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12 February 2026

To: Australian Energy Market Operator
Re: Draft 2026 ISP Consultation

Thank you for the opportunity for the Institute for Energy Economics and Financial Analysis (IEEFA) to provide input to the Australian Energy Market Operator (AEMO)'s Draft 2026 Integrated System Plan (ISP) consultation.

IEEFA is an independent energy finance think tank that examines issues related to energy markets, trends and policies. The Institute's mission is to accelerate the transition to a diverse, sustainable and profitable energy economy.

IEEFA's key comments on AEMO's draft ISP are outlined below. Further detail can be found in the following pages.

- The draft ISP's household battery assumptions are already materially outdated. IEEFA strongly recommends that AEMO revise its residential battery forecasts for the final core 2026 ISP scenarios.
- IEEFA recommends that AEMO expand its explanation of flexible coal plant operations.
- IEEFA recommends that AEMO undertake further analysis of data centre loads and the potential for flexibility.
- IEEFA recommends that AEMO expand its discussion of gas generation outcomes.
- AEMO's demand-side factors statement is a welcome addition but the modelling undertaken relies on limited data – further data and transparency would be of benefit.
- IEEFA recommends that AEMO consider modelling consumer energy resources (CER) coordinated via better tariff signals.

Please do not hesitate to get in touch with any questions on any part of this submission at aus_staff@ieefa.org.

Kind regards,

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The draft ISP's household battery assumptions are materially outdated and should be revised

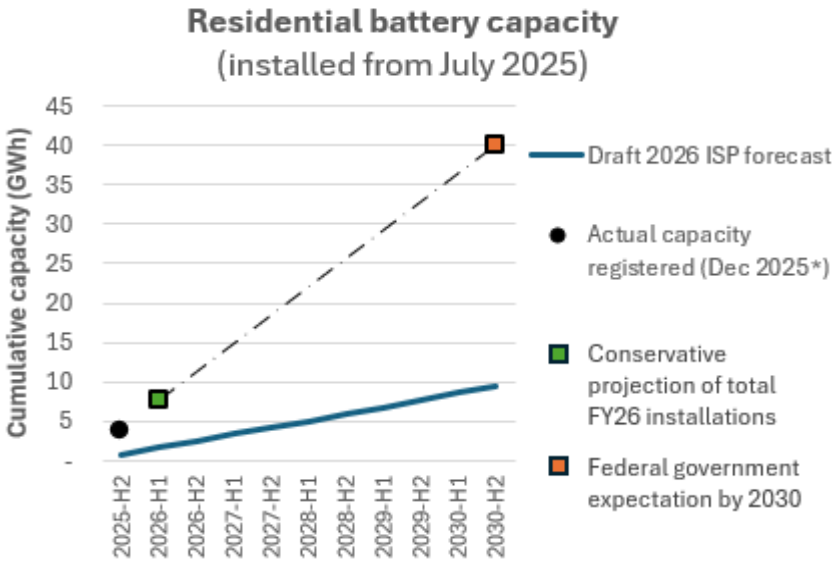
The Federal Government's *Cheaper Home Batteries Program* (CHBP) has prompted unprecedented growth in residential batteries. The number and average size of new installations have far exceeded most expert forecasts, including those proposed in the draft 2026 ISP.[1]

The draft ISP forecasts that a net residential capacity of 1.5 gigawatt-hours (GWh) will be added in the 2025-26 financial year.[2] However, this forecast was exceeded in the first three months of the CHBP, with total capacity now reaching 3.8GWh as of December 2025.[3]

In December 2025, the federal government announced several revisions to the CHBP. This included an extension to the overall funding pool, a decrease to the number of small-scale technology certificates (STCs) generated by larger battery systems, and an increase in the rate at which the STC factor reduces over time.[4]

Nonetheless, with these revisions in mind, the federal government expects approximately 2 million batteries to be installed by the time the CHBP concludes in 2030, equivalent to 40GWh total storage capacity.[5] This is four times the cumulative capacity forecast by the draft ISP over the same period (Figure 1).

Figure 1: AEMO residential battery forecasts versus CHBP actual and expected uptake



Source: IEEFA analysis of Clean Energy Regulator, AEMO and DCCEEW data.

