



Part of Energy Queensland

7 November 2024

Ms Anna Collyer
Chair
Australian Energy Market Commission
Project reference code ERC0400
Lodged online: www.aemc.gov.au

Dear Ms Collyer,

Including distribution network resilience in the national electricity rules

Ergon Energy Corporation Limited (Ergon Energy) and Energex Limited (Energex), both distribution network service providers (DNSPs) operating in Queensland, welcome the opportunity to provide a response to the Australian Energy Market Commission (AEMC) on the proposed rule change to include distribution network resilience in the National Electricity Rules (NER).

The increasing occurrence of cyber security attacks, information technology malfunctions, and extreme weather events over the past year¹ has highlighted the growing importance of resilient electricity distribution networks to withstand, as far as practicable, the impact of major disruptions, and recover as quickly as possible, following the cessation of immediate threats.

As network resilience is not explicitly defined in the NER or [National Energy Objectives](#) (NEO), Ergon Energy and Energex have historically justified the need for its resilience planning and expenditure based on resilience's implicit relationship with the NER objective of maintaining a reliable electricity supply².

However, the absence of network resilience in the NER and NEO presents a risk for DNSPs in the amount of resources and planning that should be devoted to network resilience given the uncertainty with the amount of resilience funding that the Australian Energy Regulator (AER) will approve.

On this basis we support the proposed:

- inclusion of resilience expenditure factors in the NER; and
- requirements³, apart from the reporting requirement, in a new AER resilience guideline (Guideline), provided this Guideline is not binding.

¹ Extreme weather events include cyclones in far north Queensland ([Tropical Cyclone Jasper](#) and [Tropical Cyclone Kirrily](#)) and the [Victorian bushfires](#).

² Notwithstanding the view that electricity supply reliability is more akin to day-to-day normal operation of the network rather than in times of extreme weather events.

³ We recommend the proposed requirements should be viewed as suggestions.

We believe the proposed changes to the NER and the development of a new non-binding Guideline provide the resilience funding certainty that is currently lacking whilst maintaining the flexibility for DNSPs and the AER in the planning, justification, and assessment of resilience related network expenditure.

Furthermore, it is important that any new Guideline that replaces the AER's existing network resilience guidance note: [Network resilience A note on key issues](#) (Guidance Note):

- is principles based;
- provides clarity on the AER's (non-binding) expectations; and
- does not impose additional obligations on DNSPs and the AER.

Our responses to the specific questions raised in the AEMC's consultation paper are attached.

We look forward to further engagement with the AEMC and other stakeholders on the next stage to incorporate network resilience in the NER.

Should the AEMC require additional information or wish to discuss any aspect, please contact either myself, or Lindsay Chin on 0459 642 052.

This submission does not contain confidential information and may be published.

Yours sincerely



Alena Christmas
Manager Regulatory Affairs

Telephone: 0429 394 855
Email: alena.christmas@energyq.com.au

Encl: Ergon Energy's and Energex's responses to consultation questions

Including distribution network resilience in the national electricity rules

STAKEHOLDER FEEDBACK TEMPLATE

The template below has been developed to enable stakeholders to provide their feedback on the questions posed in the consultation paper and any other issues that they would like to provide feedback on. The AEMC encourages stakeholders to use this template to assist it to consider the views expressed by stakeholders on each issue. Stakeholders should not feel obliged to answer each question, but rather address those issues of particular interest or concern. Further context for the questions can be found in the consultation paper.

SUBMITTER DETAILS

ORGANISATION: Ergon Energy and Energex

CONTACT NAME: Lindsay Chin

EMAIL: lindsay.chin@energyq.com.au

PHONE: 0459 642 052

DATE 7 November 2024

PROJECT DETAILS

NAME OF RULE CHANGE: Including distribution network resilience in the national electricity rules

PROJECT CODE: ERC0400

PROPONENT: The Honourable Lily D'Ambrosio MP, Victorian Minister for Energy and Resources

