

7 November 2024

Anna Collyer  
Chair  
Australian Energy Market Commission  
GPO Box 2603  
Sydney NSW 2000

Submitted via: <https://www.aemc.gov.au/contact-us/lodge-submission> (ERC0395)

Dear Ms Collyer,

**National Electricity Amendment (Improving consideration of demand side factors in the ISP) Rule 2024: draft determination**

Nexa Advisory welcomes the opportunity to provide a submission on the AEMC's *National Electricity Amendment (Improving consideration of demand side factors in the ISP) Rule 2024: draft determination* (ERC0396).

Nexa Advisory appreciates the overall sentiment of the draft rule change to increase the robustness of the Integrated System Plan (ISP). We support the AEMC's draft determination to require AEMO to describe how the distribution network developments will be included in the ISP through a demand-side statement. These are welcome changes to initial rule change request.

However, we are concerned that the flexibility provided for AEMO to determine the nature of the data requirements (via information guidelines) may result in sub-optimal outcomes due to perverse incentives. In response to submissions received by Distribution Network Service Providers (DNSP), the AEMC acknowledges the likely potential for these guidelines to be co-designed with DNSPs, the AER and other interested stakeholders<sup>1</sup>.

While we agree that the information guidelines and data collected from DNSPs by AEMO must be practical and realistic, there is a clear need for this to be considered within a broader independent review of the role on distribution networks, and the transparency of network data.

We support the AEMC's draft determination to make the distribution data required by AEMO publicly available through both the ISP database and DNSP Distribution Annual Planning Reports (DAPR). However, as discussed in our previous submission, we consider integrating distribution network information would be most effectively achieved through improved joint planning between DNSPs and AEMO.

We are concerned that the AEMC's draft determination qualifies that this information should be published "unless it is commercially sensitive"<sup>2</sup>. As discussed in our previous submission, this highlights the role of the AER in facilitating the sharing of key distribution network data – given their role in the DAPR process (i.e., through setting the DAPR template<sup>3</sup>).

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<sup>1</sup> Draft determination, p.21

<sup>2</sup> Draft determination, Table 3.1

<sup>3</sup> <https://www.aer.gov.au/industry/registers/resources/guidelines/distribution-annual-planning-report-template>

As such, we disagree with the AEMC's draft determination that changes to distribution planning arrangements would be better addressed through a separate rule change<sup>4</sup>. Noting that information sharing is one of many issues within distribution planning arrangements - and this rule change will require additional information to be published in DAPRs - we consider that the AEMC should review whether the current distribution planning arrangements remain fit-for-purpose, as part of the current rule change.

### **Co-optimisation would improve the robustness of the ISP**

There is a clear opportunity to improve the robustness of the ISP by co-optimising investments across the distribution network. Any changes made under this rule change should enable AEMO to better justify the uptake of CER - particularly behind-the-meter storage, given the expected significance of its role, and the high degree of contention around uptake of CER forecasts.

There is growing concern around AEMO's current approach of including CER projections, despite these being developed by reputable providers such as the Commonwealth Scientific and Industrial Organisation (CSIRO) and Green Energy Markets (GEM), and broadly consulted on as part of the ISP consultation process. These concerns were exemplified during the recent Select Committee<sup>5</sup> through questions around the robustness of the current approach, including whether CER investments included in the ISP were realistic, or if they would require government support (e.g., battery subsidies) to be realised.

We consider that the inclusion of distribution developments within the ISP (through co-optimisation) would:

- improve transparency of distribution network developments in system planning, reducing information asymmetry which currently exists in the market; and
- provide a whole-of-system lowest cost development pathway which bolsters the robustness of existing network development plans published by distribution networks through DAPRs.

This would address the concerns around the ISP mentioned above and show that the Optimal Development Path (including distribution-scale investments and CER) is the most cost-effective pathway forward.

We urge the AEMC to consider whether there is adequate accountability to ensure that AEMO can achieve an optimal outcome by working with DNSPs to incorporate demand-side factors – while addressing the above concerns. For example, while co-design of the information guidelines would reduce the risk of inefficient or disproportionate burden being placed on DNSPs, there is a risk that this process would:

- lack independence;
- not create accountability for DNSPs to provide necessary data; and
- not resolve the above issues (nor address the intention of the initial rule change proposal).

