Cost Benefit Analysis Guidelines Compliance Report

July 2026

For the 2026 Integrated System Plan





We acknowledge the Traditional Custodians of the land, seas and waters across Australia. We honour the wisdom of Aboriginal and Torres Strait Islander Elders past and present and embrace future generations.

We acknowledge that, wherever we work, we do so on Aboriginal and Torres Strait Islander lands. We pay respect to the world's oldest continuing culture and First Nations peoples' deep and continuing connection to Country; and hope that our work can benefit both people and Country.

AEMO is proud to have launched its Innovate Reconciliation Action Plan (RAP) in June 2026. Pictured left and featuring on the cover of the Innovate RAP is Wiradjuri artist Lani Balzan's 'Journey of unity: AEMO's Reconciliation Path', a visual representation of our ongoing journey towards reconciliation – a collaborative endeavour that honours First Nations cultures, fosters mutual understanding, and paves the way for a brighter, more inclusive future.

Important notice

Purpose

AEMO provides this Cost Benefit Analysis Guidelines Compliance Report to the Australian Energy Regulator (AER) as required in section 2.1.2 of the Cost Benefit Analysis Guidelines, which the AER has identified as a binding requirement.

This report is based on information available to AEMO at 25 June 2026 unless otherwise indicated.

Disclaimer

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Version control

Version	Release date	Changes
1.0	23/7/2026	Initial release.

Executive summary

Cost Benefit Analysis Guidelines obligations for the Integrated System Plan

The Australian Energy Regulator's (AER's) *Cost Benefit Analysis Guidelines* (CBA Guidelines) describe the analysis that AEMO must undertake in the *Integrated System Plan* (ISP) and that transmission network service providers (TNSPs) must undertake in regulatory investment tests for transmission (RIT-T).

For the ISP, the CBA Guidelines contain binding and non-binding guidance for AEMO in preparing an ISP. The CBA Guidelines classify these elements as:

- **requirements** – binding regulatory obligations with which AEMO must comply,
- **considerations** – matters which AEMO must have regard to but may form its own view on how much weight (if any) to give when making a decision (considerations are binding), or
- **discretionary** – information that is not specified as a requirement or consideration and is non-binding.

This *Cost Benefit Analysis Guidelines Compliance Report* (the "Compliance Report") outlines AEMO's compliance with all requirements and considerations in the CBA Guidelines relating to the development of the 2026 ISP.

AEMO considers the 2026 ISP complies with the relevant regulatory obligations

After reviewing the processes used to develop the 2026 ISP, AEMO considers it has complied with the binding requirements and considerations of the CBA Guidelines.

In addition, with the benefit of regular engagement between the AER and AEMO on ISP activities, the AER has not listed any ISP compliance issues on its compliance issues register. AEMO will continue to work closely with the AER to promote compliance in future ISPs, proactively address potential compliance issues and resolve any uncertainty regarding the application of compliance obligations.

AER guideline compliance reporting

Separately, the AER's *Forecasting Best Practice Guidelines* (FBPG) require AEMO to provide compliance reports to the AER shortly after publishing an *Inputs, Assumptions and Scenarios Report* (IASR) or *ISP Methodology*. The FBPG include obligations relevant to AEMO's forecasting practices and consultation processes for the ISP.

In August 2025, AEMO provided the AER with a single compliance report that addressed FBPG obligations relevant to the 2025 IASR, *ISP Methodology* and 2025 *Electricity Statement of Opportunities* (ESOO) for the National Electricity Market (NEM).

AEMO currently expects to publish the 2027 IASR by mid-2027. A compliance report addressing FBPG obligations relevant to the 2027 IASR, including reporting on any other relevant activities since the previous compliance report, will be provided to the AER shortly thereafter.

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1 Introduction

AEMO is required to provide the AER with a compliance report for the ISP, which must be submitted to the AER no later than 20 business days after the publication of the final ISP.

The CBA Guidelines[1] specify which parts of the guideline are binding *requirements* on AEMO, and which are binding *considerations*:

- 'binding *requirements*' are those which must be addressed by AEMO, and
- 'binding *considerations*' are those which AEMO must have regard to or must consider when making decisions.

This compliance report is required to identify where AEMO has:

- complied with applicable requirements;
- had regard to applicable considerations (including the reasons for the weight AEMO has attached to each consideration); and
- resolved key issues raised by the AER through the AER's compliance issues register[2].

1.1 Scope of this report

This Compliance Report summarises AEMO's assessment of its compliance with the binding requirements and considerations of the CBA Guidelines (version 3.0) relevant to the development of the 2026 ISP. The 2026 ISP[3] was published on 25 June 2026. The AER commenced consultation on CBA Guideline amendments in April 2024 and published version 3 of the guidelines in November 2024.

The AER has published information on its ISP compliance activities and process for raising and publishing compliance issues on its system planning issues register[4]. No ISP compliance issues have been raised by the AER to date.

Figure 1 below provides a summary of the ISP and regulatory investment test for transmission (RIT-T) cost benefit analysis (CBA) processes, and the relevant sections of the CBA Guidelines relating to each step, including the ISP. This Compliance Report focuses on compliance related to elements of Figure 1 linked to section 3 of the CBA Guidelines, which relate to the ISP, IASR, *ISP Methodology* and the feedback loop.

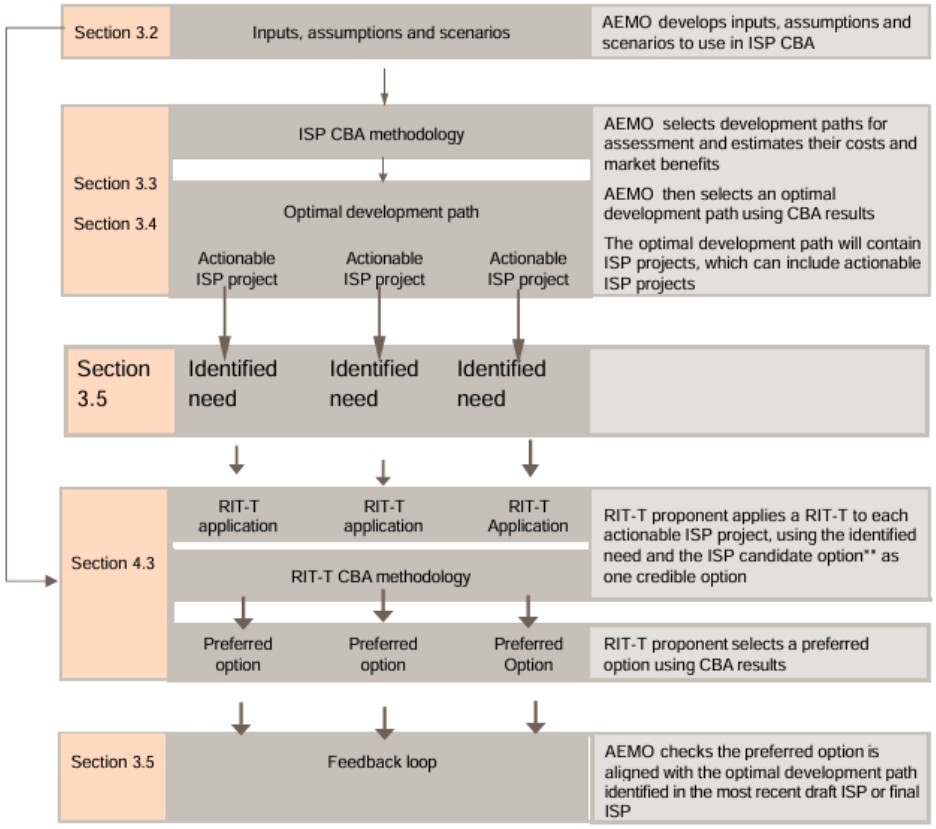
[1] AER, *Cost Benefit Analysis Guidelines*, version 3.0, November 2024. At https://www.aer.gov.au/industry/registers/resources/guidelines/cost-benefit-analysis-guidelines.

[2] AER, Public Issues Register, at https://www.aer.gov.au/industry/networks/system-planning/system-planning-issues-register.

[3] AEMO, 2026 *Integrated System Plan*, June 2026, at https://www.aemo.com.au/energy-systems/major-publications/integrated-system-plan-isp/2026-integrated-system-plan-isp.

[4] See https://www.aer.gov.au/industry/networks/system-planning.

Figure 1 CBA guidelines alongside the ISP and RIT-T CBA processes



Source: AER, CBA Guidelines, Figure 2, p.8.

1.2 Structure of this report

CBA Guidelines Appendix A, Table 15 lists the binding requirements and considerations when developing the ISP. For ease of reporting and assessing compliance, Section 2 of this report is structured according to the list of binding requirements and considerations contained in CBA Guidelines Appendix A:

- Section 2.1 summarises compliance issues relating to the CBA Guidelines.
- Section 2.2 addresses requirements and considerations 1-4 relating to compliance reporting contained in section 2.1 of the CBA Guidelines.
- Section 2.3 addresses requirements and considerations 5-12 relating to inputs, assumptions and scenarios contained in section 3.2 of the CBA Guidelines.
- Section 2.4 addresses requirements and considerations 13-25 relating to the CBA methodology contained in section 3.3 of the CBA Guidelines.
- Section 2.5 addresses requirements and considerations 26-30, relating to treatment of externalities, option value and non-network options contained in section 3.4 of the CBA Guidelines.
- Section 2.6 addresses requirements and considerations 31-37, relating to interactions and alignment with the RIT-T contained in section 3.5 of the CBA Guidelines.

2 Compliance with requirements and considerations

This section presents AEMO's assessment of compliance with the requirements and considerations set out in the CBA Guidelines relevant to the 2026 ISP.

2.1 Compliance issues

After reviewing the processes used to develop the 2026 ISP, AEMO considers it has complied with the binding requirements and considerations of the CBA Guidelines. As detailed in subsequent sections, no compliance issues have been identified.

2.2 Compliance reporting

This section discusses compliance with the CBA Guidelines binding requirements and considerations relating to compliance reporting as summarised in Appendix A, Table 15 of the guidelines.

Table 1 CBA Guidelines Section 2.1 – Complying with the CBA Guidelines

#	CBA Guidelines requirement/consideration		AEMO compliance
1	***Requirement:*** AEMO is *required* to provide the AER with a compliance report when preparing an ISP, which must be submitted to the AER no later than 20 business days after the publication of the final ISP.		This report achieves compliance with the requirement.
2	***Requirement:*** In its compliance reports, AEMO is *required* to identify where it:	• has complied with applicable requirements	Compliance with binding obligations identified as "***Requirements***" is discussed in sections 2.2 – 2.6 of this report.
		• has had regard to applicable considerations (including the reasons for the weight it has attached to each consideration)	Compliance with binding considerations identified as "***Considerations***" is discussed in sections 2.2 – 2.6 of this report.
		• has resolved key issues raised by the AER through the issues register.	No key issues have been raised by the AER through the issues register.
3	***Requirement:*** AEMO is *required* to identify breaches of the CBA guidelines, if any, in its compliance reports and provide an explanation for the breach.		AEMO has not identified any breaches of the CBA Guidelines in this compliance report.
4	***Requirement:*** If a compliance report contains confidential information, AEMO is *required* to provide another non-confidential version of the report in a form suitable for publication.		No confidential information is contained in this report.

2.3 Inputs, assumptions and scenarios

This section discusses AEMO's compliance with the CBA Guidelines binding requirements and considerations relating to inputs, assumptions and scenarios, as summarised in Appendix A, Table 15 of the guidelines.

