP to assess "benefits or appropriateness of government policies" precludes any consideration of potential tensions between those policies and the other limbs of the NEO. As we have argued extensively, if all limbs of the NEO are to be treated equally, the ISP cannot only set out a pathway for the achievement of one of the limbs, without contemplating potential trade-offs for the others. To do so either assumes that there is no potential for any trade-off to occur, or amounts to the elevation of one limb above the others.

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[10] John Rolfe, "Power grid plan a one-horse race as call to cost all sources of energy is officially rejected", *Daily Telegraph*, 28 April 2026, https://www.dailytelegraph.com.au/news/national/power-grid-plan-a-one-horse-race-as-call-to-cost-all-sources-of-energy-is-officially-rejected/news-story/32d2c60b4bb43276988284dfd8c8c790.

[11] AEMO, *Submission to ERC0406 Consultation Paper*, 6 November 2025 ("AEMO Submission to ERC0406"), p. 1, https://www.aemc.gov.au/sites/default/files/2025-11/aemo_-_submission_to_erc406_consultation_paper_0.pdf.

2 Sensitivity analysis cannot do the work the Draft Determination requires of it

The Draft Determination rests, at almost every point where the proposed rule change is opposed, on the proposition that sensitivity analysis already does the work that The Centre for Independent Studies proposes for a policy-neutral baseline scenario.[12] The Commission's single empirical example is the Constrained Delivery sensitivity in the Draft 2026 ISP.

CIS submits that the proposition fails on three independent grounds. First, on the Commission's own description of the ISP's architecture, sensitivity analysis cannot perform the function the Commission claims for it. Second, the Commission's chosen example of Constrained Delivery sensitivity, on close inspection of AEMO's published modelling, does not demonstrate what the Commission says it demonstrates. Third, the sensitivity modelling is discretionary, has not been used to test target underachievement, and is not relied upon by jurisdictional decision-makers when framing or justifying their policies.

2.1 Sensitivities cannot generate alternative candidate development paths

The architecture of the ISP, as the Commission itself describes it in Appendix B Table B.1 of the Draft Determination,[13] is two-tiered. Each scenario "produces a least-cost development path, from which a set of more diverse 'candidate development paths' (CDPs) are derived". Sensitivity analyses, on the contrary, "do not change the project timing and configuration of CDPs". And where sensitivities do influence ODP selection, the ranking of CDPs "is still based on scenario-weighted metrics".

The Commission also makes clear, in section 3.2.1, that all current scenarios are constructed to meet every target in the targets statement, and that the CDPs derived from those scenarios are "all consistent with achieving the targets in the targets statement".[14]

Every candidate development path considered in the ISP — every set of projects that consumers ultimately pay for — is therefore target-bound by construction. Sensitivities are an overlay applied to that fixed, target-bound CDP set. They cannot expose the CDP that a policy-neutral future would build, because that CDP is never generated. A sensitivity asks whether the projects already chosen perform well at different assumed input values. It cannot ask whether different projects would have been chosen had the policy bundle been different.

2.2 The Commission concedes the point in its Draft Determination

The Commission's reasoning in section 2.3.3 makes the architectural point explicit, in the rule-maker's own words:

[12] AEMC, *Draft Determination*, sections 1.1, 2.3.1, 3.2.1, 3.3.1.
[13] Draft Determination, Appendix B, Table B.1, pp. 35–37.
[14] Draft Determination, section 3.2.1, p. 13.

> 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.[15] (emphasis added)

The Commission made three concessions in that single passage. First, only scenarios — not sensitivities — can expand the CDP set. Second, lower-cost candidate development paths exist that the current architecture does not consider. Third, those lower-cost paths are excluded at the scenario level as a matter of choice, not absence of capability.

The Commission cannot consistently maintain both that sensitivity analysis addresses the consumer-cost concern raised by CIS and that scenarios must continue to exclude the lower-cost paths that sensitivity analysis is supposedly already testing. Either sensitivities can produce the relevant CDPs, in which case the Constrained Delivery sensitivity should already be producing them and it does not, or they cannot, in which case new scenarios that aren't all completely constrained by policy are necessary and the rule change is the appropriate mechanism.

2.3 The Constrained Delivery sensitivity does not demonstrate what the Commission says it demonstrates

The Commission identifies the Constrained Delivery sensitivity in the Draft 2026 ISP as the example of sensitivity analysis testing target underachievement. AEMO has published the underlying Generation and Storage Outlook Workbooks for both the Step Change scenario and the Constrained Delivery sensitivity, with full year-by-year cost and capacity data.[16] Close examination of that data, against the Commission's reasoning in sections 3.2.1 and 3.3.1, shows that the Commission's chosen example does not, in fact, test the consumer-cost question CIS has raised.

The result is, to a large degree, an artefact of a single input assumption. Total system cost NPV for CDP4 (the ODP) is $300,705 million under Constrained Delivery, against $253,604 million under Step Change core scenario — a difference of $47,101 million. Of that difference, $41,004 million (87%) appears in a single line item: generation, storage and electrolyser capital costs.

Draft 2026 ISP Cost Category	Step Change NPV	Constr. Delivery NPV	Difference
Gen/storage capital	$115,436M	$156,440M	+$41,004M
Fuel costs	$18,090M	$23,797M	+$5,707M
System security	$3,583M	$4,835M	+$1,252M
REZ capital + O&M	$2,282M	$2,681M	+$399M
Gen/storage VOM	$4,982M	$5,371M	+$389M

[15] Draft Determination, p. 7.

[16] AEMO, *Draft 2026 ISP Generation and Storage Outlook Workbook — Step Change*; AEMO, *Draft 2026 ISP Generation and Storage Outlook Workbook — Step Change Constrained Delivery*. NPV figures cited in this section are drawn from the Summary Regional tab of each workbook, in real July 2025 dollars at a 7.0% real discount rate.

DSP + load shedding	$128M	$308M	+$180M
Distribution capital	$185M	$263M	+$78M
Flow path (transmission)	$8,960M	$8,953M	-$7M
Gen/storage FOM	$50,706M	$49,007M	-$1,699M
Emissions costs	$45,308M	$45,139M	-$169M
TOTAL	**$253,604M**	**$300,705M**	**+$47,101M**

That uplift is not an output of the modelling. It is an exogenous input assumption. Appendix A6 of the Draft 2026 ISP, states:

> The cost of generation, storage and transmission was also assumed to rise as result of delivery delays, on average by 30% during this period of heightened limitation until 2034-35, calculated using the uncertainty band in technology costs from the 2024-25 GenCost report.[17]

As the 30% figure is drawn from the upper bound of the GenCost 2024-25 cost uncertainty range, the central estimate would be materially lower. AEMO annualises the uplift across the full asset life of plant built during the constraint period, so that a 30% uplift on capital installed in 2025-2034 generates a 30% annualised charge every year until decommissioning, which on AEMO's methodology extends well beyond 2050.

