



**Tasmanian Small
Business Council**

Uniting Small Business

AEMC Review of the ISP Framework – Consultation Paper

Submission

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Executive Summary

The Tasmanian Small Business Council (TSBC) welcomes the opportunity to respond to the Australian Energy Market Commission (AEMC) Consultation Paper reviewing the Integrated Systems Plan (ISP) framework. This submission, supported by Goanna Energy Consulting, focuses on the interests and risks faced by small business consumers, nationally and in Tasmania, within the National Electricity Market (NEM). We are members of the Council of Small Business Organisations Australia (COSBOA), which has assisted our coverage of NEM-wide ISP issues.

Key points addressed include:

- **Risk Allocation and Actionability:** The ISP's actionable status has become a de facto commitment mechanism, narrowing regulatory discretion and embedding forecast errors or policy misalignments before robust testing. TSBC recommends introducing formal re-opener triggers and publishing downside sensitivities to ensure projects remain beneficial under conservative assumptions.
- **Policy and Cost Treatment (including ERC0406):** There is concern that jurisdictional policy ambitions are embedded into regulated investment pathways without explicit testing of incremental cost burdens. TSBC advocates for clear disaggregation of core system needs from policy-driven components, quantification of incremental costs, and alignment with ERC0406 type reforms.
- **Distributional Impacts and Regional Equity:** NEM-wide averages can obscure regional consumer heterogeneity. Tasmania's small customer base and exposure to large interconnector investments amplify risks. TSBC calls for jurisdiction-level bill impact estimates and small business-specific tariff analyses.
- **Modelling Uncertainty and Downside Risk:** Transmission investment decisions are sensitive to demand growth, technology costs, and policy timing. Small businesses are exposed to downside scenarios. TSBC recommends publishing full downside NPV sensitivities and quantifying stranded asset risk. We also support modelling beyond the constraints of jurisdictional policies to test the robustness of cost minimisation in the ISP.
- **Governance and Consumer Influence:** While consumer panels exist, small businesses face barriers to ISP participation. TSBC proposes early release of modelling inputs, plain-language summaries, structured consumer testing, small business panel membership and formal feedback loops to strengthen small business engagement.
- **Cost Discipline and Incentives:** TSBC urges reinforcement of staging and modular ISP investment approaches, demonstration of dynamic efficiency, and ISP consideration of staged interconnection capacity expansion for Tasmania.
- **Alignment with the National Electricity Objective (NEO):** The ISP must ensure consumer downside risks are proportionate to expected benefits, cost allocation is transparent, and jurisdiction-specific impacts are considered. Strengthening these measures would improve ISP alignment with the NEO and improve small business benefits.
- **Criticisms of the ISP Framework:** Independent experts highlight systemic weaknesses in the ISP and National Electricity Rules (NER), including unchecked discretion, lack of transparency, and insufficient independent scrutiny. TSBC urges the AEMC to address these structural flaws to ensure credible, least-cost outcomes for small business consumers.

- **Conclusion:** The ISP is a central determinant of long-term electricity costs. TSBC and COSBOA believe that reforms strengthening transparency, cost attribution, regional analysis, and governance will improve economic efficiency and better protect small business consumers from disproportionate long-term cost exposure.

1 Introduction

The Tasmanian Small Business Council (TSBC) welcomes the opportunity to provide a submission to the Australian Energy Market Commission (AEMC) on its Consultation Paper for its review of the Integrated Systems Plan (ISP) framework. We note that the AEMC's ISP Review is being conducted concurrently with its consideration of a Rule Change on the ISP (ERC0406) proposed by the Centre for Independent Studies (CIS) and we have also considered this in our submission and commented on it in this response to the ISP Review Consultation Paper.

1.1 About the TSBC

The TSBC is an association of associations, each of which represents a specialist industry sector with significant small business participation. By bringing these sectors together, we provide small businesses with the opportunity to access information and advice across the wider small business community. We also represent small businesses as we communicate their interests and needs to government, regulators, other organisations and the public.

There are more than 37,000 small businesses in Tasmania. They make up over 96 per cent of all Tasmanian businesses and provide more than half of the private sector employment in the state. As of Q2 2024-25 there were 36,642¹ small businesses connected to electricity supply in Tasmania. The above highlights the importance of small business to Tasmania, its economy and its electricity industry.

We are also members of the Council of Small Business Organisations Australia (COSBOA), a nationally focused small business member representative body. This being the case and given the application of the ISP to the entire National Electricity Market (NEM), we have also considered national small business interest in this submission.

2 Overview

This submission examines whether the current ISP framework:

1. Promotes efficient investment in, and operation of, electricity services for the long-term interests of consumers (National Electricity Objective);²
2. Adequately manages forecast, policy and distributional risk; and
3. Provides sufficient transparency and governance safeguards before projects become actionable and effectively irreversible.

