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Dear Dr Funston

Ausgrid response re AER's Value of Network Resilience: Draft Decision

Ausgrid welcomes the opportunity to provide this submission to the Australian Energy Regulator (**AER**) in response to its Draft Decision on the Value of Network Resilience (**VNR**) 2024. Ausgrid operates a shared electricity network that powers the homes and businesses of more than 4 million Australians living and working in an area that covers over 22,000 square kilometres from the Sydney CBD to the Upper Hunter.

Climate related events are increasing in frequency and severity, which is impacting the resilience of Ausgrid's network and communities to withstand and recover from them. Over the 15-year period to FY2023, only 12 percent of outages across Ausgrid's overhead network were caused by climate events but these accounted for 62 per cent of the time our customers lost supply. Through the deliberative engagement we undertook to support our 2024-29 regulatory proposal, our customers told us that investing in our network and directly into their communities to improve, not just maintain, resilience against climate change related outages is a priority for them. Resilience investments were strongly supported in some of our most vulnerable communities. A robust methodology for quantifying VNR is a critical part of the puzzle to reducing the risk of climate change related outages.

Discreet amendments to the interim VNR methodology could improve outcomes for small businesses and embedded network customers

The interim methodology proposed in the AER's Draft Decision – a multiplier of the Value of Customer Reliability (**VCR**) coupled with an upper bound - is simple and likely able to be implemented by the September deadline. While it is broadly aligned to the approach preferred by Ausgrid, in our June submission to the AER's Issues Paper¹, we expressed an expectation that the multiplier would be "significantly higher than one" and that a robust methodology would "likely result in a multiplier greater than two". For this reason, overall, we consider the tiered multipliers selected for both residential and business customers too low to allow networks to conduct meaningful resilience activities.

Ausgrid, however, recognises the significant time constraints faced by the AER in developing this methodology. With this in mind, we note two concerns which we encourage the AER to address in the Final Decision for the interim methodology:

- 1. Upper bound for residential customers may cause problems for embedded networks:** We note the AER proposes a \$3,494 per customer upper bound for residential customers. While we accept the AER's reasoning applies to residential customers directly connected into a distribution network, Ausgrid has a high penetration of embedded networks within our network. There are currently more than 1,000 embedded networks across our network and the numbers continue to increase rapidly. DNSPs do not have oversight of how many customers are connected into these

¹ [Ausgrid submission - VNR Issues Paper](#) (11 June 2024)

embedded networks because they connect into DNSP networks through one National Metering Identifier and are therefore treated as “one customer”. The AER’s approach would create an upper bound of \$3,494 for networks to support what could be up to suburb size areas hosting a mix of residential and small business customers. In these cases, the upper bound would result in severe limitations. Considering these limitations, we ask the AER to consider further whether and how the upper bound should apply for embedded networks.

- 2. Loss of trade and reputation is a serious risk for small businesses:** We are concerned with the 0.5x multiplier proposed by the AER for business customers who experience outages longer than 72 hours. Our experience, informed through our claims process, indicates that many small businesses have a limited ability to mitigate against prolonged outages. The financial instability triggered by loss of trade and business and loss of reputation over a multi-day outage (separate to short-duration effects of an outage such as appliance damage and food spoilage) puts many small businesses at significant risk of going out of business altogether. While we appreciate the time constraints facing the AER, we consider a decision to apply a ‘divider’ in this scenario requires more concrete evidence to justify it. We ask the AER to either reconsider this particular approach or consider, more broadly, how the customer types are grouped when determining the final multipliers.

We are progressing work internally to improve our understanding of the economic impact the interim methodology will have on our business and customers. We would welcome the opportunity to share these findings and continue discussions with the AER over the coming months.

Ausgrid strongly supports the development of a robust, longer-term VNR methodology

We thank the AER for acknowledging its intent to undertake this work in its Draft Decision and for committing to a collaborative approach to exploring methodologically sound approaches to determining longer-term VNRs. Consistent with the points raised in our June submission, Ausgrid makes the following comments on how the AER could approach its upcoming process:

- 1. Neither the VCR nor the interim VNR methodology should be relied on as a foundation for a longer-term approach:** We recognise a simple approach is required for the interim methodology to meet the AER’s timeframes but reiterate our view that it should not serve as precedent for the longer-term methodology. For a matter as complex as network resilience, Ausgrid does not consider the VCR’s existing survey-based approach to provide an adequate evidence base to pick up the nuance of how customers are considering, and are impacted by, long-duration outages. Further, based on initial review of the proposed interim methodology which leverages the VCR, it is also unlikely to enable a meaningful change in networks’ ability to invest in resilience improvements. We thank the AER for acknowledging these views in its Draft Decision and for signalling its intent to undertake a fulsome process for the longer-term VNR methodology.
- 2. The VNR must be evidence based, informed by deliberative engagement, and social and economic modelling:** Ausgrid is encouraged by AER’s Draft Decision, committing to a collaborative approach to determining a longer-term VNR and identifying multiple methodologies as potentially suitable. We strongly consider that the final VNR methodology must incorporate a range of evidence bases. We consider it crucially important for the VNR to reflect consumer expectations around the resilience of their electricity service. These views are best captured through genuine and deliberative engagement, rather than surveys. However, supporting these findings with economic and social modelling would allow for a better understanding of the potential flow on impacts to the community and system when long-duration outages occur.