The consequence is visible directly in the year-by-year capital cost data. The ratio of Constrained Delivery capital cost to Step Change Core capital cost is 1.42 times at the end of the constraint period in 2034-35; 1.32 times in 2040-41; and is still 1.12 times in 2049-50, the final year of the modelling horizon. A 30% capital cost assumption applied during a 10-year constraint window casts a shadow across the entire remaining outlook period —15 years after the constraint itself has ended.

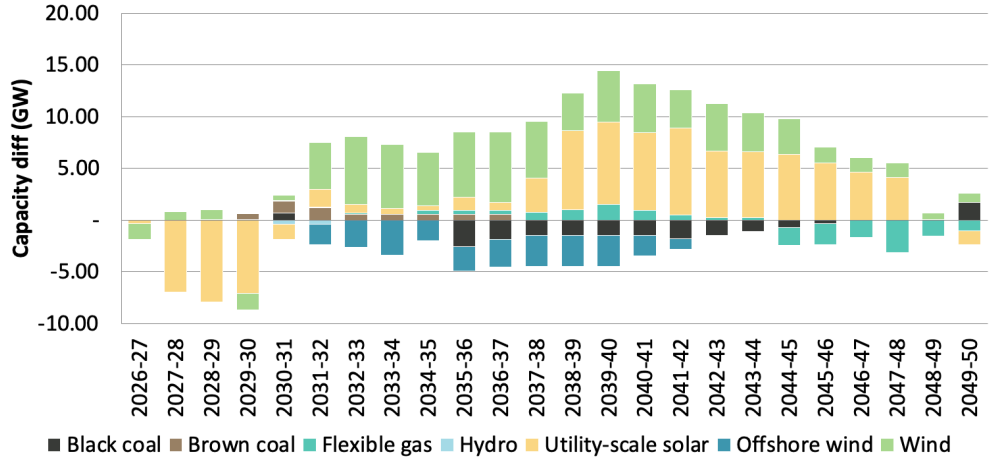
The exercise is effectively tautological. If costs are assumed to rise 30% during a particular period, the modelled cost of building during that period will obviously rise. The sensitivity reports back the assumption that was fed into it. It is not a test of the consumer cost of target underachievement. It is a test of what happens when a single exogenous input is set to its upper-bound value. A test that is largely an arithmetic reproduction of its own input cannot serve as the empirical demonstration that sensitivity analysis is doing the work CIS has identified as missing.

The sensitivity substitutes thermal generation for storage during the constraint period, rather than under-building. If Constrained Delivery were testing the consumer-cost consequences of failing to meet emissions targets, materially less renewable and storage capacity would be expected in the modelled outcome. AEMO's published capacity data does not show this. The dominant change is a substitution within the mix, not a reduction in ambition. By 2030-31, Constrained Delivery builds approximately 12 GW less utility-scale storage than Step Change Core, retains an additional 1.2 GW of brown coal and 0.7 GW of black coal that Core has retired, and delays the offshore wind build-out by three years. By

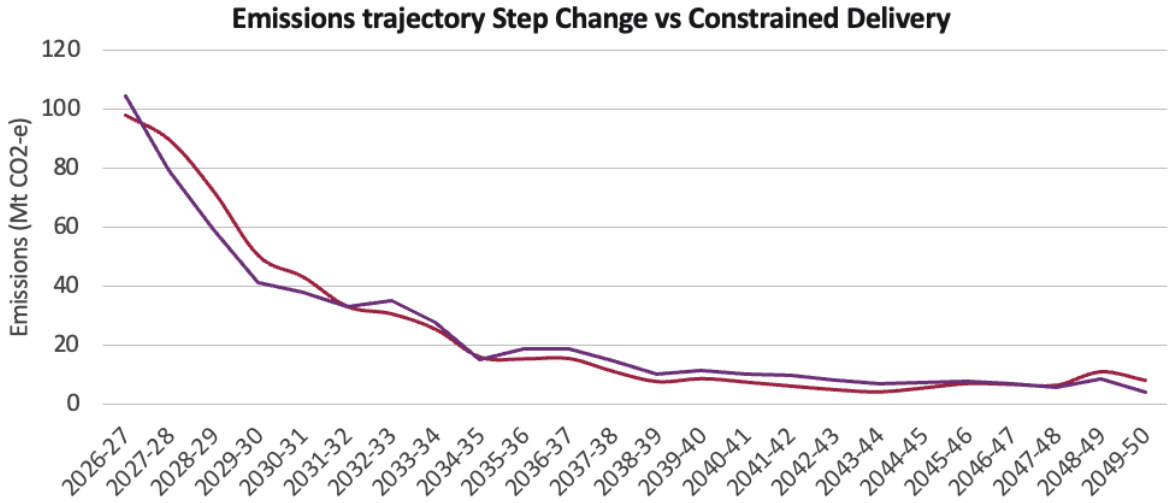
[17] AEMO, *Draft 2026 Integrated System Plan, Appendix A6: Cost-Benefit Analysis*, December 2025 ("Appendix A6"), p. 117.

2032-33, Constrained Delivery builds approximately 6.6 GW more wind than Step Change Core. Total installed capacity is lower throughout the constraint period — between 7% and 13% lower across the late 2020s, narrowing to 2.3% lower by 2034-35 — but the deficit closes by the late 2030s as the catch-up renewables build-out comes through. This is not a 'build less' sensitivity. It is a 'substitute thermal for storage at a 30% capital cost markup, then build the renewables back later' sensitivity. Whatever consumer-cost lesson Constrained Delivery teaches, it is not a lesson about the cost of failing to meet emissions targets.

Generation capacity differences Constrained Delivery (top) vs Step Change (bottom)



Constraint-period emissions are modestly higher, but the model converges on the same cumulative outcome. The Commission's reasoning at paragraph 3.2.1 implies that Constrained Delivery models a future where the consumer-cost saving from less ambitious decarbonisation can be observed against the emissions outcome of the targets being missed. On AEMO's published data, only the first half of that story appears, and only briefly. Cumulative NEM emissions under CDP4 over 2026-27 to 2034-35 are 433.3 million tonnes CO_2-e under Step Change and 458.2 million tonnes CO_2-e under Constrained Delivery — a 25.0 million tonne premium, or 5.8%, attributable to the thermal-for-storage substitution during the constraint window. From the mid-2030s onwards, however, Constrained Delivery emits less than Step Change in most years, as the catch-up renewables build-out displaces thermal generation faster than in the core scenario. Over the full modelling horizon to 2049-50, cumulative NEM emissions are 583.0 million tonnes CO_2-e under Step Change and 583.6 million tonnes under Constrained Delivery — a difference of 0.1%. The model is engineered to re-converge on the targets bundle: the constraint affects the path taken, not the destination. What Constrained Delivery measures is the consumer cost of staying on the targets pathway despite delivery delays — not the consumer cost of accepting a lower net zero ambition pathway.



