3 September 2026

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

Re: Policy Institute Australia submission to the Review of the Integrated System Plan framework

Dear Ms Collyer,

Policy Institute Australia welcomes the opportunity to make an additional submission to the AEMC's Review of the Integrated System Plan (ISP) framework.

Policy Institute Australia has been formed to examine ways to unlock the nation's economic potential and position itself for enduring prosperity in the 21st century. We recognise that Australians value our caring society and that capitalism, free enterprise and a well-functioning market economy are the foundations needed to support the aspirations of our community.

Policy Institute Australia is non-partisan, evidence-led and independent, established with generous support from the John and Myriam Wylie Foundation. We are governed by a national board chaired by John Wylie AC, with directors from across Australia: Glyn Davis AC, Peter Harris AO, Paul Kelly, Jenn Morris OAM, and Kate Torney OAM.

Our previous submission provided our report *It's not too late: Getting infrastructure right for the energy boom*, published in March 2026. In this submission, we primarily respond to questions 2.2 and 3.2 in the discussion paper:

> ***2.2:*** *Where do national and jurisdictional planning and delivery frameworks complement one another, and where do they create coordination challenges for planning and investment decisions?*
>
> ***3.2:*** *Are there other parts of the ISP framework that should be considered alongside the plan and the actionability mechanism in shaping its future purpose?*

The submission responds to both questions together.

We are very happy to discuss our recommendations or anything else in this submission further. You can contact me directly at amy.auster@policyinstitute.org.au.

Kind regards,

Amy Auster

CEO, Policy Institute Australia

1 Response to discussion paper

Policy Institute Australia agrees that the ISP provides a valuable function as a central source of modelling inputs and assumptions that provide an outlook about the future of the National Electricity Market (NEM). As the Discussion Paper outlines, transparency, consistency, accountability and resilience to change are important characteristics for the ISP. The ISP's value as well as its credibility as a tool that either directly or indirectly influences the development of the power system relies on these characteristics.

The Discussion Paper sets out four potential 'Strawpeople' for the future role of the ISP. In principle, the inclusion of small scale resources and demand side factors as described in Strawperson 3 merits consideration, particularly when paired with the objective of developing a least-cost plan for the electricity system. Absent other reforms beyond the scope of this review, a proposed expansion of the ISP's purpose for faster or wider triggers for project specific assessments as described in Strawpeople 2 and 4 is not supported given the cited challenges of social license and constraints to project delivery, alongside the inability of the ISP or AEMO to influence these outcomes. We addressed these issues substantively in our previous submission.

Our response to the discussion paper focuses on one of the key factors that we believe impacts upon the transparency, consistency, accountability and resilience to change of the ISP as an investment planning tool. As such, it is relevant to all four Strawpeople approaches outlined in the Discussion Paper. Our response primarily addresses questions 2.2 and 3.2 by proposing a reform that would produce more credible and durable inputs to the modelling itself, specifically with regard to the government policy targets that are assumed constraints in the ISP.

Current state

The ISP must consider government targets outlined in the AEMC's targets statement

The Australian Energy Market Commission must publish a targets statement – the *Targets statement for greenhouse gas emissions* – under section 32A of the National Electricity Law.[1] This statement outlines targets set by the Commonwealth, state and territory governments.[2] This includes:

- *Targets that reduce Australia's greenhouse gas emissions.* As of August 2026, these include the net zero 2050 targets of all jurisdictions, and interim targets for 2030 and 2035–2045 (such as the Commonwealth's 62–70% below 2005 levels by 2035).
- *Targets that are likely to contribute to reducing Australia's greenhouse gas emissions.* This includes targets that are not expressed in terms of emissions reductions, but are *likely to* reduce emissions. For example, these include targets for 2 GW of offshore wind electricity generation in Victoria by 2032, Commonwealth targets for 82% national renewable electricity generation by 2030, and NSW targets to construct long duration storage infrastructure of 16 GWh and capacity of 2 GW by 2030.[3]

1. Government of South Australia (1996).
2. Australian Energy Market Commission (2026b).
3. Australian Energy Market Commission (2026a).

