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Dr Kris Funston
Executive General Manager, Network Regulation
Australian Energy Regulator
GPO Box 3131
Canberra, ACT, 2601

Lodged via email

Dear Kris,

AER's Value of Network Resilience (VNR) - Draft Decision

Jemena Electricity Networks welcomes the opportunity to respond to the Australian Energy Regulator's (**AER**) Value of Network Resilience (**VNR**) Draft Decision. Having a resilient network is an increasing expectation of our customers given both the effects of climate change on the electricity network and ongoing trends in electrification. The importance of network resilience was recently brought into sharp focus by Victoria's February storms. This event saw customers across the state lose power for an extended period of time and prompted the Victorian State Government to conduct a Network Outage Review **(Victorian Outage Review)**[1] to identify measures that electricity networks—and other key stakeholders—can take to prevent and minimise the impacts of long-duration outages.

In this submission we:

- Welcome the use of an interim VNR.
- Note there may be some challenges aligning the use of the VNR, the AER's Guidance Note on Resilience[2] and the outcomes of the Victorian Outage Review.
- Welcome the AER's broad engagement on a more permanent VNR design.

Jemena agrees that calculating an interim VCR using a multiple of the Value of Customer Reliability (VCR) is the most appropriate method.

Jemena acknowledges and appreciates the AER's intention to calculate a VNR in time for it to be included in the upcoming Victorian Electricity Distribution Price Review (**Price Reset**) Proposal. We agree that given the time constraints placed on this process, using a multiple of a VCR—up to a rational cap—is the most appropriate method to calculate the value residential customers place on resilience in the short term. This method accounts for the added inconvenience customers face during a long-duration outage, and their ability to pay for resilience has an upper limit. We echo concerns noted in the AER's consultation paper around how this approach may not fully capture the value business customers place on resilience; however, we note that this may be the most appropriate method given the immediate timing constraints.

Jemena will incorporate the interim VNR values in our Proposal. However, we note the interim VNR will be based on the current VCR. As the AER is intending to publish an updated VCR in December,[3] we will not have sufficient time to incorporate this revised value in our initial 2026-31 Proposal. We intend to update our Revised Proposal to account for any variations.

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[1] Network Outage Review (energy.vic.gov.au)

[2] AER position | Australian Energy Regulator (AER)

[3] Revised draft determination | Australian Energy Regulator (AER)

There may be tensions between the VNR, the AER's resilience guidance note and ongoing work by the Victorian State Government. Jemena seeks further clarification on how this should be approached in the context of our EDPR Proposal.

Jemena acknowledges the AER's 2022 note on network resilience which provides guidance on the criteria DNSPs must satisfy in order to justify their resilience expenditure. Namely:

- DNSPs must establish a causal relationship between the proposed resilience expenditure and the expected increase in the extreme weather events
- The proposed expenditure is required to maintain service levels and is based on the option that likely achieves the greatest net benefit of the feasible options considered
- Consumers must be fully informed of different resilience expenditure options, including the implications stemming from these options, and that they are supportive of the proposed expenditure.

Jemena is concerned that fulfilling these criteria, and modelling a resilience projects using the VNR may not create a cohesive program of works. For example:

AER Note on Resilience Requirement	Potential Interaction with VNR
There is a causal relationship between the proposed resilience expenditure and the expected increase in the extreme weather events	If a resilience project passes a cost benefit analysis based on the current risk of an extreme weather event, is it necessary to also establish an expected increase in extreme weather events?
The proposed expenditure is required to maintain service levels and is based on the option that likely achieves the greatest net benefit of the feasible options considered	
Consumers have been fully informed of different resilience expenditure options, including the implications stemming from these options, and that they are supportive of the proposed expenditure.	VNR may economically justify resilience expenditure/initiatives which we have not had the opportunity to consult our customers on.

In addition to this, there may be an interaction between projects justified by the VNR and the recommendations included in the Victorian Outage Review. The review currently includes 51 recommendations, many of which will have a cost impact. The report's final recommendations may not be economically justified based on the VNR. Irrespective of this, we look forward to continued engagement with the AER and the Victorian Government to establish how best to fund these initiatives.

We seek further engagement as the AER finalises the long term VNR Calculation Method.

Jemena supports the AER's intention to capture the costs customers have incurred due to long-duration outages through a survey, and acknowledges the added transparency that would come from making the results public. We support the intent of these surveys to also capture the health and safety impacts of a long duration outage. In addition, we encourage the AER to further consider how best to capture non-electricity benefits "enabled" by the supply of electricity, and the broader socio-economic impacts of long-duration outages. For example, it may be useful to also ask individuals if they experienced any delay to health appointments or impediments to education due to the outage. However, incorporating this broader perspective of the value of resilience may be better achieved by extending the survey to businesses and other service providers such as schools, hospitals, health centres, etc.

We also notionally support the idea of DNSPs partnering with the AER to distribute the survey. Notwithstanding this, very few, if any, of Jemena's customers have experienced a long-duration outage in recent history which may impact the survey results. For example, although ~54,000 Jemena customers lost supply during Victoria's February storms, power was restored to all customers within 2.5 hours. Although this outage was caused by an extreme weather event, it does not meet the threshold required to be considered a long duration outage.

Jemena notes the costs incurred and experiences faced by customers' during a long duration outage is a separate measure than the value *all customer's* place on resilience. We encourage the AER to further consider how the views of customers who have not experienced a long duration outage, but may, due to postage stamp pricing, pay for resilience related network investments can also be reflected within the development of a VNR.

Finally, Jemena is open to the idea of developing a model to calculate the VNR and encourage further broad based engagement on how this might be achieved. As a starting point, we encourage the AER to consider:

- Data sources/inputs: is it possible to gather Australian inputs for the model, what are potential sources of this data? If it is not possible to use Australian data sources, how might international data be normalised to reflect local conditions?
- Stakeholder support: Jemena notes that previous attempts to model the impacts of long duration outages have previously be abandoned due to lack of stakeholder support. To increase stakeholder confidence in the model's outputs, the AER might consider commissioning multiple models to act as a sense check on the resulting values and ensure stakeholder confidence.

Network resilience is of compounding importance, both for energy system customers and wider society. Jemena looks forward to continued work with the AER, stakeholders, and our customers to finalise how we can best account for this in both our upcoming Price Reset Proposal and more generally.

If you have questions regarding the above, please feel free to contact Chloe Finn, Regulatory Advisor on [redacted] or [redacted]

Kind regards,

[redacted]
Ana Dijanosic
General Manager, Regulation