

# ISP Review

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## About the Public Interest Advocacy Centre

The Public Interest Advocacy Centre (PIAC) is leading social justice law and policy centre. Established in 1982, we are an independent, non-profit organisation that works with people and communities who are marginalised and facing disadvantage.

PIAC builds a fairer, stronger society by helping to change laws, policies and practices that cause injustice and inequality. Our work combines:

- legal advice and representation, specialising in test cases and strategic casework;
- research, analysis and policy development; and
- advocacy for systems change and public interest outcomes.

## Energy and Water Consumers' Advocacy Program

The Energy and Water Consumers' Advocacy Program works for better regulatory and policy outcomes so people's needs are met by clean, resilient and efficient energy and water systems. We ensure consumer protections and assistance limit disadvantage, and people can make meaningful choices in effective markets without experiencing detriment if they cannot participate. PIAC receives input from a community-based reference group whose members include:

- Affiliated Residential Park Residents Association NSW;
- Anglicare;
- Combined Pensioners and Superannuants Association of NSW;
- Energy and Water Ombudsman NSW;
- Ethnic Communities Council NSW;
- Financial Counsellors Association of NSW;
- NSW Council of Social Service;
- Physical Disability Council of NSW;
- St Vincent de Paul Society of NSW;
- Salvation Army;
- Tenants Union NSW; and
- The Sydney Alliance.

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The Public Interest Advocacy Centre office is located on the land of the Gadigal of the Eora Nation.

# Contents

- 1. Introduction ..... 1
- 2. Integration of electricity and gas planning ..... 1
- 3. Considerations of generation and storage ..... 2
- 4. Energy demand and demand-side participation ..... 3
- 5. Distributional network considerations ..... 3
- 6. Other issues ..... 4
  - The role of the ISP in supporting emissions reductions ..... 4
  - The planning system currently places too much weight on the AEMO CPA process ..... 5



## 1. Introduction

PIAC welcomes the opportunity to respond to the Department of Climate Change, Energy, the Environment and Water's (DCCEE) stakeholder consultation paper on the Integrated System Plan Review (the review).

PIAC supports reforming the Integrated System Plan (ISP). ISP reform and this review should focus on changes which enable the ISP to function more effectively as a genuine whole-of-system plan for the most cost-effective mix of transmission, distribution, generation, storage, and demand-side options to decarbonise the energy system.

PIAC does not support integrating gas planning within the ISP. A long-term plan for the future of gas is needed, but the ISP is not the appropriate place for it. Changes to the ISP and related processes to better integrate gas considerations and inputs should be limited to:

- Changes to the Gas Statement of Opportunities (GSOO) to ensure that the ISP correctly incorporates changes to the gas sector that impact electricity demand; and
- Changes to the Inputs and Assumptions Report to enable the document to be used for (separate) gas and electricity planning, to ensure there is harmony between the two planning operations.

The ongoing energy system transition should draw on experience to date, with a key lesson being that large transmission projects are both more expensive and slower to build than was initially anticipated. The planning system as a whole has found it hard to either switch to less transmission-focused strategies, or to reconsider the value or necessity of individual large transmission projects once they have been included in the optimal development pathway (ODP), regardless of the size of time and cost blow-outs. The review should focus on measures to address this.

ISP reform needs to enable planners and project proponents to act more flexibly and respond, adjusting plans as new information comes to light. This will require reforming the Australian Energy Market Operator's (AEMO) contingent project application (CPA) process and its place in the planning system.

## 2. Integration of electricity and gas planning

PIAC supports the development of a long-term strategy for the future of gas. This strategy should be developed outside the ISP and must be grounded in evidence of what is required to meet the challenge of climate change. Accordingly, any gas strategy must plan for managing a rapid reduction in demand for and use of gas, both domestically and in export. Anything less is irresponsible in its impacts on the climate and contributes to unacceptable risks of stranded assets, and increased inequity and unaffordability in energy.

Domestically, gas plays a small role in NEM electricity production and while important, this is not projected to substantially increase.<sup>1</sup> Effective gas planning should manage two primary tasks:

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<sup>1</sup> IEEFA 2023 [Gas's role in the transition](#)

- moving consumers off gas in a rapid and orderly fashion, ensuring vulnerable consumers and those who struggle to electrify are prioritised, and
- ensuring the costs of early retirement of gas network assets are shared justly between gas companies, consumers, and taxpayers.

