

27 March 2025

Australian Energy Markets Commission (AEMC)
Level 15, 60 Castlereagh St
Sydney NSW 2000

Draft rule determination – Including distribution network resilience in the National Electricity Rules (NER)

Endeavour Energy appreciates the opportunity to provide this response to the AEMC's *Including distribution network resilience in the NER* draft rule.

This rule change presents a timely response to the increasing focus among Distribution Network Service Providers (DNSPs) to make their networks more resilient to the impacts of climate change in response to more frequent and extreme weather events. We broadly support the measures included in the draft rule to clarify the treatment of resilience in the NER so it can accommodate and incentivise efficient levels of investment that reduce the risk and impact of climate-related power outages to customers and their communities, and have set out below our more specific feedback.

We are supportive of incorporating resilience in the capital and operating expenditure factors

We welcome the inclusion of new expenditure factors which, by virtue of its linkage to the expenditure criteria and objectives, places an explicit obligation on the AER to consider resilience alongside other expenditure categories and drivers when assessing regulatory proposals. We consider that the regulatory clarity provided by this change, coupled with improved investment confidence offered by the resilience guideline, will promote the consideration of network resilience proposals in a transparent and consistent manner. It will also support prudent and efficient investment as mitigation strategies informed by climate modelling and data-based insights are integrated into network investment and planning frameworks, allowing interdependencies and cost synergies to be incorporated into overall expenditure forecasts.

Importantly, by supporting a consideration of the allocation of ex-ante and ex-post funding to manage resilience risks, the draft rule helps to address the tendency of the existing framework to rely heavily on ex-post mechanisms which fail to account for the customer impact during prolonged power outages. That said, we maintain our view that the ex-post mechanism at times delivers sub-optimal outcomes by limiting the scope of activities to those required to restore the network to an identical state prior to the severe weather event. Denying DNSPs the opportunity to rebuild the network to a higher standard to better withstand future events in a manner consistent with good industry practice and community expectations highlights a deficiency with the application of the cost-pass through framework to date which we believe warrants further review by the AER.

We also support the focus on improving customer outcomes, including those experienced during and after a major power outage. DNSPs play a critical role in helping communities to prepare, support and recover from major weather events. In circumstances where these are severe, an appropriate response may require more than what can be accommodated under business-as-usual emergency response capabilities. As such, a portion of the upfront costs included in resilience proposals may include more flexible solutions designed to reduce the impact to customers of extreme weather events (such as temporary generators, portable stand-alone power systems, mobile substations and depots, etc).

Striking the right balance between proactive and reactive actions to deliver resilience is particularly complex and doing so requires detailed analysis of climate change impacts across specific network locations. This

balance will differ across network areas and change over time and will be broadly guided by the extent to which DNSPs can demonstrate how pre-emptive investment to mitigate climate change risks can contribute to reducing both the customer impact, and cost impact, of future events.

As DNSPs continue to advance their understanding of climate change risks, it is important the optimal balance also continues to be shaped by stakeholder engagement. Following closely after the 2019-20 Black Summer bushfires and 2022 NSW floods, our stakeholders indicated a strong preference to accept the higher costs associated with adopting a more proactive approach. Whilst we agree that resilience expenditure should not be focussed only on measures for risk reduction, this feedback suggests that exposure to increasingly frequent and severe weather events has shifted customer sentiment to generally favour proactive risk mitigation investment and will therefore likely continue to be the main contributor of resilience expenditure in the future.

We are supportive of the development of a network resilience guideline

Notwithstanding the AER's recent work to improve industry awareness of network resilience, we would value greater certainty regarding what constitutes efficient resilience expenditure. Accordingly, we are supportive of the draft rule requirement for the AER to publish a non-binding guideline outlining the types of information DNSPs should present to support their resilience proposals.

While it may be reasonable for the AER to build on the advice provided in the existing resilience guidance note, we consider that substantial updates will be needed to provide a robust resilience expenditure framework. In updating this guidance, we recommend the guideline:

1. Be principles-based and provide DNSPs the flexibility to apply suitable datasets, methodologies and models to support resilience programs and projects that reflects their specific climate change risks, network issues and community needs.
2. Draw from network and customer experiences of recent extreme weather events and consider opportunities to improve clarity on aspects of recent determinations where DNSP and AER viewpoints of efficient resilience expenditure estimates differed materially.
3. Clarify how the AER will conduct its resilience expenditure assessments.
4. Include worked examples of how the AER's Value of Network Resilience (VNR) should be applied in the establishing the economic justification for resilience investment. This guidance would be particularly valuable for projects and activities targeted at supporting "community resilience" consistent with clauses 6.4.6 of the draft rule.¹

More broadly, the resilience guideline provides an opportunity for the AER to provide greater clarity regarding its assessment of community resilience expenditure to support essential local services and the broader emergency response effort. We would greatly value this clarity, noting that our customers and other utilities and agencies are increasingly requesting, and expecting, DNSPs to contribute more towards building network and broader community resilience.

Resilience reporting should be aligned with existing comprehensive reporting and data-collection mechanisms

Performance reporting will be key to improving transparency and accountability of DNSPs' resilience expenditure and service outcomes and is necessary to support effective regulatory processes. However, we consider resilience is not sufficiently unique or material to justify having its own bespoke set of reporting arrangements as required in the draft rule. Instead, proportionate and fit-for-purpose reporting of resilience costs and service performance should utilise existing network information and data collection mechanisms.

For example, DNSPs provide extensive and granular operational and financial information and datasets at the time of a regulatory submission (forecast data), and on an annual basis as part of the Regulatory

¹ We note that in its VNR decision, the AER noted that "community resilience" is a related but distinctly different concept to "network resilience", and on this basis, that the VNR should not be applied.

Information Notice/Order (RIN/RIO) processes (actual data). This enables DNSP performance to be closely monitored across a variety of metrics. Data collected from this process is accessible to the public and is used by the AER to inform their revenue determinations, regulatory decisions, incentive scheme outcomes and publications such as their annual network benchmarking and electricity network performance reports.

In contrast, the draft rule proposes that resilience information would be disclosed by DNSPs in their respective Distribution Annual Planning Report (DAPR). The DAPR is predominantly a future-focussed document which identifies emerging limitations on the distribution network and provides a snapshot of major capital investments expected over a rolling 5-year planning period. Whilst we consider there is merit in requiring DNSPs to explain how resilience considerations are factored into their asset management and investment strategies in the DAPR, it does not appear well-suited to providing information and insights on major weather events in the preceding year and the associated customer outcomes.

We also consider that the risks of power outages caused by severe weather events is unlikely to change substantially between years; accordingly, the draft rule requirement for DNSPs to identify these in their annual planning reviews is likely to provide limited value if required on such a frequent basis. Instead, we suggest it would be more cost-effective and meaningful for this information to be a requirement of the AER's network resilience guideline, and for it to form part of the supporting documentation accompanying a resilience expenditure proposal.

We recommend that resilience performance outcomes over the previous year would be more suited to the AER's Electricity Network Performance Report. These reports are a key information resource that set out the AER's analysis of key outcomes and trends in the operational and financial performance of DNSPs, both individually and collectively, from RIN/RIO data. Importantly, these reports also provide the necessary background on new and emerging issues to make it easier for stakeholders to interpret and understand performance outcomes.

We would be happy to discuss the matters in our submission further. If that would be of assistance, please contact Patrick Duffy, Manager Regulatory Transformation and Policy at Endeavour Energy via email at patrick.duffy@endeavourenergy.com.au.

Yours sincerely



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