Hon Lily D'Ambrosio MP

Minister for Climate Action
Minister for Energy and Resources
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Clare Savage
Chair
Australian Energy Regulator
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Dear Clare Savage

Submission to the Australian Energy Regulator (AER) on the Value of Network Resilience Draft Decision

The Department of Energy, Environment and Climate Action (DEECA) appreciates the opportunity to provide feedback on the Australian Energy Regulator's (AER) 'Value of Network Resilience 2024: Draft Decision.'

Duration of Outages and Feeder Types

DEECA suggests that the AER focus on outage scenarios ranging from 12 hours to 72 hours for the valuation of network resilience. However, significant benefits could be derived from including longer outages, such as those lasting beyond three days. Data collected by DEECA and AustNet Services underscores the importance of considering these extended durations. For example, following the June 2021 storms in Victoria, 68,000 electricity customers remained off supply after 72 hours, and 9,000 customers were still without power seven days after the event. Similar impacts were observed following the October 2021 storms and the February 2024 thunderstorm, where thousands of customers experienced prolonged outages.

These figures highlight that significant customer segments experience prolonged outages, making it beneficial to incorporate longer outage durations into the assessment framework. DEECA recommends estimating the value of network resilience (VNR) by specific feeder types, including urban, rural short, and rural long feeders. Further granularity, such as network service area, could improve the calculation of unserved energy. Additionally, a VNR should be determined separately for residential and business customers. Urban feeders typically place a higher value on reliability due to higher population density and economic activities, whereas rural feeders often prioritise resilience over reliability due to their lower population density but higher vulnerability to extended outages.

Preferred Approach

DEECA supports the AER's overall approach of calculating an initial value and further advocates for developing a robust long-term methodology to calculating a VNR.

DEECA's preferred approach for the long-term methodology is conducting follow-up surveys to actual prolonged outages to understand the direct costs associated with such events (Option 4). This approach provides direct insights into the financial and social impacts of prolonged outages, ensuring that the calculated VNR accurately reflects customer preferences and real costs. By integrating these methodologies, a robust, data-driven framework for valuing network resilience can be developed.

DEECA questions whether options other than Option 4 would produce an accurate estimation for VNR. The direct cost surveys proposed by Option 4 will provide the most accurate estimation of costs. DEECA encourages the AER to leverage existing data from AusNet Services' customer surveys to assist in estimating a VNR. Utilising this data can help create a more accurate and localised VNR, saving time and resources while ensuring it reflects actual costs and customer experiences.

It is important to note that although AusNet's data suggests a high willingness to pay for avoiding long-duration outages, dividing this willingness by the high quantity of unserved energy results in a very low dollar per kilowatt-hour value. This low value does not align with customer preferences. Therefore, DEECA advises that a more suitable method should be developed to calculate the value customers place on avoiding these outages. This may involve closely examining the inputs and structure of the calculation, considering the broader socio-economic impacts of prolonged outages, and refining the methodology with direct cost surveys and deliberative forums.

DEECA encourages the AER to draw a clear connection between the VNR, which estimates network resilience, and its implications for community resilience investments. Providing clear guidance to distribution businesses on using the VNR in their Electricity Distribution Pricing Review process to invest in community resilience is crucial. This will ensure that the investments made are effective and aligned with the needs and preferences of the communities they serve.

DEECA recommends that the AER recalculates the VNR at least every 5 years to align with the 5-yearly regulatory proposals. However, DEECA also advises that the AER maintains flexibility to recalculate the VNR if circumstances change significantly within those 5 years. This ensures the VNR remains up-to-date and accurately reflects current conditions and data. A regularly updated VNR will help strengthen electricity networks, provide better pricing outcomes for consumers, reduce emissions, and offer regulatory clarity.

Other reforms

As you are aware, Victoria intends to submit a rule change proposal to the Australian Energy Market Commission to explicitly recognise 'resilience' investments in the expenditure framework of the National Electricity Rules. The proposed rule change would require electricity distribution businesses to incorporate resilience-related funding proposals in their 5-yearly regulatory proposals to the AER. This proposed rule change aims to improve the capability of networks and communities to prepare for, manage during and recover from extreme weather events. The combined efforts of DEECA and the AER will enhance the resilience of distribution networks and communities, improving their ability to withstand and recover from extreme weather events.

I would like to thank the AER for the opportunity to provide feedback on the VNR Draft Decision.

If you would like to discuss the submission, contact Lyn Bowring, Executive Director Consumer, Community and First Peoples' Energy Transition division, DEECA via [redacted]

Yours sincerely

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