Table 2 CBA Guidelines Section 3.2.1 – Inputs and assumptions

#	CBA Guidelines requirement/consideration		AEMO compliance
5	***Requirement***: AEMO *is required* to:	• Identify the key inputs or assumptions driving the CBA results in the draft ISP. These have a large impact on the costs or market benefits of one or more development paths.	Key inputs and assumptions driving the CBA results in the Draft 2026 ISP are discussed extensively in Appendix A6 of the Draft 2026 ISP and summarised at a high level at page 20: 1. updated renewable energy targets and policies to reflect developments in federal and state government policies, 2. revised carbon emissions budgets across scenarios to reflect a spread of emissions reduction for the electricity sector that will support the decarbonisation of Australia's economy, aligned with government policy, including Australia's recently developed 2035 emissions target for the Federal Government's Net-Zero Plan, 3. an additional 4 gigawatts (GW) wind, 4 GW utility-scale solar and 1 GW flexible gas that are now committed or anticipated, as confirmed in AEMO's July 2025 Generation Information update, 4. technology-specific weighted-average cost of capital (WACCs) to account for the different financial risks and assumptions appropriate for each technology and scenario, 5. revised costs, capacity limits and renewable resource estimates outlined in AEMO's 2025 *Electricity Network Options Report*[5] and CSIRO's 2024-25 GenCost publication[6], and reflecting revised wind farm hub heights of 150 metres, and 6. updated energy demand forecasts including consumer energy resources (CER), data centres, and reduced demand for hydrogen consumption across all scenarios. The 2026 ISP, including the updated Appendix A6 to the final 2026 ISP, also describes key changes since the publication of the Draft 2026 ISP in response to stakeholder feedback, policy and legislative changes and recent market developments.
		• Where available, present verifiable sources for each key input and assumption, and their associated forecasting methodologies, in the draft ISP.	The 2025 IASR and 2025 Inputs and Assumptions Workbook[7], as updated by the Draft 2026 ISP Inputs and Assumptions Workbook[8], presented verifiable sources (where available and not prevented from publication by confidentiality obligations) for each key input and assumption used in the Draft 2026 ISP modelling. Where inputs and assumptions were updated for the final 2026 ISP, AEMO retained verifiable sources where available and documented material changes through the 2026 ISP, the 2026 ISP Inputs and Assumptions Workbook and relevant appendices. The AER's transparency review requires it to assess whether, when selecting key inputs and assumptions, AEMO has based information on verifiable sources or provided stakeholders with adequate opportunity to propose alternative inputs. The AER's 2025 IASR Transparency Review Report[9] found that *"the majority of AEMO's chosen inputs and assumptions [in the IASR] have been adequately explained and are based on verifiable sources".* Aspects of the 2025 IASR that the AER considered required further explanation were addressed in the 2025 IASR addendum published 10 December 2025[10].
6	***Consideration****:* AEMO *must have regard* to the performance of its previous forecasts against actual outcomes, through the		AEMO had regard to the performance of its previous forecasts against actual outcomes when developing the 2025 IASR, as measured in AEMO's annual *Forecast Accuracy Report* (FAR)[11]. AEMO uses the insights gained from its FAR

[5] AEMO, 2025 *Electricity Network Options Report*, at https://www.aemo.com.au/consultations/current-and-closed-consultations/2025-electricity-network-options-report-consultation.

[6] CSIRO, *GenCost 2024-25: Final Report*, at https://publications.csiro.au/publications/publication/PIcsiro:EP2025-2701.

[7] AEMO, 2025 *Inputs, Assumptions and Scenarios Report*, at https://www.aemo.com.au/consultations/current-and-closed-consultations/2025-iasr.

[8] AEMO, Draft 2026 *Integrated System Plan* and Draft 2026 ISP Inputs and Assumptions Workbook, at https://www.aemo.com.au/consultations/current-and-closed-consultations/draft-2026-isp-consultation.

[9] At https://www.aer.gov.au/publications/reports/performance/transparency-review-aemo-2025-inputs-assumptions-and-scenarios-report.

[10] At https://www.aemo.com.au/-/media/files/major-publications/isp/draft-2026/addendum-to-the-2025-inputs-assumptions-and-scenarios-report.pdf?rev=00798523a25e42078034d1878c337f19&sc_lang=en.

[11] At https://aemo.com.au/en/energy-systems/electricity/national-electricity-market-nem/nem-forecasting-and-planning/forecasting-and-reliability/forecasting-accuracy-reporting.

#	CBA Guidelines requirement/consideration		AEMO compliance
	post-period performance reviews set out in the forecasting best practice guidelines.		to develop annual Forecast Improvement Plans (included within the same FAR) to continuously improve its forecasts. The 2025 FAR summarised that the most recently assessed forecasts (for the 2024 NEM ESOO) provided strong overall forecasting performance in areas critical to AEMO's ESOO forecasts. These findings reinforce confidence in the existing forecasting approach, while also identifying targeted areas where forecast accuracy can be further improved.
7	***Requirement:*** The discount rate(s) in the ISP *is required* to be appropriate for the analysis of private enterprise investment in the electricity sector across the National Electricity Market, and *is required* to be consistent with the cash flows that the ISP is discounting.		Section 3.7.1 of the 2025 IASR sets out the discount rate applied in the 2026 ISP. AEMO engaged Oxford Economics to determine appropriate discount rate assumptions[12]. Oxford Economics Australia recommended that the appropriate discount rate for use in the 2025 IASR and 2026 ISP that promotes competitive neutrality is 7%, based on its macro-economic assessment. This choice of discount rate aligns with Infrastructure Australia's guide to economic appraisal[13], and is commensurate with commercially-oriented investments considered for technologies included in the ISP. The lower bound of the discount rate was based on the most recent AER revenue determination at the time of the final ISP. In its August 2024 return on debt update[14], the AER set the pre-tax real WACC to be 3.00%. This is consistent with the discretionary guidance in the AER's CBA Guidelines. For the upper bound of the discount rate, AEMO adopted 10% from Infrastructure Australia's guideline for economic appraisal. Following stakeholder feedback and using insights from a survey of developers in the NEM regarding their cost of capital and other inputs, Oxford Economics also recommended different WACCs for each technology to capture different financial risks and assumptions appropriate for each technology and each scenario. Table 30 of the 2025 IASR shows the WACCs set for different technology options under each scenario. AEMO considers it appropriate to vary the WACC by technology in order to reflect the different rates of return that investors require to compensate for the corresponding level of risk. In contrast, the discount rate reflects the time value of money based on the opportunity cost that a developer or owner places on its investment, reflecting the value of alternative investments, including risk-free investment options, that the investor foregoes by investing in the project. AEMO considered stakeholder feedback received through the 2025 IASR consultation processes regarding discount rates and WACCs when finalising the approach adopted in the 2026 ISP.
8	***Requirement*:** When applying a value(s) of customer reliability (VCR) to value a market benefit class for a development path, AEMO *is required* to use:	• The AER's most recent VCRs for unplanned electricity outages for the NEM, at the time of publishing an ISP timetable under clause 5.22.4 of the National Electricity Rules (NER). • The most relevant VCR(s) for the load associated with the unplanned electricity outages.	Section 3.7.2 of the 2025 IASR sets out the VCRs applied in the 2026 ISP. In accordance with the CBA Guidelines, AEMO is required to use the AER's most recent VCRs at the time of publishing an ISP Timetable. The initial release of the 2026 ISP Timetable was on 26 September 2024 and the timetable was updated three times in 2025 in accordance with NER 5.22.4[15]. The AER adjusts VCRs annually based on the Consumer Price Index for that year and in accordance with its VCR Methodology. For the 2025 IASR, Draft 2026 ISP and 2026 ISP, AEMO consistently applied the VCRs contained in the AER's 2024 VCR Review[16]. Table 32 of the 2025 IASR contains the distribution and transmission customer load-weighted VCRs by state that were sourced from the 2024 VCR report and applied in all relevant 2026 ISP publications. The AER's values were adjusted to real 2025 dollars in accordance with the AER's annual adjustment mechanism.

[12] Oxford Economics, Discount rates for energy infrastructure, July 2025, at https://www.aemo.com.au/consultations/current-and-closed-consultations/2025-iasr.

[13] Infrastructure Australia, Guide to economic appraisal, at https://www.infrastructureaustralia.gov.au/guide-economic-appraisal.

[14] Based on AER - Transgrid FD PTRM - 2024-25 RoD update - Humelink S2 - August 2024, at https://www.aer.gov.au/documents/aer-transgrid-fd-ptrm-2024-25-rod-update-humelink-s2-august-2024-public.

[15] AEMO, 2026 ISP Timetable, October 2025, at https://www.aemo.com.au/energy-systems/major-publications/integrated-system-plan-isp/2026-integrated-system-plan-isp.

[16] AER, *Values of Customer Reliability 2024 – Final Report*, at https://www.aer.gov.au/industry/registers/resources/reviews/values-customer-reliability-2024/final-report.

#	CBA Guidelines requirement/consideration		AEMO compliance
9	***Consideration*:** When applying a VCR, AEMO *must have regard* to:	• Any application guidance accompanying the VCR values it is using.	Based on stakeholder feedback on VCRs in response to the Draft 2025 IASR and in accordance with application guidance, AEMO applied the customer load-weighted state VCRs provided in the AER's report when finalising the 2025 IASR.
		• The load-weighted VCR that reflects the relevant composition of the different customer types in the specified loads that feature higher up on that jurisdiction's schedule of rotational load shedding.	Customer load-weighted state VCRs were adopted as they reflect the VCRs of the customer composition on the network as per the guidance provided in AER's VCR report.
10	***Requirement:*** AEMO is *required* to use the then prevailing VER under relevant legislation or, otherwise, any administrative guidance we have published.		Section 3.7.3 of the 2025 IASR sets out the value of emissions reduction (VER) applied in the 2026 ISP. The VER was calculated consistent with the method agreed to by Australia's Energy Ministers in the Amended VER MCE Statement issued in July 2024 and the AER's guidance and explanatory statement[17] to apply until 30 June 2026.

Table 3 CBA Guidelines Section 3.2.2 – Scenarios

#	CBA Guidelines requirement/consideration		AEMO compliance
11	***Consideration*:** In developing reasonable scenarios, AEMO *must consider*:	• The key inputs identified in section 3.2.1 and major sectoral uncertainties affecting the costs, benefits and need for investment in the NEM, when selecting the input variables and parameters that form part of each scenario.	Table 3 of the 2025 IASR identifies the key scenario parameters and each parameter is described in detail within the report. The introduction of Section 2 of the 2025 IASR identifies major sectoral uncertainties affecting the costs, benefits and need for investment in the NEM, and how they informed scenario development, including: • the growth of the Australian economy, and the global dynamics that influence it, particularly global support and action for reducing emissions, • the development of demand-side factors, including CER, alongside the potential coordination of these resources, and other consumer investments in demand flexibility and energy efficiency, • cost outlooks for technologies across electricity generation, storage and transportation, as well as costs and potential infrastructure developments to maintain and improve Australia's gas networks and markets, • the emergence of hydrogen and related value-added products, as well as biomethane, and • the changing nature of commercial and industrial loads, including the potential for closures and the growth of data centres.
		• Taking the most probable value(s) for each input variable and/or parameter that forms part of the most likely scenario.	The 2025 IASR identifies three scenarios for its planning activities, including the 2026 ISP: *Slower Growth*, *Step Change* and *Accelerated Transition*. *Step Change* is identified as the most likely scenario as it collectively contains the most probable set of input and assumption values. *Step Change* reflects an internally consistent collection of parameters located in the middle of the scenario collection developed for the 2025 IASR and considers stakeholder feedback submitted during the 2025 IASR consultation process. AEMO refined its approach for determining scenario weightings and identifying the scenario containing the most probable set of inputs and assumptions for the 2026 ISP. In previous years, AEMO used an online Delphi Panel survey with a single question to gather stakeholders' assessments of the likelihood of each scenario. Instead of using this single-question approach, for the 2026 ISP, participants were engaged using a deliberative forum to describe their expectations on each of the underlying scenario parameters. This allowed deeper analysis of the various drivers of each scenario, while enabling stakeholders to engage with the diversity of perspectives and expertise in the forum. The process for determining scenario weightings included: • receiving input from 25 expert energy sector representatives in September 2025 through a full-day deliberative workshop,

[17] AER, Valuing emissions reduction final guidance, May 2024 at https://www.aer.gov.au/industry/registers/resources/guidelines/valuing-emissions-reduction-final-guidance-may-2024.

