

19 August 2024

Kris Funston
Executive General Manager
Australian Energy Regulator

Submitted electronically

Dear Kris,

JEC submission to AER Value of network resilience 2024 draft decision

The Justice and Equity Centre (JEC) welcomes the opportunity to respond to the Australian Energy Regulator's (AERs) Value of network resilience 2024 draft decision (the Draft).

Extreme weather events are intensifying across Australia. As the climate warms, the risk of extreme weather events will continue to increase, likely bringing disasters at a scale and severity not seen before. Such events already pose a challenge to the reliable supply of electricity and will increasingly do so into the future. Consumers are acutely aware of these threats and accordingly consider community resilience a key priority that should be addressed in part by distribution network service providers (DNSPs) because of their important enabling role in maintaining and restoring community services.

The JEC recognises the need for DNSPs to improve their scope to efficiently respond to outages which are not captured under the VCR. However, we maintain the view that a set value of network resilience (VNR) is not the most effective or appropriate response to achieve this end.

The draft VNR resulting from this process should explicitly only apply to the 2026-31 Victorian DNSP revenue determinations and should not serve as a precedent or starting point for an enduring VNR. There is not yet a consistent and robust understanding of the concepts of network and community resilience, the interaction between them, what role DNSPs should play, and how the regulatory system can best address these questions efficiently and consistently. We do not consider it reasonable for any determination made now to carry ongoing significance, before these questions have been more robustly considered and answered.

We are concerned the Draft's narrow focus on establishing a quantitative value of resilience risks flattening the concept into a defacto extension or multiplier of the VCR. As we noted in

our previous submission this approach simply produces a VCR for outages in excess of 12 hours rather than a VNR as such.

The JEC acknowledges the need for more consistent guidance to assist DNSPs to develop appropriate and efficient responses to the impacts associated with extreme weather events. However, this guidance should establish a clearly defined scope around what does and does not constitute resilience expenditure which is sufficiently differentiated from reliability expenditure.

We discuss how this scope could be defined in our assessment of the Draft options below and propose treating VNR as a response and restoration value. In the absence of a defined scope and a demonstrated value of increased willingness to pay for long duration outages we recommend the AER use rational alternatives as a limit for the VNR. We do not support the proposal to use a multiple of the VCR as we consider this will lead to the AER approving expenditure on network augmentation which effectively sets network reliability beyond what consumers are willing to pay.

Assessment of options

We are concerned that using a VCR multiplier for outages greater than 12 hours will place substantial upward pressure on electricity bills. The Draft does not provide a mechanism to ensure this expenditure targets underlying 'resilience' issues (as distinct from reliability issues) and invites the real risk of justifying less efficient (and potentially excessive) investments in network hardening.

We welcome the use of consumer engagement to help inform the development of a VNR and improve understanding of consumer values and preferences in relation to long duration outages. In the AER lived experience forum consumers identified resilience as shared responsibility requiring greater coordination at the individual, community, and network levels. No participants suggested increased consumer contributions were required to support network resilience¹. In this context it is possible that the difference between resilience and reliability expenditure is mostly qualitative, rather than quantitative. That is, it involves a similar (or even smaller) quantum of expenditure but deployed differently in order to improve responsiveness and restoration.

While consumers consider outages longer than 12 hours 'high stress events' and seek that they be minimised, we are not convinced the proposed VCR multiplier is an accurate reflection of their willingness to pay to avoid these outages. In the absence of a demonstrated value, we recommend using the standard VCR in tandem with rational alternatives as an upper bound.

In line with our observations of other resilience engagement, consumers continue to discuss network resilience in terms of reliability and view these concepts as intertwined. Existing guidance reinforces this ambiguity by failing to meaningfully distinguish between investments in resilience and reliability. This is especially the case with investments categorised as 'network endurance' that seek to withstand power outages. While this type of expenditure is

¹ See The Insight Centre, Consumer engagement on the Value of Network Resilience, p. 7.

nominally classified 'resilience' it is functionality equivalent to (and indistinguishable from) standard reliability expenditure.

This is inappropriate. A value of network resilience is in large part a restoration value. That is, insofar as resilience and reliability can be distinguished qualitatively, it is on the basis of outage response and restoration. Therefore, the AER should consider prohibiting the classification of network hardening investments as resilience expenditure.

We would welcome the opportunity to discuss these matters further with the AER and other stakeholders.

Yours sincerely

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