SUBMISSION DUE DATE: 7 November 2024

CHAPTER 2 – THE PROBLEM RAISED IN THE RULE CHANGE REQUEST

<p>1. Does the current framework for distribution network resilience create regulatory uncertainty for DNSPs and the AER around efficient expenditure for long-duration outages? Should the framework be amended to provide clarity?</p>	<p>Ergon Energy and Energex are of the view that the current distribution network resilience framework, which includes the AER’s Guidance Note, and the Value of Network Resilience (VNR) has shortcomings which should be addressed. These shortcomings include:</p> <ul style="list-style-type: none"> • regulatory uncertainty because the absence of “resilience” in the NER and NEO means the AER does not have to approve any DNSPs’ proposed resilience expenditure; • the fact that the VNR considers energy not supplied (ENS) of unplanned outages >12 hours as the key determinant. However, ENS does not reflect all of customers’ socio-economic experiences during prolonged outages; and • the current VNR values are only temporary, until a more robust and enduring approach is developed in 2025. We suggest the AEMC coordinate its work on including distribution network resilience in the NER (including the development of the resilience Guideline) with the AER’s 2025 VNR consultation to create a long-term solution for VNR.
<p>2. How material is the lack of clarity in the rules around network resilience?</p> <p>(a) Do you consider the issue with the NER raised by the proponent to be a substantive problem? If so, why?</p> <p>(b) Are there any other programs or energy sector reforms that may partially or fully address the problem raised by the proponent?</p>	<p>(a) We agree with the rule change’s proponent that due to increasing extreme weather events, and other major disruptions, network resilience will become an increasingly bigger issue. As there is no instrument or legislative requirement that states that the AER must approve resilience expenditure:</p> <ul style="list-style-type: none"> • DNSPs will continue taking the risk of expending resources planning and building business cases for resilience expenditure, which may not be approved; • DNSPs may not be undertaking vital correlation studies in forecasting/ planning ex-post expenditures and projected ex-ante investments to justify future resilience projects; and

	<ul style="list-style-type: none"> • There is uncertainty for our customers in their household planning and preparations for major network disruptions. <p>Furthermore, the AER’s Service Target Performance Incentive Scheme (STPIS) does not incentivise DNSPs to minimise the impact of long-duration outages. Specifically, the AER’s methodology for Major Event Days (MED) means electricity supply interruptions that are greater than the MED boundaries are excluded from the revenue calculations.</p> <p>(b) The recent setting of the VNR may partially assist with addressing the problem as it supports credible options (to address an identified need) that have regard for network resilience.</p>
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CHAPTER 3 - THE PROPOSED SOLUTION AND IMPLEMENTATION

3. Do you agree with the proposed solution to include resilience expenditure factors in the NER?

<p>(a) Is including resilience as expenditure factors in the NER an appropriate solution? Is there a more preferable way to incorporate distribution network resilience into the NER?</p> <p>(b) Do you have any comments on the proposed drafting of the resilience expenditure factors? Should they be drafted in the same way for capital and operating expenditure?</p> <p>(c) Should the resilience expenditure factors cover severe weather events and other catastrophic events that may result in long-duration outages?</p>	<p>(a) Network resilience is already accounted for in the NER by way of:</p> <ul style="list-style-type: none"> • the recent setting of a VNR and its use in Regulatory Investment Test for Distribution (RIT-D) assessments, which are required as part of DNSPs’ building block proposals¹ ; and • the AER’s requirement, when assessing DNSPs’ forecasts, to have regard for² : “the extent to which the operating/ (capital) expenditure forecast includes expenditure to address the concerns of distribution service end users as identified by the Distribution Network Service Provider in the course of its engagement with distribution service end users or groups representing them;”
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¹ 6.5.7 (b)(4) Forecast capital expenditure and S6.2.2 (3) Prudence and efficiency of capital expenditure.

² Part (e) 5(A) of s6.5.6 Forecast operating expenditure and s6.5.7 Forecast capital expenditure.

Notwithstanding the above, Ergon Energy and Energex support the proposal to include resilience expenditure factors in the NER and suggest the following additional text to the NEO and clauses 6.5.6 and 6.5.7 of the NER. These suggested amendments are included in bold text and are outlined below.

The National Electricity Objective (NEO)

*The National Electricity Objective as stated in the National Electricity Law (NEL) is:
to promote efficient investment in, and efficient operation and use of, electricity services for
the long-term interests of consumers of electricity with respect to:*

- a. price, quality, safety, reliability, **resilience**, and security of supply of electricity; and*
- b. the reliability, **resilience**, safety, and security of the national electricity system; and*
- c. the achievement of targets set by a participating jurisdiction—
 - i. for reducing Australia's greenhouse gas emissions; or*
 - ii. that are likely to contribute to reducing Australia's greenhouse gas emissions.**

National Electricity Rules

6.5.6 Forecast operating expenditure and 6.5.7 Forecast capital expenditure

***(a)(3) to the extent that there is no applicable regulatory obligation or
requirement in relation to:***

- (i) the quality, reliability, **resilience**, or security of supply of standard
control services; or***
- (ii) the reliability, **resilience**, or security of the distribution system through
the supply of standard control services,***

to the relevant extent:

- (iii) maintain the quality, reliability, **resilience**, and security of supply of
standard control services; and***
- (iv) maintain the reliability, **resilience**, and security of the distribution
system through the supply of standard control services;***

Proposed AER Guidelines

In relation to the proposed AER Guideline, Ergon Energy and Energex support its creation but only on the basis that this is a non-binding, permissive guideline that provides clarity and does not impose additional obligations on DNSPs. Thus, we do not support the proposed Guideline's reporting requirement. This is because:

- we do not consider resilience related expenditure to be sufficiently different or more important compared to other forms of expenditure such as augmentation, replacement, and reliability to warrant resilience expenditure/ projects having their own set of reporting requirements;
- the recent finalisation of the VNR means that all RIT-D assessments undertaken by DNSPs must consider network resilience and may involve the publication of a non-network options report and a project assessment report for public consultation;
- Ergon Energy and Energex already have several communication channels that ensure our customers remain at the forefront of our operations and network investment consultation processes. These include:
 - our Voice of the Customer engagement and Reset Reference Groups that were established as part of our 2025-30 Regulatory Proposal; and
 - our quarterly Customer and Community Council which explores strategic issues relating to our customers' and communities' needs and expectations; and

- DNSPs are already subject to significant compliance and reporting obligations³ and the additional proposed reporting for resilience would add to that burden and cost, which is ultimately passed onto customers.

In the creation of an AER Guideline, we recommend that consideration be given to Ergon Energy's and Energex's following views on the below two sets of requirements in the AER's Guidance Note that DNSPs must satisfy to qualify for resilience expenditure.

- In relation to the AER Guidance Note's requirement to demonstrate a causal relationship between the proposed resilience expenditure and the expected increase in the extreme weather events, Ergon Energy and Energex believe there is a lack of clarity regarding the evidence required to demonstrate this.

The modelling of natural disasters including the accurate correlation between real (ex-post) and modelled (ex-ante) weather event impacts and proposed network capital and operating expenditure investments is a very complex matter, and the proposed Guideline should provide more guidance and worked examples of the evidence it would like from DNSPs.

Also, the development of DNSP's simulations of natural disasters would require DNSPs to engage external experts such as for statistical weather event prediction. Therefore, if this expectation were to be included in the AER's new Guideline, it would need to be reframed as a suggestion (rather than a requirement) and the cost of the external investigation and subsequent justification would need to be included in DNSPs' costs to prepare resilience business cases.

³ These include the Regulatory Information Notice (RIN) data submissions (which will become Annual Information Orders from 2024-25) and the Distribution Annual Planning Report.

- In relation to the AER Guidance Note’s expectation on customer engagement, Ergon Energy and Energex consider that some requirements are overly prescriptive, whilst others are ambiguous. We make the following specific comments:

- this expectation suggests that a DNSP’s customers must approve a DNSP’s initial preferred option. However, it is possible this may not occur and instead, based on customers’ decision, a sub-optimal (or no solution) is implemented to address the identified need.

This blurs the distinct responsibilities/ roles of DNSPs versus their customers. Whilst a DNSP’s expenditure must address the concerns of distribution service end users, it should be up to DNSPs on how best to do so;

- the expectation to “work collaboratively with (potentially) affected communities” may be relevant only for projects that impact specific local communities but not a program-level proposal;
- the purpose of the wording: “We are also interested in the degree of input these stakeholders have had in developing the proposed resilience related expenditure” is unclear as to whether this is a requirement that DNSPs must obtain stakeholders input or is simply for the AER’s information.

In any future resilience Guideline, there should be no ambiguity and ambiguous language such as, interested in, should be omitted; and

- the final requirement to: “consult with its wider consumer base on their preferences for bearing resilience-related costs to address localised impacts”:
 - may conflict with the second expectation that affected stakeholders may propose a different resilience option compared to a DNSP’s wider consumer base; and

- as discussed above, customer consultation already occurs in Ergon Energy and Energex as a normal part of managing social licence generally, as such, it is unclear how proposed resilience projects are any different to other “localised” non-resilience related projects and what evidence is required to meet this expectation.

Furthermore, suggested criteria in the new Guideline should only be needed for credible options that exceed a material financial value threshold⁴. This is because the cost and time involved for DNSPs, stakeholders and the AER may outweigh the benefits expected from the resilience proposal.