#	CBA Guidelines requirement/consideration		AEMO compliance
			• participants assessing the relative likelihood of 18 parameters that underpin the scenarios through individual and anonymous voting, supported by group discussions and shared insights, and • mapping participant views to the 2025 IASR scenarios to estimate scenario weightings for each parameter, with each parameter then weighted for importance and impact. The 2026 ISP scenario weightings outcome was *Step Change* (46%), *Slower Growth* (27%) and *Accelerated Transition* (27%). This outcome was communicated to stakeholders ahead of release of the Draft 2026 ISP in AEMO's *2026 ISP Scenario Weighting* publication[18], which outlines AEMO's process to determine scenario weightings and key factors driving changes in those weightings compared to previous years. Section 4.3 of the Draft 2026 ISP also summarises this process and outcome.
		• Taking a balanced approach to risk in varying input variables and/or parameters to create reasonable scenarios around the most likely scenario. That is, AEMO should consider risks associated with under- or overdue investment and over- or premature investment, consistent with clause 5.22.5(e)(1) of the NER.	The balanced outcome whereby *Step Change* was identified as the most likely of the three scenarios to eventuate (46%), with equal weightings for both *Slower Growth* and *Accelerated Transition* (27%), helps ensure that risks of over and under-investment are explored evenly. An over-emphasis on *Accelerated Transition* may lead to over-investment in infrastructure, while an over-emphasis on *Slower Growth* may lead to under-investment. AEMO considers that the 2025 IASR scenario suite continues to provide a broad range of futures to inform regulatory network and non-network investment purposes, and enable identification of emerging system adequacy risks (for reliability and security assessments) as well as test the risks of under- and over-investment (for investment planning purposes). In particular, the narratives for each scenario, set out in section 2.1 of the 2025 IASR, appropriately consider under- and premature investment or over- and overdue investment depending on the particular changes explored by the scenario. The scenario narratives influence the selection of inputs and parameters for each scenario. An appropriate balance of investment risk in the narratives drives a balanced approach to risk for inputs across all scenarios. The examination of risks of over- and under-investment is further explored throughout Appendix A6 of the 2026 ISP. Sensitivity analysis in the ISP further supports examination of these risks.
		• Presenting information on the key input variables it is varying to form each scenario, including (for each key input variable) the value(s) chosen for each scenario and how this compares to the underlying range of possible values.	Section 2.2 of the 2025 IASR provides details of the key inputs and input values varied across each scenario. Inputs are described quantitatively throughout the 2025 IASR and in the accompanying 2025 Inputs and Assumptions Workbook.
		• Using internally consistent input variables and parameters for each scenario, such that each scenario represents a plausible market environment.	The introduction to Section 2 of the 2025 IASR included "internally consistent" and "plausible" as two of the five core principles used to develop the scenarios. The 2025 IASR confirms that scenarios cover a broad range of plausible operating environments for the energy sector, and the potential changes in those environments, in an internally consistent way. AEMO's 2025 IASR consultation also specifically sought stakeholder input on the internal consistency and breadth provided by the scenario collection, and considered that feedback when finalising the IASR.
12	***Requirement*:** Where the scenarios all have an equal likelihood AEMO *is required* to identify one scenario as the most likely scenario for the purposes of clause 5.22.5(e)(3).		As explained above, *Step Change* was identified as the most likely scenario for the purposes of the 2026 ISP (46%), with equal weightings for both *Slower Growth* and *Accelerated Transition* (27%).

[18] AEMO, *2026 ISP Scenario Weighting*, at https://www.aemo.com.au/-/media/files/major-publications/isp/2026/2026-isp-scenario-weighting overview.pdf?rev=4dae70ae407241f68e19e768a4ce2a14&sc_lang=en&hash=9608DA5C80FD980B7C003C61AC4A09B1.

2.4 CBA methodology

This section discusses AEMO's compliance with the CBA Guidelines binding requirements and considerations relating to the CBA methodology used by AEMO in the ISP – as summarised in Appendix A, Table 15 of the guidelines.

Table 4 CBA Guidelines Section 3.3.1 – Selecting development paths

#	CBA Guidelines requirement/consideration		AEMO compliance
13	***Requirement*:** In its process for selecting development paths, AEMO *is required* to:	• In step one, include information from transmission annual planning reports (TAPRs) on all proposed augmentations to the network and proposed replacements of network assets, including the proposed solution and other reasonable network options and non-network options.	AEMO reviewed all TAPRs and used an annual TNSP data request process to ensure consistency. AEMO requested network modelling and proposed project timings from TNSPs regarding network projects to include in the 2026 ISP. AEMO consulted on the application of TNSP data and TAPR information through joint planning and via formal consultation for the 2025 IASR and 2025 *Electricity Network Options Report*. In addition, AEMO received updated information from several project proponents in response to the Draft 2026 ISP and these updates were incorporated into the modelling for the 2026 ISP, as noted in Appendix A5.
		• Also in step one, include all committed and anticipated projects, and credible generation (and other non-network) projects that are proposed but not sufficiently progressed to be classified as anticipated.	AEMO included all committed and anticipated network projects and all committed, anticipated and policy-supported generation and storage projects when selecting development paths for the 2026 ISP. These projects, and the process for updating them, were outlined in the 2025 IASR and *ISP Methodology*[19], and published in updates to AEMO's Transmission Augmentation Information page[20] or Generation Information page[21]. Table 7 of the 2026 ISP summarises committed and anticipated transmission projects included in the optimal development path (ODP). Transmission projects that have advanced to in service, anticipated or committed since release of the 2024 ISP are identified in Table 8. The 2026 ISP reflects the commitment status of generator and storage projects as per the January 2026 Generation Information update, as explained in Appendix A2 of the 2026 ISP. Policy-supported projects are those generator and storage projects that have explicitly been awarded funding support through a relevant government tender or other associated instrument, that are not included in the January 2026 Generation Information update as existing, committed or anticipated projects. This includes the following funding frameworks: • 2020 amendment to the *National Electricity (Victoria) Act 2005* (NEVA), • Victorian Renewable Energy Target auction (VRET), • New South Wales Long-Term Energy Service Agreements (LTESAs), • Capacity Investment Scheme (CIS), and • Australian Renewable Energy Agency (ARENA) Large Scale Storage Funding Round. Projects that have won access support under the New South Wales Renewable Energy Zone (REZ) Access Rights framework are not automatically treated as anticipated, but access rights are reflected in the modelling.
		• In step three, select development paths that include variations in timing and level of transmission (or non-network option substitute/hybrid)	The Draft 2026 ISP considered around 2,000 potential development paths and modelled a shortlist of 23 candidate development paths (CDPs) to identify the ODP. The Addendum to the Draft 2026 ISP[22] describes in detail the process of developing various network development options and timings,

[19] AEMO, *ISP Methodology*, June 2025, at https://www.aemo.com.au/energy-systems/major-publications/integrated-system-plan-isp/2026-integrated-system-plan-isp/isp-methodology.

[20] AEMO, Transmission Augmentation Information, at https://www.aemo.com.au/energy-systems/electricity/national-electricity-market-nem/nem-forecasting-and-planning/forecasting-and-planning-data/transmission-augmentation-information.

[21] AEMO, Generation Information, at https://www.aemo.com.au/energy-systems/electricity/national-electricity-market-nem/nem-forecasting-and-planning/forecasting-and-planning-data/generation-information.

[22] AEMO, Addendum to the Draft 2026 Integrated System Plan, March 2026, at https://www.aemo.com.au/consultations/current-and-closed-consultations/draft-2026-isp-addendum-consultation.

#	CBA Guidelines requirement/consideration		AEMO compliance
		investment. To include variations in level of transmission investment, AEMO must select at least one development path (in addition to the counterfactual development path) that excludes one or more projects from the combination of common transmission investments.	including non-network options, to form development paths, and the systematic and iterative testing undertaken to narrow that selection down to a limited number of CDPs. Following the Draft 2026 ISP, the 2026 ISP was finalised by considering approximately 1,000 different network options and timings, and their impact on generation and storage outcomes, to shortlist 34 CDPs considering the updated inputs following the Draft 2026 ISP consultation and stakeholder feedback. Each CDP represents a collection of development paths that have the same potential actionable projects. CDPs vary with respect to these potential actionable projects and represent adaptable paths for investments in future projects, enabling future projects to be developed at a timing most appropriate for each scenario's needs, including potentially not developing the project across the ISP outlook period. The least-cost development path for each scenario is used as the basis for forming the initial set of CDPs. Additional CDPs are added based on the process set out in section 6.4 of the *ISP Methodology* which involves forming new CDPs by changing the timing of potential actionable projects in an existing CDP or by including additional or alternate actionable projects to a CDP. Section A6.5.2 of Appendix A6 of the 2026 ISP identifies each of the 34 CDPs, including which ISP projects are contained in each CDP.
14	***Requirement*:** In selecting development paths, AEMO *is required* to:	• Select development paths that contain commercially and technically feasible ISP projects, in accordance with the guidance set out in section 4.3.1.	AEMO considers that all projects included within development paths used in the 2026 ISP modelling are technically and commercially feasible credible options. Appendix A5 of the 2026 ISP provides detail regarding the credible options considered. The ISP candidate option and alternative credible options that were considered but were not selected as part of the optimal development path are clearly identified for each actionable ISP project. Candidate and alternative options are also identified for actionable projects subject to jurisdictional frameworks.
		• List the ISP projects in each selected development path.	Section A6.5.2 in Appendix A6 of the 2026 ISP identifies the potentially actionable ISP projects included in each CDP. Table 14 provides a summary of the ISP projects that are considered as actionable or not actionable for each of the 34 CDPs.
15	***Consideration*:** In selecting development paths, AEMO *must have regard* to:	• Including non-network option substitutes or hybrids to a transmission network ISP project in one or more development paths, where appropriate.	AEMO has considered several non-network options and network/non-network hybrids as part of the 2,000 development paths considered for the Draft 2026 ISP and 1,000 development paths considered for the 2026 ISP. Appendix A5 of the 2026 ISP describes these non-network options in more detail. For example, the 2025 *Electricity Network Options Report* provides detail on several non-network options such as virtual transmission lines and special protections schemes that were considered for flow paths in Southern Queensland to Central Queensland and Northern New South Wales to Southern Queensland, and for renewable energy zones (REZs) including N5 (South West New South Wales) and Q9 (Banana). In the *Electricity Network Options Report*, non-network options may be variously referred to as non-network options, special protection schemes, runback schemes, virtual transmission lines, and more. AEMO called for non-network options as part of the consultation to develop the 2025 *Electricity Network Options Report*. AEMO published submissions on its website and responded to submissions in the 2025 *Electricity Network Options Report Consultation Summary Report*[23]. In addition, AEMO requested submissions for non-network options for relevant projects at the same time as publishing both the Draft 2026 ISP and the 2026 ISP, in accordance with NER 5.22.12(a) and 5.22.14(c). More detail on AEMO's compliance with obligations to consider non-network options throughout the ISP development process is provided in Table 10 of this report.
		• Including staged projects in one or more development paths, where appropriate, such that it can assess option value (see section 3.4.2).	Consistent with the *ISP Methodology*, the 2026 ISP considered staged projects in multiple development paths. When narrowed down to the 34 shortlisted CDPs in the ISP's CBA, project staging was applied to CDPs that included Project Marinus Stage 2, Central to North Queensland

[23] AEMO, 2025 *Electricity Network Options Report Consultation Summary Report*, at https://aemo.com.au/consultations/current-and-closed-consultations/2025-electricity-network-options-report-consultation.

