

Rule determination

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

Proponent

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About the AEMC

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

Acknowledgement of Country

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



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Summary

- 1 The Commission has made a final determination to make no rule in response to a rule change request submitted by The Centre for Independent Studies (the Proponent), which proposed changes to the way the Australian Energy Market Operator (AEMO) develops the Integrated System Plan (ISP) and the information the ISP provides.
- 2 The proponent raised three issues in its rule change request that relate to the way the ISP is currently developed:
 1. **Treatment of jurisdictional emissions reduction targets and policies:** The proponent suggested that the ISP does not adequately account for uncertainty as to when jurisdictions' emissions reduction and renewable energy targets will be met or whether they may change in the future. To address this issue, the proponent proposed that AEMO should be required to model a scenario with no jurisdictional policy constraints, and to consider plausible future policy changes by jurisdictions.
 2. **Whole of system costs:** The proponent considered that the ISP analysis should include a broader range of costs in determining 'whole of system' costs and identifying the optimal development path.
 3. **Publication of information:** The proponent suggested that additional information should be published relating to system costs and the cost implications of individual jurisdictional policies as part of the ISP.
- 3 The Commission has determined that a rule change is not required to address the issues raised by the proponent in its rule change request. We consider that the additional analysis and information proposed by the proponent for inclusion in the ISP is not warranted for these reasons:
 - it would be inconsistent with the governance arrangements of the national electricity framework, including the National Electricity Law (NEL) and the Australian Energy Market Agreement (AEMA)
 - it can already be considered under the current rules
 - it would increase costs for limited benefits
 - it would not support the achievement of emissions reduction targets that are set by jurisdictions as well as price and reliability aspects of the NEO.
- 4 The Commission considers that the proposed rule in relation to the treatment of jurisdictional targets would create a level of uncertainty and confusion that would render the ISP ineffective as a plan.
- 5 For these reasons, further outlined below, the Commission is not satisfied that the proposed rule will, or is likely to, contribute to the achievement of the NEO. It has therefore decided to make no rule.

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

AEMO must have regard to the NEO and the NEL when developing the ISP

- 6 The ISP is established under the National Electricity Rules (NER) with the purpose of setting out a whole of system plan for the efficient development of the power system over at least a 20-year time horizon, that contributes to achieving the NEO. It plays an important role in the planning and investment process for transmission projects in the National Electricity Market (NEM). The inputs

and outputs are used in other forecasting and planning processes by AEMO, jurisdictions and others for investments in transmission, generation and distribution.

- 7 In 2023, the NEO was updated to include, as an aspect of the long-term interests of consumers, the achievement of targets set by participating jurisdictions that are for (or are likely to contribute to) reducing Australia's greenhouse gas emissions. This includes emissions reduction targets, as well as renewable energy, electrification and energy productivity targets. Relevant targets are included in the emissions [targets statement](#), which is maintained by the Commission, subject to direction from jurisdictions. The NEO also includes consideration of electricity price, quality, safety, reliability and security.
- 8 Jurisdictional governments are responsible for setting energy and emissions reduction policies, including emissions targets, under the national electricity framework. Energy market bodies, including AEMO and the AEMC, are required under the National Electricity Law (NEL) to have regard to the NEO in undertaking their functions,¹ and are specifically required to consider, as a minimum, the targets in the target statement when considering the emissions limb of the NEO.² This includes AEMO when carrying out its system planning functions under the NEL and NER.³
- 9 Consistent with this obligation, the overall purpose of the ISP is to contribute to the long term interests of consumers with respect to achieving targets on the targets statement, as well as price, quality, safety, reliability and security. The obligations on AEMO relating to consideration of the targets in the targets statement in the NER mirror the wording in the NEL.

The current rules provide appropriate mechanisms for AEMO to consider uncertainty around the achievement of jurisdictional targets

- 10 The Commission's final determination is that making no rule, along with encouraging jurisdictions to consider impacts of their targets on system planning by engaging closely with the targets statement and for AEMO to strengthen its sensitivity analysis, is the most appropriate approach. This approach:
 - Supports the achievement of emissions reduction targets, consistent with the NEO and NEL. Ensuring the optimal development path (ODP) remains consistent with these targets enables their achievement in the future, as transmission capacity is an essential enabler.
 - Supports consistency and stability within the planning framework. Changing from the current approach would require AEMO to exercise judgement about the likelihood or feasibility of emissions targets being achieved in the future. This judgement would be contested and reduce the reliability of the ISP as a plan to support coordinated investment that delivers the greatest net benefits. Different approaches would also likely create greater variability between ISPs, impacting investment certainty.
 - Helps to mitigate reliability and price risks. The risks to consumers of early investment in transmission are likely to be outweighed by the risks of late investment. Late delivery of transmission can delay the connection of new generation, leading to higher wholesale market prices, reduced reliability of electricity supply and higher greenhouse gas emissions. Earlier investment timing also mitigates the risk of construction delays, which are common. Earlier and more integration of low-emission generation provides greater benefits.
 - Can provide useful information to prompt jurisdictions to take action to improve the likelihood that the targets are met.

¹ NEL sections 16, 32, 49.

² NEL section 32A(5).

³ NEL sections 49(2) and (3).

- Aligns with requirements in the NEL and the AEMA, which provide that jurisdictions are individually responsible for setting, and jointly responsible for the oversight and coordination of, these policies.

- 11 Within the context of the national electricity regulatory framework, we consider that the current rules, enable AEMO to appropriately assess the risk that jurisdictional targets may not be met on time. AEMO already uses sensitivity analysis to test the robustness of the ISP to future uncertainty, including cases where emissions targets are not met on time. We consider this the appropriate mechanism for AEMO to mitigate the risks raised by the proponent. This approach best supports achieving the NEO and best aligns with the NEM governance arrangements, compared to the proposed rule and other rule change options considered.
- 12 This differs from the proponent's suggested approach that AEMO should be required to include scenarios in the ISP with plausible future policy changes and one scenario with no jurisdictional policy constraints. The proponent suggested this would address the concern it raised that the current arrangements could result in unnecessary investment in transmission if generation investment occurs later than is projected in the ISP modelling.
- 13 Under the current approach, all development paths considered in the ISP are consistent with meeting all targets in the targets statement. We considered alternative ways of addressing the risks identified by the proponent when making our decision, including approaches that, in some way, relax the current approach for all ISP scenarios to remain consistent with all targets in the targets statement. Examples include requiring emissions targets to meet predefined criteria to be included in the ISP, or delaying the assumed achievement date for all targets. All of these alternative approaches would result in at least some development paths being considered that are not consistent with all targets in the targets statement.
- 14 Setting aside the question of whether these alternative approaches would be consistent with the NEL, these approaches would require independent judgement by AEMO or a third party as to which targets would not be met. Even setting objective criteria that targets must satisfy to be included in the ISP would still result in the decision to exclude targets being made by an entity other than the responsible jurisdiction.
- 15 We consider it inappropriate for AEMO to make this judgement within the context of the national electricity regulatory framework. Setting policy remains the responsibility of democratically-elected governments. If a jurisdiction does not want a target supported by the framework (even a legislated target), it can direct the Commission to remove it from the targets statement under section 32A(2) of the NEL. Maintaining the current approach is consistent with the broader regulatory framework, under which jurisdictions are responsible for determining which targets market bodies consider.
- 16 While AEMO must consider the jurisdictional targets included in the targets statement in developing the ISP and the ODP, we expect AEMO to continue to undertake sensitivity analysis to ensure the ODP is robust to future uncertainties and to highlight key risks to its implementation. This should include key risks associated with jurisdictional policy targets. This is critical to supporting and maintaining confidence in the ISP's role as a plan for the efficient development of the power system to contribute to achieving the NEO. We support additional sensitivity analysis, where appropriate, to test the uncertainty of meeting certain near-term targets.
- 17 The existing rules already provide sufficient scope for AEMO to consider broader energy or environmental policies that affect the energy system, if they are sufficiently developed to meet the criteria set out in clause 5.22.3(b)(2) of the NER. We consider that the current NER and Cost Benefit Analysis (CBA) Guidelines are appropriate for how AEMO considers policies in the ISP and

testing key uncertainties through utilising differing scenario designs and sensitivity analyses. We therefore consider no changes to the rules are required.

- 18 Our *Review of the ISP framework* will consider issues relating to the ISP process for actionable Regulatory Investment Tests for Transmission (RIT-T). This may include assessing the flow on impacts of ISP scenarios and sensitivities in the RIT-T process, which was raised by the proponent in its submission to the draft determination. We consider changes to the RIT-T are outside the scope of this rule change request, but recognise that consideration should be given to whether sensitivities should flow through to the RIT-T process.

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

- 19 We consider that amendments are not required to the NER to enable AEMO to consider relevant whole of system costs. The current NER provides flexibility for AEMO to consider other costs that it considers relevant if agreed by the AER, and for the AER to require AEMO to consider specific costs by including them in the Cost Benefit Analysis Guidelines (CBA Guidelines).
- 20 The proponent raised concerns with the current approach, stating that the ISP excludes significant costs such as those related to consumer energy resources (CER), distribution network upgrades, recycling and disposal of renewables and payments to coal generators for life extensions. The proponent suggested that the ISP should model and publish an assessment of whole of system costs as faced by consumers of electricity, in order to provide greater transparency to consumers.
- 21 The stated purpose of the ISP is to establish a 'whole of system plan' under the current NER. In developing the ISP, AEMO focuses on the relative costs of alternative development paths, for example, projects that change between development paths and can therefore be influenced by the plan.
- 22 We consider it not the role or purpose of the ISP to attempt to determine the end-to-end cost of every element of the electricity supply chain. In the Commission's view, it is appropriate to exclude from the ISP analysis costs that do not vary across development paths, as is the current approach.
- 23 In addition, some of the specific examples provided by the proponent, such as CER costs and distribution costs, are already considered in the ISP to the extent they vary between development paths and have a bearing on broader investment decisions. We do not consider a more prescriptive approach in the rules to be necessary or appropriate. The current approach provides flexibility to evolve as technology and circumstances change. A more prescriptive approach to which costs should be considered, and how, may inadvertently constrain the responsiveness of the ISP methodology over time, decreasing its effectiveness.

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

- 24 The proponent proposed in its rule change request that the ISP should model and publish the effect on system cost of each individual jurisdictional target and policy included in the ISP. The proponent considered that this would provide governments and consumers with information to inform decision-making.
- 25 We do not consider the NER is the appropriate framework, nor AEMO the appropriate body, to assess the cost impact of individual jurisdictional policies. The proponent's proposal would be duplicative of jurisdictional roles and lead to inefficient costs.
- 26 Our key reasons are:

- Jurisdictions are responsible for setting targets and already have processes to cost and evaluate policy decisions both prior to and following implementation.
- Any such analysis by AEMO would focus on the NEM and, as such, would be incomplete. Governments implement policies for a range of reasons beyond the impact on the national electricity market.
- Jurisdictions can already request that AEMO undertake sensitivity analysis as part of the ISP, showing the impacts of energy or environmental policies under clause 5.22.6(b)(3) of the NER.

