



Part of Energy Queensland

16 August 2024

Mr Kris Funston
Executive General Manager
Australian Energy Regulator
vnr2024@aer.gov.au

Dear Mr Funston,

Value of Network Resilience 2024

Ergon Energy Corporation Limited (Ergon Energy) and Energex Limited (Energex), both distribution network service providers (DNSPs) operating in Queensland, welcome the opportunity to provide a response to the Australian Energy Regulator (AER) on its Value of Network Resilience (VNR) 2024 Draft Decision (Draft Decision).

The long-term interests of consumers are at the heart of the National Electricity Objective through the operation and efficient investment in electricity supply with respect to price, quality, safety, reliability, and security.

Network resilience encompasses many of these objectives and thus it remains at the forefront of our considerations for operating and maintaining Ergon Energy's and Energex's electricity distribution networks.

Our ongoing research and customer engagement helps us refine the right balance between these complimentary and competing objectives to ensure these continually reflect our customers' requirements and desires. This engagement includes:

- With our Customer and Community Council to explore strategic issues relating to our customers' and communities' needs and expectations;
- Voice of the Customer engagement where we seek feedback from our customers on our performance and proposed network investments;
- the Ergon Energy Network and Energex Reset Reference Group (RRG) whose primary focus is to ensure that customers' needs and preferences are of paramount consideration by our business; and
- the Queensland Household Energy Survey which explores consumers' sentiment towards electricity supply, reliability, and cost.

Our proposed network investment also has regard for customer engagement undertaken by stakeholders in other jurisdictions and by their regulatory bodies. This includes the AERs' deliberative forums on the February 2024 Victorian power outages that was commissioned for its VNR consultation, and which provided valuable insight into consumers' lived experience of power outages and their expectations of network resilience.

Our comments on the specific feedback sought by the AER sought on its VNR Draft Decision is as follows:

- **Assessment of the options**

Of the six potential approaches for determining the initial VNR, we agree that setting an upper VNR bound for residential customers (Option 1) with using a multiple of the Value of Customer Reliability (VCR) for VNR (Option 2) are the most appropriate because:

- there are limits to what consumers would want to pay for network resilience (i.e., willingness to pay);
- the close parallels between customer reliability and network reliability means much of the work undertaken on developing VCR is implicitly transferrable to VNR;
- the VCR is already well understood and established in DNSPs' cost-benefit analyses models so adapting existing models for VNR may not be too onerous; and
- these options are the only ones considered that unequivocally satisfies the AER's criteria for assessing potential approaches (i.e., time constraints; method suitability and localisation).

- **Multiples of VCR and proposed Tier increments**

Ergon Energy supports the Draft Decision's VNR multiples and tier increments on the basis that:

- for Residential Customers:
 - as stated in the Draft Decision, a multiple of 2x the standard VCR applying for the period of 12-24 hours aligns to customer research and work undertaken by other stakeholders (e.g., AEMO; AusNet; and Ausgrid)¹; and
 - we agree with declining VNR multiples based on research on outages cited in the Draft Decision that the: "...values of customer reliability for these outages decrease as the outage length increases"².

¹ [Value of Network Resilience 2024 Draft Decision](#), AER, p.30 and p.32

² [Ibid.](#), p.33

- for Business Customers:
 - lower and declining multiples of the standard VCR compared to residential customers is reasonable given businesses' outage contingency measures (that would already be in place during normal electricity supply conditions) and new measures enacted following an outage to minimise the ongoing impact on their operations means they would not want an over-investment in network resilience – which they would ultimately bear the cost via higher electricity tariffs.
- Ergon Energy and Energex do not currently have any specific research or evidence to support the Draft Decision's VNR as being incorrect or unreasonable; and
- the Draft Decision VNRs are only short-term values (that will remain until a long-term well considered approach/ methodology has been completed next year).

We look forward to our continued engagement with the AER and other stakeholders on the development of longer-term VNRs in the AER's next stage of its VNR consultation in 2025.

This cover letter does not contain confidential information and may be published. Should the AER require additional information or wish to discuss any aspect of this submission, please contact either myself, or Lindsay Chin on [REDACTED].

Yours sincerely

[REDACTED]

Alena Christmas
Manager Regulatory Affairs

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