

Review of the Integrated System Plan

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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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Public Interest Advocacy Centre



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

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1. Introduction

The Public Interest Advocacy Centre (PIAC) welcomes the opportunity to provide early input into the Review of the Integrated System Plan (the review).

PIAC supports the aim of reforming the Integrated System Plan (ISP). However, integrating gas planning into the ISP is neither an appropriate nor productive reform, and should not be pursued.

The review should recommend rule changes that enable the ISP to function more effectively as a genuine whole-of-system plan seeking the most cost-effective mix of transmission, distribution, generation, storage, and demand-side options to decarbonise the energy system.

2. The ISP needs to be reformed

The ISP may already notionally be a whole-of-system plan for the electricity system, but in practice it is a transmission plan. More specifically, it has largely functioned as a design for the future of the transmission network, focusing on interconnectors.

The modelling done for the ISP effectively treats the rest of the energy system and market as inputs. While there are scenarios and sensitivities in each ISP that add variants on one or more of these inputs, ultimately the process has not aimed to co-optimize investment in the different elements that make up the energy system. Rather it has been limited to optimising the investment in transmission assets given assumptions about the other elements.

'Supercharging' the ISP should take the form of reforms to the scope and process of the exercise. The ISP should aim explicitly to co-optimize the transformations occurring on both the supply and demand sides of the energy market, and help to orchestrate the suite of policies that impact these deeply related transformations.

Arguably AEMO is already empowered by the rules to make recommendations on non-network alternatives in the ISP and is limited more by practice than regulatory scope. According to the rules, AEMO must, when developing the optimal development pathway, 'identify the actionable ISP projects, future ISP projects and ISP development opportunities'.¹ 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'.²

We strongly support 'supercharging' the ISP. We recommend the reform process should involve ensuring AEMO's existing mandate is more robustly utilised as well as making the rule changes noted below. The intent of the ISP should be co-optimising development of the energy system and market transformation.

¹ Clause 5.22.6(a)(5) NER. 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.

² Clause 5.10.2 NER.

3. The ISP is not the optimal place for a gas strategy.

We do need a plan for the future of gas, but the ISP is not the place for it.

PIAC supports the development of a strategy for the future of gas grounded in what is required to meet the challenge of climate change. Accordingly, a gas strategy must be a plan for managing a rapid reduction in demand for and use of gas domestically and a reduction in the export of gas. 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 National Electricity Market (NEM) electricity production and while important, this is not projected to substantially increase.³ Planning should manage two primary tasks: first; that of moving consumers off gas in an orderly fashion so as to ensure that vulnerable consumers who struggle to electrify are not left with inordinate network costs; and second, that the costs of early retirement of gas network assets are shared justly between gas companies, consumers, and taxpayers.

Any gas strategy should also include a plan to rapidly scale back and then cease Australia's exports of methane gas. Australia cannot support our trade partners with their decarbonisation efforts by continuing to export fossil fuels to them.

Australia's gas export industry is one of the largest contributors to domestic emissions through its energy requirements and fugitive emissions from production and transport. Emissions from gas production, including fugitive emissions, account for 42% of the total emissions from gas extraction and use in Australia.⁴ Rapidly scaling back and ceasing gas exports is one of the most significant actions Australia could take to reduce our own emissions in line with our obligations, and assist other countries on their decarbonisation pathways.

In any case, the potential energy requirements of the gas export industry should not unreasonably drive energy system development decisions, the costs and risks of which would be borne by all energy consumers.

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 diametrically opposed to this.

PIAC is not convinced AEMO has the experience, resources, or expertise to take on the task of orchestrating the retirement of the domestic gas networks. This function should be undertaken through co-ordinated work by relevant government departments, which can provide robust gas-related inputs to inform AEMO's ISP processes.

There are three points where the gas and electricity systems currently intersect: (1) gas powered generation, (2) electricity supply for gas projects, including extraction, refinement, and shipping operations, and (3) in the increase in electricity demand that is occurring as a result of the replacement of gas appliances with electric ones in the household sector. The current ISP

³ IEEFA 2023 [Gas's role in the transition](#)

⁴ Consultation paper p.2

arrangements, in concert with other market arrangements, already cover the first two, and will be able to cover the third on the condition that there is an orderly plan for domestic gas network retirement in the household sector, which can then form the basis of a modelling input to the ISP.

4. Response to consultation paper questions

The only consultation paper we have for this process is watermarked 'Example only'. We provide our initial answers to those questions in an expectation that they are relevant to issues under consideration at this time.

1. *What should be the role for the ISP in supporting emissions reduction?*

The ISP should provide policymakers the information needed to make decisions relating to trade-offs between different paths for the electricity sector and NEM to assist in reaching 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 most optimal pathway to drive greenhouse gas emissions reductions in the NEM, and therefore assist in meeting Australia's emission-reduction commitments. Reform must address this.

