Australian Energy Market Commission (AEMC)
Level 15, 60 Castlereagh Street
Sydney NSW 2000

19 February 2026

Re: Review of the Integrated System Plan (ISP) framework

Thank you for the opportunity to provide feedback on the *Review of the Integrated System Plan framework (the **Framework Review**)*.

The Energy Efficiency Council (EEC) is the peak body for Australia's energy management sector, working to ensure Australia harnesses the power of efficiency, electrification and flexible demand to deliver a prosperous, equitable, net zero Australia.

The EEC has focussed on the *purpose and role* and *development and process* elements of the Framework Review.

The purpose and role of the ISP

As set out in the Framework Review, under the National Electricity Rules (NER) the Integrated System Plan is defined as:

'a whole of system plan for the efficient development of the power system needs for a planning horizon of a least 20 years to contribute to achieving the national electricity objective'.

The reference to the national electricity objective (NEO) means that since 2024, AEMO must consider emission reductions targets listed on the targets statement when developing the ISP. AEMO has the discretion to consider other emissions reduction targets as well as other relevant public policies, subject to the criteria listed under the NER.

The EEC supports the ISP serving as a least-cost plan for the long-term future of the energy system *in line with government policy*. Its role should be to provide a least-cost implementation path for meeting governments' ambitions in line with the NEO. Importantly, the ISP should take its direction from governments and focus on developing practical pathways for delivery. It should examine technical options for achieving the energy transition goals of governments but should not serve as a cap on policy ambition.

The Framework Review notes that the ISP's role has evolved over time and that it is used for 'other processes and by other actors' in the NEM and that the ISP and ISP modelling is relied on as a 'trusted source of information'.

The EEC acknowledges that the ISP is an extremely valuable modelling framework and as such, is often cited as a source of truth on what is technically possible for the energy transition.

However, the EEC believes this is problematic because the modelling framework used is supply-side centric, treating demand as an exogenous input to the model, not an endogenous output. As such, it is not well suited to exploratory analysis and assessments of divergent scenarios from historical trends on the demand-side. Consequently, it tends to limit demand-side actions to trend levels, or levels set by government policy, which have tended to be much weaker than global leaders (e.g. appliance minimum standards that lag global leaders like Europe), rather than levels of action that are technically possible.

Producing the ISP is a complex task and AEMO's modelling is held in high regard. The EEC asserts that a critical reform to the ISP is the co-optimisation of distribution-scale resources with transmission-scale resources. This will ensure that AEMO has every tool available to it and drive the ISP towards better realisation of the NEO.

Separately, the EEC questions whether AEMO is best placed to carry out exploratory analysis like the ISP, given its primary role is to operate the market and plan transmission (and should remain as such). The recently announced review into AEMO governance offers an opportunity to explore alternative options for developing transition and energy planning strategy.

Development of the ISP

The EEC has long advocated that demand-side measures, including consumer energy resources (CER), energy efficiency, electrification, and active energy management, are essential to optimising the energy system, helping to maximise renewable electricity use and reduce wasted energy and expenditure.

The EEC welcomes the inclusion of the Demand Side Factors Statement (**DSF Statement**) in the 2026 Draft ISP and considers it a welcome step in elevating the consideration of the demand side. The EEC has previously noted some limitations in its design including primarily that demand side factors are input assumptions for the optimised development path modelling and are not an output of the optimisation, as grid-scale elements are.

To ensure that the ISP is delivering on its purpose of delivering the NEO, the EEC recommends the following:

1) The ISP must optimise across both the supply and demand side in its identification of the optimal development path

The ISP should function as a whole-of-system plan by co-optimising investments across all elements of the energy system – including generation, storage, transmission, distribution, and the demand-side in its identification of the optimal development path (ODP).

There are a few areas within the ISP development pathway that restrict consideration of the demand side which should be reviewed and reformed.

For example, in selecting an ODP, AEMO is required to follow the framework set out in the Cost-Benefit Analysis Guidelines. This includes that AEMO must use 'professional judgement in balancing the outcomes of the above decision-making approaches to select an optimal development path that has a positive net economic benefit in the most likely scenario'.

This introduces subjectivity into AEMO's selection of an ODP which is particularly problematic from the demand side where market barriers to investment and historically weak policy have led to a low uptake of demand-side resources, despite their low cost (and high technical potential). This has manifested in an under-estimate of demand-side opportunities in the ISP, opportunities that would most likely deliver a lower-cost development path than modelled in the 'most likely' scenario.

Additionally, as flagged above, demand-side resources are only used as an input into the ISP, not an output. For example, the costs of distribution network augmentation to host the 'natural uptake' of CER are included within the Draft 2026 ISP but the marginal costs to accelerate CER uptake are not. This means that AEMO does not consider the full technical potential of the demand side to deliver a lower cost alternative to supply side generation.

To increase the ISP's alignment with the NEO, the scope of the ODP must be expanded to include investments in the demand side, including additional CER, as well as the additional distribution network capacity to host those resources.

An expanded ODP that co-optimises across the supply- and demand-side would likely result in a much higher level of additional demand-side resources, beyond the 'natural uptake' included as an input to the ISP today. This would serve as a signal for an efficient level of investment to drive greater uptake of demand-side resources. Ideally, the ISP could then signal exactly where on the distribution network these investments should be targeted.

2) The DSOO should inform the ISP in a similar way to the Electricity and Gas Statements of Opportunities

The EEC suggests that an important reform to achieve a co-optimised approach to the ISP would be to ensure that the Demand-side Statement of Opportunity (DSOO) – to be developed in collaboration with AEMO and states and territories via the ECMC – contains a detailed, place-based analysis of demand-side opportunities, and helps improve the integration of the Electricity and Gas Statements of Opportunities.

The DSOO should identify the *technical potential* of the full range of demand side resources (i.e., not constrained by historical trends or weak government policy). This could then serve as the upper limits of demand-side action for the ISP model, similarly to the way the early part of the ISP modelling period is calibrated to the Electricity and Gas Statements of Opportunities.

The EEC, along with its members, looks forward to working with AEMO and the Department of Climate Change, Energy, the Environment and Water on the development of the DSOO, including helping to providing clarity on the roles of the DSF Statement and the DSOO and how they can support co-optimisation.

For further information on anything in this submission, please contact me on jeremy.sung@eec.org.au or 0411 934 701.

Yours faithfully,

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