#	CBA Guidelines requirement/consideration		AEMO compliance
			Reinforcement Stages 1 and 2, separate staging of the Sydney Ring South power flow controller option and the 500 kilovolts (kV) augmentation option and Gippsland Offshore Wind Transmission Stages 1 and 2.
		• Re-testing all ISP projects identified as actionable in a previous ISP, and which have not yet had costs approved in a contingent project process.	The 2026 ISP re-tested the actionability of all existing actionable ISP projects from the 2024 ISP that had not yet had contingent project funding approved for all stages of the project, provided the 2026 ISP did not identify those projects as anticipated or committed. For Project Marinus, following the AER's final decision on costs to deliver Stage 1, the 2026 ISP identified Stage 1 as anticipated. The 2026 ISP re-tested the actionability of Project Marinus Stage 2.

Table 5 CBA Guidelines Section 3.3.2 – Defining the counterfactual development path

#	CBA Guidelines requirement/consideration		AEMO compliance
16	***Requirement***: AEMO *is required* to:	• Develop a single counterfactual development path. • Not include in the counterfactual development path, any ISP projects in its selected development paths (see section 3.3.1) or any projects that may become future ISP projects.	Consistent with the *ISP Methodology*, the counterfactual development path in the 2026 ISP represents a development path with no future network augmentation other than committed or anticipated projects, or small intra-regional augmentations and replacement expenditure projects. The counterfactual does not include any ISP projects or any projects that may become future ISP projects.

Table 6 CBA Guidelines Sections 3.3.3-3.3.5 – Valuing costs and market benefits

#	CBA Guidelines requirement/consideration			AEMO compliance
17	***Requirement*:** In estimating classes of costs and market benefits, AEMO *is required* to:	• Not factor qualitative cost or market benefit considerations into the CBA—that is, all relevant costs and market benefits must be quantified.		All costs and market benefits that have been included in the CBA have been quantified from eligible cost and market benefit classes consistent with the *ISP Methodology*. This includes no qualitative factors, and all quantifications are based on assumptions outlined in the 2025 IASR, as updated by the 2026 ISP Inputs and Assumptions Workbook[24].
		• Not double count any costs or market benefits across ISP projects in a development path.		There is no double counting of costs or benefits considered in the CBA. All costs and benefits included in the CBA are allocated to distinct cost and benefit categories.
		• Where calculating the benefit from changes in Australia's greenhouse gas emissions:	• Include the following emissions scopes unless the change relative to the counterfactual can be demonstrated to be immaterial to the ISP outcomes: – Direct emissions from generation. – Direct emissions other than from generation, e.g. sulphur hexafluoride.	Emissions reduction benefits are based on the changes in direct emissions resulting from the operation of generators in the NEM for the purpose of generating and injecting electricity into the power system. The emission production rates assumed for all existing, committed, anticipated and additional generation units in the NEM, including new entrant technologies, were outlined in the 2025 IASR and updated in the 2026 ISP Inputs and Assumptions Workbook (see "Emissions intensity" tab). AEMO did not separately quantify direct non-generation emissions, such as sulphur hexafluoride, because changes relative to the counterfactual were considered to be immaterial to ISP outcomes.
			• Estimate the change in annual emissions (once identified in	Emissions reduction benefits are considered as an additional class of market benefits calculated consistent with the method agreed to by Australia's Energy Ministers in July 2024 and set out in the AER's final guidance and explanatory statement[25].

[24] AEMO, 2026 ISP Inputs and Assumptions Workbook, at https://www.aemo.com.au/energy-systems/major-publications/integrated-system-plan-isp/2026-integrated-system-plan-isp.

[25] Amended VER MCE Statement and Valuing Emissions Reduction: AER guidance and explanatory statement, at https://www.aer.gov.au/industry/registers/resources/guidelines/valuing-emissions-reduction-final-guidance-may-2024.

#	CBA Guidelines requirement/consideration			AEMO compliance
			accordance with this Guideline) between the counterfactual and the development path, and multiplying this change by the annual VER to arrive at the annual benefit from changes in Australia's greenhouse gas emissions.	Annual VER through to 2049-50 applied in the 2026 ISP are set out in section 3.7.3 of the 2025 IASR. The total emissions and emissions reduction benefits of each CDP relative to the counterfactual for each scenario are available in the 2026 ISP Generation and Storage Outlook Workbooks[26].
		• Not include in any analysis under the ISP, any cost or market benefit which cannot be measured as a cost or benefit to generators, distribution network service providers (DNSPs), TNSPs and consumers of electricity.		No such costs or market benefits were included in the CBA. For example, in response to rule amendments to better integrate gas analysis into the ISP[27], Appendix A10 of the 2026 ISP includes gas development projections which identify combinations of investments that may be developed by the gas industry in addition to those already progressing to address the investment opportunities highlighted in the 2026 GSOO and support the availability and operation of GPG in the NEM. Neither gas infrastructure capital costs nor operating costs were passed to the electricity capacity outlook model and these costs are not used in the 2026 ISP's CBA of the NEM's ODP of electricity investments. Different gas developments could result in variations in gas market dynamics that impact forecast gas prices, and this price expectation could impact the preferred developments by the gas industry, including gas consumers. The 2026 ISP did not include consideration of the impacts on gas price, cost recovery or other commercial aspects of individual gas developments.
		• For each development path, present:	• The key cost items in each class of costs, including the estimated capital cost of each ISP project in each development path (and its source(s)).	The estimated capital cost and high-level scope of every ISP project included in every CDP is provided in Appendix A5 of the 2026 ISP. Updates to the estimated cost and scope of these projects were based on information sourced from project proponents via joint planning, as detailed in Appendix A5. These updates were applied to projects and cost estimates considered in the 2025 *Electricity Network Options Report*, which included a comprehensive update to AEMO's Transmission Cost Database. The 2025 *Electricity Network Options Report* included: • the latest cost estimates from project proponents, reflecting local factors such as project scope and transmission line route adjustments to respond to community engagement and feedback, and locally-specific contract adjustments reflecting the current market for workforce and equipment, • an update to AEMO's cost estimation and forecasting approach, undertaken by consultants GHD and Amplitude and informed by information provided by transmission network planning bodies, to reflect the latest cost estimation processes and data for transmission network infrastructure, • updated transmission augmentation options, including conceptual design, lead time, location and cost, • updated generation and storage connection costs to connect individual projects to the broader electricity network, and • information about distribution network opportunities, including capabilities and augmentation costs, with a focus on opportunities to facilitate aggregate operation of CER and other distributed resources (such as community batteries).

[26] AEMO, 2026 ISP Generation and Storage Outlook Workbook, at https://www.aemo.com.au/energy-systems/major-publications/integrated-system-plan-isp/2026-integrated-system-plan-isp.

[27] AEMC, *Final report: National Electricity Amendment (Better integration of gas and community sentiment into the ISP) Rule 2024 and National Gas Amendment (Better integration of gas and community sentiment into the ISP) Rule 2024,* December 2024, at https://www.aemc.gov.au/rule changes/better-integration-gas-and-community-sentiment-isp-0.

#	CBA Guidelines requirement/consideration			AEMO compliance
				Relevant cost classes for each CDP and scenario are provided by comparison with the counterfactual case using the 2026 ISP Generation and Storage Outlook Workbooks (see "Comparison Regional" and "Comparison Subregional" tabs).
			• The breakdown of total market benefits over the planning horizon by market benefit class—in present value terms.	The breakdown of net market benefits by market benefit class in present value terms for each CDP and each scenario is provided by comparison with the counterfactual case using the 2026 ISP Generation and Storage Outlook Workbooks (see "Comparison Regional" and "Comparison Subregional" tabs). Appendix A6 of the 2026 ISP also contains a breakdown of the net market benefits of the least-cost development path for each scenario relative to the counterfactual, and a breakdown of the relative market benefits of actionable projects in *Step Change* via take-one-out-at-a-time (TOOT) analysis.
			• Cost and market benefits timelines (that is, the stream of annual cost and market benefit cash flows) for the ISP projects in the development path over their economic lives.	Cost and market benefits timelines are provided in the 2026 ISP Generation and Storage Outlook Workbooks.
			• The present values of total costs and market benefits, any cash flow conversion calculations, and any assumptions implicitly or explicitly made about costs or market benefits beyond the modelling period (equivalent to terminal value, where a project's asset life is longer than the modelling period); and	The present values of total costs and market benefits are provided in the 2026 ISP Generation and Storage Outlook Workbooks. Terminal values and the annuitisation of costs are explained in section 6.2 of the *ISP Methodology*.
			• An explanation and justification of the rationale for its approach to calculating the present value of total costs and market benefits, including for any assumptions.	The annuitisation and discounting of costs is explained in section 6.2 of *the ISP Methodology*.
		• Exclude from its analysis the costs (or negative benefits) of an ISP project's harm to the environment or to any party that is not prohibited under a law, regulation or other legal instrument, with the exception of changes in Australia's greenhouse gas emissions.		Only eligible costs and classes of market benefit are included in the CBA, consistent with the *ISP Methodology*. As explained in the 2025 *Electricity Network Options Report*, AEMO considered the cost of compliance with planning and environmental legislation, in accordance with the CBA Guidelines. For example, if a government requires a network project to secure a biodiversity offset to manage the impact of removing native vegetation, the cost of providing that offset is incorporated into the project cost estimate.

#	CBA Guidelines requirement/consideration		AEMO compliance
18	***Consideration:*** In estimating classes of costs and market benefits, AEMO *must have regard* to:	• The cost allocation principles described under clause 6A.19.2 of the NER if/when allocating costs or market benefits between electricity and other markets.	Section 2 of the 2025 *Electricity Network Options Report* describes how AEMO develops cost estimates for ISP purposes. The cost allocation principles described under NER 6A.19.2 are one of many factors to which AEMO has regard if AEMO must allocate costs between electricity and other markets.
19	***Requirement*:** In estimating classes of costs, AEMO *is required* to:	• Check its cost estimates against recent contingent project applications, recent tender outcomes governing transmission network augmentations, and/or final project outcomes (including variations)	Updates to the Transmission Cost Database were informed by recent transmission project tendering outcomes in the NEM, as well as the latest updates from project proponents of actionable and future ISP projects identified in the 2024 ISP, including contingent project application information relevant to project cost estimates. In 2024, AEMO engaged consultants GHD (in collaboration with Amplitude Consultants) to deliver a suite of updates to the Transmission Cost Database. These updates improved the alignment of the database with TNSPs' best practice in conceptual cost estimates for transmission infrastructure, and improved the accuracy of the tool through review of the project attribute and risk factors. The work included surveys and benchmarking exercises with cost estimation experts in the NEM, TNSPs and jurisdictional planning bodies to obtain accurate and market-reflective cost estimate data. The updated Transmission Cost Database, as well as a GHD report detailing the update, was provided alongside the 2025 *Electricity Network Options Report* [28]. The primary use of the Transmission Cost Database is to produce Class 5b or 5a estimates (described below) for future ISP projects, however, it is also used to cross-check estimates received from TNSPs, to ensure consistency. AEMO's process to review TNSP cost estimates is described in Section 2.3 of the 2025 *Electricity Network Options Report*.
		• If AEMO establishes there is a material degree of uncertainty in the costs of an ISP project, the cost is the probability weighted present value of the direct costs of the ISP project under a range of different cost assumptions.	The 2025 *Electricity Network Options Report* recognises that cost estimates for ISP projects progress from a very early stage with little design or information known (least accurate) to a fully costed and engineered estimate (most accurate). For ISP projects at an early stage, AEMO broadly followed the framework of the Association for Advancement of Cost Engineering (AACE) International guideline for its cost estimate methodology to classify cost estimates, and defined sub-categories to reflect the range of estimates and accuracies that are available within the Australian regulated electricity sector. These are defined as follows: • Class 5a – screening level scoping including high-level site-specific review and TNSP input, and • Class 5b – concept level scoping with no site-specific review or TNSP input. Known and unknown risk allocations are used to account for uncertainty in project costs. For the 2026 ISP, AEMO used the AACE framework to determine a point cost estimate with an asymmetrical uncertainty range for a cost estimate, but then applied an unknown risk factor to uplift the point cost estimate while leaving the lower and upper ends of the accuracy range constant. The result of this increase from an asymmetric point cost to a mid-point cost is that the resulting uncertainty range is symmetric. Adding this 'contingency' to the point estimate does not affect estimate accuracy, as explained in Section 2.1 of the 2025 ENOR.
20	***Consideration:*** In estimating classes of costs,	• The market value of land when assessing the costs incurred in constructing or providing an ISP project.	The Transmission Cost Database has regard to the market value of land. Easement and property costs for each project can be found in project estimate files as an output of the Transmission Cost Database. These were consulted on as part of the development of the 2025 *Electricity Network Options Report*.

