SA Power Networks

27 March 2025

Andrew Pirie
Principal Adviser
Australian Energy Market Commission

Draft rule determination on including distribution network resilience in the National Electricity Rules

Dear Mr Pirie,

SA Power Networks welcomes the opportunity to comment to the Australian Energy Market Commission (AEMC) on the 'Draft Rule Determination (Including distribution network resilience in the National Electricity Rules, NER) Rule' (the Draft Determination).

Networks are proactively considering and engaging stakeholders on long-term strategies in response to increasing risks from climate change. This risk will continue to escalate, making consideration of network resilience the new norm. We therefore want to ensure that the prudency, efficiency and customer expectations of network resilience are properly considered, evaluated and addressed within the regulatory framework.

Our key views as detailed in this submission are as follows:

- the new expenditure factor provides greater focus on the need to prudently and efficiently respond to severe weather events, with the drafting appearing fit-for-purpose, but with clarification needed to ensure that both direct and indirect impacts (e.g. via broader system security impacts) on customers are captured;
- the key barriers to adequately considering network resilience investment concerns the lack of clarity on how High Impact Low Probability events should be weighted / prioritised, with further apparent uncertainty on the timeframes over which efficiency should be viewed – both matters warrant coverage in the guideline being required of the AER;
- investment in network resilience will derive new service outputs / value to customers, and these need more direct recognition in regulatory mechanisms, including those used to measure productivity as well as incentive schemes; and
- we do not support the new regulatory reporting requirements as the purpose is insufficiently established, particularly given already established and functioning mechanisms, and likely confidentiality on some of the information identified in the Draft Determination.

Should you have any queries on the matters raised in this letter, please contact Bruno Coelho, Manager Regulatory Strategy on 0419 666 389 or bruno.coelho@sapowernetworks.com.au

Yours sincerely

Jessica Morris
Chief Customer and Strategy Officer

Referencing resilience in the expenditure factors will provide focus

We observe, including via our own Regulatory Determination, that prudent and efficient proposals for investments in network resilience, are capable of being approved by the AER applying the NER. In particular, the NER expenditure objectives appear sufficiently applicable to assessing network resilience investments, because ultimately the consequences of inadequate resilience will manifest by way of service reliability, quality, safety, and security of services and the distribution system.

Despite this, we support the Draft Determination adding a specific reference to the need to examine network resilience within the expenditure factors. This new factor will provide greater focus / attention to the importance of considering what will be a growing and continued long-term challenge to networks and customer service. Further, the drafting of the expenditure factor appears to be fit-for-purpose, noting:

- the reference to "…efficient reductions in the risk and impact of power outages…" should ensure that networks can examine the potential for investments to be efficient, irrespective of whether they ultimately seek to maintain reliability or improve reliability; and
- the reference to "…impact on customers…" should enable a broad consideration of the potential benefits (avoided costs) of network resilience investments.

However, clarification is needed on the AEMC's interpretation of the limits of what can be considered to be "…impacts on customers…", to determine if further drafting is needed. Our view is that this factor should capture direct and indirect effects on customers arising from broader National Electricity Market (NEM) impacts. This is on the basis that:

- severe weather events can potentially have not only direct impacts on customers and communities (e.g. outages, physical harm to people from damaged assets, physical harm to people and damage to property from bushfires) as well as to broader NEM and system security impacts, should the compromised network assets be significant; and
- the need to consider broader system security and NEM impacts is part of the construct of Chapter 6 of the NER and the National Electricity Objective (NEO) in the National Electricity Law (NEL) and therefore should be captured by this factor providing that the currently proposed drafting does not limit this being the case.

The key barrier for resilience concerns the valuation of benefits

While we support the rule change, this of itself will not materially alter the prospects for network resilience investment. The key barrier is the lack of agreement on how the benefits of resilience investments should be valued. While AER Guidelines should avoid prescription, such as on the range of potential benefit types given the diversity of likely use-cases between networks, there is a role for an AER guideline in clarifying expectations on some key aspects of benefit valuation. This is noting that:

- <u>High Impact Low Probability (HILP) events</u>- the primary issue for resilience investment is the degree of certainty in the data used to identify the probability / likelihood of events occurring and their consequence. However, there is a fundamental gap, with no agreed approach to weight / prioritise HILP events. The AER work to date on the Value of Network Resilience aims to capture the lost customer utility arising from outages, consideration is not given to the possibility of disproportionate regret[1] (if events occur and investment was not made). This could be addressed akin to how 'disproportionality factors' are currently applied to better prioritise investments posing significant safety impacts; and
- <u>total versus optimally timed efficiency</u> – the topic of whether the efficiency of resilience investment is to be viewed from the basis of total efficiency (i.e. total net benefits over a Net Present Value assessment period) and / or on the basis of optimal economic timing (i.e. benefit-cost-ratio) appears to be causing confusion in the industry and may warrant clarification in an AER

1 The theory on the topic of regret in the context of investments is subject of academic literature.

Guideline. A related point, is whether the impact on service levels of proposed investments should likewise be viewed on a longer term basis or on the basis of the length of the regulatory period.

