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Our Ref: 17393215  
Your Ref: ERC0395, ERC0396  
Contact Officer: Stephen Watson  
Contact Phone: 02 9102 4039

15 November 2024

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

Dear Ms Collyer,

**Re: Better integrating gas and community sentiment into the ISP**  
**Re: Improving consideration of demand-side factors in the ISP**

The Australian Energy Regulator (AER) welcomes the opportunity to make a submission to the Australian Energy Market Commission (AEMC) on two related draft rule determinations relating to the Integrated System Plan (ISP). That is, the Better integrating gas and community sentiment into the ISP, and Improving consideration of demand-side factors in the ISP, draft determinations.

The AER supports both draft determinations. These draft determinations will enable the ISP to provide more transparency, improving system planning and outcomes for consumers.

**The AER's role**

The ISP is published every 2 years by the Australian Energy Market Operator (AEMO). It is a system planning document, which considers long-term pathways for the National Electricity Market (NEM).

The AER is the regulator for the NEM, and our roles include incentive regulation for electricity networks, and ensuring compliance with energy laws. As such, the AER plays a role in the ISP process, through:

- making the cost benefit analysis (CBA) guidelines and forecasting best practice (FBP) guidelines, which apply to the ISP's consideration of future development pathways.

- reviewing the transparency of the ISP
- resolving ISP disputes and monitoring compliance with the CBA and FBP guidelines
- reviewing and making determinations on contingent project applications for actionable ISP projects.

### **The draft determinations**

The draft more preferable rules, proposed in the draft determinations, would require the AER to review whether any changes are required to support the rule amendments, and to make any changes we consider necessary or desirable to reflect the new rules. This review and any potential amendments must be undertaken as outlined in the transitional rules and completed within a 12 month period.

We understand that this requirement intends for the AER to assess whether the Cost benefit analysis guidelines and Forecasting best practice guidelines should be amended to support the rule amendments. As such, the requirement to amend and publish the guidelines would be conditional on the AER identifying changes that would be necessary or desirable. We suggest that the AEMC clarify this intent in the final determination and/or ruling. For example, clarity may be improved if the rule stated that the AER must “assess” whether changes are needed, and only in that case to consult on proposed changes.

At present and based on the AEMC’s draft determination, AER staff do not consider any changes to the Cost benefit analysis guidelines will be necessary. However, the AER will consider the implications for both guidelines following the AEMC’s final determination.

The Forecasting best practice guidelines provide guidance for AEMO’s forecasting practices and processes as they relate to the ISP. These are the processes for developing and testing forecasts, inputs, assumptions and scenarios with stakeholders. The Forecasting best practice guidelines set out factors that AEMO must consider when developing forecasts, including those that underpin the ISP. Our assessment will focus on whether it is necessary or desirable to specify processes for developing a demand side factors statement.

The Cost benefit analysis guidelines set out requirements, considerations and discretionary elements for developing economically reasonable inputs, assumptions, and scenarios for the ISP. They require AEMO to identify the key inputs or assumptions driving the cost benefit analysis results in the draft ISP, and where available, present verifiable sources for each key input and assumption, and their associated forecasting methodologies. Subject to this requirement, AEMO has flexibility in developing inputs and assumptions. The Cost benefit analysis guidelines also set out the discretionary principles of internal consistency, plausibility, verifiable sources, relevance and transparency.

Therefore, the Cost benefit analysis guidelines do not limit AEMO’s ability to identify new or existing key inputs driving the cost benefit analysis results in the ISP, including AEMO’s consideration of demand side factors, community sentiment or gas information and development projections as proposed by the draft determination.

### **Gas**

Separately, we note the relevance of the AEMC’s work on Stage 2 of the East Coast Gas Market Reliability and Supply Adequacy Framework reforms. This focuses on enhanced information around gas reliability and supply adequacy. Given this work also includes consideration of supply and demand-side tools, we highlight the potential relevance of these reforms to the effective integration of gas in the ISP.

## **Continued engagement**

We welcome further engagement with the AEMC. If you have any questions relating to this submission, please contact Stephen Watson on 02 9102 4039.

Yours sincerely

A handwritten signature in black ink, appearing to read 'S. Jolly'.

Stephanie Jolly  
Executive General Manager  
Consumers, Policy & Markets

Sent by email on: 15.11.2024