From a small business perspective, the central concern is risk allocation. Transmission and interconnection investments are long-lived, capital-intensive and recovered through regulated network charges. Once projects proceed, cost recovery risk is borne predominantly by consumers, not proponents. These are matters that concern both the TSBC and COSBOA.

For smaller jurisdictions such as Tasmania, this risk is amplified by:

- A small customer base;
- Higher sensitivity of average network charges to large projects;
- Structural exposure to interconnection and hydro variability.

¹ AER, Quarter 2, 2024-25, Retail Performance Data [\[link\]](#).

² National Electricity Law (NEL) s7.

Appendix A provides our responses to the questions framed in the Consultation Paper.

3 Actionability and the Risk of Irreversibility

The ISP's actionable status has evolved into a *de facto* commitment mechanism.

3.1 Reduced optionality

While the ISP does not itself approve expenditure, in practice:

- Actionable designation materially narrows future regulatory discretion;
- RIT-T processes are shaped by ISP modelling assumptions;
- Financing and procurement momentum create practical lock-in.

For the TSBC and COSBOA, the concern is that forecast error or policy misalignment becomes embedded before robust *ex post* testing is possible.

3.2 Recommended reform

The ISP framework should:

1. Introduce a formal **re-opener trigger** where material deviations in demand, policy delivery, technology cost or interconnector utilisation arise;
2. Require explicit publication of downside sensitivities demonstrating that a project remains net beneficial under conservative assumptions.

4 Treatment of Policies and Costs (ERC0406) – Interaction with ISP

Rule change ERC0406 proposed by the CIS concerns the treatment of policies and costs directly relevant to the ISP and this review.

4.1 Risk of implicit policy socialisation

Where ISP scenarios incorporate jurisdictional policies covering:

- Accelerated electrification trajectories;
- Renewable targets;
- Exit timing of thermal generation.

there is a risk that policy ambition is embedded into regulated investment pathways without explicit testing of incremental cost burdens.

As representatives of small business consumers the TSBC and COSBOA have two concerns:

- **Attribution risk** – policy-driven acceleration costs may be socialised across consumers without clear identification;
- **Delivery risk** – if policies underperform relative to modelling assumptions, transmission capacity may be oversized (gold plated) or mistimed (costs recovered earlier than necessary). Asset stranding is possible.

4.2 Recommendations

The ISP should:

3. Explicitly disaggregate “core system need” from “policy acceleration” components;
4. Quantify incremental transmission costs attributable to policy trajectories;
5. Model how the ODP is impacted by relaxing the Government policy constraints and
6. Align with ERC0406 reforms to ensure that cost recovery reflects genuine system need rather than speculative policy delivery.

5 Distributional Impacts and Regional Equity

5.1 NEM-wide averages obscure consumer heterogeneity

The ISP modelling framework optimises at the NEM-wide level. However:

- Transmission costs are recovered on a regional basis; and
- Benefits and costs (e.g., congestion relief, jurisdictional export revenue, decarbonisation) may accrue asymmetrically.

Small business consumers lack hedging capacity and are highly sensitive to distributional outcomes and risks.

5.2 Tasmanian case study

Tasmania presents a structural asymmetry given:

- High hydro penetration and NEM export potential;
- Reliance on interconnection for import security; and
- Exposure to large interconnector investments relative to customer base, for example, Marinus Link and the North West Transmission Developments (NWTG).

For projects such as major interconnection expansions:

- NEM-wide benefits may be positive; but
- Tasmanian consumer bill increases may still be material and impactful.

5.3 Recommended Reforms

The ISP should therefore include:

7. Jurisdiction-level bill impact estimates;
8. Small business-specific tariff impact analysis; and
9. Explicit testing of low-export utilisation scenarios.

6 Modelling Uncertainty and Downside Risk

Transmission investment decisions are highly sensitive to:

- Demand growth and electrification rates;
- Timing of coal retirements;
- Technology cost trajectories (storage, firming, hydrogen);
- Fuel price volatility; and

- Interconnector outage assumptions.

Small business consumers are exposed primarily to downside scenarios, not central forecasts.

6.1 Required improvements

The ISP should:

10. Publish full downside net present value (NPV) sensitivities;
11. Demonstrate that projects remain efficient under low-demand and delayed-policy scenarios; and
12. Explicitly quantify stranded asset risk.

7 Governance and Consumer Influence

While the ISP Consumer Panel is a positive aspect of the ISP, small business consumers face structural participation barriers such as:

- Limited technical resources;
- Complexity of modelling, assumptions and documentation; and
- Short consultation timeframes.