[1] PV Magazine. Australia adds 1.2 GWh of behind-the-meter battery storage in December. 7 January 2026.
[2] Cumulative residential battery forecasts from AEMO's Draft 2026 ISP Inputs and Assumptions Workbook minus historical installation data from Green Energy Markets Projections for distributed energy resources – solar PV and stationary energy battery systems November 2025.
[3] Clean Energy Regulator. SRES postcode data – 2011 to present and totals. Accessed 30 January 2026. Note: registrants are given a 12-month window in which to apply for STCs for residential battery installations, meaning that the actual installed capacity is higher than these figures.
[4] DCCEEW. Cheaper Home Batteries Program – 1 May 2026: Changes to the program. Accessed 30 January 2026.
[5] DCCEEW. Six months of the Cheaper Home Batteries Program. 15 December 2025.

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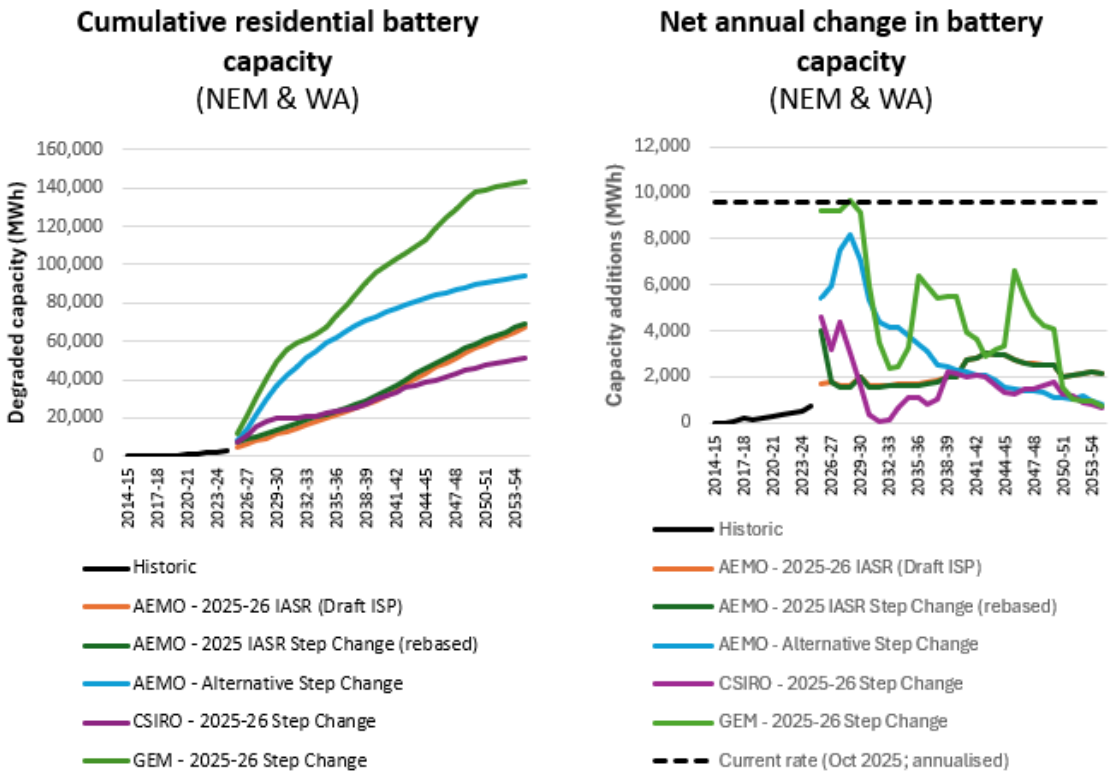
*Notes: *Actual capacity installed will be higher than shown here due to the 12-month certificate creation period allowed under the Renewable Energy Target (RET) legislation. FY26 projection is based on the average monthly installation rate from July-November 2025.*

Due to the size of the gap between AEMO's forecasts, and actual/expected residential battery uptake, IEEFA considers the current residential battery forecasts unfit for purpose for use in the final 2026 ISP. Widespread residential battery uptake could have significant implications for the National Electricity Market (NEM): reducing operational load; increasing utilisation of rooftop or utility-scale solar; and enabling households to export electricity to the grid during evening peak periods where they may reduce the use of large-scale generation such as gas. If the final ISP does not incorporate a more realistic projection of residential battery capacity, there is a risk the usefulness of the modelling is impacted, which could even send inefficient investment signals.

AEMO's *2026 Draft Forecasting Assumptions Update* presents several alternative residential battery forecasts that differ from those in the draft 2026 ISP, compared in Figure 2.[6] Each of these forecasts has merits and drawbacks, which are discussed in Table 1.