2.4 The sensitivity mechanism is discretionary and has not been properly exercised

Table B.1 of the Draft Determination acknowledges that "AEMO has discretion in deciding which sensitivity analyses to run", and that sensitivities testing alternative emissions-targets assumptions may be run only "if relevant and consistent with other changed assumptions for that sensitivity".[18] AEMO has not, in any ISP cycle to date, run a sensitivity in which the targets in the targets statement are absent, or relaxed as an independent test variable. The Constrained Delivery sensitivity is the closest case, and for the reasons set out in the empirical analysis above, it tests a delivery-rate assumption rather than a target-relaxation assumption.

AEMO's position, as Daniel Westerman expressed to the Senate Select Committee on Energy Planning and Regulation on 5 December 2024, is that "the ISP is not a tool to evaluate government policy".[19] Anna Collyer also described in The Daily Telegraph in April 2026 that "the ISP is a planning tool, not a policy evaluation tool".[20] In other words, AEMO officials consider this kind of sensitivity to fall outside its remit. The protection of consumer interest cannot rest on a discretionary tool that the tool-holder has chosen not to use and regards as outside its remit to deploy.

Jurisdictional decision-makers do not rely on sensitivity outputs. As documented later in this submission, jurisdictional and federal policymakers have cited the ISP in framing or defending energy and emissions policy. In every documented case, the citation is to the headline optimal development path under the target-bound scenarios. CIS is not aware of any instance in which a Minister, regulator, climate authority or jurisdictional planning body has relied on the Constrained Delivery sensitivity — or any other ISP sensitivity — to evaluate the consumer-cost implications of a policy choice. If the sensitivity machinery were performing the consumer-cost-transparency function the Commission ascribes to it, one would expect it to feature in policy debate. It does not. The practical record is that policymakers seek out the headline NPV of the ODP precisely because it is presented as the

[18] Draft Determination, Appendix B, Table B.1, p. 36.
[19] Daniel Westerman, evidence to Senate Select Committee on Energy Planning and Regulation in Australia, 5 December 2024 (in response to questions from Senator Matt Canavan).
[20] Rolfe, *Daily Telegraph*, 28 April 2026.

optimal plan under the targets bundle. Sensitivities, where they are run, do not enter the public policy discourse upon which the Commission's reasoning relies.

Sensitivities do not influence the RIT-T pipeline. Table B.1 of the Draft Determination confirms that sensitivities "are not required to be used in RIT-T assessments". The spending decisions actually approved and recovered from consumers therefore proceed on the basis of the scenario-derived CDPs, not on the basis of any sensitivity overlay. Whatever consumer-protection value the Commission attributes to sensitivity analysis, that value does not transmit to the point at which costs are crystallised on consumer bills.

2.5 The Commission's support for an independent Productivity Commission body implicitly concedes the gap

We note, finally, that the Commission expresses support for the Productivity Commission's recommendation for an independent body to assess emissions reduction policies against an agreed national benchmark.[21] The Commission does so in section 2.3.6 and again in section 5.3, characterising the Productivity Commission's proposal as "the most appropriate means to achieve the outcomes sought by the proponent".[22]

CIS submits that endorsement cannot be reconciled with the Commission's defence of the existing sensitivity mechanism in the Draft Determination. Either the existing architecture already provides the consumer-cost transparency CIS seeks — in which case the Productivity Commission's proposal is redundant — or it does not, in which case the basis for refusing the rule change collapses. The Commission cannot rely on both arguments simultaneously.

2.6 The proposed rule change is the appropriate remedy

The Commission's reliance on sensitivity analysis as the answer to the consumer-cost transparency concerns raised by CIS is not a defence of the current rules. It is a category error. The functional differences between scenarios and sensitivities are summarised below.

Function required to protect consumer interest	**Scenario**	**Sensitivity**
Generates its own candidate development paths	Yes	No
Feeds the cost-benefit analysis ranking architecture	Yes (rankings use scenario-weighted metrics)	No
Enters the RIT-T pipeline	Yes	No

[21] Productivity Commission, *Investing in cheaper, cleaner energy and the net zero transformation*, Inquiry Report No. 113, December 2025.
[22] Draft Determination, section 5.3, p. 30.

Function required to protect consumer interest	Scenario	Sensitivity
Required and produced in every ISP cycle	Yes	No (discretionary; never run as a target-absent test)

On the Commission's own description of the ISP's architecture; on the empirical evidence of the Commission's own chosen example, drawn from AEMO's published modelling; on the practical record of how the sensitivity mechanism is used by AEMO and cited by jurisdictions; and on the Commission's own support for an alternative mechanism that would be unnecessary if the existing one worked — sensitivity analysis, as currently constituted, cannot perform the function the Draft Determination ascribes to it. The proposed rule change is the appropriate vehicle to close the gap.

3 A centrally produced policy-neutral baseline complements (rather than precludes) jurisdictional policy

3.1 AEMO has discretion to include multiple decision-making processes and exercise judgement

CIS disputes the assertion in 2.3.3 of the Draft Determination that consideration of candidate development paths that are not bound by emissions targets necessitate the outcome that the ODP would not meet those targets.

Considering such unconstrained development paths would simply allow the tension between the different limbs of the NEO to be measured and assessed. This amounts to proper consideration. The outcome of that consideration is not determined by the inclusion of alternatives, since the method by which any compromise or trade-off between the different alternative limbs the NEO is not specified.

In fact, AEMO does have considerable discretion within the NEO to exercise judgement. Specifically, NER 5.22.5(e)(2) requests that in developing and publishing the Cost Benefit Analysis Guidelines, the AER must provide flexibility to AEMO in its approach to scenario development, modelling and *selection of the optimal development path*. NER 5.22.5(e)(3) only requires that the optimal development path *has a net positive benefit* in the most likely scenario, not that it has the highest net positive benefit.

In the Cost Benefit Analysis Guidelines Section 3.3.6 (below) the requirement does provide such flexibility.[23] It requires that a cost benefit analysis present a table of the net economic benefit of each development path in each scenario, and that they be ranked on the basis of a risk-neutral decision-making approach. But this also allows for "one or more alternative decision-making approaches set out in AEMO's ISP methodology", and for AEMO to "use

[23] AER, *Cost Benefit Analysis Guidelines*, May 2025, section 3.3.6, https://www.aer.gov.au/system/files/2025-05/AER%20-%20Cost%20Benefit%20Analysis%20guidelines%20-%202024%20-%20Version%203.pdf.

professional judgement in balancing the outcomes of the above decision-making approaches to select an optimal development path".