7.1 Recommended measures

15. Early release of key modelling inputs in machine-readable form;
16. Plain-language summaries of bill impacts;
17. Structured consumer testing before actionable designation;
18. Opportunities for 'plain English' consumer briefings and feedback;
19. Small business membership of the ISP Consumer Panel and AEMO's Consumer and Community Reference Group; and
20. Formal feedback loop on the extent of consumer advocacy, steps taken to secure it and demonstrating how consumer submissions influenced outcomes.

8 Cost Discipline and Incentives

Transmission investment is subject to regulated revenue recovery with limited volume risk.

8.1 Recommended Reforms

To align incentives with consumer outcomes, the ISP framework should:

21. Reinforce staging and modular investment approaches to actionable projects;
22. Encourage optionality rather than just full-scale commitment; and
23. Require demonstration of dynamic efficiency (timing flexibility), not just static least-cost modelling.

For Tasmania, staged interconnection capacity expansion would better manage demand and export uncertainty while limiting small business exposure.

9 Alignment with the National Electricity Objective (NEO)

The NEO requires promotion of efficient investment for the long-term interests of consumers with respect to price, quality, safety, reliability and security.

Key tests the ISP framework must satisfy:

- Are consumer downside risks proportionate to expected benefits?
- Is cost allocation transparent and justified?
- Are jurisdiction-specific impacts adequately considered?
- Is regulatory flexibility preserved under uncertainty?

9.1 Recommendations

24. Strengthening the above measures would improve ISP alignment with the NEO.

10 Criticisms of the ISP Framework

Concerns raised by independent analysts, such as Prof Bruce Mountain and Dr Aidan Morrison, point to the possibility of systemic ISP weaknesses embedded directly in the National Electricity Rules (NER) under review by the AEMC. The criticisms map directly onto the structure of the Rules as outlined below.

10.1 Nature and Implications of the Criticisms

AEMO has Unchecked Discretion and Administers a Central-planning Regime

Clause 5.22 grants AEMO sweeping authority over scenario design, input assumptions, modelling methods and the identification of the “optimal development path”.

Scenario and Input Discretion

Clauses 5.22.6 and 5.22.8 allow AEMO to define “credible” scenarios without any binding standards, external validation, or independent oversight.

This enables:

- premature coal exit assumptions;
- optimistic renewable output and storage cost assumptions;
- exclusion of alternative pathways (gas-led, thermal retention, nuclear); and
- unrealistic renewable build-out trajectories.

The Rules effectively allow AEMO to predetermine the answer.

Modelling Transparency and Consultation

Clauses 5.22.9 and 5.22.10 require consultation but do not require AEMO to justify or validate its modelling choices. Critics argue this allows:

- opaque optimisation;
- untested system security assumptions; and
- understated transmission costs.

The ISP becomes a ‘black-box’ model with no independent audit.

Actionable Projects

Once AEMO labels a project “actionable”, the Rules (Clause 5.22.14) force TNSPs to proceed with it. This transforms the ISP into a deterministic central plan, not a market-responsive guide.

The ISP is effectively self-executing, with no meaningful check on AEMO’s assumptions or decisions.

The RIT-T is structurally prevented from acting as an independent economic test

Under clause 5.16A, the RIT-T must adopt ISP-mandated inputs and assumptions for actionable projects. This means the RIT-T cannot challenge the ISP, even when ISP assumptions are unrealistic or outdated. This results in a potentially hamstrung RIT-T for actionable projects.

Mandatory Use of ISP Inputs

Clause 5.16A.5 effectively turns the RIT-T into a premature and inappropriate rubber stamp, because:

- cost estimates from the ISP are often immature;
- benefits are inflated by optimistic ISP modelling; and
- alternative scenarios cannot be tested.

The RIT-T no longer protects consumers from uneconomic transmission investment.

Project specification

Under 5.16A.4 the ISP (AEMO) defines the project, not the TNSP. This prevents TNSPs from exploring lower-cost or staged alternatives. The RIT-T is locked into AEMO’s predetermined solution.

The Cost-Benefit Analysis Guidelines allow optimistic modelling and insufficient risk assessment

Clause 5.23 requires the AER to publish Cost-Benefit Analysis (CBA) Guidelines, but these Guidelines do not impose rigorous standards on modelling or risk treatment.

Principles for cost-benefit analysis

The principles (Clause 5.23.2) are broad and permissive, allowing:

- optimistic renewable performance assumptions;
- aggressive storage cost declines;
- unproven system security capabilities (e.g., grid-forming inverters); and
- inflated diversity benefits.

The Guidelines allow benefits to be overstated and risks to be minimised.

Treatment of uncertainty

The Rules (Clause 5.23.6) do not require:

- robust downside sensitivities;
- realistic modelling of delivery risk; and

- probabilistic treatment of renewable build constraints.