AEMO, through the Integrated System Plan (ISP), develops the "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".[4] The key output of the ISP is the optimal development path, which is the "optimised mix of grid-scale generation, storage and network investments to replace coal as it retires and to meet consumer needs and *government targets*, at least cost, between now and 2050."

This is important because it means that what is in the targets statement has a direct influence on the future path of the grid. As AEMO CEO Daniel Westerman pointed out in 2024:[5]

> *"[The ISP] is not a prediction of what will be in 2050. It's a roadmap of what the National Electricity Market requires to meet the energy needs of Australian consumers — and to hit emissions targets."*

Energy Ministers have significant discretion over what is included in the targets statement

Commonwealth, state and territory Energy Ministers have *significant discretion* to decide what jurisdictional targets are included in the targets statement. Under section 32A(2) of the National Electricity Law, if a Minister (either a Commonwealth, state or territory Energy Minister) gives a written direction to include or remove a target, the AEMC must comply.

The Queensland Government's change in energy policy in 2025 provides an example of how this works in practice. The Queensland Minister for Energy provided a direction to the AEMC on 8 June 2025 to remove the renewable energy targets from the targets statement.[6] These targets were for the percentage of electricity generation in Queensland to be 50% from renewable sources by 2030, 70% by 2032, and 80% by 2035.[7] On 19 June 2025, the AEMC targets statement was updated to reflect the new jurisdictional policies.[8] This had a direct impact on the 2026 ISP. In the 2026 ISP, the $651 million North Queensland Energy Hub Expansion was *removed* from the optimal development path by AEMO following "changes to jurisdictional targets to renewable energy".[9]

Key issues

Issue 1 – The ISP's credibility as a planning document can be hampered by the inclusion of targets that are widely viewed as low probability outcomes

The ISP, as noted above, must take into account directions from Energy Ministers, regardless of the probability of a target being achieved to the scale or timeframe at which it was originally announced. Victoria's offshore wind policy provides an example. A report from the Victorian Auditor-General's Office in December 2025 found that "Victoria will not meet its 2032 offshore wind target" and that "Under an optimistic scenario Victoria could build 2 GW of offshore wind

4. Australian Energy Market Operator (2026).
5. Westerman (2024).
6. Janetzki (2025).
7. Australian Energy Market Commission (2025b).
8. Australian Energy Market Commission (2025b).
9. Australian Energy Market Operator (2026).

capacity by the end of 2033" but that there is a "risk of further delays."[10] Despite this, the modelling for the optimal development path in the 2026 ISP incorporated Victoria's target of 2 GW of offshore wind in 2032 as a modelling input.[11] This is because the policy was included in the targets statement by the AEMC, despite strong evidence that the target was unlikely to be met.

The AEMC, in its final determination for the *Clarifying the treatment of jurisdictional policies and system costs in the ISP* rule change, noted that this can have an effect on the modelling outcomes of the ISP:

> *"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."*

Issue 2 – Individual Energy Minister directions can create consequences for other jurisdictions given the interconnectedness of the NEM

The current system allows Energy Ministers to provide directions to the AEMC on targets, without any need for agreement or consistency between the jurisdictions. There is nothing wrong with state and territory governments setting their own targets and policies; they are elected officials who are accountable to their own constituents. The issue arises where a policy in one jurisdiction may influence what happens in *other* jurisdictions through the impact of state-based targets on the needs of the NEM.

As the AEMC has previously noted, unrealistic policy targets may "*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 horizon.*"[12]

There can be perverse incentives for states and territories. Consider the hypothetical example in Box 1 — where a ministerial direction from one state could lead to a significant change in the development path of the electricity network and affect another state that was not consulted.

Box 1: Hypothetical: a 300 per cent renewable energy target

Suppose State A has achieved 100% renewable energy generation, and consumes 20 TWh of electricity annually. It expects demand to increase slightly over the next 10 years. State A decides it wants to implement a local policy to incentivise economic activity and boost jobs. It legislates a target to generate 60 TWh of renewable electricity in ten years' time, as a way to kick-start the economy. Following this, State A's Energy Minister then directs the AEMC to include the target in the targets statement.