Figure 2: Comparison of draft 2026 ISP battery forecasts with other battery forecasts from the *Draft 2026 Forecasting Assumptions Update*



Source: IEEFA analysis of AEMO (Draft 2026 ISP, Draft 2026 Forecasting Assumptions Update), CSIRO and Green Energy Markets.
Note: Change in battery capacity is manually calculated, and reflects both new installations and degradation of existing capacity. Where underlying data was not available, this has been digitised from report charts. 'Current rate' based on October 2025 data from Clean Energy Regulator, as complete data is not yet available for more recent months.

[6] AEMO. Draft 2026 Forecasting Assumptions Update. December 2025.

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Table 1: Comparison of battery forecasts from *Draft 2026 Forecasting Assumptions Update*

Forecast and source	Notes
2025 IASR Step Change (rebased) *AEMO – Draft 2026 Forecasting Assumptions Update*[7]	AEMO propose to use this forecast for the 2026 Electricity Statement of Opportunities (ESOO) *Step Change* scenario. It features an upwards revision to the 2025-26 annual capacity additions (4.02GWh). However, this is almost certain to remain a significant underestimate, as actual uptake in the first six months of this financial year is approximately 3.8GWh. No other change has been made to this forecast despite the significant uplift in demand following the CHBP. IEEFA considers this forecast is not credible.
Alternative Step Change *AEMO – Draft 2026 Forecasting Assumptions Update*[8]	This forecast is proposed for a *Step Change* sensitivity in the 2026 ESOO. Modelled independently by AEMO, this forecast includes a higher 2025-26 baseline (5.4GWh), although this is still likely to be well below actual uptake in this financial year. In following years, capacity additions are more aligned to recent uptake levels, falling over time as rebates are reduced and ended. IEEFA considers this forecast has significant merit, provided the baseline year is updated to reflect likely 2025-26 actuals.
2025-26 Step Change *CSIRO*[9]	This is an updated version of the CSIRO consultant forecast that informed the current draft 2026 ISP forecasts. The CSIRO forecast similarly appears to materially underestimate 2025-26 uptake. In subsequent years, it features a crash in battery installations, with close to zero additions occurring in 2032-33. In IEEFA's view, this is highly unlikely given the expected underlying cost reductions in battery technology, and a likely reduction in installation costs due to the rapid growth of the installation industry. We do not consider this forecast to be credible.
2025-26 Step Change *Green Energy Markets*[10]	This is an updated version of the Green Energy Markets (GEM) consultant forecast that informed the current draft 2026 ISP forecasts. The 2025-26 baseline in the GEM forecast is significantly higher than others, and is the most closely aligned to recent installation trends. GEM also forecast a rapid reduction in sales following the conclusion of the CHBP – but to more moderate long-term levels, with several future surges in sales that align to battery lifetimes. IEEFA's view is that this forecast is likely to be more reasonable in the short term. We recommend AEMO consider whether any updates to the GEM forecast would be necessary in light of the CHBP revisions announced in December 2025.

[7] AEMO. 2025 Distributed PV and Batteries/VPP Forecast Report. December 2025. Page 42.
[8] Ibid.
[9] CSIRO. Small-scale solar PV and battery projections 2025-26. Page 48.
[10] Green Energy Markets. Projections for distributed energy resources – solar PV and stationary energy battery systems. November 2025. Page 12.

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Based on these observations, **we recommend that AEMO update its residential battery forecasts for the core scenarios in the final 2026 ISP**. AEMO should adopt either **(a) the Green Energy Markets 2025-26 Step Change forecast, or (b) the *Alternative Step Change* forecast for use in the final 2026 ISP**.

Irrespective of which forecast is chosen, we strongly recommend the baseline year in the forecast is updated to more accurately reflect actual installation trends, and that the changes to the program announced in December 2025 are factored in.

We emphasise that this problem is broader than a disagreement over the long-term forecasts. There are material inaccuracies in AEMO's baseline data when compared against actual battery uptake reported by the Clean Energy Regulator. We therefore consider it is inadequate to address this issue via a sensitivity. Rather, we urge AEMO to adopt more accurate and realistic forecasts for the final ISP's core scenarios.