27 Therefore, we consider that the proposal will not contribute to the NEO.

28 The Commission supports the Productivity Commission's proposal for an independent body to evaluate the cost-effectiveness of emissions reduction policies on a consistent basis. We consider that this would provide the transparency that the proponent is seeking through a more appropriate framework.

The Commission considered stakeholder feedback in making this decision

29 The majority of stakeholders supported the Commission's draft determination to make no rule. Some stakeholders supported further consideration of how jurisdictional targets are incorporated into the ISP. Key concerns with the current approach included a lack of transparency in how targets are incorporated, the potential for unrealistic modelling outcomes, and the limits this places on considering the implications of achieving targets later than intended. However, stakeholders generally opposed AEMO assessing the likelihood of emissions reduction targets being achieved, with some noting it was not AEMO's role.

30 Stakeholders generally did not support the inclusion of the additional classes of costs identified by the proponent as they either considered that they are not costs borne by consumers or that they are already considered to the extent they were relevant. Some stakeholders expressed the view that decisions about which classes of costs should be included in the ISP are better addressed through the AEMC's *Review of the ISP framework*, as they relate to the ISP's purpose.

31 In submissions to the consultation paper and draft determination, many stakeholders agreed that there should be increased transparency regarding the cost impact of jurisdictional targets. However, the vast majority considered the ISP is not the appropriate place for this analysis. Concerns raised by stakeholders included that it would increase the complexity of the ISP and that AEMO cannot consider all costs and benefits of jurisdictional policies.

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

32 **Emissions reduction:** Maintaining the current approach ensures that the ISP is consistent with achieving the emission reduction targets on the statement, which in turn is consistent with the emissions limb of the NEO. It means that the transmission framework supports the achievement of targets and does not act as a limitation. The proponent's proposal that the ISP should not be required to achieve the targets would not meet this assessment criterion.

33 **Principles of market efficiency:** The final determination would promote efficient investment in electricity services. Under the current framework, AEMO can use tools such as sensitivity analysis to select the ODP that yields positive net market benefits across a range of conditions and is robust to uncertainty. The exclusion of some or all jurisdictional targets from the ISP would reduce the ISP's reliability as a plan to support coordinated investment that delivers the greatest net benefits.

- 34 Implementation considerations:** The changes proposed by the proponent are likely to be difficult and costly to implement. For example, additional scenarios that consider plausible changes to government policy would be unbounded and potentially arbitrary, increasing the resources required to undertake the modelling and reducing the ability to test modelling outcomes. This could render the ISP less credible, reliable and effective as a plan. Maintaining the current approach would not result in any additional implementation costs.
- 35 Innovation and flexibility:** The current arrangements are sufficiently flexible to allow AEMO to consider the risks identified and undertake much of the additional analysis proposed by the proponent, in a way that is appropriate under the national electricity framework. For example, we consider the current rules provide appropriate flexibility to consider whole of system costs where necessary. The use of sensitivity analysis provides an appropriate level of flexibility to assess the risks of meeting jurisdictional targets later than intended.
- 36 Principles of good regulatory practice:** Maintaining the current arrangements ensures a degree of predictability and consistency between ISPs, which is important for the long-term planning decisions for major infrastructure projects. The current approach also aligns with the broader reform direction and is consistent with the direction set by jurisdictions. The final determination promotes good regulatory practice by clarifying the roles of different bodies in the energy sector and promoting consistent goals across regulatory frameworks and processes.

Jurisdictions determine which policy targets are included in the targets statement for the purpose of developing the ISP

- 37** Some of the issues raised by the proponent are not the role of AEMO or the AEMC and are appropriately decisions for policymakers.
- 38** We recognise there is a risk of distortion in modelling outcomes in the ISP in cases where jurisdictions include near-term policy targets in the targets statement that are unlikely to be delivered. This would make it difficult for AEMO to model a target for one jurisdiction that could impact planned developments in other jurisdictions, undermining the ISP's credibility and effectiveness as a plan for the efficient development of the power system to contribute to achieving the NEO.
- 39** These risks can be managed by jurisdictions ensuring the emissions and renewable energy targets in the targets statement are coordinated and consider the impact on the NEM and energy consumers more broadly. This is particularly important for near-term targets, which can directly affect transmission planning and investment decisions that flow from the ISP.
- 40** Jurisdictions have complete discretion on which targets they adopt and which targets they include in the targets statement.⁴ They can choose whether existing and new targets should be included in the targets statement, including those that are legislated. The targets that are included in the targets statement should be those that jurisdictions intend the national electricity framework to support, including those that AEMO should include in scenarios for the ISP.
- 41** The ISP is updated every two years. Jurisdictions can review the targets statement at any time. Regular reviews would support AEMO's planning and promote a practical ISP that is in the long-term interests of consumers. This would also support the achievement of emissions reduction targets set by jurisdictions.

⁴ Section 32A of the NEL states: (2) if the MCE or a Minister of a participating jurisdictions gives a written direction to the AEMC to include a target in, or remove a target from, the targets statement the AEMC must comply with the direction. (3) A Minister may give written direction under subsection (2) only in relation to a target set by the Minister's participating jurisdiction.

- 42 AEMO’s ISP information, scenarios and sensitivities can be helpful to jurisdictions to assess these risks and consider any further action or initiatives that might be required to facilitate achieving the emission reduction targets.
- 43 Jurisdictions and AEMO can work together to support the achievement of key jurisdictional targets while ensuring the efficient and effective delivery of ISP projects. This would ensure that the ISP remains credible and effective as a roadmap for the development of the NEM. The Commission recommends:
- Jurisdictions and AEMO leverage an established forum, such as the Energy and Climate Change Ministerial Council (ECCMC), to discuss the targets in the target statement, including the risks to the ISP of targets in the targets statement not being met, especially near-term targets. The ECCMC could provide oversight on how jurisdictional targets are impacting system planning, including their impacts on planned developments in other jurisdictions. We recommend that AEMO share the results of its sensitivity testing with jurisdictions, and/or present them at an ECCMC meeting at a suitable point in the ISP cycle. Ministers should then discuss whether the targets statement should be amended, and the AEMC will promptly make the required changes to the targets statement following direction from Ministers.
 - Jurisdictions proactively engage with AEMO, in accordance with existing clause 5.22.6 (b)(3) in the NER, by requesting AEMO carry out sensitivities to show impacts of individual energy or environmental policies.⁵ These sensitivities could focus on near-term targets where analysis shows they are unlikely to be met. Jurisdictions could review the targets in the targets statement based on the sensitivity analysis outcomes. For example, in December 2025, a report by the Victorian Auditor-General’s Office found that Victoria will not meet its 2032 offshore wind target on time, but this target remains a constraint in ISP scenarios. We consider that the risks of this could be addressed through additional sensitivity analysis.

5 Clause 5.22.6 (b) (3) of the NER states: An Integrated System Plan may include sensitivities showing the impacts of energy or environmental policies of a participating jurisdiction where AEMO has been requested to do so by that participating jurisdiction. These sensitivities are in addition to those sensitivities considered in [clause 5.22.6\(a\)\(3\)](#).

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1 The Commission has made a final determination

The final determination is to make no rule in response to a rule change request received from The Centre for Independent Studies (CIS or the proponent). The rule change request relates to the way jurisdictional emissions reduction and renewable energy targets are incorporated and the cost information that is considered and published in the ISP.

1.1 The final determination is that no rule changes are required on the way jurisdictional targets and their costs are incorporated into the ISP

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

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

Jurisdictional governments are responsible for setting energy and emissions reduction policy, including emissions targets, under the national electricity framework. Energy market bodies, including AEMO and the AEMC, are required under the National Electricity Law (NEL) to have regard to the NEO in undertaking their functions,⁹ and are specifically required to consider, as a minimum, the targets in the target statement when considering the emissions limb of the NEO.¹⁰ This includes AEMO when carrying out its transmission planning functions under the NEL and NER.¹¹

Consistent with this obligation, the purpose of the ISP as set out in the NER is to plan the efficient development of the power system in a way that contributes to achieving the NEO.¹² This means that the overall purpose of the ISP is to contribute to the long-term interests of consumers with respect to achieving targets in the targets statement, as well as price, quality, safety, reliability and security of the supply of electricity.

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

1. **Treatment of jurisdictional targets and policies:** The proponent suggested the ISP does not adequately account for uncertainty as to when jurisdictions' emissions reduction and renewable energy targets will be met or whether they may change in the future. To address

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

7 NEL section 32A.

8 NEL section 7.

9 NEL sections 16, 32, 49.

10 NEL section 32A(5).

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

12 NER clause 5.22.2.

this issue, the proponent proposed AEMO should be required to model a scenario with no jurisdictional emissions reduction targets or other energy or environmental policies, as well as being required to consider plausible future changes by jurisdictions through other scenarios.

2. **Whole of system costs:** The proponent considered that the ISP analysis should include a broader range of costs in determining 'whole of system' costs and identifying the optimal development path.
3. **Publication of information:** The proponent suggested that additional information should be published relating to system costs and the cost implications of individual jurisdictional policies as part of the ISP.

Our final determination is that the current rules enable AEMO to sufficiently assess the risk that jurisdictional policies may not be met on time. AEMO already uses sensitivity analysis to test the ISP's robustness to future uncertainty, including cases where emissions targets are not met on time. This is appropriate given AEMO's role and aligns with the NEL.

We consider that the current rules provide sufficient flexibility to enable AEMO to consider whole of system costs that are relevant to an ISP development path. We also do not consider the NEL to be the appropriate framework, nor AEMO the appropriate body, to assess the cost impact of individual jurisdictional policies, and as such, the implementation costs of AEMO doing so would outweigh the benefits. For these reasons, the Commission's final determination is that the proposed rule will not contribute to the NEO.

1.1.1 Jurisdictions determine which emissions targets are included in the targets statement for the purpose of developing the ISP

For the reasons outlined above, the Commission's final determination is to make no rule. Some of the issues raised by the proponent are not the role of AEMO or the AEMC and are appropriately decisions for policymakers.

We recognise there is a risk of distortion in modelling outcomes and unrealistic build rates in the ISP in cases where near-term jurisdictional targets are included in the targets statement but are unlikely to be met. This could potentially impact planned developments across jurisdictions and undermine the credibility and effectiveness of the ISP as a roadmap for the transition of the NEM.

