AEMC

Australian Energy Market Commission

INFORMATION

Treatment of jurisdictional policies and system costs in the Integrated System Plan

The Australian Energy Market Commission (AEMC) has published a final determination to make no rule in relation to a rule change request submitted by the Centre for Independent Studies on 31 October 2024, which proposed changes to the way the Australian Energy Market Operator (AEMO) develops the Integrated System Plan (ISP) and the information the ISP provides.

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

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

In 2023, the National Electricity Objective (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. The NEO also includes consideration of electricity price, quality, safety, reliability and security.

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

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

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 NEL and the Australian Energy Market Agreement
- 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.

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.

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

Within the context of the national electricity regulatory framework, we consider that the

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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 and ensure that the optimal development path is robust to future uncertainties. This approach best supports achieving the NEO and best aligns with the NEM governance arrangements among the options considered. Changing from the current approach would require AEMO to exercise judgement on the likelihood and feasibility of achieving future emissions targets. We consider it inappropriate for AEMO to make a judgement on which targets are acceptable not to meet. Should a jurisdiction not want a target supported by the framework, they can direct the Commission to remove it from the targets statement.

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

We consider that amendments to the NER are not required 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).

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

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

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

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

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

The Commission recommends that jurisdictions and AEMO 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.

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