[28] Both *GHD: 2025 Transmission Cost Database* update report and access to the updated Transmission Cost Database are available at https://www.aemo.com.au/consultations/current-and-closed-consultations/2025-electricity-network-options-report-consultation.

#	CBA Guidelines requirement/consideration		AEMO compliance
	AEMO *must have regard* to:	• The market value of land in ISP projects that explore building on a previously acquired easement (that is, land should not be treated as a sunk cost, to the extent that it can otherwise be sold).	AEMO conducted joint planning with TNSPs to ensure that options to use existing easements (including uprating or replacing existing transmission lines) were included in the ISP analysis without assuming the land to be a sunk cost. For example, for the Q7 REZ upgrade options where Powerlink noted there are existing double circuit easements that can be used, the cost of new easements was included in the cost estimate of these options.
21	***Requirement*:** AEMO *is required* to apply classes of market benefits consistently across all candidate development paths in the ISP.		All market benefit classes assessed in the 2026 ISP CBA are applied consistently across all CDPs, as evidenced in the 2026 ISP Generation and Storage Outlook Workbooks. Consistent with the *ISP Methodology*, which AEMO consulted on in 2024 and 2025, AEMO did not separately quantify network resilience benefits associated with mitigating climate change risks (such as bushfires) or any further reduction or avoidance of involuntary load shedding beyond that explicitly assessed in the ISP. Where relevant, AEMO considers that these additional benefits are more appropriately explored in a RIT-T assessment or jurisdictional cost benefit analysis. AEMO notes that compliance with this requirement appropriately prevents AEMO from applying an additional class of market benefit to a single ISP project in corresponding CDPs. Benefits must be considered NEM-wide, across all CDPs and all scenarios.
22	***Requirement*:** AEMO *is required* to exclude from market benefits:	• The transfer of surplus between consumers and producers (except in the case of concessional finance benefits being passed onto consumers). • Classes of costs set out in clause 5.22.10(d) of the NER. • Competition benefits or any additional option value where they have already been accounted for in other elements of the market benefit.	Only classes of market benefits permitted by the NER to be considered are included in the CBA for the 2026 ISP. Wealth transfers between Participants[29] are excluded from the CBA. AEMO did not consider changes in ancillary service costs, competition benefits or additional option value. AEMO considers that these market benefit classes are unlikely to materially affect the outcomes of the development paths assessed in the 2026 ISP, and the cost of undertaking such analysis is disproportionate given the relative immateriality of the expected benefits and the level of uncertainty regarding future outcomes. Scenario analysis in the 2026 ISP already considers option value by assessing different combinations of ISP projects, project timings and staging within CDPs and captures benefits within existing market benefit classes. Where material, changes in these market benefit classes may be considered by project proponents in a RIT-T assessment or equivalent jurisdictional analysis.
23	***Requirement*:** AEMO *is required* to assess the market benefits with the development path against the market benefits with the counterfactual development path.	This involves, for each development path: 1. Deriving the state of the world with the development path in place in each scenario, and the state of the world with the counterfactual development path in place in each scenario. 2. Estimating market benefits by comparing, for each scenario, the state of the world with the development path in place against the state of the world with the counterfactual development path in place. 3. Quantifying estimated values for any market benefit classes that are not captured by the market modelling comparison (if any).	AEMO has followed CBA Guidelines requirements for undertaking the ISP CBA as described in Appendix A6 of the 2026 ISP and sections 6.3-6.8 of the *ISP Methodology*. This process includes the development of a counterfactual development path for each scenario. The comparison of system costs between CDPs and the counterfactual is provided throughout Appendix A6 and in detail in the 2026 ISP Generation and Storage Outlook Workbooks. All material classes of market benefit are captured within the market modelling.
24	***Consideration*:** In estimating classes of market benefits, AEMO *must have regard* to:	• Including all existing assets in all states of the world (until their expected retirement)—unless AEMO has evidence to suggest a project(s) should not be included in the market development modelling.	Consistent with the *ISP Methodology*, the 2026 ISP includes all existing assets in all states of the world, and in all development paths. As explained in Section 3.4.4 of the 2025 IASR, existing thermal generation retirements may be brought forward ahead of the expected closure year as provided by participants and published through AEMO's Generation Information page if it reduces overall system costs while meeting the model's various policy or system constraints. The *ISP Methodology* provides

[29] Section 3.4.1 of the CBA Guidelines defines a Participant as a Registered Participant under rule 2.1 of the NER or any other party in their capacity as a consumer, producer or transporter of electricity in the market.

#	CBA Guidelines requirement/consideration		AEMO compliance
			additional detail on the modelling of retirements to meet emissions limits or broader policy constraints.
		• Including all committed and anticipated projects outside its selected development paths in all states of the world (until their expected retirement)—unless AEMO has evidence to suggest a project(s) should not be included in the market development modelling.	Consistent with the *ISP Methodology*, the 2026 ISP includes all committed and anticipated projects in all states of the world, and in all development paths.
		• Presenting the modelled projects that flow from the ISP projects in each development path in each scenario.	Appendices A2 and A5 of the 2026 ISP present the modelled projects in each scenario.

Table 7 CBA Guidelines Section 3.3.6 – Selecting an optimal development path

#	CBA Guidelines requirement/consideration		AEMO compliance
25	***Requirement*:** In selecting an optimal development path, AEMO *is required* to follow this framework:	1. Conduct scenario analysis to present a table with the net economic benefit of each development path in each scenario. The net economic benefit of a development path is its market benefit (section 3.3.5) less costs (section 3.3.3).	The weighted net market benefits of each CDP in each scenario are presented in Table 15 of Appendix A6 of the 2026 ISP, with further detail provided in the 2026 ISP Generation and Storage Outlook Workbooks.
		2. Rank the development paths on the basis of: (a) A risk-neutral decision-making approach. Under a risk-neutral approach, the ranking must be based on the weighted average net economic benefit of each development path, with weights determined according to the likelihood of each scenario occurring. (b) Where relevant, one or more alternative decision-making approaches set out in AEMO's ISP methodology.	The ranking of CDPs on the basis of scenario-weighted net market benefits (that is, the risk-neutral approach) and worst weighted regrets is also provided in Table 15 of Appendix A6. Worst weighted regrets is a risk-averse decision-making approach as set out in Section 6.7.1 of the *ISP Methodology* and consistent with that described in Section 3.3.6 of the CBA Guidelines.
		3. 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 and explaining: – Why the choice optimises the net economic benefit to all those who produce, consume and transport electricity in the market; – The potential 'cost' associated with a risk-averse choice (if taken); and – Why the level of risk-neutrality or risk aversion chosen is a reasonable reflection of consumers' level of risk-neutrality or risk aversion.	Section 10 of the 2026 ISP explains AEMO's rationale for selecting the ODP, including by reference to consumer needs and risks. Appendix A6 of the 2026 ISP explains in detail the reasons for selecting the ODP from the 34 CDPs assessed. As explained in Section A6.7 of Appendix A6, CDP 4 was selected as the preliminary ODP, before considering sensitivity analysis. CDP 4 delivers positive net market benefits in the most likely scenario, *Step Change*, and is the top-ranked CDP based on weighted net market benefits. CDP 4 also performs well using a worst weighted regrets approach. CDP 4 is confirmed as the ODP in Section A6.9, which takes into account sensitivity analysis. The selection of CDP 4 as the ODP is robust to varying assumptions explored in the sensitivities and delivers the highest weighted net market benefits in the majority of sensitivities tested. CDP 4 maximises weighted net market benefits amongst the CDP collection, therefore, its cost relative to the top-ranked CDP using a risk-neutral decision-making approach is zero.
		4. Undertake sensitivity testing and/or cross checks and explain the significance of these for the optimal development path; and present information on key distributional effects.	Section 11 of the 2026 ISP summarises the results of key sensitivity analysis and impacts on ODP selection. This includes testing higher demand from data centres and other industries and a sensitivity exploring constrained delivery where new generation, storage and transmission are unable to be delivered at the pace required. This sensitivity applies slower build rates (closer to the rates recently observed) and higher capital costs (reflecting

#	CBA Guidelines requirement/consideration		AEMO compliance
			potential constraints such as planning approvals and the need for social licence, the supply chain, or construction). Section A6.8 of Appendix A6 of the 2026 ISP provides more detailed analysis on these sensitivities and their impacts on ODP selection and includes additional sensitivity analysis exploring no further uptake of virtual power plants (VPPs), no further CER coordination and both higher and lower energy efficiency. Section A6.9 explains selection of the ODP after balancing weighted net market benefits and worst weighted regrets for each CDP with sensitivity testing outcomes. This complemented the sensitivity analysis undertaken for the Draft 2026 ISP which, in addition to exploring most of the sensitivities retested in the 2026 ISP, included sensitivities testing ODP impacts if assumed coal-fired generation capacity shutdown timings in the *Step Change* scenario were to occur faster or slower than anticipated, and whether alternative gas development pathways (GDPs) impact the availability of gas as a fuel in each ISP scenario. Sensitivities unique to the Draft 2026 ISP were not retested in the 2026 ISP because updated ISP parameters were not expected to have changed the insights obtained from the Draft 2026 ISP. For the *Constrained Delivery* sensitivity included in the 2026 ISP, prioritisation and update in the modelling of existing projects in the connections pipeline warranted an update of that sensitivity. The 2026 ISP also includes many of the suggested cross-checks described in Section 3.3.6 of the CBA Guidelines. For example: • Section A6.6.3 of Appendix A6 of the 2026 ISP includes an assessment of the relative market benefits of actionable projects by comparing the CDP that provides the highest weighted net market benefits with another CDP that features the equivalent set of actionable and future projects, at a given set of timings, except the project of interest. This comparison, referred to as the TOOT approach, was provided on *Step Change* and on other scenarios where appropriate. For the purposes of this 2026 ISP, TOOT analysis was undertaken using CDP 4 (the ODP). • Appendix A2 and the 2026 ISP Consultation Summary Report consider stakeholder feedback on the feasibility of ISP development opportunities and other modelled projects in the ODP. The 2026 ISP also better prioritises the existing project pipeline before modelling new projects by better reflecting current, on-the-ground developer interest and activity. The existing pipeline of projects (with a lodged application to connect) is counted towards 2030 targets before any generic 'new entrant' generation or storage can be built before 2030. This change responds to stakeholder feedback on the Draft 2026 ISP that the ISP should better align with the reality of developer activity in the NEM. It also better reflects the time required for any new project that has not yet lodged a connection application to progress through development and delivery. • Part D of the 2026 ISP includes a high-level deliverability assessment of the ODP which features the constrained delivery sensitivity. Appendix A4 of the 2026 ISP includes analysis on factors that impact distributional effects such as the value of resource and geographic diversity for renewable generation, strategic storage management, and the role of increasingly flexible coal generators as operators respond to downward pressure on wholesale prices. Appendix A3 provides information on the diversity of renewable generation within REZs and correlation with demand, as well as resource quality and projected curtailment. The 2026 ISP Generation and Storage Outlook Workbooks identify regional and subregional developments and their costs in present value terms for each of the five NEM regions and 15 subregions included in the 2026 ISP modelling.