These risks can be managed by jurisdictions ensuring the emissions and renewable energy targets in the targets statement are coordinated and consider the impact on the NEM and energy consumers more broadly. This is particularly important for near-term targets, which can directly affect transmission planning and investment decisions that flow from the ISP. Jurisdictions can review the targets statement and direct the Commission to amend it at any time.

For more information on our recommendations to jurisdictions, please see chapter 3.

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

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

Stakeholders who made submissions to the draft determination, except the proponent and a private individual, supported the Commission's draft decision not to make a rule. They considered that AEMO should not be required to assess the likelihood, feasibility or credibility of jurisdiction

targets being achieved and that it was inappropriate for AEMO to model a scenarios with no jurisdictional targets. For example, Energy Networks Australia (ENA) stated a no-rule outcome would avoid AEMO having to ‘second-guess’ which targets may not be met, which would inevitably politicise the ISP process and undermine its effectiveness.

Some stakeholders supported examining the current approach to incorporating jurisdictional policies in the ISP in submissions to the consultation paper. Key concerns with the current approach included a lack of transparency in how targets are incorporated, the potential for unrealistic modelling outcomes and the limits it places on the ability to consider the implications of achieving targets later than intended. Most stakeholders opposed AEMO assessing the likelihood or impact of the jurisdictional targets being met in the ISP in submissions to both the consultation paper and the draft determination.

The proponent considered that the AER’s Cost Benefit Guidelines allow AEMO discretion to exercise professional judgement in the selection of the ODP. However, the section of the AER’s guidelines noted by the proponent enables AEMO to consider, for example, sensitivities in determining the ODP, with scenario development occurring earlier in the development process.

Our final determination aligns with most stakeholders’ views and does not require AEMO to assess and make judgements on the achievement of jurisdictional targets. It recognises and supports AEMO’s existing ability, under the rules, to use sensitivities to test the robustness of development paths, including testing the impacts of targets being achieved later than identified. It also provides details to improve the transparency on how targets are incorporated into the ISP and highlights the role of government in considering which targets should be included in the targets statement and driving investment in the energy system.

The final determination also aligns with the views of the majority of stakeholders who did not support the inclusion of additional classes of costs identified by the proponent (e.g. costs and recycling and disposal of renewables, and payment for coal life extensions), or additional prescriptions in the rules regarding costs considered in the ISP. Our final determination notes the flexibility of the existing rules to include whole of system costs, and that the rules allow the AER and AEMO to agree to include additional costs in the ISP where relevant.

Finally, the final determination aligns with the stakeholders who supported greater transparency around the cost of jurisdictional targets in submissions to the consultation paper with the Productivity Commission’s recommendation in its recent report to commission an independent agency to assess policies against a benchmark and improve transparency. This includes the proponent in its submission to the draft determination. We also support the Productivity Commission’s recommendation and consider this to be more appropriate than requiring AEMO to cost individual jurisdictional targets in the ISP.

The Commission considers that discretion relating to targets in the targets statement is appropriately held by jurisdictional governments. After further analysis, we consider that it would not promote the NEO to address the issues raised by the proponent via the rules process. We have examined all the issues raised by stakeholders in submissions to the draft determination that may relate to the rules and have outlined how we have addressed them throughout the determination.

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

1.3 The final determination clarifies accountabilities, and the ongoing *Review of the ISP framework* will further consider the purpose of the ISP

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

Our final determination is that the current rules enable appropriate treatment of the issues raised by the proponent in the rule change request. The final determination aligns with the direction of broader reforms in the electricity market, including a final rule we made in December 2024 to improve consideration of demand-side factors in the ISP.¹³

The 2026 ISP included the first Demand Side Factors statement, and AEMO has published the Demand Side Factors Information Guidelines,¹⁴ which already consider some of the specific inputs raised by the proponent in the rule change request around costs of CER and distribution network upgrades, to the extent they relate to projects on the development path.

1.3.1 The AEMC is undertaking a review of the ISP framework

The Commission is undertaking a review of the ISP framework in parallel to, and continuing beyond, this rule change. Clarifying the purpose and role of the ISP was raised as a key area of focus by stakeholders in submissions to the consultation paper for this rule change request and the *Review of the ISP framework*. We will further consider the purpose and role of the ISP through the Review, and plan to publish a directions paper on 23 July 2026.¹⁵

¹³ AEMC, *Improving consideration of demand-side factors in the ISP*, <https://www.aemc.gov.au/rule-changes/improving-consideration-demand-side-factors-isp>.

¹⁴ [AEMO](https://www.aemo.com.au/consultations/current-and-closed-consultations/2025-demand-side-factors-information-guidelines-consultation), 2025 Demand Side Factors Guidelines, <https://www.aemo.com.au/consultations/current-and-closed-consultations/2025-demand-side-factors-information-guidelines-consultation>

¹⁵ Further details can be found on the *Review of the ISP framework* can be found on the [project page](#).

2 The final determination will contribute to the energy objectives

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

The Commission can only make a rule if it is satisfied that the rule will or is likely to contribute to the achievement of the relevant energy objective.¹⁶ For this rule change, the relevant energy objective is the National Electricity Objective (NEO).

The NEO is:¹⁷

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

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

The [targets statement](#), available on the AEMC website, states the targets set by participating jurisdictions mentioned in section 7(c) of the NEL.¹⁸ In having regard to the NEO with respect to the matters mentioned in section 7(c), the Commission must consider, as a minimum, the targets stated in the targets statement.¹⁹

2.2 We have considered whether to make a more preferable rule

The Commission may make a rule that is different, including materially different, to a proposed rule (a more preferable rule) if it is satisfied that, having regard to the issue or issues raised in the rule change request, the more preferable rule is likely to better contribute to the achievement of the NEO.²⁰

For this rule change, the Commission’s final determination is to make no rule in relation to the rule proposed by the proponent (that is, the Commission is not making the proposed rule or a more preferable final rule). The reasons are set out in section 2.3 below.

2.3 How we have applied the legal framework to our decision

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

- emissions reduction

¹⁶ Section 88(1) of the NEL.

¹⁷ Section 7 of the NEL.

¹⁸ Section 32A(1) of the NEL.

¹⁹ Section 32A(5) of the NEL.

²⁰ Section 91A of the NEL.

- principles of market efficiency
- implementation considerations
- innovation and flexibility
- principles of good regulatory practice

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

We consider outcomes for consumers as part of the rule change process as a whole, as all limbs of the NEO ultimately relate to the long term interests of consumers. We have not included a specific ‘outcomes for consumers’ assessment criterion in this instance as this criterion is generally used to consider aspects such as consumer behaviour, consumer protections and consumer vulnerability.²¹ We agree with the proponent that impacts on consumers more broadly are key considerations for this rule change request (as with all rule change requests), but consider the specific risks cited by the proponent are adequately and more appropriately covered by the ‘principles of market efficiency’ criterion, which includes consideration of risk allocation and concepts of efficiency.

The rest of this section explains why the final rule determination best promotes the long-term interests of consumers when compared to other options and assessed against the criteria.

2.3.1 The final determination will contribute to the achievement of the NEO

The Commission considers that, to the extent the issues the proponent raised are substantive and within the role of AEMO, the current rules already have sufficient flexibility to enable AEMO to consider those issues. We consider that the additional analysis and information proposed by the proponent for inclusion in the ISP is not warranted for these reasons:

- it would be inconsistent with the governance arrangements of the national electricity framework, including the National Electricity Law (NEL) and the Australian Energy Market Agreement (AEMA)²²
- it can already be considered under the current rules
- it would increase costs for limited benefits
- it would not support the achievement of emissions reduction targets that are set by jurisdictions as well as price and reliability aspects of the NEO.

As such, the proposed rule would not promote the NEO. These issues are discussed in further detail in the following sections, structured around the assessment criteria. The analysis against the specific issues raised by the proponent are discussed in chapter 3, chapter 4 and chapter 5.

The proponent argues that the draft determination elevates the emissions component of the NEO above other components, and that its proposed rule would promote the NEO (in particular, in relation to the price of electricity supply) by reducing the costs and risks of early investment or over-investment in transmission infrastructure.²³ We acknowledge that transmission investment that is earlier or later than needed, and over or under-investment, can result in inefficiencies that impose risks and costs on consumers. However, the risks of early or over- investment are offset

21 AEMC, March 2025, How the national energy objectives shape our decisions, <https://www.aemc.gov.au/sites/default/files/2025-03/How%20the%20national%20energy%20objectives%20shape%20our%20decisions%20260325.pdf>

22 Section 32A(5) of the NEL; Australian Energy Market Agreement (as amended December 2013), <https://www.energy.gov.au/energy-and-climate-change-ministerial-council/energy-ministers-publications/australian-energy-market-agreement-amended-december-2013>

23 The Centre for Independent Studies, submission to the draft determination, pp.1-7.

by the risks of delays in the delivery of transmission projects. Late delivery of transmission can delay the connection of new generation, leading to higher wholesale market prices, reduced reliability of electricity supply and/or higher greenhouse gas emissions. Earlier investment timing also mitigates the risk of construction delays, which are common. Earlier and more integration of low-emission generation provides greater benefits. Although sensitivity analysis will not change the configurations of the candidate development paths, it can test their robustness. We consider that sensitivity analysis, as enabled under the current rules, can address potential risks and uncertainties regarding the timing of investment in transmission, generation and distribution, and can test impacts on costs and benefits.²⁴ As such, the Commission is not satisfied that the proposed rule will, or is likely to, contribute to the achievement of the NEO.

2.3.2 The final determination will contribute to the achievement of jurisdictional emissions reduction targets

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

We consider that our final determination will contribute to the achievement of jurisdictions' targets by supporting the investment required to achieve those targets.²⁵ This would be the result of the scenarios and development paths (including the eventual ODP) considered in the ISP being consistent with the achievement of these targets. Under the current rules and our final determination, tools like sensitivity analysis are able to consider risks resulting from uncertainty around when targets will be met.²⁶ Additionally, ensuring the ISP is consistent with the achievement of jurisdictional emissions reduction targets and using sensitivity analysis to test the impact of delays allow jurisdictions to address shortfalls in investment needed to meet targets.

2.3.3 The final determination will promote efficient investment in electricity services

We recognise that allowing additional scenarios in which 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, as emissions reduction is part of the NEO, any development paths considered under such an approach would need to account for the cost of emissions. Such an approach would also result in an ODP that is not consistent with meeting the targets in the targets statement, which could preclude the efficient achievement of emissions reduction. We consider that excluding some or all jurisdictional targets from the ISP would reduce its reliability as a plan to support coordinated investment that delivers the greatest net benefits, and would not align with the NEO.²⁷

Under the current framework, AEMO can use tools like sensitivity analysis to select the ODP that has positive net market benefits under a range of conditions and is robust to uncertainty.²⁸ We consider that the current approach should be maintained, as regulatory and investment uncertainty can be minimised, and this sensitivity analysis can be used to deliver efficient investment and operational outcomes in the interests of consumers.²⁹ We consider this approach

²⁴ See chapter 3 for more information.