IEEFA recommends AEMO expand its explanation of flexible coal plant operations

AEMO has included longer lifetimes for Queensland coal generators in response to the Queensland Energy Roadmap. However, AEMO notes that to allow Queensland coal to continue operating into the 2040s, more flexible operations like two-shifting and seasonal mothballing are forecast to be required.

"Coal is retained in the NEM until 2049, compared to 2038 under Step Change in the 2024 ISP, reflecting the intent of the Queensland Energy Roadmap. To retain these plant, more flexible operation is required, with increasingly frequent periods where coal plant are offline for hours, days, or even months at a time, to complement high solar generation periods."[11]

"To extend their availability, many coal plant operators are investigating plant modifications that would enable two-shifting and other more flexible operations. Two-shifting means switching off during the daytime peaks of solar generation, and returning for the evening peak and through the night and morning. In some cases, coal generators may operate only during peak seasons – remaining active in summer and winter while shutting down during the shoulder periods. This flexible operation means that there would be many periods in which all coal is offline, and this possibility has been incorporated into the proposed ODP, in particular to allow Queensland coal plants to continue operating into the 2040s."[12]

However, the Queensland power plants do not appear to be planning for such flexible operations. AEMO's 2025 Thermal Audit stated that the Queensland stations are not planning to investigate two-shifting. Mothballing is not mentioned in the Thermal Audit. The Thermal Audit states:

[11] AEMO. Draft 2026 Integrated System Plan. December 2025. Page 24-25.
[12] Ibid. Page 60.

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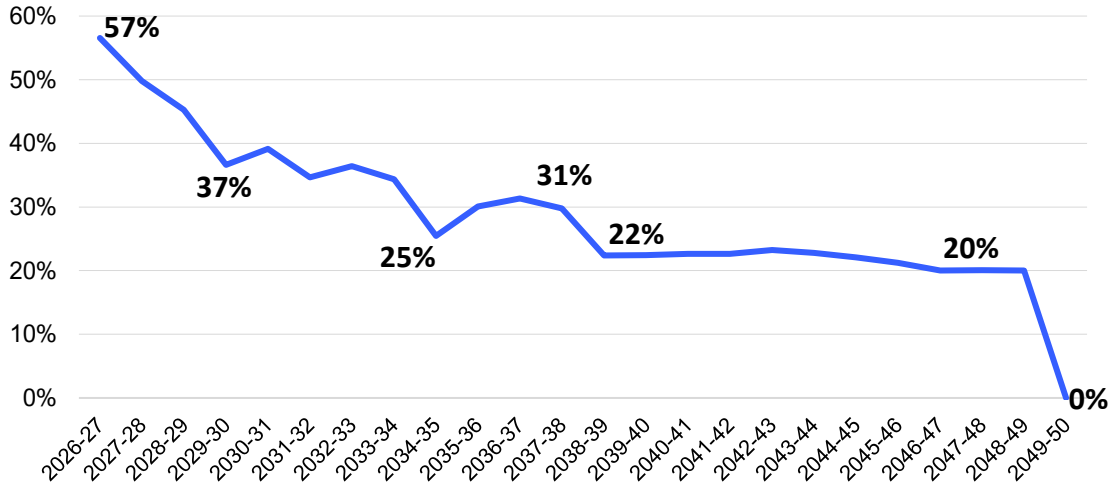
"While two-shifting is likely to be technically feasible at some stations, the stations have not and are not planning to investigate two-shifting. The impact to cost and plant life is seen as significant due to accelerated life consumption throughout the plant."[13]

Given these discrepancies, more detailed results data and discussion should be included in the final ISP around the operational regimes forecast to be required by coal-fired power plants.

With such large coal capacity remaining in the system in 2030, to meet the 82% renewables generation target it appears that significantly reduced coal utilisation would be required. IEEFA observes that the future capacity factor of NEM coal-fired power plants (black and brown combined) in the draft ISP is very low, reaching 37% in 2029-30 and 20% in 2046-47. By comparison, the capacity factor in FY25 of the whole fleet (both brown and black coal) was 63%.[14]

AEMO should explain the mechanisms around how these low future coal capacity factors have been arrived at: including if this is driven mostly by market dynamics, emissions factors, renewables targets and/or other factors. If this low capacity factor is mainly driven by emissions and/or renewables targets, it might not be a realistic forecast. There is currently no emissions mechanism in the NEM that would limit coal generation to meet those targets. AEMO should provide further clarity on how the low coal generation forecasts are arrived at in the final ISP to inform stakeholders. Stakeholders could then explore if this reduced coal generation is likely to be delivered entirely through the market, or if other mechanisms would be required to enable it.