Cost benefit analysis guidelines

1. Conduct scenario analysis to present a table with the net economic benefit of each development path in each scenario. The net economic benefit of a development path is its market benefit (section 3.3.5) less costs (section 3.3.3).
2. Rank the development paths on the basis of:
    a) A risk neutral decision-making approach. Under a risk neutral approach the ranking must be based on the weighted average net economic benefit of each development path, with weights determined according to the likelihood of each scenario occurring.
    b) Where relevant, one or more alternative decision-making approaches set out in AEMO's ISP methodology.[36]
3. Use professional judgement in balancing the outcomes of the above decision-making approaches to select an optimal development path that has a positive net economic benefit in the most likely scenario—and explaining:
    - why the choice optimises the net economic benefit
    - the potential 'cost' associated with a risk averse choice (if taken)
    - why the level of risk neutrality or risk aversion chosen is a reasonable reflection of consumers' level of risk neutrality or risk aversion.
4. Undertake sensitivity testing and/or cross checks and explain the significance of these for the optimal development path; and present information on key distributional effects.[37]

Once AEMO has selected an optimal development path, it will decide which projects to classify as actionable ISP projects, future ISP projects and ISP development opportunities.[38]

Subject to complying with the requirements set out above, AEMO has flexibility in selecting an optimal development path, consistent with NER clause 5.22.5(e)(2). The sections below provide discretionary information to explain each step of the above binding framework.

In the 2025 Methodology, AEMO states:

> Ultimately, the selection of an ODP relies on the use of professional judgment in balancing the outcomes of the above decision-making approaches to select a path that has a positive net economic benefit in the most likely scenario. [24]

In the current Methodology, AEMO's alternative decision-making approaches include different considerations of the risk-appetites of consumers. However, just as easily AEMO could describe in its methodology a consumer preference for government emissions reductions targets being met, or any other strategy that allows the tension between potential cost reductions and emissions targets to be managed.

Consequently, CIS disputes the idea advanced in 2.3.3 of the Draft Determination that including a baseline without policy constraints would result in an ODP that is not consistent

[24] AEMO, *2026 ISP Methodology*, June 2025 ("ISP Methodology 2025"), p. 110.

with meeting the targets. This is a plausible outcome, but not one that is necessitated. Rather, it simply means that trade-offs between the different limbs of the NEO can be transparently considered and evaluated. AEMO may still choose an ODP that meets the targets provided it does have economic benefits. AEMO has flexibility to develop its own decision-making processes that could evaluate how government targets being met could contribute to consumers' interests, or otherwise be balanced with competing interests.

3.2 Governments can, should and do choose policies on benefits that lie outside the ISP cost benefit analysis

It is also not the case that a government would be bound to accept whatever is deemed to be 'optimal' in the ISP as being a policy that is imposed upon it. As the AEMC has put in its draft determination in section 5.2: "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's submission also stands on similar logic in arguing against using the ISP to assess the cost of policy proposals, stating in Section 3.2:

"AEMO also acknowledges the proponent's proposal for the ISP to assess the costs of jurisdictional policies, which it currently does not do. In practice, this proposal would be inappropriate to implement, as policies are economy-wide and AEMO only has visibility of costs and benefits within the energy sector. Decisions made by governments to set policy targets consider a broad range of factors that sit outside of the scope of the CBA Guidelines. Specifically, factors that may contribute to decision-making on these policies include environmental outcomes, economic growth, workforce planning, as well as broader regional development. Any assessment made in the ISP would not be able to fully capture these factors given the existing classes of costs and benefits in the Guidelines, which align with the purpose of the ISP."

CIS broadly agrees with the assertion that government policies are rightly made to reflect a range of considerations which sit outside the benefits assessed in the ISP process. We further agree that it is inappropriate for the ISP to attempt to incorporate all classes of benefits or costs of policies into its assessment. Many of the benefits of policy, including the value of regional development or rural character preservation, as well as concerns about energy security and parochial independence are inherently subjective, and hard to quantify with credibility through economic analysis. They belong in the domain of politics to establish.

However, we reject the idea that this prevents the ISP from providing a clear counterfactual yardstick to expose the implications of those policies that fall within the domain of the ISP's cost-benefit analysis, and within the competence of AEMO and the ISP process to assess. This should include, at a minimum, those market benefits that pertain to the concerns of the National Electricity Objective, such as things that will impact price of electricity, reliability and security. Under the current National Electricity Objective, this should also include emissions, assessed in conjunction.

Providing a yardstick that evaluates cost does not amount to dictating government policy to

accept the development path that has the least cost, or greatest overall benefit. It does not prevent a government from choosing to adopt different policies, and achieving them. It would be very plausible for a government to make the case that it accepts a policy that has lower benefits according to the narrow assessment of market benefits in the ISP, on the basis that other broader policy ambitions justify the cost.

For example, a Tasmanian government might easily reject a development pathway that is modelled as 'least cost' for the Integrated System Plan, on the basis that it would make the state reliant on the mainland for reliable electricity. The value that Tasmanians place on having independence from the mainland for essential services like electricity is likely to be non-trivial, but entirely subjective, and not properly assessed through the cost-benefit analysis of the ISP. It would quite remain the prerogative of politicians to make this case, and justify whatever premium that a greater degree of self-reliance might entail. Similar arguments could plausibly be mounted by other states as well. Deviation from the economically 'optimal' pathway could be justified by jurisdiction with an improved understanding of the cost. If the cost is small enough, it could be readily accepted that a premium for greater independence is acceptable.

Other implications of development pathways may justify significant premiums over what is assessed as economically optimal. For instance, the Victorian Government's Offshore Wind Policy Directions Paper made precisely this argument, pointing out that achieving emissions reductions with on-shore renewables alone would require 70% of Victoria's agricultural land to be taken up with wind and solar developments.[25] The paper goes on to argue that a non-trivial cost premium to develop offshore wind is justified to avoid this imposition.

Needless to say, emissions reductions could also justify some premium being paid above a pure least-cost approach, and the extent of this trade-off would be well handled through a political process.

Consequently, there are questions over whether separate jurisdictions should be able to develop their own policies, for reasons that sit outside benefits assessed in the ISP. There are clear precedents for jurisdictions doing just this, including Victoria pursuing offshore wind. If so, however, the ISP can be complementary to this process by providing a neutral point of comparison for the trade-offs for those narrower set of benefits which are classed as market benefits that the ISP does assess, including how those benefits or costs affect the system as a whole.

The ISP can and should sit as a neutral yardstick for assessing the limited range of costs and benefits of policy decisions that fall within the current cost-benefit analysis. This would be complementary to jurisdictions still choosing policies that aren't ranked as 'optimal' in the narrower cost-benefit analysis done by the ISP. To bring about this state of affairs, something as simple as renaming the 'optimal development path' in the Rules to better describe the limited nature of this optimisation, and/or constraints on that optimisation could assist in making it approachable for jurisdictions to feel comfortable adopting policies

[25] Victorian State Government, March 2022, Offshore Wind Policy Directions Paper, Pages 18 and 19, available at: https://justtransitionforall.com/wp-content/uploads/2022/10/Offshore-Wind-Policy-Directions-Paper.pdf

outside of an unconstrained least-cost optimisation. If the ISP included an "unconstrained market benefit maximising" pathway, alongside a "policy consistent least-cost approach" the policy making process would be greatly enhanced.