²⁵ See section 3.3.2 for more information.

²⁶ See section A6.8, Step 5b: Sensitivity analysis to test resilience of candidate development path in [Appendix A6](#) Cost benefit analysis of the 2026 ISP.

²⁷ See section 3.3.4 for more information.

²⁸ Clause 5.22.5(d)(2) of the NER states that the Cost Benefit Analysis Guidelines must require AEMO to test the robustness of development paths to future uncertainties through the use of scenarios and sensitivities. Clause 5.22.5(b)(1) of the NER requires AEMO to use those Guidelines to prepare an ISP. Under clause 5.22.5(c), the AER is also able to specify the relevant parts of the Guidelines which are binding on AEMO. Clause 5.22.6(a)(3) requires that the ISP describe how each development path performs under any sensitivities AEMO considers reasonable.

²⁹ See section 3.3.1 for more information.

would best meet the NEO, align with the role of AEMO and comply with the requirements in the NEL.

2.3.4 We have considered implementation costs in making the final determination

Maintaining the current approach would not result in any additional implementation costs. AEMO already undertakes sensitivity analysis as part of the ISP development process, and this could be leveraged to further consider potential uncertainty around the achievement of jurisdictional targets (including individual jurisdictional targets), as required.

The proposed rule would result in higher implementation costs with no or very limited benefits. Introducing new ISP scenarios that do not meet some or all jurisdictional targets, or filtering targets for inclusion in the ISP, would increase complexity, ultimately resulting in increased costs for consumers. In particular, there would be challenges in determining which targets from the targets statement should be included in the ISP, likely requiring either judgement from a market body on the feasibility of targets or setting a purely objective, arbitrary metric.³⁰

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

We also consider that the proposal for AEMO to include the costs of individual jurisdictional policies in the ISP would have material implementation costs and complexities, given the additional modelling that AEMO would need to undertake.³² Additionally, any analysis from AEMO would likely be incomplete as AEMO would only have the expertise to consider costs and benefits within the energy sector, thereby ignoring economy-wide costs and benefits that may materially impact the overall value of a policy. Therefore, we consider that the final determination to not make the proposed rule contributes to meeting the NEO.

2.3.5 The final determination supports innovation and flexibility

The Commission considers that this final determination supports innovation and flexibility, which are important for efficient outcomes in the longer term. In particular, the current NER provides AEMO with the flexibility to utilise sensitivity analysis when preparing the ISP and selecting the ODP. We consider this flexibility allows AEMO to address risks and uncertainties associated with achieving jurisdictional targets, within the requirements of its role and the NEL.³³ Introducing prescriptive rules for AEMO to assess specific sensitivities is unnecessary to achieve positive outcomes and may have adverse consequences in future, as it could limit the analysis that AEMO can undertake.

We consider that requiring the ISP to include scenarios with specific assumptions (as proposed by the proponent) could increase the range of ways jurisdictional targets are included in the ISP, but would not increase flexibility in a way that promotes the NEO. Such a change would likely reduce the benefits of the ISP as a long-term planning framework by increasing uncertainty and variability

³⁰ See section 3.3.4 for more information.

³¹ See chapter 4 for more information.

³² See chapter 4 for more information.

³³ See section 3.3 for more information.

between ISPs, and would not promote the achievement of the emissions component and efficient investment aspect of the NEO.³⁴

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

The Commission considers that market bodies, including AEMO and the AEMC, should not assess the feasibility of jurisdictional targets.³⁵ Rather, it is the role of jurisdictions to set energy and emissions reduction policies, and determine what targets should be included in the targets statement. This is in line with the requirements set out in the AEMA³⁶ and sections 7(c) and 32A of the NEL which identify the relevant targets as those “set by a participating jurisdiction”. This final determination promotes good regulatory practice by clarifying the roles of different bodies in the energy sector and promoting consistent goals across regulatory frameworks and processes. Specifically, ensuring the ISP is aligned with jurisdictional targets included in the targets statement promotes consistency with the NEO and the NEL, and reduces the likelihood of inconsistency between the ISP and individual jurisdictional planning processes (such as investment support mechanisms and jurisdictional transmission planning). Inconsistency with jurisdictional processes would likely be inefficient and increase the overall costs of the supply of electricity.

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

34 See section 3.3.4 for more information.

35 See section 3.3.1 and section 3.3.4 for more information.

36 Australian Energy Market Agreement (as amended December 2013), <https://www.energy.gov.au/energy-and-climate-change-ministerial-council/energy-ministers-publications/australian-energy-market-agreement-amended-december-2013>

37 See chapter 5 for more information.

38 See section 5.3 for more information.

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

Section Body

Box 1: FINAL DETERMINATION - The current approach to incorporating jurisdictional emissions reduction targets and policies in the ISP should be maintained

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

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

This approach also best aligns with the NEL and the governance arrangements for the NEM.

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

3.1 The ISP plays an important planning role in the NEM

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

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

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

³⁹ Clause 5.22.2 of the NER.

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

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

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

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

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

Energy market bodies, including AEMO and the AEMC, are required under the NEL to have regard to the NEO in undertaking their functions.⁴⁴ This includes AEMO when carrying out its transmission planning functions.

In 2023, the NEO was amended in line with the changes to the National Energy Laws to include the achievement of targets set by participating jurisdictions that are for (or are likely to contribute to) reducing Australia's greenhouse gas emissions, along with the existing limbs of the NEO of price, quality, safety, reliability, and security.⁴⁵ This amendment considered that emissions reduction is in the long-term interests of consumers. In having regard to the national electricity objective under the NEL, the Regulations or the Rules with respect to the amendment, a person or body must consider, as a minimum, the targets stated in the targets statement.⁴⁶

The NER was updated to align with this NEL obligation, with clause 5.22.3(b)(1) requiring that AEMO "must consider the emissions reduction targets stated in the targets statement." when determining power system needs and how the ISP will contribute to meeting the NEO. This means that AEMO must develop an ISP that contributes to the NEO, with respect to achieving targets in the targets statement, as well as promoting price, quality, safety, reliability and security objectives.

It is the role of jurisdictional governments to set energy and emissions reduction policies, and determine which emissions reduction targets are included in the targets statement. Stakeholder submissions supported this role⁴⁷

The targets statement is prepared and maintained by the AEMC, stating the targets set by jurisdictions. The statement is subject to direction from jurisdictions, the MCE or a Minister of a participating jurisdiction can give written direction to the AEMC to include a target in, or remove a target from, the targets statement.⁴⁸ This updating occurs in practice, with jurisdictions providing direction to the AEMC.

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

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

44 Sections 32 and 49(3) of the *National Electricity Law*. See also clause 5.22.1 of the NER, which places a duty on AEMO to publish an ISP, and clause 5.22.2 of the NER which refers to the NEO.

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

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

47 Submissions to the draft determination: ENA, p.1; Origin, p.1; Nexa Advisory, p.1.

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

3.2 The proponent raised concerns with the current approach to incorporating jurisdictional emissions reduction targets and policies in the ISP

The proponent considered that the current approach to incorporating jurisdictions' emissions reduction targets and policies in the ISP does not adequately account for uncertainty around when emissions targets will be achieved or the possibility that they may be changed in the future.⁴⁹ The proponent considered that this increases risks to consumers, particularly in regard to the risk of over-investment in transmission arising from uncertainty in emissions reduction policies.⁵⁰ The proponent also considered that the current approach gives too much weight to the emissions reduction objective and fails to transparently account for price impacts on consumers.⁵¹

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

The proponent also considered that the draft determination was inconsistent with the requirement that all limbs of the NEO are treated equally.⁵²

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

AEMO's current approach to determining the ODP is consistent with achieving all targets in the targets statement. This means that AEMO designs all ISP scenarios to achieve all targets included in the targets statement.⁵³ These scenarios are then used to derive a range of candidate development paths that are all consistent with achieving the targets in the targets statement. The candidate development paths are also tested against these target-consistent scenarios as part of the cost benefit analysis process to identify the ODP.

AEMO does not assess the feasibility of jurisdictional targets, nor the probability of their achievement, when including them in the ISP. Stakeholders broadly agreed that these arrangements are appropriate and that AEMO should not be required to assess the feasibility of jurisdictional policies for the ISP.⁵⁴

While scenarios are consistent with meeting all targets in the targets statement, AEMO can and does conduct sensitivity analysis to test how various development paths perform if investment in generation, storage and other assets does not occur in line with meeting emissions reduction targets. For example, the 2026 ISP includes a *Constrained Delivery* sensitivity to test the robustness of the ODP if new generation, storage and transmission projects were delayed, which subsequently does not meet the 2030 renewable energy target and the electricity sector's contribution to the national emissions target.⁵⁵ The proponent considers that the *Constrained Delivery* sensitivity, as a chosen example, does not address the proponent's concern about the cost impacts on consumers. The Commission considers the *Constrained Delivery* sensitivity is just one example, and that sensitivities can be strengthened to include other inputs, including those that show impacts on consumer cost.

49 Rule change request, p.1.

50 Ibid.

51 Ibid.

52 The Centre for Independent Studies, submission to the draft determination, p.1.

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

54 Submissions to the consultation paper: AEMO, p.1; Alinta, p.2; Ausgrid, p.2; EnergyAustralia, p.3; EUAA, p.2; Origin, p.2; Shell, pp.1-2 and submissions to the draft determination: ENA, p.1; Origin Energy, p.1; Nexa Advisory, p.1; Climateworks, p1.

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

Under the existing rules, the CBA Guidelines must require AEMO to test the robustness of alternative development paths to future uncertainties through scenarios and sensitivities.⁵⁶ AEMO is also required to describe how development paths perform under any sensitivities AEMO considers reasonable.⁵⁷ The differences between scenarios and sensitivity analysis are relevant to this rule change, as we have considered potential options to amend how jurisdictional emissions reduction targets are incorporated in the ISP. The differences are summarised below in Box 2.⁵⁸

Box 2: Differences between scenarios and sensitivity analysis

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

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

For more information on the differences between scenarios and sensitivity analyses in the ISP, refer to appendix B.2.

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

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

The Commission's final determination is to make no rule regarding how jurisdictional emissions reduction targets and policies are incorporated in the ISP. The existing rules sufficiently enable AEMO to account for uncertainty around jurisdictional targets and policies in the ISP within the existing governance arrangements.

Under the existing rules, AEMO can use sensitivity analysis to test how the ODP performs under a wide range of different assumptions. This includes carrying out sensitivity analyses to test cases where jurisdictional targets may not be achieved in their stated timeframes. The Justice and Equity Centre proposed that AEMO carry out sensitivity analysis on a policy-by-policy basis, rather than modelling a scenario without any jurisdictional policies.⁵⁹ AEMO can carry out sensitivity analysis to test the likelihood of not achieving certain jurisdictional policies and should do this where it would be important in determining the ODP.