Figure 3: NEM coal fleet capacity factor



Source: IEEFA capacity factor calculation based on NEM-wide black-and-brown combined coal generation and capacity figures from AEMO Draft 2026 ISP Generation Outlook: Step Change Base Case (LCDP SC with actionable SNSW-CNSW Option 5) CDP4.[15]

[13] AEMO. 2025 Thermal Audit. November 2025. Page 37.
[14] FY25 Generation was 86,069GWh (black coal) and 30,481GWh (brown coal) while black + brown coal capacity was 21,095 megawatts according to OpenElectricity.
[15] AEMO. Draft ISP generation and storage outlook. 10 December 2025.

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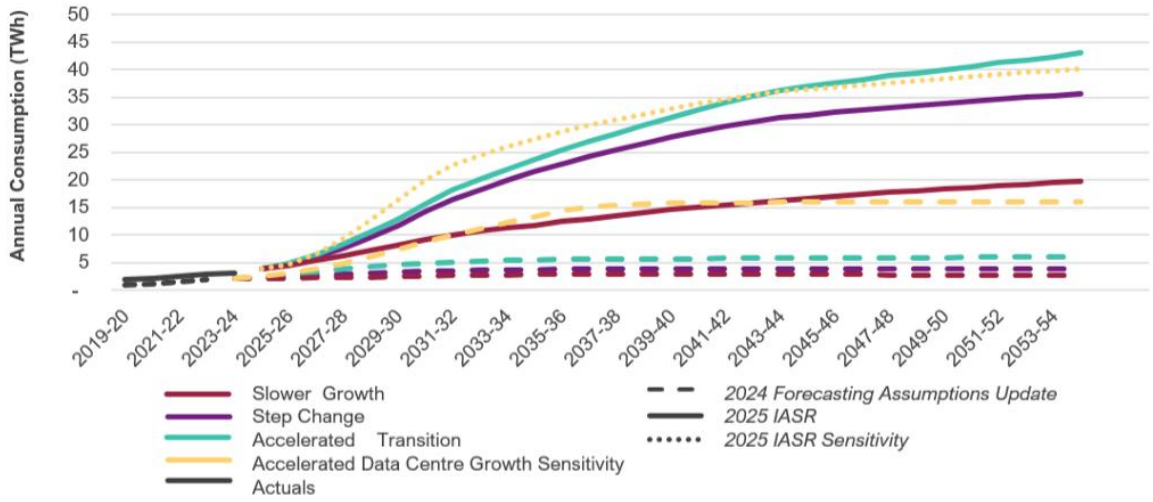
IEEFA recommends further analysis of data centre loads and flexibility potential

Consumption by data centres is forecast by AEMO to grow significantly. As shown in the 2025 ESOO: *"Data centre consumption is forecast to reach 21.4 TWh by 2034-35 and 35.7 TWh by 2054-55 under the Step Change scenario, the equivalent of around 9% and 12% of the NEM's grid-supplied electricity."*[16]

AEMO's latest forecasts show a significant increase in projected data centre load compared with prior years – as shown in Figure 4. However, AEMO flags uncertainty in development of data centres in its 2025 ESOO.[17] IEEFA recommends AEMO test various sensitivities relating to data centre development, and the implications for NEM generation, storage and transmission requirements, given the significant uncertainty that exists with this load. The federal government is currently developing data centre principles.[18] Further analysis from AEMO would help inform these conversations.

Figure 4: NEM data centre electricity consumption forecast, all scenarios, 2019-20 to 2054-55 (TWh)



Note: Several sites were identified as data centres for the 2025 forecasts, lifting the historical data compared to the 2024 forecasts. *Slower Growth* and *Accelerated Transition* in the *2025 IASR* are compared with *Progressive Change* and *Green Energy Exports* respectively in the *2024 Forecasting Assumptions Update*.

Source: AEMO IASR 2025.

Further, AEMO's data centre forecast does not seem to incorporate demand flexibility, according to the 2025 ESOO.[19]

"AEMO's data centre forecast does not incorporate demand flexibility, because developers anticipate these facilities will prefer reliable data service uptime and reliability. … The potential exists, however, for data centres to provide more demand flexibility than has been assumed in the forecast. Potential load shifting may be plausible, as well as leveraging onsite generation and

[16] AEMO. 2025 Electricity Statement of Opportunities. August 2025. Page 29.
[17] Ibid.
[18] Department of Industry, Science and Resources. Capture the opportunities.
[19] AEMO. 2025 Electricity Statement of Opportunities. August 2025.