3.3 The ISP should provide a centrally produced, objective yardstick for evaluating policy impacts of jurisdictions on market benefits

The Commission's Draft Determination rests heavily on the idea that it is better for individual jurisdictions to do their own analysis on the basis that it would be "duplicative" for AEMO to assess policy costs and benefits. For example, in section 2.3.6 it is stated:

"Similarly, we consider that it is not efficient for AEMO to include the costs of individual jurisdictional policies in the ISP. 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."

CIS strongly disagrees with this. To the extent that the electricity system is becoming more integrated, it becomes essential for the whole of the system to be modelled in an integrated way. This necessitates a sophisticated model, which spans the states of the NEM, for the simple reason that optimally exploiting the different renewable generation and storage opportunities in different locations can have implications for what the optimal investment might be in other jurisdictions. The 'Battery of the Nation' pumped hydro proposal for Tasmania encapsulates the concept of this kind of extended benefits from local specialisation.

So it would be the case that any and every jurisdiction that wanted to properly assess the implications of policies around renewable energy development would need to build a large and sophisticated model, such as a capacity expansion model as the ISP is, in order to fully assess the costs and benefits of their own policies.

This provides a natural and strong case for centralisation of the process to avoid duplication. Indeed, the idea of centralising and integrating transmission planning was core to the Finkel Review[26] which created the initial mandate for the Integrated System Plan, which said on page 129:

"As the transition unfolds, it is likely that AEMO's role in transmission planning will need to increase in order to ensure that the development of the transmission network is consistent with the needs of the NEM as a whole."

This was largely in response to the increasing integration of the grid that the move towards renewable energy would necessitate, which created coordination problems associated with the various jurisdictions' transmission plans working independently, as discussed on page 125:

[26] Alan Finkel, Independent Review into the Future Security of the National Electricity Market, June 2017 https://www.dcceew.gov.au/sites/default/files/documents/independent-review-future-nem-blueprint-for-the-future-2017.pdf

"Within the NEM, different generation and transmission planning processes create a number of coordination challenges with respect to the location of new large-scale renewable generation and transmission infrastructure."

In specifying the function of the integrated grid plan, the Finkel Review says on page 124 that it should:

"Include a high-level assessment of the relative economics of different zones, taking into account the quality of the resource, approximate cost of connection, network impacts and other relevant considerations. This will enable the classification of zones according to how prospective they are and inform future decisions about the order in which to develop the transmission network."

It should be noted here that intention to "inform future decisions" does not necessarily mean that it would dictate policy. But it does clearly imply exposing some costs or benefits of one alternative over another. This vision strongly implies that some information that helps form policy, including informing judgements on which resources to develop at what stage (which is specified by many jurisdictions in the Targets Statement). The Commission's position that the ISP should have no role evaluating policy is at odds with this initial vision of what the ISP should do.

State jurisdictions have created mechanisms to drive investments separate from the RIT-T and the ISP process, such as through the NSW Electricity Infrastructure Investment Act 2020. That suggests they are not strictly bound to adhere to ISP policy directions. Indeed, on page 128, the Finkel review contemplates a proposal from Energy Networks Australia to manage and accommodate differences of opinion between the AEMO plan and TNSPs within different states:

"Modifying the current model to require that AEMO, as the National Transmission Planner, and TNSPs agree on issues of national significance for the transmission network. AEMO would endorse the TNSPs' Transmission Annual Planning Reports and the TNSPs would endorse AEMO's National Transmission Network Development Plan. Where agreement could not be reached, AEMO and TNSPs would publish a statement outlining areas of disagreement and the reasons for their position. The AER would decide whether to provide allowance for revenue for these investments as part of TNSPs' revenue determinations."

So it is likely to be less duplicative, more efficient, and wholly consistent with initial vision of the ISP laid out in the Finkel Review for the ISP to provide some independent, and central yardstick by which policy decisions could be evaluated, without it necessarily being binding and constraining jurisdictions from developing or adopting different policies.

4 Jurisdictions do refer to ISP for claims about merit of policy choices rather than providing their own independent analysis

The draft determination relies heavily on the assertion that it is the responsibility of governments to do the analysis required to support their policy decisions. For instance, in paragraph 16: “Setting policy remains the responsibility of governments”.

In rejecting the request to assess the cost of policies, the argument is made that getting the ISP to provide some evaluation of such costs would be “duplicative of the roles of jurisdictions and lead to inefficient costs” with key reasons including “Jurisdictions are responsible for setting targets and policies and already have processes to cost and evaluate policy decisions both prior to and following implementation”.[27]

Section 2.3.6 of the Draft Determination says: “The Commission considers that market bodies, including AEMO and the AEMC, should not assess the feasibility of jurisdictional targets. 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 ... It is the role of jurisdictions to assess the costs and benefits of their policies, and they have existing processes for this analysis.”

In short, the position of the AEMC is that jurisdictions do, and should do their own homework when evaluating policies, and not rely on the Integrated System Plan as evidence of the merit of their policy proposals.

This is consistent with the position put by Daniel Westerman, CEO of AEMO in 5 December 2024 when he said: “The ISP is not a tool to evaluate government policy”[28], and also consistent with the AEMO submission to this rule change request, where AEMO included as the first of its key points:

> The setting of government policies is a matter for Governments and is informed by a range of economy-wide factors and considerations. 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).[29]

This position was further made abundantly clear by Anna Collyer in comments made to The Daily Telegraph, where she said:

> the Integrated System Plan’s role is to plan the electricity system to achieve emissions targets that jurisdictions have democratically set, not to second-guess those policy decisions ... The ISP is a planning tool, not a policy evaluation tool ... Decisions about emissions targets are matters for elected governments. The ISP identifies the optimal pathway to achieve those targets ...[30]

[27] Draft Determination, Executive Summary [24]–[25], p. iv.
[28] Daniel Westerman, evidence to Senate Select Committee on Energy Planning and Regulation in Australia, 5 December 2024 (in response to questions from Senator Matt Canavan).
[29] AEMO Submission to ERC0406, p. 1.
[30] Rolfe, *Daily Telegraph*, 28 April 2026.

This is a very clear position from both AEMO and AEMC that the ISP does not assess the merits of policy, and cannot be relied upon by jurisdictions as providing support for policy choices.

However there abundant instances were policy-makers from various jurisdictions clearly have relied on the ISP in order to claim that a policy has merit, in particular with regard to policies being achievable, or affordable.

Perhaps the most explicit and instance is that of Matt Kean, when he was NSW energy minister. In an exchange with Senator Ross Cadell when Mr Kean appeared before Senate Estimates in his capacity as Chair of the Climate Change Authority on 4 November 2024.[31] In this exchange (below), he

explicitly claims that he relied upon AEMO when he was NSW Energy Minister when he was looking at the cost of replacing the existing system in NSW. This would have been crucial to his decision to introduce policy measures including the Electricity Infrastructure Investment Act, under which many billions of dollars have been committed to pursue renewable energy, on the presumption that it is least cost.