A change in approach whereby the ISP considers development paths that are not consistent with achieving all targets in the targets statement or with alternative policies will not contribute to the NEO. This is because such an outcome could prevent (rather than contribute to) the achievement

⁵⁶ NER clause 5.22.5(d)(2).

⁵⁷ NER clause 5.22.6(a)(3).

⁵⁸ Clause 5.22.8 of the NER requires AEMO to develop, consult and publish a report on the inputs, assumptions and scenarios as part of the ISP preliminary consultations. Clause 5.22.10(a)(3) of the NER then requires AEMO to adopt those inputs, assumptions and scenarios in preparing the ISP.

⁵⁹ Justice and Equity Centre, submission to the consultation paper, p.4

of jurisdictions' emissions reduction targets and could increase the risk of other adverse price and reliability outcomes by reducing investment certainty and contributing to delays in the delivery of transmission, generation and storage.

The Commission is not satisfied that making a rule will or is likely to contribute to the achievement of the NEO.⁶⁰ We consider the current approach, where AEMO uses sensitivity analysis, best contributes to the NEO as it:

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

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

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

The current rules allow AEMO to conduct sensitivity analyses

Under the existing rules, AEMO:⁶¹

- must use the CBA Guidelines to prepare the ISP, which must require AEMO to use sensitivities to test the robustness of development paths to future uncertainties
- must describe how each development path performs under any sensitivities AEMO considers reasonable
- may include sensitivities showing the impacts of energy or environmental policies of a jurisdiction when requested

⁶⁰ Section 88 of the NEL.

⁶¹ NER clauses 5.22.5(b)(1), 5.22.5(d)(2), 5.22.6(a)(3) and (b)(3), and 5.22.6A(c)(3).

- must include, in a demand side factors statement, sensitivity analysis that considers variations to demand-side factors.

These rules provide AEMO with the flexibility to design and run a wide range of sensitivities to assess future uncertainties, including sensitivities in which jurisdictional targets are not met on time or are removed from the target statement.⁶² This allows AEMO to test the benefits and robustness of development paths under potential futures where targets are not met on time. AEMO can select an ODP that is robust to futures in which targets are not met on time by considering the results of such a sensitivity analysis.

Stakeholders broadly supported the use of sensitivity analysis in the ISP

Stakeholders widely supported greater use of sensitivity analysis to test the robustness of the ODP against future uncertainty, particularly in relation to when jurisdictional targets will be met, with some stakeholders calling for sensitivities to be strengthened in future ISPs.⁶³ We consider that AEMO has the discretion to undertake additional sensitivities under the current rules.

AEMO can use sensitivity analysis to test the robustness of the ODP against future uncertainty of not achieving targets on time, including near-term targets. We consider that such risks can be assessed by AEMO carrying out sensitivity analysis for the late achievement of specific policies, to ensure the robustness of the ODP. This approach is consistent with stakeholder views, such as the Justice and Equity Centre who supported assessment on a policy-by-policy basis through sensitivity testing.⁶⁴

The proponent expressed the view that sensitivity analyses have little impact on AEMO's decisions around project actionability compared to the impact of scenario parameters. It considers that limiting consideration of what it considers to be the most likely outcome (e.g., 82% renewables by 2030 target being missed) to a sensitivity analysis while continuing to include what it considers to be an unlikely outcome (e.g., the target being met on time) in every scenario is not an appropriate solution.⁶⁵

In its submission to the draft determination, the proponent notes that sensitivities do not influence ODP selection and the ranking of CDPs is still based on scenario-weighted metrics.⁶⁶ We have outlined the differences between sensitivities and scenarios above and in Appendix B, including their impact on ODP selection. We consider a scenario with no jurisdictional policy to be very unlikely, and uncertainties around achieving specific targets on time are best assessed through sensitivity analyses. Further, the proponent's proposal to include a scenario without targets will not contribute to the achievement of the NEO and is inconsistent with the NEL.

We note that sensitivity analysis does not change the design of development paths and that all development paths will include meeting the targets in the targets statement. We consider it would not be appropriate for AEMO to make a judgement on the achievement of jurisdictional policies within the context of the national electricity regulatory framework, the NEL and the AEMA.

The proponent further considered that the AER's Cost Benefit Analysis guidelines provide AEMO with the discretion to exercise professional judgement in its approach to scenario development, modelling, and selection of the ODP.⁶⁷ We consider the section of the Cost Benefit Analysis

62 For example, the *Constrained Delivery* sensitivity in the 2026 ISP explores what may happen to candidate development paths if there are delays in the delivery of generation, storage, and transmission investment, and if the 2030 renewable energy targets are not met on schedule.

63 Submissions to the draft determination: ENA, 1-2; Origin Energy, p.1; Nexa Advisory, p.1; Justice and Equity Center, p.1.

64 Justice and Equity Centre, submission to the consultation paper, p.4.

65 The Centre for Independent Studies, submission to the consultation paper, pp.6-7.

66 The Centre for Independent Studies, submission to the draft determination, p.9.

67 The Centre for Independent Studies, submission to the draft determination, pp.14-15.

guidelines noted by the proponent (Section 3.3.6) relates to the process of identifying the optimal development path, whereas, the process of identifying inputs, assumptions and scenarios takes place earlier in the ISP development cycle. Section 3.2.2. in the AER's Cost Benefit Analysis guidelines sets out that AEMO has flexibility in the development of scenarios, consistent with NER clause 5.22.5(e)(2). It is up to AEMO to determine its level of discretion provided in the AER's CBA guidelines, having regard to requirements in the NEL and NER.

Further prescription in the rules around sensitivity analysis is not required

Our expectation is that AEMO will use sensitivity analysis to test the robustness of development paths to a range of potential future outcomes, including cases where jurisdictional targets are not met on time. By using sensitivity analysis to select an ODP that is sufficiently robust to future uncertainties, investment efficiency of transmission, generation, and storage is supported.

A robust ODP is less likely to be significantly altered between consecutive ISP iterations, which promotes regulatory stability and investment certainty in transmission projects on the ODP. This supports investor confidence in the ISP, assisting in delivering coordinated investment in transmission, generation, and storage and potentially contributing to a lower cost of capital. In turn, this promotes efficient investment in electricity services for the long-term interests of consumers. We consider that appropriate use of sensitivity analysis in the ISP can deliver these benefits and does not require rule amendments.

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

It also supports achievement of the NEO by enabling AEMO to adapt to changing circumstances and use sensitivity analysis to assess the impact of the most consequential factors at that point in time. This supports the process of identifying an ODP that is robust to uncertainty and maximises benefits to consumers.

For more information on the options we considered to address the issues raised in the rule change request, refer to section 3.2.2. in the draft determination.

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

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

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

Maintaining a system plan aligned with jurisdictions' targets enables them to meet those targets over time, including by introducing mechanisms to address any investment gaps. Conversely, a system plan that does not build to meet targets could prevent targets from being achieved in the future, which would not contribute to the achievement of jurisdictional targets, and not meet the NEO in respect to the emissions, price, and reliability limbs of the NEO as discussed below.

AEMO's submission to the consultation paper noted the role of the ISP as the optimal plan to achieve targets.⁶⁸

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).

The proponent contested AEMO's interpretation of the requirement for them to 'consider' the targets in the targets statement.⁶⁹ It cited that the relevant second reading speech reaffirmed that no element of the NEO should be elevated above another.⁷⁰ It is up to AEMO to determine how to interpret the law requirements that apply to it, regardless of the second reading speech.

We consider that emissions reduction targets being treated as a binding constraint across all ISP scenarios, is similar to the way reliability, safety and security are treated, acknowledging these are set through different processes. Maintaining this approach ensures that the standards set for the development of the NEM are not compromised.

Furthermore, the achievement of the emissions objective of the NEO may indirectly contribute to other objectives in the NEO, such as price and reliability. Analysis in the section below shows that late investment in transmission may impact price and reliability.

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

3.3.3 Current arrangements help mitigate the risks of late investment in transmission capacity

The proponent considered that the current treatment of jurisdictional policies in the ISP increases risks to consumers, particularly in regard to the risk of over-investment in transmission arising from uncertainty in emissions reduction policies.⁷¹

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

We have also not identified evidence to suggest there is an existing oversupply of transmission capacity for new generation investments, having considered current and projected network congestion and connection proposals.⁷²

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

- Alinta agreed with the proponent that the current approach increased risks of early and over-investment in transmission⁷³

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

69 The Centre for Independent Studies submission to the draft determination, p.5.

70 South Australia, House of Assembly, Hansard, 31 August 2023, p. 37, <https://hansardsearch.parliament.sa.gov.au/daily/uh/2023-08-31/37>.

71 Rule change request, p.1.

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

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

- EUAA considered there would be increased risks of over-investment given recent cost increases for transmission projects, but not for early investment due to social licence and supply chain barriers⁷⁴
- EnergyAustralia considered that the current approach did not materially increase risks of over-investment due to other factors that are leading to investment delays⁷⁵
- ENA's view was that there is an equal risk of under-investment if jurisdictional targets are changed or not met.⁷⁶

Late or under-investment in transmission can have sharp and material impacts on reliability and wholesale costs. In Endgame Economic's 2024 analysis for Nexa Advisory it found that delays in transmission investment would:⁷⁷

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

Similarly, analysis from the AEMC in 2025 found that delays in transmission and wind generation investment would increase consumer costs, with substantial increases in wholesale prices outweighing reductions in transmission costs.⁷⁸ The same analysis also found that early transmission and wind generation investments can reduce consumer costs by lowering wholesale costs, outweighing any increases in transmission costs.

We also consider that the risks to consumers from over-investment, or early investment identified by the proponent are mitigated by other factors. Major transmission projects have been delivered on average two years later than intended.⁷⁹ This suggests that the likelihood of transmission projects being delivered early is unlikely. Given the likelihood of delays, the current approach mitigates reliability and price risks associated with delays in transmission delivery. The price risks to consumers of surplus transmission capacity being under-utilised are also likely to be mitigated due to the meshed nature of the transmission network, as additional capacity in one area can relieve congestion elsewhere and create consumer benefits through more efficient operation of the network.

We therefore do not agree with the proponent that the current approach is increasing risks to consumers through early or over-investment. We consider that the current approach allows for the risk to consumers of inefficient investment to be appropriately addressed and promotes allocative efficiency. As such, we consider that the current approach supports the NEO and the principles of market efficiency assessment criterion.