The ISP is – and should remain – a plan that makes co-optimised recommendations for new investments needed for the energy transition. The key tasks of a gas plan, as outlined above, are fundamentally at odds with these tasks, making incorporating gas planning in the ISP an inappropriate and ineffective reform.

Further, AEMO does not have the experience, resources, expertise or established functions to take on the task of orchestrating the efficient retirement of domestic gas networks. This function should be undertaken through co-ordinated work initiated by the National Energy Transformation Partnership and enacted by the relevant Commonwealth Government Departments. This process can then derive robust gas-related inputs to inform AEMO's ISP processes.

There are three points where the gas and electricity systems currently intersect:

- gas powered generation,
- electricity supply for gas projects, including extraction, refinement, and shipping operations, and
- the increase in electricity demand resulting from the replacement of gas appliances with electric ones in the household sector.

The current ISP arrangements, in concert with other market arrangements, already cover the first two more than adequately. They will be able to cover the third on the condition the Inputs and Assumptions Report (IASR) provides robust and sensible assumptions about the impacts of the retirement of the domestic gas network in the household sector.

### **3. Considerations of generation and storage**

We strongly support 'supercharging' the ISP. But this reform process should involve ensuring the existing mandate is more robustly and effectively utilised, with the explicit intent of co-optimising development of the energy system and market transformation.

The ISP is already notionally a whole-of-system plan for the electricity system. But in practice it operates as a transmission plan. More specifically, it has largely been designed for the future transmission network focusing on interconnectors.

This means that electricity system transition planning is artificially hamstrung. Instead of considering all three modes of diversifying energy inputs – locational, temporal, and fuel type – the ISP currently only provides locational diversity. This is not efficient and results in consumers paying higher energy prices and paying more for energy reliability than they need or wish to.

The modelling done for the ISP effectively treats everything in the energy system and market aside from transmission as inputs. There are scenarios and sensitivities in each ISP that add variants to one or more of these inputs. But ultimately the process has not aimed to co-optimize investment in the different elements that make up the electricity system. Instead, it has been

limited to optimising the investment in transmission assets given assumptions about the other elements.

The National Electricity Rules (NER) already empower AEMO to make recommendations on non-transmission options in the ISP. In fact, the rules require AEMO to identify alternatives in their construction of the optimal development path (ODP). Per NER 5.22.6(a)(5), AEMO must ‘identify the actionable ISP projects, future ISP projects and ISP development opportunities’.<sup>3</sup> An ‘ISP development opportunity’ is defined as a development identified in an Integrated System Plan that does not relate to a transmission asset or non-network option and may include distribution assets, generation, storage projects or demand side developments that are consistent with the efficient development of the power system’.<sup>4</sup> PIAC contends this wider consideration is currently not undertaken in any meaningful way in practice.

‘Supercharging’ the ISP should take the form of reforms to the scope and process explicitly aimed at fulfilling and building on the existing mandate. Its intent should be co-optimising the transformations occurring on both the supply and demand sides of the electricity market, and helping to orchestrate the suite of policies impacting these deeply related transformations.

## **4. Energy demand and demand-side participation**

PIAC supports the Department’s proposal for AEMO to publish a projected development pathway for consumer energy resources (CER) that reflects the trade-offs between large scale and small-scale energy resources.

However, this should not be a preliminary step in the 2026 ISP, leading towards an aim of co-optimising CER with the supply-side transformations in the 2028 ISP. Doing so implies at least five more years of disorderly CER development before AEMO begins providing jurisdictional and federal policymakers with CER targets. This would result in more expensive energy prices than is necessary for longer than is necessary. Investment in CER and demand side measures such as energy efficiency and demand response should be considered in developing the ODP for the 2026 ISP.

The CER development pathway should not be limited to comparison between different types of demand-side participation, but also demand and supply side options. The ISP should not only provide detailed analysis of the opportunities for CER and demand flexibility and how network investments affect the availability of CER. It should also go a step further in considering these options alongside and on the same level as supply-side options which they are directly comparable to.

