



Recognising distribution network resilience in the national electricity rules

The Commission has made a final determination and final rule to provide regulatory clarity around the assessment of electricity distribution network resilience expenditure

The Commission has decided to make a more preferable final rule to explicitly recognise distribution network resilience in the National Electricity Rules (NER). The final rule will provide regulatory clarity for Distribution Network Service Providers (DNSPs) and the Australian Energy Regulator (AER) around how to assess the economic efficiency of resilience expenditure proposals to reduce the risk and impact on consumers of power outages caused by severe weather events, taking into account the impacts of climate change.

The final rule is in response to the rule change request from the Honourable Lily D'Ambrosio MP, Victorian Minister for Energy and Resources.

Our final rule clarifies how efficient resilience expenditure is to be determined under the economic regulatory framework. It focuses on outcomes for consumers affected by power outages caused by severe weather events, and requires DNSPs to take into account the likely impacts of climate change on their networks.

Our final rule is part of a larger program of work to improve electricity distribution network resilience. Recent related work includes the Victorian Government's two expert reviews into electricity network resilience following prolonged power outages in Victoria, and the AER's development of an informal guideline on resilience expenditure proposals and establishment of a Value of Network Resilience.

Our final rule will improve clarity, flexibility and accountability for electricity distribution network resilience

The proponent raised the following issues with the current arrangements:

- the lack of a formal framework for distribution network resilience creates regulatory uncertainty for DNSPs and the AER around how to efficiently spend on network resilience for prolonged-power outages
- regulatory arrangements place insufficient focus on consumer outcomes related to power outages from severe events
- climate change is expected to increase the likelihood of severe weather events.

The Commission considers that resilience is currently able to be considered in the regulatory framework. However, the Commission is of the view that explicitly recognising resilience in the regulatory framework is likely to improve consumer outcomes by increasing the likelihood that DNSPs consider, plan for and deliver improved network resilience and are also accountable for outcomes. This is now even more important given the increasing likelihood of severe weather events.

Further, the Commission considers there are benefits in ensuring that when considering and undertaking resilience expenditure, the impact on consumers who are affected by, or at risk of, power outages caused by severe weather events, is paramount. In addition, improvements in transparency and accountability relating to DNSP planning and reporting for resilience expenditure and performance will help ensure that expenditure is efficient and delivers outcomes for consumers.

Our final rule will address these issues by establishing a formal framework for distribution network resilience in the NER, which includes:

- new resilience expenditure factors that DNSPs and the AER must have regard to when proposing and assessing capital and operating expenditure for resilience
- formal Network Resilience Guidelines which the AER must develop, publish and maintain in accordance with a set of requirements. These guidelines may be new stand-alone guidelines or included as part of another guideline, and
- new distribution annual planning and reporting requirements for resilience.

Stakeholder support for regulatory clarity and a focus on outcomes for consumers shaped our final rule

Some stakeholders considered that there is currently regulatory uncertainty in either how to develop and propose distribution resilience expenditure or how it will be assessed by the AER. However, there are a diverse range of stakeholder views on the appropriate formal framework for distribution network resilience and its emphasis. Stakeholders also acknowledge this is an evolving area of risk for DNSPs and consumers.

Some stakeholders considered that resilience expenditure should primarily be for DNSPs' readiness for and response to severe weather events, rather than upfront spending to reduce the risk of severe weather events. Our final rule provides for that by explicitly requiring consideration of outcomes for consumers in the resilience expenditure factors by focusing on reducing the risk of, and impact on consumers of, power outages from severe weather events. In addition, our final rule requires that the AER provide examples of resilience expenditure, including the types of expenditure supported by consumer groups, in its new guidelines.

Our final rule incorporates stakeholder feedback to limit the scope of the resilience expenditure factors to power outages caused by severe weather events, and not include outages caused by other events such as cyber attacks or terrorism. DNSPs have existing obligations that cover cyber-security and safety hazards to their networks in the NER and outside the NER.

Erne Energy and EUAA suggested that the NER require DNSPs to demonstrate the causal relationship between proposed resilience expenditure and the expected increase in power outages from severe weather events due to climate change. The Commission considered that this would unnecessarily narrow the range of distribution network resilience programs or initiatives that DNSPs may be able to demonstrate are prudent and efficient and was not required in the NER for two interrelated reasons:

- scientific evidence already shows a clear link between climate change and the increasing severity of severe weather events, in general terms, and
- the economic assessment framework requires DNSPs to substantiate and have evidence for expenditure proposals, which are expected to include the impact of climate change on their networks.

Ausgrid and EUAA sought clarity on how the new resilience expenditure factors will interact with the existing expenditure objectives. The new resilience expenditure factors are a driver or input, amongst others, into satisfying the expenditure objectives, including:

- maintaining the reliability, safety, security and quality of supply of standard control services, and
- maintaining the reliability, security and safety of the distribution system through the supply of standard control services.

The Commission considers the final rule is in the long term interests of consumers

The more preferable final rule will contribute to achieving the NEO by:

- **Improving outcomes for consumers** - Our final rule explicitly requires consideration of outcomes for consumers related to distribution network resilience, at an efficient cost, including by using existing mechanisms in the economic regulatory framework. It also increases accountability for outcomes by providing more clarity and transparency regarding plans and outcomes for consumers who are affected by, or at risk of, power outages caused by severe weather events.

- **Supporting safety, security and reliability** - Our final rule will support the safe, secure and reliable provision of energy in DNSPs' networks, at efficient cost to consumers, by taking into account the likely impacts of climate change.
- **Supporting principles of efficiency** - Our final rule supports DNSPs by clarifying how resilience expenditure will be assessed, which in turn supports allocative efficiency across planning and investment timeframes. It explicitly recognises resilience in the NER in a way that strikes a balance between regulatory clarity and flexibility for the AER, DNSPs and other stakeholders in the assessment of efficient resilience expenditure, including by using existing mechanisms in the economic regulatory framework. This will utilise existing expenditure assessment arrangements, including cost benefit assessment. It provides flexibility to take into account differences between DNSPs for addressing the risks of power outages from severe weather events which may impact efficient resilience expenditure.
- **Supporting good regulatory practice** - Our final rule will support good regulatory practice by promoting predictability, transparency and accountability for DNSPs, the AER and consumers regarding distribution network resilience. It is more transparent and accountable as DNSPs must report on their performance in severe weather events and their actual and planned expenditure on resilience. The Commission has built on existing instruments and approaches to achieve the outcomes intended.

The final rule supports meeting community needs and improved understanding of the impacts of climate change, including the risks of severe weather events and options to support the resilience of the electricity system.

The final transitional rules aim to provide a practical implementation timetable

The final rule provides that, from 2 October 2025, the Victorian DNSPs may take the new resilience expenditure factors into account in their revised regulatory proposals, and the AER must take the new factors into account in its final distribution determinations for the 2026-31 regulatory control period.

Transitional rules will require that:

- the AER develops and publishes guidelines by 1 December 2026
- DNSPs must comply with the new annual planning and reporting requirements starting with their 2028 Distribution Annual Planning Reports (DAPR).

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