3.3.4 We consider that different treatment of jurisdictional targets and policies would not contribute to the NEO or align with governance arrangements

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

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

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

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

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

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

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

The proponent proposed that AEMO be required to model and publish:⁸⁰

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

The proponent expanded on this proposal in its submission to the consultation paper, suggesting:⁸¹

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

The proponent also disputed the idea in the draft determination that a scenario without policy constraints would result in an ODP that does not meet the targets but conceded this was a “plausible outcome”..⁸² We consider that a scenario with no emissions targets is unlikely to meet the emissions reduction limb of the NEO. Such an approach would effectively disregard sections 7(c) and 32A(5) of the NEL. We also consider that excluding jurisdictional policies itself is a policy choice, one that is not appropriate for AEMO to make.

For more information on the other proposals we considered, that were raised by stakeholders in submissions to the consultation paper, please refer to section 3.3.4 in the draft determination (p.18-21).

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

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

We do not consider the alternative approaches suggested to be consistent with the governance arrangements of the national electricity framework. All options would require independent judgement by an entity other than the responsible jurisdiction to include targets in, or exclude targets from, the ISP.⁸³ Jurisdictions are responsible for setting energy and emissions reduction policies and determining which emissions reduction targets are included in the targets statement under the national electricity framework. We do not consider that this judgement should be made by either AEMO or the AEMC.

The Commission considers that it is the MCE’s (now ECMC) role, not the AEMC or AEMO, to coordinate with jurisdictional governments to ensure jurisdictional policies reflected in system planning are accurate and up to date. This may include the MCE directly liaising with the AEMC regarding targets in the targets statement, as provided for in the NEL⁸⁴. This is in accordance with the Australian Energy Market Agreement (AEMA) which states that it “established the Ministerial

80 Rule change request, p.3.

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

82 The Centre for Independent Studies submission to the draft determination, pp.15-16.

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

84 Section 32A of the NEL

Council on Energy (MCE) to provide national oversight and coordination of energy policy development and to provide national leadership so that consideration of broader convergence issues and environmental impacts are effectively integrated into energy sector decision-making”.⁸⁵

We consider the proponent’s suggestion to include a scenario with no jurisdictional policies to be unrealistic and inconsistent with the NEO. This scenario would disregard and potentially undermine jurisdictional policies and targets, including the targets in the targets statement that market bodies must consider as a minimum in having regard to the NEO with respect to the emissions limb.⁸⁶ This would not meet the emissions reduction component of the NEO and would be inefficient. We also consider it to be unlikely that there would be a future where no jurisdiction sets any emissions reduction policies or targets (both in the near-term or long-term), and that inclusion of such a scenario for transparency of costs would not deliver material benefits.⁸⁷

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

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

The final determination will contribute to the achievement of the NEO and would increase uncertainty

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

If the ISP were to produce an ODP that is inconsistent with meeting jurisdictional targets, this would increase regulatory and investment uncertainty for investors. For example, jurisdictions might guide investment outside the ISP that aligns with their targets, resulting in multiple development plans that potentially overlap or conflict with each other. Such outcomes would have impacts by materially increasing the uncertainty of investment cases for transmission and generation projects and reducing the effectiveness of the ISP as a plan to support coordinated investment in the NEM. It could also result in transmission and generation investment being

85 Australian Energy Market Agreement (as amended December 2013), Recital A(a), p.1, https://web.archive.org.au/awa/20180327132815mp_/http://coagenergycouncil.gov.au/sites/prod.energycouncil/files/publications/documents/Australian%20Energy%20Market%20Agreement%20-%20Dec%202013.pdf

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

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

88 Submissions to the consultation paper: AEMO, p.1; Alinta, p.2; Ausgrid, p.2; EnergyAustralia, p.3; EUAA, p.2; Origin, p.2; Shell, pp.1-2 and submissions to the draft determination: ENA, p.1-2; Origin Energy, p.1; Justice and Equity Centre, p.1.

progressed under both the ISP and jurisdictional programs/schemes, resulting in inefficient and/or over-investment in the NEM. Inefficient investment would not meet the NEO.

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

Further, as discussed in section 3.3.3, if the ODP is inconsistent with meeting targets, this may lead to transmission investment that prevents jurisdictions from being able to achieve their targets.

3.3.5 Jurisdictions determine which policy targets are included in the targets statement for the purpose of developing the ISP

The Commission's final determination is that not making a rule will better contribute to the NEO compared with the proposed rule and potential alternatives.

At the same time, it is important to recognise there is a risk of distorted modelling outcomes in the ISP in cases where near-term policy targets are included by jurisdictions in the targets statement but are unlikely to be met. In these cases, ISP modelling will require increasingly rapid build rates as those targets approach. These build rates may be unrealistic and could potentially impact planned developments in other jurisdictions, undermining the ISP's credibility and effectiveness as a roadmap for the plan for the efficient development of the power system over at least a 20-year time horizon, that contributes to achieving the NEO. For example, in December 2025, a report from the Victorian Auditor-General's Office found that Victoria will not deliver the legislated 2 GW offshore wind energy target by 2032⁸⁹. As this target is included in the targets statement, it remains a constraint in ISP scenarios. We consider that the risks of not meeting targets could be addressed through additional sensitivity analysis.

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

Jurisdictions have complete discretion over which targets they adopt, and which they include in the targets statement.⁹⁰ They can choose whether existing and new targets should be included in the targets statement, including those that are legislated. The targets that are included in the targets statement should be those that jurisdictions intend the national electricity framework to support, including those that AEMO should include in scenarios for the ISP.

The ISP is updated every two years. Jurisdictions can review the targets statement at any time. Regular reviews would support AEMO's planning and promote a practical ISP that is in the long-term interests of consumers. This would also support the achievement of emissions reduction targets set by jurisdictions.

⁸⁹ Victorian Auditor-General's Office, 2025, Managing the Transition to Renewable Energy, <https://www.audit.vic.gov.au/report/managing-transition-renewable-energy>

⁹⁰ Section 32A of the NEL provides a specific mechanism for this. See section 32A(2): "If the MCE or a Minister of a participating jurisdiction gives a written direction to the AEMC to include a target in, or remove a target from, the targets statement the AEMC must comply with the direction." and section 32A(3): "A Minister may give a written direction under subsection (2) only in relation to a target set by the Minister's participating jurisdiction."

AEMO's ISP information, scenarios and sensitivities can help jurisdictions assess these risks and consider any further action or initiatives to facilitate achieving the emission reduction targets. This is consistent with AEMO's role as the system planner.

Box 3: Recommendations for Governments

Jurisdictions and AEMO can work together to support the achievement of key jurisdictional targets while ensuring the efficient and effective delivery of ISP projects. This would ensure that the ISP remains credible and effective as a roadmap for the development of the national electricity system. The Commission recommends:

- Jurisdictions and AEMO leverage an established forum, such as the Energy and Climate Change Ministerial Council (ECCMC), to discuss the targets in the target statement, including the risks to the ISP of targets in the targets statement not being met, especially near-term targets. The ECCMC could provide oversight on how jurisdictional targets are impacting system planning, including the impacts on planned developments in other jurisdictions. We recommend that AEMO share the results of its sensitivity testing with jurisdictions, and/or present it at an ECCMC meeting at a suitable point in the ISP cycle. Ministers should then discuss whether the targets statement should be amended, and the AEMC will promptly make the required changes to the targets statement following direction from Ministers.
- Jurisdictions proactively engage with AEMO, in accordance with existing clause 5.22.6 (b)(3) in the NER, by requesting AEMO carry out sensitivities to show impacts of individual energy or environmental policies. These sensitivities could focus on near-term targets where analysis shows they are unlikely to be met. Jurisdictions could review the targets in the targets statement based on the outcomes of the sensitivity analysis. For example, in December 2025, a report by the Victorian Auditor-General's Office found that Victoria will not meet its 2032 offshore wind target on time, but this target remains a constraint in ISP scenarios. We consider that the risks of this could be addressed through additional sensitivity analysis.

Note: Clause 5.22.6 (b) (3) of the NER states: An Integrated System Plan may include sensitivities showing the impacts of energy or environmental policies of a participating jurisdiction where AEMO has been requested to do so by that participating jurisdiction. These sensitivities are in addition to those considered in clause [5.22.6 \(a\)\(3\)](#).

4 The current rules provide sufficient flexibility for AEMO to consider relevant whole of system costs

Box 4: FINAL DETERMINATION - AEMO can consider relevant whole of system costs under the current rules

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

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

The Commission's final determination is to make no rule regarding this issue raised by the proponent. This is the same position as in the draft determination.

The purpose of the ISP, as set out in the NER, is 'to establish a *whole of system plan* for the efficient development of the power system that achieves power system needs for a planning horizon of at least 20 years to contribute to achieving the national electricity objective' (emphasis added).⁹¹

4.1 The proponent proposed requiring the ISP to consider additional whole of system costs

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

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

4.2 The existing rules provide sufficient flexibility

The NER currently requires AEMO to consider specific classes of costs that relate to projects on a development path (see Box 5). These projects are typically large transmission projects, for which

91 NER clause 5.22.2

92 Rule change request, p.2.

93 Rule change request, p.8.

94 Rule change request, pp.1-2.

95 Rule change request, p.2.

the planning framework can coordinate and influence investment decisions, as well as the corresponding large scale generation investment that transmission projects would enable. The ISP also increasingly considers actions that could be taken at the distribution network level to facilitate greater utilisation of CER.⁹⁶ The rationale for focusing on these categories is that these costs change between development paths, and are therefore the relevant costs to consider when comparing development paths and identifying the optimal development path.⁹⁷

Box 5: Costs that AEMO must consider in preparing an Integrated System Plan

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

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

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

The Commission considers that the current rules regarding which costs must be included in the ISP are appropriate and provide sufficient flexibility for relevant whole of system costs to be included in the ISP. The rules focus on costs relevant to determining development paths. They are not a barrier to considering whole of system costs, in line with the purpose of the ISP. Recent rule changes have increased consideration of other system components, such as gas and demand-side factors, as well as transmission.⁹⁸

Our view is that it is not the role or purpose of the ISP to attempt to cost every element of the electricity supply chain end-to-end. Rather, the ISP seeks to identify a development path that meets power system needs and best supports the achievement of the NEO. It is appropriate to only consider costs that relate to projects in a development path when assessing the relative performance of the candidate development paths. Embedding a broader range of costs within the rules that do not materially impact the development paths would increase complexity and cost of the ISP without providing clear benefits.

The proponent suggested that changes to the rules to more explicitly require the ISP to include an assessment of whole of system costs would provide a benefit of increased transparency for energy consumers.⁹⁹ In our view, it is not clear how the inclusion of cost categories that are largely

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

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

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

⁹⁹ Rule change request, p.4.

borne by private individuals (such as CER) would improve transparency or how this additional information would improve the long-term interests of consumers as defined by the NEO, including consideration of electricity price, quality, safety, reliability and security, or emissions reduction outcomes.