In its Draft Decision, the AER proposes to develop a comprehensive survey to collect data on the resilience and experiences of individuals affected by prolonged power outages. We support the AER’s intentions to build up a more comprehensive evidence base. However, we are concerned

that progressing a survey that is intended, in any way, to inform the VNR undermines work to develop a robust and sound methodology by pre-empting the appropriate inputs. We ask the AER to delay the development of its proposed survey until after a longer-term VNR methodology is designed so that meaningful consultation on its design (e.g. form and questions) and usefulness can be undertaken.

Further, we note that longer-duration outages are often ‘low probability’ but ‘high consequence’ events. Our comments on the risks to small business from the ‘divider’ approach set out above is an example of this. As noted in our June submission, over 20 per cent of Australia’s GDP is generated within Sydney CBD, making our network critical to Australia’s national economy. As such, we encourage the AER to ensure its longer-term methodology gives appropriate weighting to the impact that an extended outage could have so that distribution businesses are able to undertake the work required to guard against ‘high consequence’ events.

- 3. The Network Resilience Guidance Note is crucial in helping networks interpret the VNR and should be reviewed and updated in parallel:** As acknowledged by the AER, resilience investments will be informed by both the VNR and the AER’s Network Resilience Guidance Note. Given their complementary functions, Ausgrid requests the AER review the Guidance Note in parallel with its development of a longer-term VNR methodology and, in doing so, consider their individual roles in enabling meaningful resilience investment.

We note the AER’s position in the VNR draft decision is to delineate between reliability, network resilience and community resilience. We support the intent of this position, which is to reduce costs to consumers and improve transparency of risk management. However, we note that consumers do not instinctively delineate between energy sector terms such as “network resilience”, “reliability” and “community resilience”. This is reinforced by Appendix B of the AER’s Draft Decision on the VNR which summarises the AER’s recent deliberate forums. Consumers were asked their views on individual, community and network resilience. While community resilience was defined, in part, by “backup power resources”, multiple quotes from forum participants in relation to network resilience pointed to an expectation that networks would provide this service.²

Further, factors, such as the relationships between investment drivers should be assessed through the review of the Resilience Guidance Note, not the assessment of the VNR. We do not agree that delineation of investment drivers necessarily delivers more efficient outcomes. For example, as part of Ausgrid’s Climate Resilience Business Case³ (within our 2024-29 regulatory proposal), we proposed a Bushfire Resilience Project which stages the resilience upgrades of Ausgrid assets at the same time as replacement programs. By doing this, only the uplift costs are passed onto the consumer whereas a standalone resilience project that was not integrated into broader business decisions may result in increased – and in some cases – duplicated costs being passed through to consumers.

Further, we note that resilience is achieved through a multi-barrier approach, and therefore network and community resilience need to be considered together when assessing overall resilience. The Australian Institute for Disaster Resilience highlights that “each element of a system contributes to a risk reduction measure.” This principle is commonly referred to as the “Swiss Cheese Principle”, and underpins the Prevent, Prepare, Respond and Recover Framework that is used across the world including the NSW State Emergency Management Plan⁴.

Finally, on this point, we wish to highlight the NSW Reconstruction Authority’s work to develop regional Disaster Adaptation Plans.⁵ Through this process, Ausgrid understands the NSW

² [Appendix B: Summary report for the AER deliberative forums](#), pp 19-20

³ [Ausgrid’s 2024-29 Revised Proposal Attachment 5.5: Climate Resilience Business Case](#) (30 November 2023)

⁴ [NSW State Emergency Management Plan](#) (December 2018)

⁵ NSW Government, Disaster Adaptation Planning <<https://www.nsw.gov.au/departments-and-agencies/nsw-reconstruction-authority/reducing-risk/disaster-adaptation-planning>>

Reconstruction Authority will coordinate an economy-wide approach to long-term resilience planning, relying on both State and place-based assessments. As a NSW critical infrastructure provider, Ausgrid may be required to undertake risk reduction activities identified in the final Plans. However, it is not clear that these activities will be clearly defined before Ausgrid is required to begin preparing its 2029-34 regulatory proposal. It is therefore important that national and jurisdictional frameworks are complementary and that the VNR methodology does not become a barrier for DNSPs to deliver these activities. Ausgrid encourages the AER to directly consult with jurisdictional bodies, such as the NSW Reconstruction Authority, to understand how a longer-term VNR methodology can support State Government expectations around resilience investments.

4. NSW DNSPs need a longer-term methodology for VNR and an updated Resilience

Guidance Note in place by mid-2026: We note the AER intends to commence work to develop a longer-term VNR in the first half of 2025. This is a welcome commitment. Certainty around the ongoing methodology will be needed by NSW DNSPs by mid-2026, well in advance of submitting proposals for the 2029-34 regulatory determination. DNSPs will need to understand the proposed methodology to ensure economic and survey data is both available, and can be collected and analysed in time to inform an understanding of direct and downstream impacts that will guide our approach to designing future resilience investments.

As an example, we note our experience working through the application of climate risk as part of our 2024-29 regulatory proposal. This work remains ongoing following detailed work by Ausgrid and regular collaboration with the AER, highlighting the difficulty for networks to progress this work without appropriately detailed Guidance Notes. Given this experience, Ausgrid is already undertaking a number of research projects to refine our methods ahead of the 2029-34 regulatory determination process. While we appreciate how consultative the AER has been on these issues, the timely release of the longer-term VNR methodology and an updated Guidance Note will ensure all parties have transparency as to how climate risk and resilience will be considered and applied.

We ask that the AER provide more detail on its proposed development timelines for this longer-term review as part of its Final Decision in September.

We welcome the opportunity to further discuss our submission with the AER. Please contact Emma Vlatko, Senior Policy Advisor at [REDACTED] for further information.

Regards,

[REDACTED]

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