

10 June 2024

Dr Kris Funston
Executive General Manager
Australian Energy Regulator

Sent via email

AER Value of Network Resilience Review

Dear Dr. Funston,

Energy Networks Australia (**ENA**) appreciates the opportunity to respond to the Australian Energy Regulator's (**AER**) Issues Paper on the value of network resilience (**VNR**).¹

ENA is the national industry body representing Australia's electricity transmission and distribution and gas distribution networks. Our members provide more than 16 million electricity and gas connections to almost every home and business across Australia.

Networks are focused on providing a resilient delivery of network services, and ENA supports the development of an interim VNR in a timely manner to allow upcoming network determinations and associated consumer engagements to reflect the value placed by customers on a resilient network. The development of this interim VNR however should not preclude the comprehensive development of a longer term value, with all potential options assessed in detail during that review. Further clarity from the AER on the process and timeline for developing the longer term VNR would be beneficial for all stakeholders.

We also strongly recommend that the VNR be applicable for long duration outages regardless of the cause, which could include, but not be limited to, severe weather events or cybersecurity incidents. Limiting the VNR to solely weather-related drivers understates the potential application of the VNR to broader decision-making by networks.

Assessment criteria

ENA supports the development of criteria that will help in the assessment of potential approaches to determining a VNR and identify the most appropriate option/s.

The proposed assessment criteria would, however, benefit from more explicit consideration of simplicity, transparency and robustness to inform approach choices. We recommend amending the existing proposed '*established within the required timeframe*' criteria to explicitly recognise simplicity as the key operating criterion. In addition, the introduction of new criteria focused on transparency and robustness of the methodology would also enable better options assessment. For example, a methodology that

¹ AER, *Issues Paper: Value of Network Resilience 2024*, May 2024.

produces extremely volatile estimates of VNR through time, or which cannot be replicated, may be less robust and transparent, and be appropriately assigned less weight by the AER.

We recommend reconsideration of the criteria of *'impact on network expenditure proposals'*, and do not support its inclusion without fuller consideration of its clarity and potential interpretation. For example, if a future VNR value is higher than that previously applied, and robust, the methodology should not be discounted or not applied because it does potentially impact an expenditure proposal. To the extent that a VNR accurately reflects a previously undervalued element of customers' service preferences, then there is a clear case that it should inform and potentially impact a networks expenditure proposal. That is, a methodology should not be assessed on whether it result in alterations with positive network service delivery outcomes, where this is part of the objective.

ENA suggests that the issue of the impact of a implied VNR value should be carefully weighed by the network business in consultation with its customers in the preparation of a revenue proposal, and then also explicitly weighed and considered by the AER in the application of the national electricity objective and relevant law and rule provisions, which provide the appropriate flexibility to consider elements of price, service, reliability and the dimensions of the proposed price-service offering.

There may also be benefit in considering either different criteria for the development of the interim VNR and the development of the longer term VNR, or the application of different weightings when assessing options against the criteria.

For example, the current *'suitability of methodology'* criteria notes that *'We will need to consider a methodology that has longevity and is appropriate for valuing network resilience, consistent with the scope of this project and that can be used longer term as our understanding develops and evolves.'* Longevity of the methodology is less applicable to the assessment of an interim VNR, and it is ENA's strong recommendation that an incremental only approach is *not* taken for the development of the longer term VNR. Instead, all potential options should be assessed comprehensively during the longer term review.

Potential approaches for interim VNR

The use of a multiple of the VCR for standard outages (Option 2) would appear to perform strongly on the criteria (with the proposed amendments above) and should be tested with consumers through further consultative mechanisms.

Option 3 (Extrapolating the VCR for standard outages beyond 12 hours) or Option 4 (Conducting follow-up surveys to actual prolonged outages) may also be a practical option able to provide a further point of reference for long-duration outages, and should also be considered further. Either of these options could possibly be combined with Option 2, where appropriate, to extrapolate results to geographical areas where other data sources are limited or unavailable.

We strongly encourage the AER to leverage prior research that networks have undertaken to help inform this review. As highlighted in the Issues Paper, the Victorian distribution networks have worked with the Victorian Government Department of Energy, Environment and Climate Action's developing Energy Resilience Studies, identifying network and geographical areas that are at risk of prolonged power outages.

ENA notes the importance of any deliberative forums being able to be well-structured and designed, and underpinned by appropriate preparatory consumer discussions – to ensure any outcomes on propositions discussed are genuinely reflective of a range of consumer views, credible, tested, and fully informed by adequate information and context.

If you wish to discuss any of the matters raised in this letter further, please contact Lucy Moon, Head of Regulation and Strategy, on lucymoon@energynetworks.com.au.

Yours sincerely,

A handwritten signature in black ink that reads "Garth Crawford".

Garth Crawford
General Manager Economic Regulation