During this exchange, Mr Kean repeatedly suggests the ISP had done an unconstrained analysis of the cheapest replacement for existing generation, despite the existence of constraints in the ISP being raised by Senator Cadell. Specifically, he says:

> "No, the ISP is a look at the counterfactuals as to other sources of generation to provide the cheapest replacement cost of an existing system."
>
> "The Integrated System Plan has looked at how we replace the NEM or effectively replace the existing sources of generation that provide electricity to the nation and the cheapest pathway for doing that."

When challenged explicitly about the constraints binding the AEMO claim about the ISP being the lowest cost pathway, Mr Kean claimed, "No, not within the constraints. It was compared to the counterfactual".

He goes on to say: "I can table AEMO's analysis" when challenged to support his claim that "The surefire way to push up electricity bills is with nuclear".

CIS suggests that this is an example of a Minister relying on an incorrect view of the ISP being an unconstrained evaluation of alternatives in support of policy positions. It is one thing for the AEMO and the AEMC to claim that the ISP is not intended to evaluate government policy, but the fact is that this is exactly how it has been used. This could lead to highly inefficient outcomes for consumers, because of the potential for a circular logic whereby targets are set on the assumption that the ISP supports them as being 'least-cost' compared to an unconstrained alternative, but those targets then further constrain the test

[31] Senate Standing Committee on Environment and Communications, Supplementary Budget Estimates 2024-25 (DCCEEW), 4 November 2024 (evidence of Matt Kean), https://www.aph.gov.au/-/media/Estimates/ec/supp2425/DCCEEW/4_November_2024_-_Environment.pdf.

space and reinforce the incorrectly held perception that those targets are actually least-cost.

Numerous other explicit instances exist of different politicians and public servants relying on the ISP incorrectly in this way, up to very recent days and weeks.

First, Victorian Energy Minister Lily D'Ambrosio, in a Tom Elliott interview on 3AW, Thursday 21 May 2026, said:

> … the market operator who is the expert in managing the transition are absolutely clear in their integrated system plan that not just Victoria, but the rest of the country can actually achieve the degree of ambition that we have set. And remember, that ambition is about lower power bills ... [32]

She continued to rely upon the AEMO ISP as validating the choice to move to targets, such as 95% renewables:

> Look Tom, we have a totally integrated electricity system because that ultimately gives us greater reliability that everyone is seeking, that greater security. And the fact is the Market Operator, not Lily D'Ambrosio, not Tom Elliot, but the Market Operator, which is expert and is absolutely confident that this is doable.

Second, in making the Declaration under the Electricity Infrastructure Investment Act for the Waratah Super Battery, Mr Kean refers to the fact that the Waratah Super Battery Projects was identified as actionable under the 2022 ISP.[33] This is Mr Kean's first grounds on which he says that he is satisfied that the direction is consistent with the objects of the Act, the first of which is "to improve the affordability, reliability, security and sustainability of electricity supply".

In the 2022 ISP, the Waratah Super Battery is listed only as an optional element of the northern part of the Sydney Ring projects, called Hunter Transmission Project.[34] The 2022 ISP is clear that this is actually a NSW Project proceeding under the EII Act rather than the ISP framework.

Third, the first available record of the Federal Government officially committing to the 82% renewable energy target as an official policy target (rather than a predicted outcome of adopting other policies, such as Rewiring The Nation as described in the Powering Australia Plan prepared prior to the 2022 Election) was in the Annual Climate Change Statement 2022.[35] This statement, delivered to Parliament on 1 December 2022, was explicitly

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[32] Lily D'Ambrosio, interview with Tom Elliott, *3AW Mornings*, 21 May 2026, https://podcasts.apple.com/au/podcast/3aw-mornings-with-tom-elliott/id291212440?i=1000768673532

[33] NSW Government, declaration of the Waratah Super Battery project under the *Electricity Infrastructure Investment Act 2020* (NSW), *NSW Government Gazette* No. 473, October 2022, https://gazette.nsw.gov.au/gazette/2022/10/2022-473.pdf.

[34] AEMO, *2022 Integrated System Plan*, June 2022, p. 70.

[35] DCCEEW, *Annual Climate Change Statement 2022*, 1 December 2022, https://www.dcceew.gov.au/sites/default/files/documents/annual-climate-change-statement-2022.pdf

informed by independent advice from the Climate Change Authority, as required by the Climate Change Act 2022. That advice comprises the First Annual Progress Report from the Climate Change Authority, and the cover letter from the Chair explicitly describes the document as advice: "The Climate Change Authority submits to you its advice to inform the first Annual Climate Change Statement to Parliament ..."[36] Page 25 of that advice comprises a feature titled: "Snapshot: An 83% renewable grid by the end of the decade" which goes on to describe how AEMO has modelled the achievement of 83% by 2030-31 in the 2022 Integrated System Plan, which it describes as "closely aligned" to Australia's national emissions reduction target for 2030, according to AEMO. The Climate Change Authority goes on to describe the efforts required in terms of increased rate of installation to achieve this goal. This page clearly appears to comprise advice to government about a how targets could and should be reached, appealing to the ISP to establish the credibility and efficacy of that path.

Fourth, Climate Change and Energy Minister Chris Bowen referred to the Integrated System Plan, and AEMO, extensively in his election campaign debate against Liberal counterpart Ted O'Brien at the National Press Club on 10 April 2025,[37] including holding up a bound copy of the ISP during the debate, with quotes including:

- "On the one hand our plan backed by the experts at the CSIRO and the energy operators and regulators …"
- "We have a very carefully balanced plan based on all the expert advice which is the lowest cost pathway ... Here is a small sample of the reports that the government bases our expert plan on, whether it is by AEMO, AER, AEMC ..."
  "
- "That is what the experts say is the best way ..."
- "So my question to you is why do you know better? And if you're in government ... what would you do with the experts who tell you, minister you're wrong? … We need to listen to the experts, and that's what we'll do if we get a second term."

Fifth, Victoria's August 2024 "Cheaper, Cleaner, Renewable: Our Plan for Victoria's Electricity Future" policy paper on the electricity system says on page 47: "This document is largely informed by AEMO's 2024 Integrated System Plan".[38]

Sixth, NSW Infrastructure Investment Objectives Report is prepared by the Consumer Trustee in accordance with its function under the Electricity Infrastructure Investment Act,

[36] Climate Change Authority, *First Annual Progress Report*, December 2022, p. 25, https://www.climatechangeauthority.gov.au/sites/default/files/2022-12/First%20Annual%20Progress%20Report%20FINAL%20pdf.pdf.
[37] National Press Club Energy Debate between Chris Bowen and Ted O'Brien, 10 April 2025, https://www.youtube.com/watch?v=Ry7Xdv0anwE.
[38] https://www.energy.vic.gov.au/__data/assets/pdf_file/0014/715010/our-plan-for-victorias-electricity-future.pdf

which requires it to act "in the long-term financial interests of the NSW electricity consumers". However, the *Ambition* scenario, which forms the basis of both of the other scenarios, is based on the 2024 ISP Step Change Scenario, and this was cited as being "most likely" according to the ISP's Delphi Panel of experts.[39] However, since all of the scenarios presented to the panel must conform to all policy expectations, this ISP process doesn't give any indication that the Step Change scenario is necessarily likely, or even plausible at all.. This constrains the ability of the report to truly assess the financial impact on consumers and amounts to a circular endorsement of a position that could not be contrasted to a meaningful counterfactual.