## **5. Distributional network considerations**

PIAC supports the Department’s proposals to instruct AEMO to:

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<sup>3</sup> See also Clause 5.22.10(5)(i) NER. Note - the current cost benefit analysis used by AEMO in developing the optimal development pathway does not consider ISP development opportunities, and consequently these are weighed against transmission projects or an output from this CBA. See AEMO, ISP Methodology, June 2023, p.78; AER Cost benefit analysis guidelines: Guidelines to make the Integrated System Plan actionable, October 2023, section 3.3.

<sup>4</sup> Clause 5.10.2 NER.

- consider distribution network service provider's (DNSP) annual plans and data on CER and other demand-side measures as inputs to the ISP;
- require DNSPs to use the IASR scenarios in their modelling analysis; and
- use the ISP to inform DNSP planning.

Work should be commenced immediately to consider reforms to the rules and the Australian Energy Regulator's (AER) guidelines concerning revenue determinations to enable these changes to be introduced in the 2026 ISP.

A second important consideration for the ISP is the sub-transmission distribution networks, typically 66kV and higher. In some cases these have higher capacity than some transmission lines. They function similarly to transmission but are not considered in ISP outputs as they are not owned by TNSPs. Given they have the capacity to host new connections for generation and storage, the ISP may be failing to fully consider more cost-effective augmentations and opportunities, and instead only be selecting new transmission solutions to identified problems. While this gap could in part be filled by DNSP planning and jurisdictional schemes, the ISP should consider DNSP sub-transmission on par with TNSP-owned assets to ensure they are optimised and integrated.

## 6. Other issues

### The role of the ISP in supporting emissions reductions

The ISP should provide policymakers the information needed to make decisions relating to trade-offs between different paths for the electricity sector and National Energy Market (NEM). It should assist decision-makers to fulfill Australia's emission reduction commitments, as laid out in the Paris Agreement nationally determined contributions and legislated in the *Climate Change Act 2022* (Cth).

Currently AEMO produces information for policymakers and investors regarding transmission investment options with reference to future scenarios of slow, medium or fast energy transitions. The investment recommendations produced are made with reference to ensuring the system remains secure and reliable in all possible scenarios. They are not made with the purpose of identifying the optimal pathway for greenhouse gas emissions reductions in the NEM, and assisting in meeting Australia's emission-reduction commitments. Reform must address this as a matter of priority.

The needs of policymakers exist on two levels:

- Taking the emissions reductions implied by Australia's legal commitments as a given, policymakers need information on the different pathways the energy sector could take to reach this endpoint. This relates to weighing up investments between transmission, storage, generation, CER, demand response, efficiency of consumption improvements, and so on.
- Policymakers need information to consider the trade-offs between emission reductions in the energy sector versus reductions in other sectors to ensure the most effective and efficient pathway.



The ISP needs to be formulated to equip policymakers to make informed decisions on both levels.

### **The planning system currently places too much weight on the AEMO CPA process**

The planning process needs to be reformed to allow more flexibility to adjust plans as new information comes to light, and to manage the inherent uncertainty of the cost and time requirements of very large infrastructure projects. A first step is to strengthen the ‘weakness’ in the planning infrastructure that is the AEMO contingent projects assessment (CPA).

Projects typically enter the planning process first as a potential solution to an identified problem by AEMO, and then as a contingent project application prepared by the project proponent. While the CPA will eventually be submitted to and ruled on by the Australian Energy Regulator (AER), at this early stage, it is submitted to AEMO.

The AEMO CPA process is markedly less robust than the AER CPA process. AEMO does not have the knowledge or skill base in assessing the building blocks of project costs as the AER. Most notably, proponents do not have to fulfil stakeholder consultation requirements or demonstrate conformity with consumer preferences as part of the AEMO process. These are (rightly) integral aspects of the AERs processes. As a result, TNSPs view the AEMO process as a less onerous assessment, effectively undermining the scope for the AER to hold them to account..

There are two ways the issue of the relative weakness AEMO’s CPA process could be resolved:

- the task could be moved to the AER, the agency that is better equipped to review early project cost assessments, or
- less preferably, the engagement and other requirements of the AEMO CPA could be brought into line with those of the AER.

In any case, PIAC strongly recommends reform of the CPA processes to ensure they are robust, flexible and grounded in consumer preferences.

## **7. Continued engagement**

We welcome the opportunity to meet with the AEMC and other stakeholders to discuss these issues in more depth. Please contact Michael Lynch at [mlynch@piac.asn.au](mailto:mlynch@piac.asn.au) regarding any further follow up.