

Australian Energy Market Operator

Submitted via email: ISP@AEMO.com.au

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Submission to Draft 2024 Integrated System Plan (ISP)

The Australian Energy Council welcomes the opportunity to make a submission to the Draft 2024 ISP.

The Australian Energy Council (AEC) is the peak industry body for electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. AEC members generate and sell energy to over 10 million homes and businesses and are major investors in renewable energy generation. The AEC supports reaching net-zero by 2050 as well as a 55 per cent emissions reduction target by 2035 and is committed to delivering the energy transition for the benefit of consumers.

Overview

The Draft 2024 ISP models what the Government targets require (how the energy system needs to change), it does not forecast what will happen in practice. The Draft 2024 ISP goes to some length to communicate the limitations of the ISP. For example, it says “identifying the ODP is only a very small contribution to Australia’s energy future. It’s what happens next that counts”.¹ The AEC believes this intent is not always understood by all readers of the ISP. The AEC suggest AEMO should continue to focus on communicating the objective and scope of the ISP – both what it is, and what it is not. The AEC also recommends AEMO continue to communicate the benefits and limits of the ISP to establish a platform for policy conversations on what would need to be reformed to support the achievement of the ODP.

Once the role of the ISP has been clarified, the focus for both Governments and market participants can then shift to identifying what is required to more effectively support the modelled ODP. From a governance perspective, policy changes required to support the ODP are a matter for Government or other market bodies such as the AEMC, but the AEC believes AEMO’s ISP has a role to play in helping to explore what would need to change to increase the confidence interval associated with achieving the ODP in practice.

The AEC is keen to work with AEMO, Government and market bodies to support the practical achievement of the ODP.

The role of investment in supporting the ODP

AEMO reports that the annualised capital cost of all generation, storage, firming and transmission infrastructure in the ODP has a present value of \$121 billion in the Step Change scenario out to 2050.

The Draft 2024 ISP sets out a role for both deep storage and gas in the energy transition, noting Government programs are supporting the development of deep or medium storage, with Snowy 2.0, Borumba and Kidston committed or anticipated. It states that market and policy settings will need to evolve to enable deep storage solutions with cost recovery mechanisms that are not limited to actual usage. The AEC notes that the recently expanded Capacity Investment Scheme is currently geared towards supporting variable renewables and

¹ https://aemo.com.au/-/media/files/stakeholder_consultation/consultations/nem-consultations/2023/draft-2024-isp-consultation/draft-2024-isp.pdf?la=en, p. 73

batteries, with deep storage likely beyond the 2030 timeframe, and gas subject to Renewable Energy Transformation Agreements between the various States and the Commonwealth.

The NEM 2030 reforms to be considered by DCCEEW and relevant jurisdictions in 2024 will consider the market reforms required to better support the required investment to make the ODP a reality.

Risks to the delivery of the Optimal Development Path and the energy transition

AEMO has modelled a range of risks to the delivery of the ODP. They include supply chain constraints, cost pressures, social licence issues and shortages of skilled labour. However, these sensitivities could be improved by more fully quantifying the impact of all the various risks it has identified and by assessing the compounding impacts of its identified risks as it only considers each risk individually. AEMO is encouraged to develop its ISP modelling to enable increased analysis of 'combined sensitivities' to capture the compounding impacts of the key risks to the transition. It may well be that multiple risks materialise, and a combined sensitivity analysis would articulate what these challenges, in aggregate, may look like, and ideally identify an alternate path should those risks eventuate.

In addition, under the social licence sensitivity, project lead times for transmission augmentation options is pushed out by two years, with project costs increasing by 15%. An alternate approach would be to treat a lack of social licence for transmission projects as a binary issue – either the relevant project proceeds or an alternative would need to be found. This would likely highlight the focus that is required on social licence, as alternatives may either not be readily available, or would result in much higher costs to consumers.

Ideally the final ISP would include further sensitivity analysis to support policy makers understand the trade-offs required as the energy transition continues. For example, if the policy settings for the identified investments were not in place, and the required investments did not materialise, what would the next best alternative to the ODP look like, and what would the impact on the net market benefits be. Sensitivity analysis performed this way can be an important tool for policy makers and help reframe the ISP towards something that evolves over time and plays a role in supporting both market participants and policy makers decision making to best support the energy transition.

Modelling an expanding NEM

To ensure accurate modelling of system reliability and security needs in an expanding NEM, the ISP and future iterations should include reliability scenario iterations at single year points in time. This can help test new capacity volumes and locations are feasible with current full system normal constraint models (ESOO). The results of these would give market participants and stakeholder a guide to the possible solutions required to support reliability outcomes in an expanding NEM. We suggest planning for years beyond the ES00 10-year reliability window.

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Yours sincerely,

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