Seventh, during Senate Estimates on 26 May 2026, when challenged about the efficacy of the overbuild and potential transmission constraints required to utilise remote wind power, Matthew Brine, Deputy Secretary of the Department of Climate Change, Energy, the Environment and Water, Energy Group, said: "So for almost 10 years now the ISP, that's the forward-looking plan that underpins the design of the electricity system, for almost 10 years now that ISP has consistently made the point that our coal-fired generators are shutting down, and the cheapest replacement is renewables backed by batteries and gas." He did not offer any qualification about this reaching net-zero targets, or meeting other government policy commitments. This was raised in response to Senator Tyron Whitten suggesting that issues of overbuild of generation and transmission congestion make a wind-dominated renewable system economically inefficient.

Eighth, during Senate Estimates on 26 May 2026, an exchange between Tim Ayers, Minister for Industry and innovation, Senator Matt Canavan, and the departmental Energy Group deputy secretary Matthew Brine, included:

Ayers: It's the lowest cost approach.
Canavan: To 82% renewables by 2030, what if we dropped that constraint?
Ayers: What we are trying to achieve here is the lowest policy cost electricity system for Australia.
....
Canavan: Does the ISP, this cost-benefit analysis, does it look at alternatives that may not deliver net-zero by 2050?
Matthew Brine: I don't think so, no. But for the last 10 years, AEMO's been very clear that coal-fired power stations are shutting down, and that the cheapest replacement is renewables backed by batteries and gas.
Canavan: But only if you assume that you have the constraint in the model that you deliver 82% renewables by 2030, and net zero by 2050.
Ayers: It's the cheapest possible response...

[39] ASL, 2025 Infrastructure Investment Objectives Report, Page 22, including Footnote 12

5 AEMO is inconsistent in strictly reflecting policy without assessment of consumer interest

A central plank of the Draft Determination is that AEMO is not, and should not be, the body that assess any kind of merit of government policies. This assessment of merit could involve a balancing of the competing interest of different limbs of the NEO, or indeed other policy objectives that lie outside the market benefits assessed in Integrated System Plan. It is clearly implied that any and all assessment of overall suitability or benefits of policy is said to belong with governments. The Commission states that "setting policy remains the responsibility of governments"[40] and, more emphatically, that "market bodies, including AEMO and the AEMC, should not assess the feasibility of jurisdictional targets".[41] This position is offered as a principal reason the proposed rule change is unnecessary.

The Draft 2026 ISP, published only months before the Draft Determination, demonstrates that this is not in fact how AEMO operates. AEMO claims it must constrain the ISP to meet the emissions and renewable targets set by jurisdictions, treating them as binding scenario constraints. At the same time, AEMO has openly exercised discretion about specific projects and allocations that jurisdictions have already declared under those frameworks — selectively, and on its own initiative.

5.1 New England REZ Stage 2

The New England REZ was declared on 17 December 2021 under the *Electricity Infrastructure Investment Act 2020* (NSW) with an intended 8,000 MW of additional network capacity.[42] EnergyCo's 2025 Infrastructure Investment Objectives Report — the modelling exercise required under that Act — identified the full two-stage build (CNSW-NNSW Options 1 and 2, together with N2 Option 1) as the 20-year development pathway "that best met New South Wales' legislated objectives for energy infrastructure".[43] That is the jurisdictional policy position.

Notwithstanding this, the Draft 2026 ISP carries only Stage 1. In Appendix A5, AEMO explains its reasoning in the following terms:

> Only Stage 1 (both parts) is included in the proposed ODP in the Draft 2026 ISP and ongoing analysis and stakeholder engagement between now and June 2026 is

[40] AEMC, Draft Determination, p. iii.
[41] Ibid., section 2.3.6, p. 9.
[42] AEMO, *Draft 2026 Integrated System Plan, Appendix A5 — Network Investments*, December 2025 ("Appendix A5"), section A5.3.3, p. 33, citing NSW Government Gazette No. 580 of 15 December 2023.
[43] Appendix A5, section A5.3.3, p. 33.

> needed to ascertain **whether the second stage will optimise benefits to consumers** in the 2026 ISP.[44] (emphasis added)

The corresponding row of the Stage 2 options table records that the option is "not included on the Draft 2026 ODP".[45]

Here AEMO is openly applying a consumer-benefits consideration to a project that has been identified by the jurisdiction as best meeting its statutory objectives. It is the same analytical judgement that the proposed rule change would require AEMO to make in a more structured and transparent way through a policy-neutral baseline scenario — except that here AEMO has done it on its own initiative, exercising precisely the discretion the Draft Determination says AEMO does not and should not exercise.

Transgrid, as the relevant TNSP, draws the inconsistency to AEMO's attention in its own submission to the Draft 2026 ISP. It notes that EnergyCo's competitive procurement for a network operator is "based on a detailed reference design that includes scope and capacity for both Stages 1 and 2", and asks AEMO "to incorporate the latest information from EnergyCo into the Final ISP so that the plan accurately reflects expected REZ development and associated network needs".[46] In its formal recommendations, Transgrid asks for explicit "recognition of EnergyCo's REZ reference design work and commitment to delivering New England Stage 1 and Stage 2".[47]

NSW's declared policy, NSW's statutory modelling, and the TNSP responsible for delivering the project all identify the full two-stage build as the relevant policy outcome — and AEMO has, nonetheless, held Stage 2 out of the ODP pending its own consumer-interest assessment.

5.2 South West REZ — wind substituted for solar

A similar pattern is visible in the South West NSW REZ. Under the NSW REZ access scheme, EnergyCo has awarded 3.56 GW of access rights, predominantly to wind projects. Under the NSW framework, generation without access rights cannot connect inside the scheme.[48] The composition of generation in the REZ is therefore not a matter of forecasting — it has been substantially determined by jurisdictional process.

Transgrid's submission identifies AEMO's departure from this policy outcome:

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[44] Ibid.
[45] Ibid., p. 35 (status entry for "Flow path (CNSW-NNSW Option 2)").
[46] Transgrid, *Submission to AEMO Draft 2026 Integrated System Plan*, 13 February 2026 ("Transgrid Draft ISP Submission"), p. 6.
[47] Transgrid Draft ISP Submission, p. 7 (recommendations under "Renewable energy and climate policies").
[48] Transgrid Submission, p. 6.