2.5 Other aspects of the CBA

This section discusses AEMO compliance with the CBA Guidelines binding requirements and considerations relating to other aspects of the CBA, as summarised in Appendix A, Table 15 of the guidelines.

Table 8 CBA Guidelines Section 3.4.1 – Treatment of externalities

#	CBA Guidelines requirement/consideration	AEMO compliance
26	***Requirement*:** The following are *requirements* for AEMO: • Funds that move between Participants count as a wealth transfer and do not affect the calculation of costs or market benefits under the ISP. • Funds from an Other Party to a Participant do affect the calculation of costs or market benefits under the ISP. These funds can only affect the calculation of costs and market benefits when AEMO expects funding commitment. AEMO is required to report the funds in the draft ISP and final ISP.	Wealth transfers between market participants in the NEM were not included in the CBA for the 2026 ISP. For network cost estimates completed by AEMO, a full breakdown of costs is published, including external funding (if any)[30]. AEMO also reviewed cost estimates that were provided by TNSPs and DNSPs. Appendix A5 and the 2026 ISP Inputs and Assumptions Workbook specify the amount of any government funding or early works funding previously approved by the AER that is excluded from a project cost estimate consistent with guidance in sections 3.3.3 and 3.4.1 of the CBA Guidelines. No concessional finance benefits were attributed to any ISP projects assessed in the 2026 ISP CBA because there were no firm or imminent concessional finance agreements for any of the actionable projects assessed. Section 3.1.6 of the 2025 IASR and section 2.8 of the 2025 *Electricity Network Options Report* set out AEMO's approach to considering concessional finance in the ISP, consistent with discretionary guidance in section 3.5.5 of the CBA Guidelines. As explained in Table 13 of this report, AEMO did consider concessional finance benefits for Project Marinus Stage 1 in its August 2025 feedback loop assessment, however, Stage 1 was identified as an anticipated project in the Draft 2026 ISP and 2026 ISP and the costs and benefits of Stage 1 were excluded from the CBA.
27	***Consideration*:** If expected funds from an Other Party to a Participant do not eventuate, AEMO *must consider* whether a subsequent ISP update is required to remove these from the CBA.	No funds from an 'Other Party', such as government funding, were included in the 2026 ISP and subsequently withdrawn. AEMO will continue to consider the need for an ISP update should funding arrangements for an actionable project materially change.

Table 9 CBA Guidelines Section 3.4.2 – Option value

#	CBA Guidelines requirement		AEMO compliance
28	***Consideration*:** In capturing option value, AEMO *must have regard* to:	• Development paths that contain option value to account for new information that arises at a later stage, including through: – the timing and staging of ISP projects in a development path – the use of non-network options as ISP projects or stages of ISP projects – staging or deferring ISP projects where the market benefits occur late in the modelling period. The stages associated with a given project can be incorporated into a single ISP project, or can be separated into multiple ISP projects, depending on their characteristics.	The 2026 ISP considered 1,000 different network and non-network options and timings, and their impact on generation and storage outcomes, to shortlist 34 CDPs. Within those 34 CDPs, AEMO varied the timing and staging of ISP projects by delaying projects or stages consistent with future ISP project timing, or in some cases, removing projects or stages from the ISP modelling horizon entirely. Staging is considered both within a single actionable project and as multiple ISP projects and the list of actionable and future projects identified in the 2026 ISP contain examples of both forms of staging. As explained in Table 4 of this report, Appendix A6 of the 2026 ISP considered potential option value delivered by Project Marinus Stage 2, Central to North Queensland Reinforcement Stages 1 and 2, separate staging of the Sydney Ring South power flow controller option and the 500 kV augmentation option and Gippsland Offshore Wind Transmission Stages 1 and 2. The 2025 *Electricity Network Options Report* describes some of the non-network options that were considered in the 2026 ISP modelling. AEMO published requests for non-network options for newly actionable ISP projects together with the Draft 2026 ISP and the 2026 ISP. Those requests are summarised in Table 10 of this report.
		• Whether scenario analysis results under AEMO's chosen decision-making approach (see section 3.3.6) appropriately capture option value.	As explained in Table 6 of this report, scenario analysis in the 2026 ISP considers option value by assessing different combinations of ISP projects, project timings and staging within CDPs and captures benefits within existing market benefit classes. For the purposes of NER 5.22.10(c)(1)(x), AEMO does not consider any additional option value that is not already included in other classes of market benefit would be material to the assessment. The ODP identified in the 2026 ISP maximises weighted net market benefits using the risk-neutral decision-making approach referred to in section 3.3.6

[30] See 2025 Electricity Network Options Report Costs, under the Final 2025 Electricity Network Options Report documents tab, at https://www.aemo.com.au/consultations/current-and-closed-consultations/2025-electricity-network-options-report-consultation.

#	CBA Guidelines requirement		AEMO compliance
			of the CBA Guidelines. AEMO considers scenario analysis using this decision-making approach appropriately captures option value given the breadth of the CDP collection and the various combinations of project timings and staging tested.
		• How staging of actionable ISP projects could be further explored in the RIT-T process, and then describing the identified need and assigning scenarios accordingly.	The identified need for each actionable project is provided in section A5.3 of Appendix A5 of the 2026 ISP. Identified needs are described relatively broadly to allow RIT-T proponents to explore staged credible options, including staged options not considered in the 2026 ISP, regardless of whether or not the 2026 ISP identifies the project as staged. Where appropriate, the identified need also describes key risks that may be mitigated by considering different options, including non-network options and project staging. AEMO has assigned all three scenarios to the RIT-T of all newly actionable ISP projects, as identified in Appendix A5. This allows RIT-T proponents to appropriately assess the option value of credible staging options across each of the plausible futures represented by the 2026 ISP scenarios. For example, Central to North Queensland Reinforcement (Stage 1) is identified as an actionable project and Stage 2 as a future ISP project. The identified need for Stage 1 is described in a manner that allows the option value and timing of both stages to be explored in the RIT-T. Assigning all three ISP scenarios to the RIT-T allows the benefits of staging to be explored across the maximum number of plausible futures considered for the 2026 ISP.
		• When decision rules associated with staged projects eventuate, leading to a subsequent stage being needed or not needed—and, where relevant, incorporating the subsequent stage into an ISP.	AEMO has not defined decision rules for any of the staged projects identified in the 2026 ISP. Decision rules can be useful to guide decisions at a later point in time on whether a subsequent project stage should progress. However, AEMO does not consider there is a need to use decision rules to trigger the actionability of project stages ahead of the Draft 2028 ISP or 2028 ISP. With significant increases in project lead times, the actionability of ISP projects and project stages is typically tested over multiple ISPs.

Table 10 CBA Guidelines Section 3.4.3 – Non-network options

#	CBA Guidelines requirement		AEMO compliance
29	***Requirement***: Prior to the draft ISP, AEMO *is required* to:	• Undertake early engagement with non-network proponents to gather information in relation to non-network options (see Explanatory box 5)	In preparing the 2026 ISP, AEMO considered credible options including non-network options. Prior to the Draft 2026 ISP, non-network options considered by AEMO were identified in the 2025 ENOR. AEMO consulted with non-network proponents throughout the IASR development process. Section 3.10.9 of the Draft 2025 IASR (Stage 1) and section 1.3 of the Draft 2025 ENOR sought information on non-network technologies and proponents, including: • specific non-network concepts and proposals, • the resultant network capacity gained, • cost of the non-network solution, and • project lead time. In response, AEMO received several non-network options for the South West New South Wales REZ. For the 2025 *Electricity Network Options Report*, AEMO retained the existing proposed non-network option for South West New South Wales REZ and suggested the size of the non-network option be refined to take into account the new line limits following engagement with Transgrid and EnergyCo. The Draft 2025 IASR (Stage 1) also requested feedback on the transparent reporting of non-network options where commercial arrangements allow for multiple revenue streams.
		• If there are any credible non-network options identified through early engagement and joint planning, but not included in a TAPR, include these in step one of its process for selecting development paths in section 3.3.1 (where it enters a range of network and non-network investment options into its model)	
30	***Requirement***: In considering non-network options in the process set out in clause	• Provide sufficient detail on the technical characteristics of the non-network options in its notice requesting submissions for non-network options, in such a way that appropriate non-network solutions can be developed.	Consistent with previous ISPs, AEMO requested submissions on non-network options for newly actionable ISP projects. At the time of publishing the Draft 2026 ISP, AEMO requested non-network proposals for the Switching Station Near Wondalga project. At the time of publishing the 2026 ISP, in accordance with NER 5.22.14(c)(1), AEMO requested submissions on non-network

#	CBA Guidelines requirement		AEMO compliance
	5.22.12 of the NER, AEMO *is required* to:		options for three newly actionable ISP projects not previously identified as actionable in the Draft 2026 ISP: • Brisbane Area 275 kV Reinforcement project, • Central to North Queensland Reinforcement project (Stage 1), and • Tasmania REZ Expansion project[31]. For all four requests for non-network proposals, the notices clarify non-network solutions may defer or reduce the scale of proposed transmission network augmentation and that AEMO is not prescriptive, given the relatively early stage of each project in the regulatory process, regarding the role of non-network options and required operating profiles. AEMO encouraged all proponents of potential non-network solutions to make a submission. By broadly describing the technical characteristics required to meet, or reasonably likely to meet, the identified need, AEMO endeavours to maximise the number of potential non-network solutions that are proposed in response to each notice.
		• Include the ISP consumer panel and/or other consumer stakeholders in the preliminary review of non-network option proposals, to incorporate their views and preferences.	AEMO called for submissions on non-network options for the Switching Station Near Wondalga project by 20 March 2026. AEMO did not receive any submissions for this project. AEMO is currently awaiting submissions on non-network projects in response to notices published with release of the 2026 ISP. Submissions are due 17 September 2026.
		• Document the process and findings of the preliminary review of non-network option proposals, and publish this with or before the final ISP.	No preliminary review was necessary because AEMO did not receive any submissions in response to the request for non-network options published with release of the Draft 2026 ISP.
		• Provide its reasoning in the final ISP for each non-network option proposal AEMO concludes will not meet the relevant identified need. This includes: – specific characteristics of the proposed non-network option that do not meet the relevant identified need, and why – if its reasoning is related to risk or uncertainty, then describe the risk/ uncertainty, and provide an assessment of the risk/ uncertainty compared to the ISP candidate option, as well as a comparison of the non-network option cost with the ISP candidate option cost – how the option could be improved to meet the identified need.	No assessment was necessary because AEMO did not receive any submissions in response to the request for non-network options published with release of the Draft 2026 ISP.