This enables the ISP to present a “least-cost” pathway that is highly sensitive to optimistic assumptions.

Independent review

There is no requirement for independent validation of key modelling inputs (Clause 5.23.7). This allows AEMO’s internal assumptions to dominate the entire planning framework.

The CBA Guidelines permit the very optimism bias that critics identify.

10.2 Overall: The NER Framework Enables the Problems Identified by Critics

These criticisms levelled at the ISP are symptoms of structural flaws in the Rules.

We have a concern that, together the clauses could create a planning system where AEMO’s assumptions become binding investment mandates, with insufficient independent scrutiny and inadequate economic safeguards for small business consumers.

The AEMC review should therefore address these issues to ensure that the ISP is credible and delivers genuinely least-cost outcomes for consumers, which they can be confident about.

11 Conclusion

The ISP is now a central determinant of long-term electricity cost trajectories across the NEM. For small business consumers—particularly in smaller jurisdictions such as Tasmania—the key outstanding issue is not whether transmission investment is necessary, but whether:

- Policy assumptions are transparently tested;
- Distributional and regional impacts are clearly visible;
- Downside risk is adequately managed;
- Structural barriers to small business participation are minimised; and
- Actionability preserves sufficient flexibility.

The TSBC and COSBOA believe that ISP framework reforms that strengthen transparency, cost attribution, regional analysis and governance will improve economic efficiency, better align with the NEO and better protect small business consumers – nationally and in Tasmania – from disproportionate long-term cost exposure.

Appendix A –Responses to AEMC Consultation Questions

Consultation Question	Small Business-Focused Response
1. Does the ISP framework remain fit for purpose?	The ISP remains a critical planning instrument, but it requires stronger consumer risk safeguards. From a small business perspective, the current framework insufficiently protects against forecast error and long-lived cost lock-in. Actionable status can create de facto commitment before robust downside testing is complete. In Tasmania, where network costs are spread across a small base, this risk is magnified.
2. Is the current actionability framework appropriate?	Actionability should be refined to avoid irreversible commitment under uncertainty. Small businesses bear long-term cost exposure if modelling assumptions (e.g., electrification, export volumes, coal retirement timing) do not materialise. A formal re-opener or reassessment trigger should be introduced where material deviations occur.
3. Are governance and accountability arrangements appropriate?	Governance should be strengthened to ensure transparency and contestability of modelling assumptions. Consumer engagement must occur before projects become actionable. Small businesses lack technical capacity to interrogate complex modelling; therefore, simplified bill impact reporting and early data release are essential. Small business representation as part of the ISP process should also be strengthened.
4. Is the treatment of policies in the ISP appropriate?	The ISP must clearly distinguish between core system need and policy acceleration. Incorporation of jurisdictional policies should be transparent, contestable and aligned with reforms under the related CIS Treatment of Policies and Costs rule change proposal (ERC0406). Small businesses should not bear incremental policy-driven costs without explicit identification and testing. There should be modelling outside of the constraints of Government policy settings to help determine robustness and cost minimisation.
5. Is there sufficient transparency in modelling and assumptions?	Transparency should be enhanced through publication of downside sensitivities, jurisdiction-level bill impacts, and clear attribution of policy-related costs. NEM-wide averages obscure distributional impacts. Tasmanian small businesses require visibility of local impacts given structural exposure to interconnection and hydro variability.
6. Does the ISP appropriately manage uncertainty?	Current scenario modelling is sophisticated but does not sufficiently test adverse or low-delivery scenarios. Small business consumers are most exposed to downside risk. The ISP should demonstrate that actionable projects remain net beneficial under conservative demand, policy and utilisation assumptions.
7. Are consumer interests adequately represented in ISP development?	Representation mechanisms (e.g., Consumer Panel) are positive but insufficient for small business engagement. Dedicated small business impact assessments and structured feedback loops should be embedded prior to final ISP publication and actionable designation.
8. Are there improvements to	The linkage should preserve regulatory discretion. RIT-T processes must remain robust and not merely confirm ISP assumptions. Where

interaction between the ISP and the RIT-T?	circumstances materially change, reassessment should be permissible. This is critical for jurisdictions like Tasmania where interconnector utilisation assumptions materially affect outcomes.
9. Are there issues with timing, staging or flexibility of ISP projects?	Greater emphasis should be placed on staging and modular investment to manage uncertainty. Dynamic efficiency—deferring or scaling investment until triggers are met—better protects small businesses from premature cost recovery.
10. Are there other reforms that would better promote the long-term interests of consumers?	The ISP should include mandatory regional bill impact reporting, clearer cost attribution to policy drivers, and structured downside risk publication. For Tasmania, explicit testing of low-export and outage scenarios is necessary to ensure that national decarbonisation objectives do not impose disproportionate local cost burdens.