> The Draft ISP does not reflect the 3.56 GW of awarded access rights in South West REZ — predominantly wind — and instead assumes that these projects can be substituted with solar generation in the region instead. **This appears to be inconsistent with the REZ access regime framework** … [W]e consider their special status needs to be recognised in some way, because they cannot be easily swapped for other projects (which is plausible elsewhere in the open access network).[49] (emphasis added)

Transgrid further notes that the substitution is not analytically neutral — it carries through into the assessed benefits of other projects:

> This issue has material implications for the NSW power system. The Draft ISP's assumption of a greater reliance on solar in the South West REZ shifts wind development to other regions and may understate the benefits associated with VNI West Stage 1 (including the third Dinawan transformer) and Sydney Ring South.[50]

Transgrid is also explicit that the misalignment is not isolated to South West REZ. It identifies "significant differences … emerging between the NSW Electricity Infrastructure Roadmap and the Draft ISP" across three dimensions:

1. type and scale of generation assumed within declared REZs
2. timing and certainty of associated network investments
3. treatment of new generation areas outside REZ boundaries.[51]

Again, AEMO has chosen to model something different from declared jurisdictional policy — the very kind of departure the Draft Determination says AEMO does not and cannot undertake.

5.3 AEMO's actual practice contradicts the Commission's foundational claim

The Draft Determination's central rationale — that AEMO is not the appropriate body to make consumer-benefits judgements about jurisdictional policies — is contradicted by AEMO's actual practice. AEMO already makes those judgements. The relevant question for this rule change is therefore not whether AEMO is capable of the analysis the rule change would require — clearly it is — but whether that analysis should be conducted under rule-

[49] Ibid.
[50] Ibid.
[51] Ibid., p. 5.

based, transparent criteria, or, as at present, at AEMO's discretion and without published criteria governing its exercise.

That discretion is exercised selectively, currently only at the level of individual projects already declared by state governments. AEMO will defer Stage 2 of a declared REZ, or model a different generation mix from the one allocated under a jurisdictional access scheme. What it will not do — and what the Draft Determination accepts it should not do — is make the same kind of consumer-benefits assessment of the policy bundle itself: the targets, timelines and binding constraints that determine the ODP's overall shape. The asymmetry is one of scope, not principle. The case of modelling a counterfactual without binding emissions constraints — capable of exposing the consumer-cost implications of the targets bundle as a whole — is the one assessment AEMO does not perform.

The proposed rule change would close this asymmetry. It would not require AEMO to develop analytical capacity it does not already possess — the examples above demonstrate that AEMO has the capacity. It would require only that this capacity be applied transparently and even-handedly, against a clearly defined counterfactual, with respect to all limbs of the NEO rather than selectively in support of one.

6 AEMO's current passive approach to policy, and widespread confusion about it, result in inefficient outcomes for consumers

The Commission's draft determination claims that the current approach benefits consumers because of efficiency arising from "consistency and stability" within the planning framework. On page 14, in Section 3.3 says:

" … 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 systemwide 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."

We agree that consistency and stability is important, but strongly disagree that the current purely-passive acceptance of the merits and feasibility of jurisdictional policy targets actually provides consistency and stability. In contrast, the convulsions in policy positions and plans that come about from adoption (or abandonment) of policy positions, which haven't had the benefit of being contrasted to alternatives, is leading to inefficient investments and poor outcomes for consumers.

For example, Matt Kean referred to the Integrated System Plan as evidence that the Waratah Super Battery was consistent with the objectives of the EII Act. He also stated in the Declaration that:

"The successful on-time delivery of the Waratah Super Battery Project is critical to the affordability, reliability, security and sustainability of electricity supply in NSW, given the planned closure of Eraring Power Station in 2025."

The AEMO ISP never did declare that the Waratah Super Battery would enable Eraring Power Station to retire, or that the investment in this project was financially beneficial to consumers. In fact, the latest AEMO documents confirm that the System Integrity Protection Scheme that it offers would only increase the transfer capacity between NNSW and CNSW by 300MW in one direction, which is clearly insufficient to replace the a 2800MW dispatchable generator like Eraring.

And now, Eraring has been extended twice, including once at the behest of the new Labor government in NSW in 2024, which appeared to have undertaken the independent analysis of the energy system that Mr Kean mistook the ISP to be. NSW Premier Chris Minns described to The Australian how he did get a group of energy economists to audit the grid:

"One of the things they told us in unambiguous terms is that we should be prepared to keep the Eraring coal-fired power station open longer than anticipated. Some decisions keep you up at night, but I've got to say that this wasn't one of them."

Unfortunately for NSW consumers, Mr Kean had directed the investment in the Waratah Super Battery to take place via the procurement of services over the course of five and a half years, from 2025 to 2030. This will result in NSW consumers paying well over half a billion dollars over four years[52] for a services for which they have no need, since Eraring will still be operating. This is a concrete example of an inefficient investment, which has had substantially greater costs than benefits for consumers. If the ISP was a document that was willing to question and expose risks, costs and trade-offs in policy decisions made by jurisdictions, this kind of mal-investment would have been much less likely to have occurred.

Similarly, the Integrated System Plan is demonstrating higher variability in planned transmission projects, particularly as a result of changes of policy in Queensland. In the 2024 Integrated System Plan, a major project called "Supergrid South", driven by Queensland government policy initiatives, stated on page 31 of the 2024 ISP:

"Queensland has expanded its renewable energy targets to 50% by 2030, 70% by 2032, and 80% by 2035, and legislated emissions reduction targets of 75% by 2035 and net zero by

[52] AER, Waratah Super Battery Total Revenue Determination, Attachment A. https://www.aer.gov.au/industry/registers/determinations/waratah-super-battery-total-revenue

2050. The Queensland Energy and Jobs Plan and SuperGrid Blueprint call for transmission and two large-scale pumped hydros for firming: Borumba Dam Pumped Hydro and Pioneer-Burdekin Pumped Hydro. "

Queensland SuperGrid South was made newly actionable in the 2024 ISP on the basis of this policy. The 2022 ISP didn't have such a project at all. Again a change of government has lead to a major revision of policy, and the abandonment of the Pioneer Burdekin pumped hydro project, which provided part of the rationale for the large transmission connections being advanced up the Queensland coast. The incoming Queensland Government rejected this project on the basis of cost, which would have required an investment of $36 billion.[53]

In the latest Draft 2026 Integrated System Plan there is no "Supergrid" mentioned, and the closest comparable project has been pushed back to a "future" project, rather than being actionable. This potentially has broader implications for other investments, including the QNI project, which is indicated to have "Analysis ongoing" in the Draft (Figure 3) and with no 500KV option being listed for this project in Appendix 5.

It cannot be reasonably argued that the ISP has been capable of providing consistency and stability in transmission planning. Conversely, there have been very large convulsions in investment sequences and policies when governments have changed. We contend that policy stability would be better achieved by exposing and socialising the cost implications of policy choices earlier on, so that policy decisions might become more durable. In its current form, it appears that the ISP conceals the consequences of policy by labelling all of them 'optimal' without undertaking any assessment of their merits. This will likely lead to greater convulsions of policy in the medium term as the costs are eventually exposed and rejected, leading to inefficient investments, and poor outcomes for consumers.

[53] https://statements.qld.gov.au/statements/101593