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uninterruptible power supply (UPS) systems. However, there is likely to be a gap between theoretical flexibility and its practical availability."[20]

There is potential for data centres to have flexible demand. Oxford Economics, in its forecast for AEMO, said data centres can flex some of their operations: "*Internationally, data centres have been able to increase demand flexibility by shifting loads temporally, spatially and via accessing onsite generation and uninterruptible power supply systems."*[21]

IEEFA recommends AEMO explore the potential for data centre flexibility further. IEEFA notes that the DCCEEW asked for more exploration of data centre flexibility by AEMO in one of its submissions to the electricity demand forecasting methodology consultation.[22]

IEEFA recommends AEMO expand its discussion of gas generation outcomes

The 2026 Draft ISP tagline notes that "renewable energy, connected by transmission and distribution, firmed with storage and **backed up by gas**, presents the least-cost way to supply secure and reliable electricity to consumers through to 2050 [emphasis added]".[23]

In recent years IEEFA has observed increasing attention over the role of gas-powered generation (GPG) in a high-renewables system, with interest from stakeholders across the energy system in understanding what this role may look like in detail.

IEEFA has also analysed GPG forecasts in previous AEMO publications.[24] We observed several points:

- There is a high level of variability in GPG forecasts between AEMO publications.
- In recent forecasts, GPG generation volumes are generally forecast to remain at or below recent levels until 2050.
- GPG utilisation is forecast to decline significantly, which has implications for the levelised cost of electricity generated from gas, and the financial viability of gas generators.

Furthermore, we note that forecast GPG capacity and generation have both declined in the 2026 Draft ISP relative to the 2024 Draft ISP (Figure 5).

[20] AEMO. 2025 Electricity Statement of Opportunities. August 2025. Page 39.
[21] Oxford Economics. Data Centre Energy Demand. July 2025. Page 48.
[22] DCCEEW. Electricity Demand Forecasting Methodology consultation.
[23] AEMO. Draft 2026 Integrated System Plan. December 2025. Page 5.
[24] IEEFA. How much gas does the future grid need? 3 October 2024.

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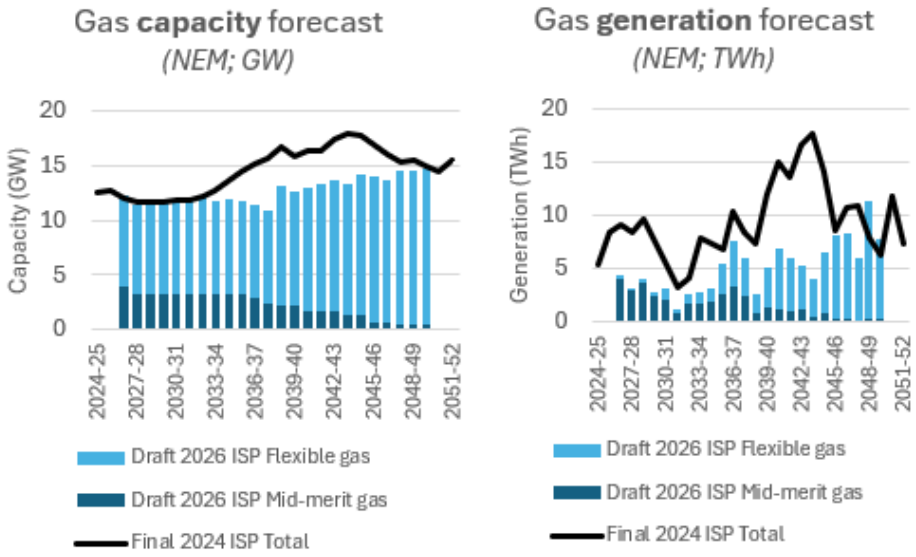
Figure 5: Comparison of GPG forecasts between the 2024 ISP and Draft 2026 ISP



Source: AEMO (2024 ISP generation and storage outlook; Draft 2026 ISP generation and storage outlook).

None of the above factors appear to be discussed in the main 2026 Draft ISP report. Rather, AEMO focuses on the forecast growth in GPG capacity. There is a risk that this could perpetuate misconceptions about the future role of gas – for example, that there are inadequate national supplies of gas to meet future GPG needs.