2.6 Interactions and alignment with the RIT-T

This section discusses AEMO compliance with the CBA Guidelines binding requirements and considerations relating to interactions and alignment with the RIT-T, as summarised in Appendix A, Table 15 of the guidelines.

Table 11 CBA Guidelines Section 3.5.1 – Describing the identified need for an actionable ISP project

#	CBA Guidelines requirement/consideration		AEMO compliance
31	***Requirement*:** In describing the identified need	• Assign one identified need to each actionable ISP project in an optimal development path (noting there can be	AEMO followed the process outlined in Section 6.9.2 of the *ISP Methodology* for specifying an identified need, which itself takes into account the requirements and considerations contained in the CBA Guidelines. For the

[31] Requests for non-network options are available at: https://www.aemo.com.au/energy-systems/major-publications/integrated-system-plan-isp/2026-integrated-system-plan-isp/non-network-options-consultations.

#	CBA Guidelines requirement/consideration		AEMO compliance
	relating to an actionable ISP project, AEMO *is required* to:	multiple dimensions or components to a single identified need).	2026 ISP, one identified need is assigned to each actionable project, whether subject to the ISP framework or a jurisdictional scheme.
		• For each identified need relating to an actionable ISP project, describe the identified need as the objective to be achieved by investing in the network. It is not the means to achieve the objective. That is, a description of an identified need must not mention or explain a particular method, mechanism or approach to achieving a desired outcome.	In the 2026 ISP, each identified need is described as an objective to be achieved, often containing multiple dimensions, and no identified need mentions or explains a particular method, mechanism or approach to address it. Identified needs are framed to allow either network or non-network options (or a combination of the two) to meet the need. Consistent with the *ISP Methodology*, identified needs in the 2026 ISP: • support the long-term interests of consumers by including an increase in market benefits in the need, unless the need relates to reliability corrective action, • consider related elements in the ODP and any specific risks mitigated through the selection of that path, • provide sufficient specificity such that options can be narrowed without pre-supposing a particular outcome, and • consider opportunities to realise option value by enabling staged investments.
32	***Consideration:*** In describing the identified need relating to an actionable ISP project, AEMO *must have regard* to:	• Having a clear and logical basis in contributing to the long term interests of electricity consumers—that is, linked to increasing one or more market benefits, and/or the key driver(s) of those market benefits.	The identified needs used in the 2026 ISP have a clear and logical basis, often linked to increasing net market benefits. For newly actionable projects, AEMO followed the process outlined in Section 6.9.2 of the *ISP Methodology*. For projects previously identified as actionable, AEMO kept the identified needs unchanged wherever possible for consistency and to promote alignment with RIT-T outcomes.
		• Maintaining the integrity of the optimal development path, reflecting that AEMO has identified each actionable ISP project to make a particular contribution towards achieving a system-wide optimised solution. This includes incorporating the risks AEMO seeks to mitigate through the actionable ISP project in its optimal development path, if the optimal development path was chosen using a risk-averse decision-making approach.	Consistent with Section 6.9.2 of the *ISP Methodology*, and to maintain the integrity of the ODP, the identified needs included in Appendix A5 of the 2026 ISP were formulated after having considered: • benefits from the capacity outlook model, • the engineering assessment and time-sequential model, and • outcomes of the CBA, including option value and risk mitigation relevant to specific ISP projects. AEMO selected the CDP which maximises weighted net market benefits as the ODP. Therefore, ODP selection was not based wholly or primarily on a risk-averse approach. Nevertheless, as explained in Table 9 above, risks that AEMO seeks to mitigate through a particular actionable project are captured in relevant identified needs. For example, the identified need for Victoria to New South Wales Interconnector West (VNI West) includes mitigating the risk of existing coal-fired generation closing earlier than expected. For any actionable ISP project identified in the 2026 ISP, AEMO considers a RIT-T proponent can address risks included in the identified need by considering variations of the ISP candidate option, including different staging and timing options and the incorporation of non-network solutions.
		• Facilitating RIT-T proponents to explore different credible options (including non-network options) in applying the RIT-T based on more detailed / granular information at the individual project level, rather than pre-supposing a particular solution.	As explained above, the identified needs outlined in Appendix A5 of the 2026 ISP are described in accordance with the *ISP Methodology* and in a way that provides flexibility to explore a range of options – including ISP candidate option variants, different staging and timing options, non-network options and any other options the RIT-T proponent considers credible. Identified needs are described as an objective to be achieved without referring to a particular method, mechanism or approach to address it.
		• Facilitating RIT-T proponents to explore credible options with option value (that is, involve staging decisions). This can include considering the timing of when market benefits are expected to be delivered, and key uncertainties to the investment decision that could be used in a decision rule.	The exploration of option value is allowed for in the drafting of the identified need through the identification of key risks to be mitigated for relevant projects. An example of a key risk to be considered in the identified need for VNI West is provided above. In addition, Section A5.3.5 of Appendix A5 of the 2026 ISP describes the potential sequencing of options for the Sydney Ring South project to manage any delivery risks.

Table 12 CBA Guidelines Section 3.5.2 – Assigning scenarios to RIT-T proponents for actionable ISP projects

#	CBA Guidelines requirement		AEMO compliance
33	***Requirement*:** Once AEMO has selected an optimal development path in accordance with the framework in section 3.3.6, it is required to assign one or more scenarios to each actionable ISP project that will be used by the relevant RIT-T proponent in applying the RIT-T to that project.		Appendix A5 of the 2026 ISP provides information on every actionable ISP project and project that is actionable under a jurisdictional framework. AEMO assigned ISP scenarios to the RIT-Ts for new actionable ISP projects for which a Project Assessment Draft Report (PADR) is due. Projects actionable under jurisdictional schemes are subject to alternative regulatory frameworks that do not require a RIT-T. AEMO assigned all three ISP scenarios and their corresponding scenario weightings in the 2026 ISP to the RIT-T for each new actionable ISP project.
34	***Requirement*:** In selecting the scenario(s) to assign to each actionable ISP project in an optimal development path, AEMO *is required* to:	• Only use scenarios identified in the IASR.	Only scenarios identified in the 2025 IASR were assigned to RIT-Ts for new actionable ISP projects.
		• Assign a likelihood-based weight to each scenario if more than one scenario is assigned to a given actionable ISP project. These must be proportional to the weights used by AEMO in presenting a risk-neutral decision-making approach, as part of the framework for selecting an optimal development path set out in section 3.3.6. These weights must be used even if AEMO has selected the optimal development path based on a risk-averse decision-making approach.	AEMO assigned all three ISP scenarios to the RIT-T for each new actionable ISP project and assigned the same scenario weightings that apply to the 2026 ISP – *Slower Growth* (27%), *Step Change* (46%) and *Accelerated Transition* (27%).
		• Explain its reasoning for selecting the scenario(s) and corresponding weights (if applicable) for each actionable ISP project, and seek stakeholder input on its choices.	In Appendix A5 of the 2026 ISP, AEMO assigns all three scenarios and their corresponding weights to each newly actionable ISP project. AEMO did not identify a reason to exclude a scenario from the collection for any of the newly actionable ISP projects. Assigning all three ISP scenarios also allows RIT-T proponents to better consider the risks of overdue or under-investment, premature or over-investment and option value.
35	***Consideration*:** In selecting the scenario(s) to assign to each actionable ISP project in an optimal development path, AEMO *must have regard* to:	• Achieving consistency between the ISP and related RIT-Ts, including through alignment of the risks AEMO is prioritising through its decision-making approach(es) under the framework for selecting an optimal development path set out in section 3.3.6.	Assigning all three ISP scenarios to the RIT-Ts for new actionable ISP projects promotes ISP/RIT-T alignment while allowing RIT-T proponents to consider the same risks as AEMO in the 2026 ISP or any additional risk considered relevant. Assigning all three scenarios allows RIT-T proponents to capture option value, where applicable, by considering specific risks captured in the relevant identified need and the benefits of various forms of staging in different states of the world. AEMO considers that assigning three ISP scenarios to a RIT-T assessment promotes a rigorous CBA without imposing undue analytical burden on the RIT-T proponent. In the case of the actionable ISP projects identified in the 2026 ISP, AEMO did not identify a need to remove a scenario from the collection.
		• Allowing the RIT-T proponent to capture the option value of exploring credible options that contain more granular staging decisions (that is, contain key uncertainties to the investment decision which could influence a decision rule).	
		• Balancing the need for a rigorous CBA with reducing the analytical burden on the RIT-T proponent in the RIT-T process.	

Table 13 CBA Guidelines Section 3.5.3 – Feedback loop

#	CBA Guidelines requirement		AEMO compliance
36	***Requirement*:** In providing written confirmation to the RIT-T	• Publish its written confirmation to the RIT-T proponent on AEMO's website.	Since publication of the 2024 ISP, AEMO has completed an ISP feedback loop assessment for Project Marinus in August 2025. AEMO's feedback loop confirmation for Project Marinus, including a separate feedback loop analysis report, is published on AEMO's ISP feedback loop notices webpage[32].

[32] At https://aemo.com.au/en/energy-systems/major-publications/integrated-system-plan-isp/integrated-system-plan-feedback-loop-notices.

#	CBA Guidelines requirement		AEMO compliance
	proponent [under clause 5.16A.5(b) of the NER], AEMO *is required* to:	• Identify the cost (of the RIT-T preferred option) that AEMO has used as its basis for confirming that the status of the actionable ISP project as part of the optimal development path remains unchanged (noting that section 4.4 clarifies what this cost should be where staging is involved).	For all feedback loop assessments, AEMO assesses the cost of the project (or stage) consistent with requirements and guidance in sections 3.5.3 and 4.4 of the CBA Guidelines and Section 3.3 of the AER's guidance note on the regulation of actionable ISP projects[33]. For the Project Marinus feedback loop, TasNetworks' feedback loop request identified that Project Marinus consisted of two proposed investments: Marinus Link, to be delivered by Marinus Link P/L, and North West Transmission Developments (NWTD), to be delivered by TasNetworks. Marinus Link and NWTD were proposed to progress in two stages at different timings. Consistent with guidance in section 4.4 of the CBA Guidelines, AEMO's feedback loop assessment considered the cost of each project stage separately while also having regard to the full cost of the project including both stages. The costs considered by AEMO when assessing actionability of the project and each project stage are discussed in detail in Section 2.4 of the feedback loop analysis report. For transparency, table 3 in the feedback loop analysis report identifies the cost of each stage of Marinus Link and NWTD separately. Excluded costs are also reported separately in Table 3. Sections 3.3.3 and 3.4.1 of the CBA Guidelines allow government funding and certain early works costs approved by the AER to be taken into account in the ISP cost benefit analysis. Section 2.4 of the feedback loop analysis report summarises the excluded costs provided in the feedback loop request and these costs are reported for each stage of Marinus Link and NWTD separately within Table 3. The feedback loop assessment tested the cost of each stage less excluded costs. AEMO tested the project based on the information provided in the feedback loop request and did not assess the exclusion eligibility of discrete cost components from the total project cost estimate. However, to demonstrate the robustness of the feedback loop outcome, AEMO used sensitivity analysis to test cost estimates for each stage without cost exclusions. To further demonstrate the robustness of the outcome, AEMO tested project actionability without concessional finance for Stage 1 and used sensitivity analysis to test outcomes including concessional finance.
37	***Consideration:*** In performing the feedback loop on a RIT-T preferred option (if the preferred option, or its cost, differs from the ISP candidate option), AEMO *must consider*:	• Removing the ISP candidate option from all development paths where it is featured, and replacing these with the RIT-T preferred option (and associated cost). • Re-running the CBA modelling and scenario analysis if practicable, to test whether the optimal development path referred to in the most recent ISP: – still has a positive net economic benefit in the most likely scenario with the RIT-T preferred option – is still optimal with the RIT-T preferred option under the same decision-making approach, or that any difference is immaterial. • Adapting the extent to which it re-runs the CBA modelling and scenario analysis, to the size of the difference between the costs and/or market benefits of the ISP candidate option and the RIT-T preferred option.	During August 2025, when AEMO assessed the Project Marinus feedback loop, the most recent ISP was the 2024 ISP. The ODP in the 2024 ISP included both stages of Project Marinus as an actionable ISP project. In undertaking the Project Marinus feedback loop, AEMO reassessed the selection of the ODP identified in the 2024 ISP based on the inputs, assumptions and scenarios used to determine that ODP. As explained in Section 1 of the feedback loop analysis report, this required an update of the cost benefit analysis for the 2024 ISP using the information provided in TasNetworks' feedback loop request. Based on the information in that request, including that the transfer capability of each stage of Project Marinus has not changed since the 2024 ISP, AEMO considered that re-running the market modelling for the 2024 ISP was unnecessary. The 2024 ISP recognised that the proposed delivery of Project Marinus is in two stages at different timings. The 2024 ISP tested the actionability of each stage separately while identifying Stage 1 as a pre-requisite for Stage 2. The 2024 ISP identified both stages of Project Marinus as actionable, therefore the project was identified as a single actionable ISP project delivered in two stages. The Project Marinus feedback loop similarly re-tested the actionability of each project stage and used the same decision-making approach applied in the 2024 ISP to reconsider whether the ODP remained optimal. AEMO updated the 2024 ISP cost benefit analysis and reassessed the selection of the ODP identified in the 2024 ISP taking into account any differences in project scope, cost and timing or other relevant information

