AusNet

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Andrew Pirie
Project Leader
Australian Energy Market Commission
Submitted online

Dear Mr Pirie,

Submission to the AEMC's draft determination on the inclusion of distribution network resilience in the NER

We support the preferable rule change to add network resilience to the capital and operating expenditure factors which would require the AER to explicitly consider network resilience when setting revenues in regulatory determinations. In particular, we support the principle of allocative efficiency that was used to develop the preferable rule change.

We also agree that introducing fit for purpose annual reporting requirements in the DAPR may promote greater transparency. However, the proposed reporting requirements are extensive and further consideration is needed regarding the consumer benefits they would support. For example, providing information on performance and consumer outcomes for historical events is inconsistent with the primary purpose of the DAPR, which is to promote transparency where this aids in network planning and promotes better consumer outcomes. For Victorian networks, this also duplicates a recommendation from the Network Resilience Review to undertake and publish after action reviews, which are designed to improve customer outcomes. We consider the focus on new reporting requirements in the DAPR should be on the following point identified in the draft determination:[1]

> *An explanation of how the DNSP takes into account the risks of power outages caused by severe weather events (as identified in the distribution annual planning review) when developing and implementing its asset management and investment strategy, to improve transparency and accountability.*

The AEMC and the Victorian Government should also consider further how any new, resilience-related DAPR reporting requirements are consistent with the new annual reporting requirements the Victorian Government is developing as part of its Victorian Network Resilience Plan framework. A single set of reporting requirements should be introduced and utilised, to minimise duplication and ensure the additional regulatory burden is commensurate with the consumer benefit.

While we agree that the AER should develop and publish network resilience guidelines, further consideration and engagement are needed regarding the Commission's recommendation that the AER consider the development of an incentive mechanism for resilience. The frequency, severity and impacts of extreme weather events, as well as the outcomes of location-specific network investments aimed at mitigating their effects, are inherently uncertain. Safety is also a priority and extreme weather events can pose additional safety risks that must be considered during restoration. These factors make an incentive scheme less well-suited to resilience, relative to the suite of existing schemes where the link between network behaviour and consumer outcome is stronger.

In addition, as the AEMC has recognised, distribution network resilience approaches to efficiently manage climate change risk are evolving and rapidly developing. These factors should be considered carefully in the design of any new incentive scheme (or the modification of an existing scheme such as the STPIS).

Additionally, clause 6.4.6(a)(1) of the draft rules requires the AER to provide examples of resilience expenditure that would assist DNSPs to:

- Continue to adequately provide network services despite severe weather events;

[1] P.26

- Communicate effectively with consumers, emergency services personnel and other relevant bodies before, during and after a severe weather event; and
- Promptly provide a level of supply to support consumers' essential needs while DNSPs work to restore supply

While the clause is designed to focus the AER on providing examples related to mobile substation, a communications campaign and mobile generators at community hubs, the list should be expanded to include upfront investments to reduce the risk of power outages caused by severe weather events. We believe it is the intention of the Commission to support upfront investment as it has stated that "The Commission considers that upfront expenditure to reduce the risks of severe weather events may be efficient in some circumstances"[2] and the Commission has provided the example that "DNSPs could relocate substations that are in flood prone areas or areas affected by storm surges and sea level risk".

Upfront expenditure needs to be considered on equal footing alongside other potential resilience solutions. Its inclusion would cover a larger range of resilience expenditure and would provide the flexibility that the Commission has stated whereby the draft rule change "provides more flexibility for the AER and DNSPs to account for different climate change risks, consumer preferences and asset management approaches between DNSPs which may impact efficient resilience expenditure". We support the introduction of AER guidelines that provide networks with flexibility to identify, assess and propose a wide range of solutions, recognising that network resilience investments and operational solutions are emerging and evolving areas.

Should you have any questions on this submission, please contact Angella Nhan, Senior Economist, at angella.nhan@ausnetservices.com.au.

Sincerely,

C. Eddy

Charlotte Eddy
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[2] P.17