We commend AEMO for undertaking additional analysis on the gas infrastructure investments required to support GPG. However, this approach is limited as these investment costs are not factored into the ISP model's cost optimisation, and as noted by AEMO, "the commercial viability of [gas infrastructure] investments that primarily support generation is largely untested."[25]

IEEFA recommend AEMO enhance the section of the final 2026 ISP report that discusses GPG outcomes, explicitly addressing the following points:

- The drivers of any difference in outcomes between the 2024 and 2026 ISP, both NEM-wide and regionally.
- Trends in GPG generation output, in addition to capacity.
- Clarification over the role GPG is forecast to play in intraday peaking, versus long duration low renewable periods.
- Clarification over how the model treats these low-VRE periods, and the degree to which uncertainties over the nature of these periods impact the GPG forecasts.
- Clarification over whether the GPG outputs represent a true least-cost model outcome, or might be influenced by exogenous model constraints.

[25] AEMO. Draft 2026 Integrated System Plan. December 2025. Page 72.

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Further data and transparency would improve AEMO's demand-side factors statement

AEMO's demand-side factors (DSF) statement is a welcome addition to the ISP process that explains AEMO's methodology around identifying distribution network opportunities to unlock additional CER exports in detail. However the network data informing the various steps in the modelling process is very limited, with AEMO relying on a large number of assumptions. This impedes AEMO's ability to model CER curtailment and distribution network opportunities with a high level of certainty. Further, much of the distribution network data that was gathered has not been published, limiting transparency. Improved data gathering and transparency would be of benefit to the DSF statement.

To improve data gathering and transparency, IEEFA recommends independent analysis of distribution network costs and export capabilities be undertaken, in tandem with collecting and publishing more data from DNSPs. See IEEFA's recommendation below, from our prior submission.[26]

"IEEFA believes a detailed independent analysis of distribution network costs and export capabilities should be undertaken to determine the likely costs incurred with greater uptake of consumer energy resources (CER) in each location – similarly to how Aurecon and CSIRO provide analysis to determine generation and storage costs. This should also explore whether the "two-thirds rule" can be applied with confidence across all locations.

"This independent analysis should be undertaken in tandem with collecting more detailed data from the DNSPs. The independent analysis and data collected from DNSPs should be published to improve transparency and encourage opportunity analysis by industry stakeholders. As regulated monopolies, competitive tension does not apply to distribution networks, and as such data relevant to the public interest should be made publicly available."

Further, as the DSF statement is based on limited and often aggregated data, the outputs should have appropriate caveats and ranges applied. AEMO should consider running sensitivity analyses on different assumptions and publishing these where possible, to explore how certain assumptions influence the findings.

IEEFA has the below comments on specific aspects of the DSF statement.

- **Voltage limits and thermal limits:** The CER generation curtailment calculations are largely based on high-level voltage limit information so could be an under- or over-estimate (as AEMO has noted). The "two thirds" assumption – that voltage management issues arise when CER export exceeds two thirds of the distribution transformer thermal limit – does not appear to be well supported by data (as we outlined in a prior submission).[27] In the short term, AEMO should publish the thermal and voltage limit information that was received and add further justifications for the assumptions made. For

[26] IEEFA. Submission: Australian Energy Market Operator – Draft 2025 Electricity Network Options Report. 23 June 2025.
[27] IEEFA. Submission: Australian Energy Market Operator – Draft 2025 Electricity Network Options Report. 23 June 2025.

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future ISPs, improved voltage limit data will help improve the robustness of the demand-side modelling.

  - *"AEMO received thermal limit data from DNSPs at the distribution transformer level, but received limited information on voltage limits. The majority of DNSPs were able to provide voltage limit information but in cases where this wasn't possible, AEMO assumed that voltage management issues arise when CER generation export exceeds two-thirds of the existing distribution transformer level thermal limit"*[28]

- **Zone substation or sub-transmission substation data**: As AEMO notes, there is a lack of data on zone substation or sub-transmission substation level limitations on CER exports. This means that "for the most part… additional curtailment that may occur at the zone substation or sub-transmission substation levels is omitted."[29] It also means that the model is not fully co-optimising between CER and large-scale assets, because the CER curtailment has been modelled at the low-voltage (LV) transformer level, but then curtailment at the zone substation and sub transmission level is largely not accounted for. Consideration should be given to gathering further data on zone substations and sub-transmission substations and incorporating this into the modelling for future ISPs. The value in doing this analysis would need to be weighed up against the time and cost associated with the more complex modelling associated.