The customer service output from resilience should be recognised by regulation

Consistent with the premise of this rule change, networks will in coming years be investing more materially in resilience, with the need likely to continue increasing into the future. This means there will be a new value or service output that networks will be increasingly delivering for customers, with this potentially measurable in various ways, but likely with respect to the length of outages that occur during designated severe weather event days. These outputs warrant greater recognition in the regulatory framework, noting that currently:

- under AER approaches to benchmarking, networks investing in resilience will have an increasing source of input (i.e. expenditure) without an adequate and corresponding recognition of the output; and
- under the AER's Service Target Performance Incentive Scheme (STPIS), Major Event Days (MEDs) are excluded, and as these are likely the focus of network resilience investments, the STPIS will by its nature not incentivise the achievement / efficient exceedance of, targets relevant to network resilience.

We support in principle, exploring the feasibility of addressing both of these issues, including via new incentives. However, this needs careful consideration, as the challenges / perils arising from climate change will vary between networks, some events will be beyond realms of predictability, and there will likely be staff safety reasons impeding how soon networks can restore supply in some circumstances. Given these complexities, we envisage that any potential new incentives should ideally be introduced on an opt-in basis. While the Draft Determination leaves this issue for AER consideration, the AEMC should clarify if there are any NER impediments to options on incentives, including via the small-scale incentive scheme route.[2]

Any new reporting requirements must respond to a clear problem

With ever increasing volumes of regulatory reporting by networks, and with advocates / stakeholders generally fatigued due to the level of engagement and regulatory information, any new reporting requirements must serve a clearly defined purpose. This case has not been sufficiently established and therefore we do not support the new proposed reporting requirements. This is on the basis that:

- the proposed addition of resilience related reporting in the Distribution Annual Planning Report (DAPR) does not appear consistent, nor likely to assist with, the DAPR's purpose which is to facilitate the ability of third-party service providers to present alternatives within Regulatory Investment Tests for Distribution (RIT-Ds);
- if the information is intended to mainly benefit the AER in exercising its constituent decisions, then this should ideally be left to the AER's Regulatory Information Notices and Orders;
- if the information is intended to assist customers / stakeholders in understanding forecast issues, their effect on customers, the potential responses and trade-offs, then these are matters best left to the consumer / stakeholder engagement processes that distributors undertake. Consistent with the strong but principles-based engagement expectations provided by the AER's Better Resets Handbook, all networks are already proactively undertaking comprehensive engagement processes, so it is unclear what the AEMC considers to be lacking here; and

[2] This is noting that this route is already used to apply the AER's 'Export Service Incentive Scheme (ESIS)', and it is not clear under the NER if the application of the ESIS would therefore limit the ability to introduce a new incentive providing an additional revenue stream.

- networks are already required to report on resilience issues, providing an outline of climate risks and mitigation strategies, as part of their Environmental, Social and Governance (ESG) reporting via the Australian Accounting Standards Board (AASB) requirements.[3]

Further, we are also concerned with the specific types of information reporting envisaged by the Draft Determination as this is likely to present sensitivity / confidentiality risks. This is noting that:

- there is a key difference between the reporting in the DAPR of long term capacity constraints which mostly involve identifying the potential risk of load shedding (if capacity investments are not made), versus the reporting of the potential fragilities in network areas and assets arising from severe weather events, the consequences of which will be more widespread and concern safety risks;
- specifying the any likely 'weak points' on our networks with respect to weather related issues will likely present a material risk of contravening Security of Critical Infrastructure (SOCI) requirements. Further this is a risk that would present both for forecasts of weather events and resilience issues, as well as to the reporting of past resilience investments should these be referred to in a granular and locational specific way; and
- noting that for some networks such as our own, a key risk of weather events will be the risk of bushfires, required reporting would stray into an area that currently networks do not publicly report, and currently treat in a highly confidential manner.

[3] Accounting Standards Board, *AASB SC: Climate Related Disclosures*, September 2024, https://standards.aasb.gov.au/aasb-s2-sep-2024