The ISP must move from effectively being a transmission-planning exercise, to one that explicitly engages with all credible options, including non-network solutions such as batteries or stand alone power systems, distributed energy resources, demand response, demand-side resilience, and energy consumption efficiency. By providing information about the trade-offs involved in terms of costs to consumers, reliability and emissions reduction, an ISP based on providing alternative paths to a pre-defined endpoint would enable policymakers to conform to consumers' preferences in terms of these metrics – cost, reliability, emissions reductions – more accurately. It would very likely result in reduced costs to consumers for the transition.

The change also implies a move from the primary aim of the ISP being providing transmission, distribution, generation and storage investors with information, to providing state and federal policymakers information. However, the end result would be a much more robust set of signals for investors in the energy sector and a more stable investment environment, born of a planning architecture that is not artificially hamstrung.

2. *Are the changes to the National Energy Objectives to include an emissions reduction component (and the associated proposed changes to the National Electricity Rules and National Gas Rules) sufficient to enable the ISP to appropriately consider emissions reduction?*

PIAC does not consider the proposed changes sufficient. We highlight our recommendation for changes to clauses 5.22.2, 5.22.3, 5.22.5, 5.22.10(c), and 5.22.7(d)(2) NER in our submission to the AEMC's rule change determination on Harmonising energy rules with the amended national energy objectives.⁵ We also contend that clause 5.15.2 NER would need to be changed in order

⁵ https://www.aemc.gov.au/sites/default/files/2023-08/piac_harmonising_energy_rules_with_the_amended_neo.pdf

to expand the definition of credible options. The relevance of credible options to ISP planning is laid out in clause 5.22.10(a)(5)(iv) NER.

Clause 5.22.3 defining power system needs for the purposes of the ISP will also need to be amended to explicitly include emissions reduction.

3. *Should the ISP be more explicit about where generation and storage developments are needed, and the technology types required, to optimise transmission investments and maximise system benefits? What impact might this have on market participants?*

AEMO's current non-prescriptive approach remains appropriate. There are already elements that provide locational signals, for example the electricity statement of opportunity. Current arrangements do not need to be altered.

4. *Do you think there would be benefits if the ISP is expanded to consider gas and electricity together? What do you consider to be the key benefits or problems with this approach?*

PIAC strongly disagrees with the ISP considering gas and does not consider there to be any substantial benefits of doing so. The ISP is a plan for the development of electricity networks and capacity. The task of a gas strategy is to manage a rapid reduction in demand for and use of gas, both domestically and in export, and to manage the orderly retreat of gas-related infrastructure. The two planning tasks, one relating to gas and one to electricity, are diametrically opposed and incompatible with the ISP process. Insofar as gas and electricity planning interact, the ISP is already well-positioned to incorporate the changes in the gas industry as inputs for considering optimal development pathways for the electricity system.

5. *How could a 'supercharged ISP' best support energy investment decisions across gas and electricity? What information should it include?*

PIAC does not support the ISP being used to guide gas investment decisions.

6. *What role would you like to see AEMO have in gas infrastructure planning?*

It is not appropriate for AEMO to have any role in gas infrastructure planning and the execution of the retirement of the domestic gas network. It does not currently have the experience, resources or expertise to appropriately and effectively guide this task.

A specific strategic process, possibly involving a specially tasked entity, should be established with the sole responsibility of planning and overseeing the managed phase out and retirement of the gas industry. AEMO's role should remain one of drawing on the outputs of such a process in order to co-optimize the transition development pathway for the electricity system.

7. *Could the demand-side analysis that is currently undertaken for the ISP development process be improved? What should be the focus areas for enhanced assessment in this regard?*

PIAC reiterates our support for 'supercharging' the ISP where this entails more effectively co-optimising the transformations occurring in the supply and demand of electricity. The ISP should move to treating demand-side changes, such as energy efficiency, electrification of appliances in

the household sector, take-up of technologies such as electric vehicles, and demand response, as outputs rather than merely inputs.

These recommendations would be taken up by the federal and state governments, as well as funds and funding bodies like Rewiring the Nation and the Clean Energy Finance Corporation, just as the recommendations for new investments in transmission and other assets are taken up by private providers currently.

8. *How can distribution be more effectively considered in the ISP? What might be the impact on the market if the ISP gave greater consideration to distribution?*

No comment.

9. *How should the ISP consider energy and climate policies and projects that have been announced, but for which limited detail is available regarding implementation? Is it appropriate to maintain a degree of caution about such inclusions?*

AEMO has updated its treatment of ‘actionable’ and ‘intended’ projects for the 2024 ISP to expand the set of projects considered for the purpose of its modelling and correct its previous overly cautious approach. PIAC supports these changes. We continue to advocate for the inclusion of projects that are legislated, such as those included in the *Electricity and Infrastructure Investment Act 2020* (NSW).

10. *How might the ISP be improved to enhance the likelihood that actionable projects proceed in accordance with the timing identified in the Optimal Development Path?*

No comment.

11. *Are there improvements that could be made to the ISP to better support building community acceptance for actionable ISP projects?*

No comment.

12. *What are the things that the ISP does well? Are there other matters that the review should consider?*

No comment.

5. Continued engagement

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