Under the current modelling approach in the ISP, policies in the targets statement are achieved under every ISP scenario.[a] Meeting this target would produce around 40 TWh more electricity than State A consumes. Suppose then that AEMO finds that the least-cost

10. Victorian Auditor-General's Office (2025).
11. Reference 2026 ISP
12. Add reference

way to accommodate this is to bring forward an interconnector with State B. AEMO then declares this project actionable.

The ISP process itself does not authorise the project, as it must pass the Regulatory Investment Test for Transmission (RIT-T) and a final "feedback loop" assessment.[b] Still, the process led to State B assessing the merits of a project that it did not have a say in when it entered the targets statement. This would have implications for State B, and their residents, including requiring the State B's planning body to consult with local landholders and other steps while the project is being scoped up.

a. Australian Energy Market Commission (2025a).
b. Australian Energy Market Operator (2025).

Energy Networks Australia, the industry body for electricity transmission and distribution networks, noted a similar finding in its submission to the *Clarifying the treatment of jurisdictional policies and system costs in the ISP*. It said:

> *"State policies may be contrary to the long-term interests of NEM energy consumers as a whole if they promote specific state economic outcomes but lead to higher long term electricity costs. These policies may be justifiable based on benefits external to the NEM, but ENA considers that it is valuable for consumers to understand how such policies affect electricity costs."*[13]

The AEMC has previously recommended more collaboration between jurisdictions when it comes to emissions targets. In the AEMC's final determination for the *Clarifying the treatment of jurisdictional policies and system costs in the ISP rule change*, the AEMC recommended that "jurisdictions and AEMO. . . work together to support the achievement of key jurisdictional targets".

The AEMC's view was that this could be done by leveraging an existing forum such as the Energy and Climate Change Ministerial Council to "discuss the targets in the targets statement, including the risks to the ISP of targets in the targets statement not being met, especially near-term targets".

13. Energy Networks Australia (2025).

Recommendation

Recommendation: The states and territories should be required to reach agreement on *which* policies enter the AEMC's *targets statement*. This would require a change to section 32A of the National Electricity Law to remove the unilateral discretion that individual Energy Ministers have over deciding what policies are included as an input to the ISP, as well as a change to the National Electricity Objective.

Policy Institute Australia proposes that Energy Ministers *must* reach agreement on *which* jurisdictional policies are included in the targets statement. This would be a first step in solving the issue of unrealistic targets being considered within the ISP, as it would require agreement by the states and territories on what is included. It may also improve collaboration by forcing jurisdictions to negotiate and compromise on policies that impact planning for new investment across the whole NEM. This recommendation is consistent with the broad *direction* put forward previously by the AEMC (noted above) about greater collaboration between the states and territories on emissions targets.

States and territories would still be free to pursue their own targets and policies within their own jurisdiction. For example, Victoria would still be free to pursue an offshore wind target of 2 GW by 2032, even if other jurisdictions did not agree that it should be part of the targets statement. The major change would be that the ISP would be less likely to *model* targets with a lower probability of being achieved, or policies that lack broad agreement among the states and territories, until such time as the likelihood of a target being reached within a given time frame is more certain.

Implementation considerations

Policy Institute Australia proposes that the *mechanism* through which Commonwealth, state and territory emissions reductions targets are captured in the AEMC's targets statement be changed.

This would include a change to the National Electricity Law, by amending section 32A, to ensure that *only* the Energy and Climate Change Ministerial Council, rather than *individual* Ministers, can provide written direction to the AEMC on *which* policies are included as a targets statement, and consequently modelled by AEMO in the ISP. This would also require a change to the National Electricity Objective to amend language to "the achievement of targets set by consensus of participating jurisdictions".

We note that in the discussion paper, the AEMC has flagged that "We are not revisiting the treatment of jurisdictional policies and system costs through this Review, as these issues were considered through this recently completed project." Policy Institute Australia suggests that our recommendation is not about *how jurisdictional policies are treated in the ISP* (though we have advocated for this to change in our previous submission). Instead, this policy is about *how* and *which* jurisdictional emissions reductions targets are included in the targets statement. If this change were implemented, it would not involve any change in modelling methodology for AEMO or the ISP.

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