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<sup>4</sup> Draft determination, p.20

<sup>5</sup> [Select Committee on Energy Planning and Regulation in Australia](#)

As such, the AEMC should consider whether providing a flexible approach to AEMO outlining the information guidelines for DNSPs meets the necessary level of independence while allowing robust integration of demand-side factors (or alternatively, if it would be more appropriate for these guidelines to be developed independently).

### **There remains a broader need for a review of distribution network arrangements**

The AEMC has indicated that changes to distribution planning arrangements would be better addressed through a separate rule change<sup>6</sup>. However, we consider that there is an urgent need for a holistic review that considers the independence and accountability for providing distribution network data both within the ISP and through DAPRs.

As highlighted in our report<sup>7</sup>, the DAPR is no longer fit-for-purpose, and there is a significant need for better visibility of distribution network information – including around capacity, utilisation and constraints.

We have recently called for an independent review of the role of DNSPs<sup>8</sup>. In the context of the current rule change, this would explore the role of DNSPs (and market bodies) in enabling the uptake of CER – as well as how this is made transparent, and held accountable on performance and delivery.

DNSPs are regulated monopolies which receive a regulated return from energy consumers. As such, we consider that relevant information on how the network is being managed should be made available. This should include current operational information (e.g., any constraints) and any future network development plans (e.g., planned augmentations and potential costs).

### **Duplication with AEMO’s ISP Methodology illustrates the need for improved governance**

We note AEMO is currently working through this in the ISP Methodology<sup>9</sup> and has suggested a collaborative approach to understand what information may be required from DNSPs and how to incorporate this. While AEMO will respond accordingly to the AEMC’s final determination<sup>10</sup> (which will take effect in December) before publishing its Draft ISP Methodology in March 2025, there is a clear duplication of effort between the AEMC and AEMO.

Though outside of the scope of this rule change, this illustrates the need for improved governance through greater clarity around the roles and responsibilities of government and market bodies<sup>11</sup>.

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<sup>6</sup> Draft determination, p.20

<sup>7</sup> [Nexa-Advisory-Accelerating-CER-in-Australia.pdf](#), April 2024, p.21

<sup>8</sup> Nexa Advisory, [Submission on the Select Committee on Energy Planning and Regulation in Australia](#), October 2024

<sup>9</sup> AEMO, [Integrated System Plan Methodology Issues Paper](#), October 2024

<sup>10</sup> Acknowledged in the Q&A of the ISP Methodology webinar held 1 November 2024

<sup>11</sup> Nexa Advisory, [Submission on the Select Committee on Energy Planning and Regulation in Australia](#), October 2024

## Concluding remarks

Current market structures and governance arrangements are not keeping pace with developments across new energy and digital technology sources, new business models, changing consumer preferences and decarbonisation. If this is not addressed, we will have little success in managing the risks and embracing the opportunities of a more dynamic future system.

With better consideration of demand-side factors and CER in the ISP, we consider AEMO would provide a clear signal of the benefit of such measures, enabling government to implement such policies to support the continued competition, investment and innovation around the deployment of these solutions.

We support the AEMC in upholding the purpose of the ISP as a planning document, rather than for informing and setting policy. This reflects the importance of AEMO remaining independent within its planning and operation roles, and government policy being informed by their own cost-benefit assessments (e.g., undertaken by government departments or Treasury), rather than the ISP. As part of its advisory role to governments, the AEMC must continue to uphold the principle of independence to ensure clarity and accountability between policy and rulemaking.

Thank you for the opportunity to provide input on this draft rule. We welcome the opportunity to further discuss any aspect of our submission - please contact either myself or Jordan Ferrari, Director - Policy and Analysis, [jordanferrari@nexaadvisory.com.au](mailto:jordanferrari@nexaadvisory.com.au).

Yours Sincerely

Stephanie Bashir  
CEO and Principal  
Nexa Advisory