[33] AER. "Regulation of large transmission projects". At https://www.aer.gov.au/industry/registers/resources/reviews/regulation-large-transmission-projects

#	CBA Guidelines requirement		AEMO compliance
			provided in the feedback loop request. The inputs and assumptions used for the feedback loop assessment and reasoning for their selection are presented in Table 1 of the feedback loop analysis report. The feedback loop assessment confirmed that: • Project Marinus addresses the relevant identified need specified, and aligns with the ODP referred to, in the 2024 ISP, and • the total cost of the project, including the cost of Stage 1 and Stage 2, does not change the status of the project as part of the ODP specified in the 2024 ISP.

Glossary and abbreviations

Key terms from the CBA Guidelines

Term	Definition
Actionable ISP project	Defined in NER chapter 10 as a project: • that relates to a transmission asset or non-network option the purpose of which is to address an identified need specified in an ISP and which forms part of an optimal development path, and • for which a project assessment draft report is required to be published in the ISP that identifies that project.
Anticipated project	Anticipated project means a project which: • does not meet all of the criteria for a committed project, and • is in the process of meeting at least three of the criteria for a committed project (as listed in the 'committed project' definition below).
Committed project	Committed project means a project that meets the following criteria: • the proponent has obtained all required planning consents, construction approvals and licenses, including completion and acceptance of any necessary environmental impact statement, • construction has either commenced or a firm commencement date has been set, • the proponent has purchased/settled/acquired land (or commenced legal proceedings to acquire land) for the purposes of construction, • contracts for supply and construction of the major components of the necessary plant and equipment (such as generators, turbines, boilers, transmission towers, conductors, terminal station equipment) have been finalised and executed, including any provisions for cancellation payments, and • the necessary financing arrangements, including any debt plans, have been finalised and contracts executed.
Consideration	A binding element of the CBA that AEMO must have regard to.
Costs	The present value of the direct costs of a credible option or development path. The classes of costs are set out in the NER (clause 5.15A.2(b)(8), 5.15A.3(b)(6), 5.22.8(d)).
Counterfactual development path	The status quo or base case that AEMO uses to compare the development paths in the ISP CBA.
Credible option	Defined in NER 5.15.2(a) as being an option (or group of options) that: (1) addresses the identified need; (2) is (or are) commercially and technically feasible; and (3) can be implemented in sufficient time to meet the identified need, and is (or are) identified as a credible option in accordance with paragraphs (b) or (d) (as relevant).
Cross checks	Cross checks can inform the accuracy of an outcome by 'sense checking' it against information from other sources.
Development path	Defined in NER 5.10.2 as a set of projects in an ISP that together address power system needs.
Distributional effects	Distributional effects consider the distribution of costs and market benefits of an optimal development path—that is, who receives the benefits and who pays the costs.
Future ISP project	Defined in NER 5.10.2 as a project: • that relates to a transmission asset or non-network option the purpose of which is to address an identified need specified in an ISP and which forms part of an optimal development path, and • that is forecast in the ISP that identifies the project, to be an actionable ISP project in the future.
Identified need	Defined in NER chapter 10 as the objective a network service provider or a group of network service providers seeks to achieve by investing in the network in accordance with the NER or an ISP.
ISP	Defined in NER chapter 10 as a plan developed and published by AEMO under rule 5.22 as amended by an ISP update from time to time. The ISP provides a whole of system plan for the efficient development of the power system that achieves power system needs. It identifies an optimal development path that contains ISP projects, some of which trigger the application of a RIT-T, or preparatory activities.
ISP candidate option	Defined in NER 5.10.2 as a credible option specified in the ISP that the RIT-T proponent must consider as part of a RIT-T for an actionable ISP project.
ISP development opportunity	Defined in NER 5.10.2 as a development identified in an ISP 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.

Term	Definition
ISP parameters	Defined in NER 5.10.2 as, for an ISP project: • the inputs, assumptions and scenarios set out in the most recent IASR, • the other ISP projects associated with the optimal development path, and • any weightings specified as relevant to that project.
ISP project	Defined in NER 5.10.2 as an actionable ISP project, a future ISP project or an ISP development opportunity.
ISP update	Defined in NER chapter 10 as an update to an Integrated System Plan published by AEMO under NER 5.22.15.
Market benefits	The present value of the benefits of a credible option or development path, or a benefit to those who consume, produce and transport electricity in the market, that is, the change in producer plus consumer surplus. The classes of market benefits are set out in the NER (5.15A.2(b)(4), 5.15A.3(b)(4), 5.22.8(c)).
Modelled project	Modelled project means a hypothetical project derived from market development modelling in the presence or absence (as applicable) of the relevant: • development path (for the ISP), or • credible option (for a RIT-T application).
Net economic benefit	Net economic benefit is the sum of: 1. the net economic benefit, other than of changes to Australia's greenhouse gas emissions, to all those who produce, consume or transport electricity in the NEM, and 2. the net economic benefit of changes to Australia's greenhouse gas emissions, whether or not that net benefit is to those who produce, consume or transport electricity in the NEM.
Non-network option	Defined in NER chapter 10 as 'a means by which an identified need can be fully or partly addressed other than by a network option'. For avoidance of doubt, the AER interprets this definition to mean that non-network options: • involve 'non-network assets – that is, assets that are not used to convey or control the conveyance of electricity to customers, and that are not connection assets. For instance, non-network assets might include assets that customers use to reduce their demand for electricity, or assets on which expenditure is undertaken by a third party, or • can also include options that involve some expenditure on a network asset, but not expenditure on network assets alone.
Optimal development path	Defined in NER chapter 10 as a development path identified by AEMO as the optimal development path in the most recent ISP in accordance with rule 5.22.
Other Party	Any party other than a Participant (where Participant is defined below).
Participant	A Registered Participant under NER 2.1 or any other party in their capacity as a consumer, producer or transporter of electricity in the market.
Preferred option	Defined in NER 5.15A.1(c) as the credible option that maximises the present value of net economic benefit to all those who produce, consume and transport electricity in the 'market'.
Preparatory activities	Defined in NER 5.10.2 as activities required to design and to investigate the costs and benefits of actionable ISP projects and if applicable, future ISP projects including: • detailed engineering design, • route selection and easement assessment work, • cost estimation based on engineering design and route selection, • preliminary assessment of environmental and planning approvals, and • council and stakeholder engagement.
Power system needs	The power system needs are, as defined in NER 5.22.3(a): • the reliability standard, • power system security, • system standards, and • standards or technical requirements in Schedule 5.1 or in an applicable regulatory instrument.
Requirement	A binding element of the CBA Guidelines that AEMO must achieve.
Scenario	Different future external market environments that are used in a CBA to assess and manage uncertainty about how the future will develop. They are based on variations to key input variables and parameters that drive supply and demand conditions (for example, population growth, coal and gas prices).

Term	Definition
Risk-neutral decision-making approach	Risk-neutral decision-making approaches are based on expected value. That is, they weight different payoffs based on their likelihood of occurrence. In this context, this means weighting the net economic benefit of development paths in each scenario based on the likelihood, or relative likelihood, of the scenario occurring. Risk-neutral decision-making approaches prioritise transmission investment risks based on their likelihood of occurrence (with judgement used to assess likelihoods).
Risk-averse decision-making approach	Risk-averse decision-making approaches (implicitly or explicitly) weight different payoffs to reduce variability or the risk of a negative outcome occurring. In this context, this means (implicitly or explicitly) weighting the net economic benefit of development paths in each scenario in a way that mitigates particular risks. Risk-averse approaches place a higher value on reducing the risk(s) of a negative outcome occurring than the likelihood of its occurrence. As such, a risk-averse decision-making approach uses judgement on risk tolerances to prioritise risks.
RIT-T	Defined in NER chapter 10 as the test developed and published by the AER in accordance with clauses 5.15A.1 and 5.16.2 as in force from time to time, and includes amendments made in accordance with clause 5.16.2. It is a CBA that assesses credible options to address an identified need, and identifies the credible option that maximises the present value of net economic benefit to all those who produce, consume and transport electricity in the market (the preferred option).
Scenario analysis	Scenario analysis entails developing/describing a range of different scenarios and exploring how different development paths produce different market benefits across each scenario. Through this, AEMO gains a comprehensive understanding of what states of the world could arise with and without each development path in place under different sets of external circumstances. Scenario analysis is one way to assess the risk or uncertainty of a given development path, focussing that associated with an unknown future market environment.
Sensitivity testing	Sensitivity testing varies one or multiple inputs to test how robust the output of its CBA is to its input assumptions (for example, underlying plant operation assumptions).
Stakeholder engagement plan	The stakeholder engagement plan is a method for proponents to identify stakeholders, provide a timeline of engagement activities and articulate how the engagement meets community expectations including best practices.
State of the world	A state of the world is a detailed description of all of the relevant market supply and demand characteristics and conditions likely to prevail to meet the power system needs if a development path proceeds in a given scenario. This includes generation, network and load development and operating requirements.

Abbreviations

Abbreviation	Term in full
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
CBA	cost benefit analysis
CBA Guidelines	*Cost Benefit Analysis Guidelines*
CDP	candidate development path
CER	consumer energy resources
CPA	contingent project application
DNSP	distribution network service provider
ESOO	*Electricity Statement of Opportunities*
FAR	*Forecast Accuracy Report*
FBPG	*Forecasting Best Practice Guidelines*
IASR	*Inputs, Assumptions and Scenarios Report*
ISP	*Integrated System Plan*
NEM	National Electricity Market
NEO	National Electricity Objective
NER	National Electricity Rules
ODP	optimal development path
PADR	Project Assessment Draft Report
REZ	renewable energy zone

Abbreviation	Term in full
RIT-T	regulatory investment test for transmission
TAPR	transmission annual planning report
TNSP	transmission network service provider
VCR	value of customer reliability
VER	Value of emissions reduction
WACC	weighted average cost of capital