The rules also already include a high degree of flexibility for AEMO to consider additional classes of costs (other than those that relate to projects on a development path) if different or new classes of costs arise that are important to ISP outcomes. AEMO can consider ‘any other class of costs’ in the ISP if deemed relevant by AEMO and agreed to by the AER.¹⁰⁰ AEMO is also required to quantify any other class of costs specified in the AER’s CBA Guidelines.¹⁰¹ The Commission considers that these existing provisions provide sufficient scope to consider relevant costs as necessary, including the classes of costs raised by the proponent, if required.

As noted above, the proponent identified four cost categories in the rule change as examples of ‘whole of system costs’.¹⁰² The draft determination provides our rationale for not making a rule to include these classes of costs explicitly in the NER.¹⁰³ A more prescriptive approach on how and which costs should be considered may inadvertently constrain the responsiveness of the ISP methodology over time. In our view there is no strong rationale for prescribing classes of costs in the rules. This aligns with our rule drafting philosophy, which preferences a principles-based approach where possible.¹⁰⁴

Stakeholders broadly supported our position in the draft determination that there are existing mechanisms to consider and include relevant whole of system costs, and a rule change is not warranted.¹⁰⁵ Most stakeholders did not comment on the specific cost categories raised by the proponent in submissions to the draft determination. Nexa Advisory suggested that there would be value in better reflecting the costs of transmission delays, distribution augmentation, and consumer energy resources (CER) and made an additional suggestion that AEMO include ‘near end of life premiums’ in the ISP in its submission to the draft determination.¹⁰⁶ We consider that these costs, to the extent they relate to the development paths, can be considered under the existing rules, if considered relevant by AEMO and agreed to by the AER, and no rule change is required.

4.3 We consider the proposal will not contribute to the NEO

The Commission concludes that there is no strong rationale for making a rule to broaden the categories of costs that must be considered by AEMO when developing the ISP. Our assessment is that the proposal would not lead to material benefits but would increase complexity and cost, and therefore not contribute to achieving the NEO. As noted above, the rules allow the AER to include additional classes of costs in its *Cost Benefit Analysis guidelines*.¹⁰⁷ We consider that these guidelines would be the most appropriate instrument for identifying specific classes of costs to be included, should additional classes of costs be required in the future. As we have not identified any gaps, we do not recommend that the AER review its guidelines at this time, noting that the AER remains free to do so at any time.

¹⁰⁰ NER clause 5.22.10(d)(4)(i).

¹⁰¹ NER clause 5.22.10(d)(4)(ii). The AER may amend the CBA Guidelines in accordance with the Rules consultation procedures to change the requirements on AEMO regarding cost classes in the ISP.

¹⁰² Rule change request, p.2.

¹⁰³ Draft determination, p.22.

¹⁰⁴ AEMC, *Rule drafting philosophy*, 30 April 2026.

¹⁰⁵ Submissions to the draft determination: AEMO, p. 1; ENA, p.2; Nexa Advisory, p. 2; Origin, p. 1.

¹⁰⁶ Nexa Advisory, submission to the draft determination, p.2

¹⁰⁷ The AER has updated these guidelines quite recently. AER, *Cost Benefit Analysis guidelines*, 21 November 2024.

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

5 AEMO should not be required to cost individual jurisdictional policies

Box 6: FINAL DETERMINATION: Our final determination is to make no rule requiring AEMO to include the cost of individual jurisdictional policies in the ISP

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

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

We additionally consider that no changes are required because:

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

On this basis, the Commission's final determination is to make no rule to address this issue raised by the proponent. This is the same position as in the draft determination.

Source: AEMC

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

The proponent proposed in its rule change request that AEMO should be required to model and publish the impacts on whole of system costs of each energy and environmental policy of each participating jurisdiction included in any scenario in the ISP.¹⁰⁸ The proponent suggested that this could be implemented through changes in two areas: (1) in the NER that would require the ISP to include this information, and (2) for the AER's CBA Guidelines to also require this information to be included in the ISP.¹⁰⁹

The ISP does not currently assess the cost impact of individual government targets. Rather, it determines the most net-beneficial development path that is consistent with meeting emissions reduction targets and other relevant energy or environmental policies set by participating jurisdictions.¹¹⁰ The process and rationale for this approach are discussed in further detail in chapter 3.

The proponent is of the view that including the additional proposed analysis in the ISP would improve transparency and enable better decision-making by consumers and policymakers

¹⁰⁸ Rule change request, p.8.

¹⁰⁹ Rule change request, p.8.

¹¹⁰ The process for determining which targets and policies are included in the ISP is set out in clause 5.22.3(b) of the NER, which in turn reflects provisions of the NEL relating to AEMO's requirements to consider the NEO and the targets statement.

regarding jurisdictional targets. Specifically, the proponent considered that the proposal would have the following benefits:¹¹¹

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

5.2 We consider the proposal will not contribute to the NEO

The final determination is to make no rule with regard to this proposal. This is the same as the position in the draft determination. This proposal would not result in material benefits to electricity consumers, but would instead increase costs. We therefore consider that this proposal will not contribute to achieving the NEO. We also consider that the proposal does not align with the purpose of the ISP or AEMO's role.

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

The majority of stakeholders who commented on this issue in response to the draft determination supported greater transparency regarding the costs of jurisdictional environmental and energy policies, but did not consider that the ISP was the appropriate mechanism to undertake this analysis.¹¹² AEMO noted that the proposed analysis would not be compatible with the purpose of the ISP nor AEMO's role.¹¹³ We agree with these stakeholders.

Jurisdictions already have processes to assess the costs (and benefits) of implementing targets and policies both before and after implementation. For example, the Commonwealth Government's Regulatory Impact Assessment framework requires Impact Analysis for major policy proposals considered by Cabinet. Other jurisdictions have similar cost-benefit or impact assessment processes.¹¹⁴

In the rule change request, the proponent acknowledged that the package of proposed changes would increase the costs of preparing the ISP.¹¹⁵ In its submission to the draft determination, it considered that a central analysis undertaken in the ISP would involve far less complex and duplicative analysis than if all jurisdictions undertook their own separate analysis.¹¹⁶

We consider that jurisdictional processes are better able to comprehensively assess both the costs and benefits of targets and policies, and to inform government decisions. Governments implement energy and environmental policies for a range of reasons, which may extend beyond impacts within the NEM. For example, to achieve specific environmental outcomes, economic

¹¹¹ Rule change request, pp.5-6.

¹¹² Submissions to the draft determination: ENA, p.2; Origin, p.1; Climateworks, p.4; Nexa Advisory, p.2; AEMO, p.2.

¹¹³ AEMO, submissions to the draft determination, p.1.

¹¹⁴ For example, the NSW Government's *Guide to better regulation* and Victorian Government's *Guide to better regulation* processes include similar requirements to the Commonwealth's Regulatory Impact Assessment framework.

¹¹⁵ Rule change request, p. 6.

¹¹⁶ Centre for Independent Studies, submission to the draft determination, p.1.

growth or regional development. AEMO noted in its submission to the draft determination that it only considers costs and benefits within the electricity sector when developing the ISP (consistently with the NEO). In AEMO's view, the proposed analysis would be an asymmetric assessment of benefits and costs, given that non-electricity related costs and benefits would be excluded.¹¹⁷ These limitations would significantly reduce the usefulness of the proposed analysis to electricity consumers and to policymakers.

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

The proponent broadly agreed that government policies reflect a range of considerations that sit outside the benefits assessed in the ISP process in its submission to the draft determination. The submission also noted that it would be inappropriate for the ISP to attempt to incorporate all classes of benefits or costs in the ISP. The proponent stated that the ISP should provide a counterfactual yardstick to explore the costs and benefits that fall within the domain of the NEO.¹¹⁸ We consider that the costs of AEMO providing such a counterfactual yardstick outweigh the benefits and therefore will not contribute to the NEO.

We consider that maintaining current arrangements meets our assessment criteria and contributes to the NEO better than the proponent's proposed changes. In particular, maintaining the current arrangements better meets our implementation considerations criteria. The proponent's proposal would likely decrease certainty and confidence in the ISP due to the incomplete nature of the proposed information. Even if AEMO were to isolate the costs and benefits of policies to those related to the NEO, the proposal would increase implementation costs and complexity. In our view, these considerations outweigh any transparency benefits, considered under our principles of market efficiency criteria, given the incomplete and duplicative nature of the proposed analysis.

For these reasons, the Commission considers that the proposal would not promote the NEO (with specific reference to efficient investment in electricity services for the long term interests of consumers of electricity), and has therefore determined to make no rule on this point.

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

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

The Productivity Commission's recommendation aimed at improving transparency and consistency in the assessment of emissions reduction policies in its *Investing in cheaper, cleaner energy and the net zero transformation* Inquiry Report (2025) was supported in a number of submissions to the draft determination.¹¹⁹ The Productivity Commission recommended that the

¹¹⁷ AEMO submission to the draft determination, p.5.

¹¹⁸ Centre for Independent Studies submission to the draft determination, p.16.

¹¹⁹ Submissions to the draft determination: Private individual, p.5; ENA, p.2; Submissions to the consultation paper: AEMO, p.5; EnergyAustralia, p.4; 2026 ISP Consumer Panel, p.7

Commonwealth, state and territory governments should consistently include estimates of the cost-effectiveness of their emissions reduction policies in the impact analyses that they undertake. It recommended that estimates should routinely be assessed against agreed national target-consistent carbon values.¹²⁰

The proponent acknowledged the Productivity Commission's recommendation, but argued that the AEMC cannot simultaneously support the use of sensitivity analysis.¹²¹ chapter 3 explores the role of sensitivity analysis in addressing the risks raised by the proponent. We consider these positions to be not contrary in nature. We support AEMO's use of sensitivity analysis in the ISP to test the robustness of the development paths. This can help mitigate concerns around scenarios' robustness. The Productivity Commission recommends tasking an appropriate body with benchmarking jurisdictional policies, which we support. We do not consider AEMO to be an appropriate body to undertake this analysis, as this does not align with the purpose of the ISP or AEMO's role in the electricity market.

¹²⁰ Productivity Commission, *Investing in cheaper, cleaner energy and net zero transformation*, Inquiry report no. 113, December 2025, p.35.

¹²¹ Centre for Independent Studies submission to the draft determination, p.13.

