

26 March 2025

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

Dear Ms Collyer,

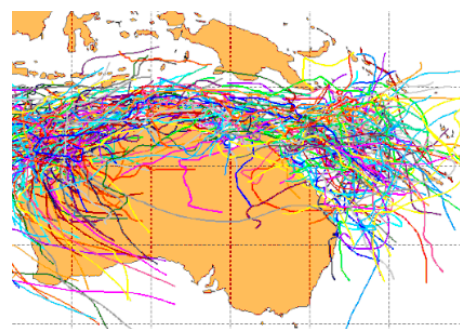
Including distribution network resilience in the national electricity rules

Queensland's two distribution network service providers (DNSPs), Ergon Energy Corporation Limited (Ergon Energy) and Energex Limited (Energex), 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 impact of severe weather events continues to challenge DNSPs who are faced with several considerations when developing optimal strategies to maintain a safe, reliable and secure electricity distribution network. These include:

- prudent and efficient ex ante versus ex post expenditure;
- prioritisation of projects and programs of work based on:
 - risk modelling (which encapsulates likelihood and consequence);
 - constrained labour resources;
 - limited funds for competing projects; and
- legislative, corporate, and social obligations.

Forecasting the locality, timing and severity of severe weather events is difficult as modelling is undertaken using climate models that are complex and chaotic. For example, Ergon Energy's and Energex's last five severe weather events¹ all occurred at different times, locations and with varying impacts on its customers.



The chart on the right, which shows Australian tropical cyclones between 1970 to 2006, further illustrates the difficulty in trying to predict the locational network impact from cyclones.

Source: [Bureau of Meteorology](#).

¹ [Tropical Cyclone Jasper \(2023\)](#), [South East Queensland Severe Storms \(2023-2024\)](#), [Tropical Cyclone Kirrily \(2024\)](#), [2025 Queensland floods](#) and [Tropical Cyclone Alfred \(2025\)](#).

It would therefore be logical that resilience related expenditure strategies focus on:

- ex ante expenditure that draws heavily on precedence/repeated instances of past weather events that have impacted the (approximate) same sections of the network (e.g., flood prone areas) and customers; and
- expenditure for plant, equipment, and resources to restore efforts once the dangers of severe weather events have passed, as was proposed in Ergon Energy's and Energex's 2025-30 regulatory proposals for mobile substations and generators.

However, there exists a third expenditure strategy which is to make resilient, vulnerable parts of the network² that have yet to be (or in recent memory) negatively impacted by severe weather events. The difficult challenge for DNSPs is to make the prudent and efficient case for this expenditure based on climate modelling/forecasts to the Australian Energy Regulator (AER).

An example of this would be seeking resilience funding prior to the recent [Tropical Cyclone Alfred](#) because the last, prior cyclone was 50 years earlier in 1974³. Devastation from Tropical Cyclone Alfred has led to extensive network damage over vast parts of the east coast of Australia from Harvey Bay to Northern New South Wales.

Regardless, the first step for these strategies is to provide a mandate for DNSPs to incorporate distribution network resilience in their capital and operating expenditure forecasts, as provided by the draft rule change and which we generally support. However, we caution that the rule changes do not extend to more than is required or result in unnecessary, additional and or duplicative obligations being placed on DNSPs with no real benefit.

For example, the draft rule requires DNSPs to: "...engage with non-network providers and consider non-network options..."⁴. However, DNSPs are already required to consider non-network alternatives proposed by third parties as part of their Regulatory Investment Test for Distribution⁵ (RIT-D) assessments.

We instead support a proposed minimalist implementation approach to leverage the existing regulatory frameworks, processes and arrangements to encapsulate new resilience expenditure because we believe there is little difference to other expenditure undertaken (e.g., for replacement and reliability) for the benefit of DNSPs' customers.

Additional Reporting under the Distribution Annual Planning Report (DAPR)

We do not consider resilience related expenditure to be more important or sufficiently different compared to other forms of expenditure to warrant resilience having its own set of reporting requirements because:

² This vulnerability may be due to its location (e.g., in low-lying areas) or the materials used in its construction (e.g., wood versus composite power poles).

³ [TC Alfred to become the first system to cross NSW, south-east Queensland in 50 years.](#)

⁴ [Including distribution network resilience in the NER Draft rule determination](#), p8.

⁵ [AER's RIT-D.](#)

- DNSPs already comprehensively report on their strategies, approaches and outcomes dealing with climate related risks and impacts to their networks. For Ergon Energy and Energex these include our:
 - annually updated Natural Hazards Strategy⁶ which provides the strategic approach to the management of natural hazard risks and events that impact our distribution networks.

This strategy is aligned with the Queensland State Resilience and National Resilience Strategies and Plans, describes our:

- preparedness activities and contingency plans including for the bushfire, summer storm, flood and cyclone seasons;
- relationships with other network service providers, State and local disaster management groups and the Queensland Fire Department; and
- community engagement arrangements before, during, and after an emergency response.