In summary, Ergon Energy and Energex support a new non-binding AER Guideline that provides examples and suggestions to DNSPs on how they can justify their proposed resilience expenditure.

- (b) With regards to the proposed resilience expenditure factors, we suggest changing the order of the two considerations such that the new expenditure factor would be:

“The extent to which the capital expenditure relates to the distribution network service provider’s ability to prepare efficiently to resist, manage during, or recover from catastrophic events and severe weather events, which may lead to prolonged power outages, considering:

- the likelihood and impact of the potential catastrophic events and severe weather events; and
- the benefits and costs of providing the expenditure as part of forecast capital expenditure or as a cost pass-through.”

The drafting should be the same for capital and operating expenditure.

⁴ For example, similar to cost thresholds for RIT-Ds.

	<p>(c) The resilience expenditure factors should cover severe weather events and other catastrophic events where these have historically occurred (e.g. cyclones) and thus are more likely to occur in future. Events which are harder to predict or have never occurred should be continued to be covered via cost pass through applications.</p>
<p>4. Do you agree with the proposed solution to require the AER to develop resilience guidelines?</p> <p>(a) Do you agree that requiring the AER to develop binding resilience guidelines will address the issue?</p> <p>(b) What level of prescription should the NER include relating to the AER’s guidelines? Should the NER include content requirements for the AER guidelines?</p> <p>(c) Do you agree that both including resilience as capital and operating expenditure factors in the NER and an AER binding guideline are required to address the issue?</p>	<p>(a) No. Please refer to our response to Question 3, above.</p> <p>(b) The NER should continue to be principles based and should not include content requirements for the AER’s proposed Guidelines.</p> <p>(c) No. We believe the inclusion of resilience in the NER is sufficient to address the issue, such that the Guideline should provide only non-binding guidance.</p>
<p>5. What are your views of the costs and benefits of the proposed solution?</p> <p>(a) What do you consider will be the benefits and costs of the proposed solution?</p> <p>(b) Do you consider the proposal appropriately allocates risk between DNSPs and consumers?</p> <p>(c) Is there anything the Commission could do in designing the rule that would help to minimise the costs and maximise the benefits?</p>	<p>(a) The new framework should provide certainty for DNSPs and their customers to plan and prepare for extreme weather and catastrophic events and the AER in assessing the resilience expenditure’s prudence and efficiency.</p> <p>(b) If implemented correctly, we believe the level of risk will be allocated appropriately between DNSPs and their customers.</p> <p>(c) Please refer to our response to Question 3, above.</p>
<p>6. What transitional arrangements would be required to implement the proposed rule?</p>	<p>Until the new resilience framework is finalised, DNSPs should have regard for the proposed Guideline’s content in their planning.</p> <p>We believe a two-year transitional period should be sufficient for the AER to develop the Guideline and long-term VNRs, and for the DNSPs to introduce and test the new framework in their capital and operating expenditure programs.</p>

	The introduction and revisions of the framework will require well-organised processes between multiple departments.
7. Are there any interactions with the VNR that should be taken into account in the NER?	The VNR is independent of the proposed changes to the NER to include network resilience. The key will be to understand, verify and confirm consumer real and projected benefits from this reform.
8. Are there alternative solutions to those proposed in the rule change request? (a) Do you consider that more preferable solutions exist to address the identified issue? (b) Should the rule change clarify the role of DNSPs in relation to providing resilience? (c) To what extent would the VNR, alongside the AER's existing guidance note, resolve the issue raised in the rule change request?	<p>(a) Please refer to our response to Question 3 for an alternative solution.</p> <p>Also, we believe that the AER should review its STPIS MED methodology. As stated above, it limits DNSPs with large and low-density networks to claim more MED events under the STPIS scheme. This review could result in revision of the STPIS to include incentive mechanisms for long-duration outages, and / or to increase the sophistication of future projections instead of using average historic figures.</p> <p>It would be also good to investigate experiences of other organisations, civilian and military.</p> <p>(b) Agree. However, this should be clarified in the proposed AER Guidelines.</p> <p>(c) The VNR in its current form is appropriate for the interim period. However, the current AER Guidance Note has shortcomings that do not resolve the issue raised in the change request.</p>

CHAPTER 4 – MAKING OUR DECISION

9. Assessment framework: Do you agree with the proposed assessment criteria? Are there additional criteria that the Commission should consider or criteria included here that are not relevant?	Yes. Ergon Energy and Energex agree with the proposed assessment criteria and offer no additional criteria.
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