- **Voltage management optimisation costs:** The voltage management optimisation costs appear to be very high level with limited supporting data. Further exploration of these costs should be undertaken. See below IEEFA's prior comments on these costs:

  - *"IEEFA has concerns that the Tranche 2 NEM-wide investment rate of $400,000 per megawatt (MW) for voltage management is not well supported by available data. AEMO notes that this is based on the average export long run marginal cost (LRMC) for all distribution network service providers (DNSPs) as reported in its most recent regulatory reset submissions where available. However:*

    - *AEMO should explain why a simple average is an appropriate choice, noting that it found a very wide range of variance between LRMCs across DNSPs ($100,000/MW to $919,000/MW with a median value of $324,000/MW).*

    - *The two DNSPs for which more accurate data specific to the network has been received reported far lower costs (Ausgrid at $251,000/MW, and SAPN at $90,000/MW).*

    - *AEMO's sample is incomplete, as several DNSPs have not published export LRMC data.*

[28] AEMO. Appendix A9. Demand Side Factors Statement. December 2025. Page 16.
[29] Ibid. Page 20.

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- *This suggests a reasonable chance that AEMO's $400,000/MW average may overestimate the cost of hosting distributed energy resources (DER) under Tranche 2 in some regions."*[30]

- **Demand-driven augmentations:** The DSF statement includes analysis of demand-driven augmentations, which IEEFA considers is a helpful step in the process. However it appears that AEMO makes high-level assumptions regarding the proportions of new CER uptake that would be supported by demand-driven augmentations, and the basis for those assumptions is unclear. The DSF statement states: *"The proportions assumed for each DNSP … were agreed on with each DNSP based on their expectation on the future need for demand-driven augmentations to 2050 across their network. … For most DNSPs, AEMO assumed that demand-driven augmentations will naturally support CER export from 80% of new CER uptake."*[31] Ideally AEMO would publish more information explaining the 80% assumption, and if/how future iterations of the modelling would improve on this assumption.

- **Uncertainty around CER forecasts, and their impact on the modelling:** There is significant uncertainty around uptake of rooftop solar, residential batteries and electric vehicles (along with charging behaviour). These all affect the degree to which CER exports could be consumed within the distribution network, and the degree to which CER exports need to be curtailed. As mentioned earlier in this submission, residential battery uptake is already higher than AEMO has accounted for, which would reduce the baseline level of CER curtailment. It would be helpful for AEMO to explore how various aspects of the CER forecast could impact the distribution network opportunities identified.

- **Utility-scale assets in the distribution network:** The DSF statement outlines that distribution-connected utility-scale generation and storage are optimised in the ISP modelling. However, it provides limited information on this process. More information on the methodology, assumptions and outputs for this segment of the demand-side modelling would be of benefit to improve the DSF statement.

- **Sensitivity analyses:** AEMO has modelled low energy efficiency and CER coordination sensitivities, but not high energy efficiency and CER coordination sensitivities. Modelling the higher cases for the sensitivity could help stakeholders understand if there are significant benefits with higher energy efficiency and/or CER coordination levels than what existing assumptions forecast.

[30] IEEFA. Submission: Australian Energy Market Operator – Draft 2025 Electricity Network Options Report. 23 June 2025.
[31] AEMO. Appendix A9. Demand Side Factors Statement. December 2025. Page 14.

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IEEFA recommends AEMO consider modelling CER coordinated via better tariff signals

Analysis by IEEFA shows that rooftop solar, batteries and energy efficiency upgrades can deliver significant reductions in demand during peak times.[32] Peak demand reductions could be encouraged either through virtual power plants (VPPs) or, for customers who have not signed up to a VPP, through tariff signals. However, current tariff signals are largely insufficient to encourage peak demand reductions – for example, non-VPP batteries are largely not incentivised to export to the grid during periods of high demand.

Currently, AEMO models a significant amount of coordination via VPPs. AEMO should consider modelling CER/DER [distributed energy resources] that is encouraged to export to the grid in times of need via improved tariff signals. This would indicate the opportunity at hand from improving tariffs.

[32] IEEFA. A focus on homes, not power plants, could halve energy bills. 9 July 2025.