We believe any additional resilience reporting in the DAPR would be unnecessary and duplicative;

- reviews of all natural disaster response events to affirm the effectiveness of our processes and identify improvement opportunities on safety and timeliness;
 - cost pass through⁷ applications which capture network performance and customer impacts from severe weather events⁸;
 - Annual Information Orders⁹ (AIO) reporting which provides financial and non-financial data relating to our operations and is used by the AER to assess and report on how well network service providers have delivered services to their customers; and
 - existing DAPRs already include our plans/preparations, strategies and contingencies to deal with high impact weather events, including storms, bushfires and floods¹⁰.
- with regards to the proposed new NER clause S5.8(m1), there may be insufficient time between the finalisation of customer and network outcomes from severe

⁶ [Energy Queensland's Natural Hazards Strategy 2024-25](#).

⁷ This applies to events that result in a DNSP's costs exceeding a materiality threshold of 1% of its annual revenue requirement for that regulatory year. [Cost pass throughs | Australian Energy Regulator \(AER\)](#).

⁸ For an example, see Ergon Energy's cost pass through application for [Tropical Cyclone Kirrily](#).

⁹ The [AER's Annual Information Orders](#) replaced network service providers' Regulatory Information Notices data requirements.

¹⁰ See [Ergon Energy Distribution Annual Planning Report 2024](#), p94 and [Energex Distribution Annual Planning Report 2024](#), p93.

weather events occurring in a preceding year, and the deadlines for the preparation and publication of the forthcoming year's DAPRs;

- the draft rule requires DNSPs to report on consumer outcomes if severe weather events occur, with further details to be set out in the AER's, unprepared, guideline¹¹. We are cautious on this requirement because we are unsure if we will be able to fully comply given that details of the reporting requirements won't be known/published until 1 December 2026; and

In light of the current rule change as proposed by the Honourable Lily D'Ambrosio MP, Victorian Minister for Energy and Resources, and the concerns we have raised, we recommend the AEMC consider joining this with the separate rule change that proposes that future DAPRs be replaced with a biennial Integrated Distribution System Plan¹². It's important that the DAPR remains fit-for-purpose and that its useability will improve opportunities for non-network proponents.

Resilience Guidelines

With regards to the AER developing network resilience guidelines (Guidelines), we support:

- their creation to provide clarity on DNSPs' proposed resilience expenditure;
- that these are not binding as there may exist extenuating circumstances that may not have been contemplated in the Guidelines initial creation. Flexibility in its application will allow for a level of pragmatism to be applied by DNSPs and the AER in the proposal and assessment of resilience expenditure; and
- the requirement for the Guidelines to include examples of resilience expenditure and the types of information DNSPs could include in their regulatory proposals to support this. Specifically, the examples should:
 - be unambiguous;
 - be based less on theory and more on practical real-world instances;
 - include the type of information, expenditure factors and a risk grading required to satisfy criteria for prudent and efficient resilience investments;
 - list the different risk profiles, including from assets (e.g. overhead versus underground), customer (residential versus mixed) and environmental (cyclone versus severe weather) perspectives. Consequently, there will be different types of investments (and their justification) required to manage these risks;
 - provide a clear differentiation between resilience investments' capital and operational expenditure and their contributing factors; and

¹¹ [Including distribution network resilience in the NER Draft rule determination](#), p3.

¹² [New rule change proposal - Energy Consumers Australia](#), p13.

- o be achievable/ attainable as demonstrated by the AER’s own investigations, including with respect to how DNSPs incorporate projections of catastrophic events and likely impacts of climate change in their network expenditure forecasts.

The Guidelines should take into consideration how DNSPs’ resilience investments positively impact power supply and restoration works, the local and broader state economies and have non-financial benefits, like social stability.

For the proposed Guidelines’ rule changes, we suggest the AEMC consider the following changes:

	Clause	Reason for proposed change
6.4.6 (i)	<i>when possible and safe to do so continue to provide network services despite severe weather events;</i>	It may not be safe to provide network services when the threat to DNSP’s personnel from severe weather events remains.
6.4.6 (3)	specify the information Distribution Network Service Providers must include in their Distribution Annual Planning Reports under clause S5.8(j1);	We do not support this sub-clause for the reasons outlined above.
6.4.6 (5)	include any other matters the AER considers relevant.	We do not support this sub-clause as it does not provide regulatory certainty and instead may create ambiguity.

Stakeholder consultation

On the basis of efficiency, we support the AEMC’s draft rule decision to rely on existing stakeholder consultation processes in distribution determinations for DNSPs and the AER to engage with stakeholders and assess whether resilience expenditure is prudent and efficient, rather than setting out new requirements for DNSP-stakeholder consultation.

Incentive Schemes

We do not support the AER developing a new incentive mechanism for network resilience as we consider there are appropriate guardrails in place that ensure DNSPs carry out their social and corporate obligations, including their communications with consumers and other parties before, during, and after a severe weather event. Customers and their safety are always of paramount importance for Ergon Energy and Energex.

Also, we do not believe that DNSPs should be incentivised or penalised for what already occurs and should occur as part of its normal business and which has been demonstrated in past natural disasters.

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

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

Yours sincerely

A handwritten signature in blue ink that reads "Alena Christmas".

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Manager Regulatory Affairs

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