A Rule making process

A standard rule change request includes the following stages:

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

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

You can find more information on the rule change process on our website.¹²²

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

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

- **Treatment of jurisdictional emissions targets and policies:** The proponent suggests the ISP does not adequately account for uncertainty as to when emissions reduction and renewable energy targets will be met or whether they may change in the future.¹²³ Under AEMO's current approach, all ISP scenarios meet all included policies at the intended date set by governments, and AEMO does not assess the probability that any individual policy will or will not be achieved by the intended date.¹²⁴ The proponent suggests that this creates a risk of over-investment in transmission infrastructure.¹²⁵
 - To address this issue, the proponent proposes that AEMO should be required to model a 'baseline' scenario with no jurisdictional policy constraints, as well as being required to consider plausible future policy changes by jurisdictions.¹²⁶
- **Whole of system costs:** The proponent suggests the ISP analysis should include a broader range of costs in determining 'whole of system' costs and identifying the optimal development path. The proponent suggests that the current approach does not adequately consider all costs that consumers pay.¹²⁷
 - To address this issue, the proponent proposes that AEMO should be required to include an assessment of 'whole of system' costs, such as those relating to consumer energy

¹²² See our website for more information on the rule change process: <https://www.aemc.gov.au/our-work/changing-energy-rules>

¹²³ Rule change request, p.1.

¹²⁴ AEMO, *2025 Inputs, Assumptions and Scenarios Report*, July 2025, p.29.

¹²⁵ Rule change request, p.1.

¹²⁶ Rule change request, p.3.

¹²⁷ Rule change request, p.1.

resources (CER), distribution network upgrades, recycling and disposal of renewables and payments to coal generators for life extensions.¹²⁸

- **Publication of information:** The proponent suggests that additional information should be published as part of the ISP relating to the jurisdictional policies. The proponent considers that the current approach does not provide sufficient information for consumers or policymakers to assess the cost implications of each jurisdictional policy.¹²⁹
 - To address this issue, the proponent proposes AEMO be required to publish the cost impact of each individual jurisdictional policy as part of the ISP.¹³⁰

The proponent also suggests transitional arrangements requiring an addendum to the 2024 ISP to be published outlining the cost information proposed above and for the rules to apply for the 2026 ISP.¹³¹

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

A.2 The process to date

On 9 October 2025, the Commission published a notice advising of the initiation of the rule-making process and consultation in respect of the rule change request.¹³² A consultation paper identifying specific issues for consultation was also published. Submissions to the consultation paper closed on 6 November 2025. The Commission received 18 submissions as part of the first round of consultation.

On 11 December 2025, the Commission published a notice advising that the time for making the draft determination has been extended to 16 April 2026.¹³³

On 16 April 2026, the Commission published a notice advising the making of a draft determination.¹³⁴ Submissions to the draft determination closed on 28 May 2026. The Commission received 8 submissions as part of the second round of consultation. The Commission did not receive requests for a pre-final determination hearing.

The Commission considered all issues raised by stakeholders in submissions. Issues raised in submissions are discussed and responded to throughout this final rule determination.

128 Rule change request, pp.2-3.

129 Rule change request, p.2.

130 Rule change request, p.3.

131 Rule change request, p.4.

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

133 This notice was published under section 107 of the NEL.

134 This notice was published under section 99 of the NEL.

B Background on the ISP methodology

This appendix provides relevant background information on the methodology that AEMO uses to develop the ISP, in accordance with relevant rules and guidelines.¹³⁵ It outlines:

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

B.1 Methodology used in determining the ODP

There are many steps in determining the ODP. This section outlines those most relevant to consideration of the rule change proposal. Key, relevant steps in the ISP Methodology for determining the ODP. These steps are:

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

For a more detailed and comprehensive description, refer to AEMO's ISP Methodology and the AER's Cost-Benefit Analysis Guidelines.¹³⁶

B.1.1 AEMO identifies candidate development paths for consideration

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

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

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

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

¹³⁵ AEMO is required to develop the ISP methodology under NER clause 5.22.8(d). It must be consistent with the AER's Cost Benefit Analysis Guidelines, which in turn must be consistent with the requirements in NER clause 5.22.5.

¹³⁶ AEMO's ISP Methodology (June 2025) can be found [here](#). The AER's Cost Benefit Analysis Guidelines can be found [here](#).

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

CDPs are assessed and ranked across scenarios by assessing the net present value (NPV) of net market benefits for each CDP under each scenario. Using these results, the scenario-weighted average net market benefits and least-worst scenario-weighted regrets are calculated for each CDP.¹³⁷ Net market benefits are calculated relative to a counterfactual development path which considers the development of the system without any actionable or future ISP projects, while least-worst regrets are calculated relative to the CDP with the largest net market benefits. CDPs are ranked separately for each metric. The use of these two metrics enables AEMO to consider which CDPs would likely deliver the most benefits and which CDPs are less sensitive to changes in scenario assumptions. However, it is worth noting that this approach is based on scenario-weightings and expected outcomes of scenarios.

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

Finally, AEMO applies its professional judgement to select the ODP that it considers best balances risks and benefits for consumers. As outlined in the AER's Cost-Benefit Analysis Guidelines:¹³⁸

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

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

¹³⁷ For the 2026 ISP, AEMO determined scenario weightings as the relative likelihood of each scenario, determined by a panel of expert and diverse stakeholders. For more information, see [here](#).

¹³⁸ AER, Cost-Benefit Analysis Guidelines (November 2024), p.36.

B.2 Comparison between scenarios and sensitivity analysis

This section provides a side-by-side comparison of scenarios and sensitivity analysis in the context of the ISP. It draws from AEMO’s ISP Methodology, the AER’s Cost-Benefit Analysis Guidelines, and previous ISPs.^{139 140}

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

	Scenario	Sensitivity analysis
General definition	A scenario is an internally-consistent projection of one potential, cohesive future for the energy system, with inputs and assumptions aligning with that future. Scenarios are critical to cost-benefit analysis, for the selection of the ODP as well as RIT-T assessments.	A sensitivity is a change to one assumption, or a set of related assumptions, in one or more scenarios, aiming to assess the robustness of CDPs in that scenario or those scenarios. Sensitivity analysis can influence the selection of the ODP, but are not required to be used in RIT-T assessments (even if they are influential in the ODP selection).
How does it affect the designs of development paths considered?	Each scenario produces a least-cost development path, from which a set of more diverse ‘candidate development paths’ (CDPs) is derived. Therefore, changes to scenarios would change the designs of CDPs (such as actionable projects and project timings).	Sensitivity analyses do not change the project timing and configuration of CDPs.
How does it affect the selection of the ODP?	In determining the ODP, AEMO assesses scenario-weighted net market benefits and least-worst regret costs for CDPs. These scenario-weighted metrics are used in both initial assessments and rankings, as well as in sensitivity analyses. Therefore, changes to a scenario can directly affect the metrics used to assess and rank CDPs, in turn potentially affecting the selection of the ODP.	Sensitivity analyses test the robustness of CDP rankings, which could affect the selection of the ODP when AEMO applies its professional judgement. For example, sensitivity analysis could inform the selection of an ODP that does not have the highest net benefits but is optimal under a risk assessment approach. This is consistent with NER clauses 5.22.5(e)(3) and 5.22.6(a)(4).

¹³⁹ AEMO’s ISP Methodology (June 2025) can be found [here](#). The AER’s Cost Benefit Analysis Guidelines can be found [here](#).

¹⁴⁰ AEMO’s 2026 ISP can be found [here](#) with the *Constrained Delivery* sensitivity discussed in section 11.1, with the associated 2025 IASR found [here](#) which describes scenarios.

	Scenario	Sensitivity analysis
	Additionally, the influence of scenarios on the set of CDPs considered also affects which ODP is selected.	In general, AEMO has a degree of discretion in deciding which sensitivities to assess and how they may influence the ODP selection. Note that ranking of CDPs in sensitivity analyses is still based on scenario-weighted metrics.
How are emissions reduction targets and policies considered?	Emissions targets and other relevant policies are a pre-determined input assumption for scenarios. Currently, as discussed in section 3.1 of the 2025 IASR, AEMO includes all policies and targets included in the targets statement as inputs for all scenarios. See section 3.1 of the 2025 IASR for more discussion.	AEMO has discretion in deciding which sensitivity analyses to run, and hence may run sensitivities with different emissions targets or policy assumptions, if relevant and consistent with other changed assumptions for that sensitivity. For example, see the <i>Constrained Delivery</i> sensitivity in the 2026 ISP (section A6.8.1) or the <i>Constrained Supply Chains</i> sensitivity in the 2024 ISP. See also section 6.8 of the ISP Methodology.
Examples	The 2025 IASR has three scenarios: • Step Change - reflects actions that limits global temperature rise to below 2°C compared to pre-industrial levels and growth in the Australian economy in line with historical trends and an emerging trend for growth in data centres • Slower Growth - reflects less action to limit global temperature rise compared to Step Change, in a future with slower economic growth amid weaker domestic and international economic conditions • Accelerated Transition - reflects ambitious and rapid actions to limit temperature rise to 1.5°C above pre-industrial levels, supported by a positive, fast-growing	The 2026 ISP includes the <i>Constrained Delivery</i> sensitivity analysis, which considered limitations in rates of generation and transmission investment compared to the <i>Step Change</i> scenario assumptions. Specifically, this sensitivity analysis made the following adjustments in inputs: • up to three-year increase to all transmission augmentation lead times, including project timings in each CDP but excluding committed and anticipated projects • NEM-wide annual build limits on generation and storage development until 2034-35, and increased costs. This sensitivity analysis could be considered to be a proxy for assessing the robustness of CDP net market benefits, if

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

C Legal requirements to make a rule determination

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

C.1 Final rule determination and no final rule

In accordance with section 102 of the NEL, the Commission has made this final rule determination to not make a final rule in relation to the rule proposed by the proponent.

The Commission's reasons for making this final rule determination are set out in chapters 2-5.

C.2 Commission's considerations

In assessing the rule change request the Commission considered:

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

There is no relevant Ministerial Council on Energy (MCE) statement of policy principles for this rule change request.¹⁴¹

C.3 Civil penalty provisions and conduct provisions

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

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

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

¹⁴¹ Under s. 33 of the NEL and s. 73 of the NGL the AEMC must have regard to any relevant MCE statement of policy principles in making a rule. The MCE is referenced in the AEMC's governing legislation and is a legally enduring body comprising the Federal, State and Territory Ministers responsible for energy.

Abbreviations and defined terms

AEMA	Australian Energy Market Agreement
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
CBA	Cost Benefit Analysis
CDP	Candidate Development Path
CER	Consumer Energy Resources
Commission	See AEMC
ESEM	Electricity Services Entry Mechanism
ESOO	Electricity Statement of Opportunities
GSOO	Gas Statement of Opportunities
ISP	Integrated System Plan
NEM	National Electricity Market
NEL	National Electricity Law
NEO	National Electricity Objective
NER	National Electricity Rules
NPV	Net Present Value
NT Act	<i>National Electricity (Northern Territory) (National Uniform Legislation) Act 2015</i>
ODP	Optimal Development Path
Proponent	The individual / organisation who submitted the rule change request to the Commission
RIT-T	Regulatory Investment Test for Transmission
TNSP	Transmission Network Service Provider