

17 October 2018

Australian Energy Regulator
AER General inquiries
AERInquiry@aer.gov.au

Dear Australian Energy Regulator,

RE: Draft industry practice application note for asset replacement planning submission to the Australian Energy Regulator

Summary

TasNetworks welcomes the opportunity to respond to the Australian Energy Regulator's (AER's) published draft industry practice application note for asset replacement planning and also appreciates the open discussion at the recent Public Forum held in Melbourne during September 2018.

TasNetworks continues to support the AER's position expressed throughout this consultation process that it is important to achieve a balance in the RIT Application Guidelines between providing helpful and practical guidance to stakeholders on the AER's expectations of RIT assessments, whilst retaining flexibility for businesses to apply the RITs in the most appropriate way to individual circumstances. TasNetworks considers that the AER's draft industry practice application note for asset replacement planning provides much assistance towards providing clarity on the application of the RIT assessments specifically to asset replacement planning and achieving this balance. TasNetworks also appreciates that the note has a more technical focus for network planners and asset managers that are applying economic assessments to asset replacement decisions, and draws on the collective industry and AER experience to date. The note also provides many useful technical clarifications and additional guidance. Further clarity is sought on the points outlined below, which include business as usual definition, reliability and security risk cost values and disproportionality factor particularly to Value of Statistical Life.

Clarification on Business as Usual

TasNetworks broadly supports the concept of a Business as Usual (**BAU**) base case for RIT assessments for replacement projects/programs as outlined in the note. However, the definition of BAU as provided in section 4.4.1 on page 27, does not align with the sections of the planning note. TasNetworks interprets the BAU, as running the current assets to failure with the current maintenance cost. Hence, no changes to the maintenance and capital activities are introduced and Risk Cost is included in the BAU. BAU is the counterfactual and serves as a point of comparison for all other options analysed. TasNetworks requests that the AER provide further clarity in all reference to BAU in the planning note.

Clarification on Value of Consumer Reliability (VCR)

Reliability and security Risk Cost to customers is provided through Value of Consumer Reliability (**VCR**). This consequence is typically valued via the VCR applicable to the consumer type affected by the supply interruption. Currently on page 38 of the planning note, the AER outlines that they expect to publish a set of relevant VCR metrics in December 2019.

Prior to the development of these new VCR estimates, it will be necessary for network businesses to adapt the currently available VCR estimates for RIT applications. The AER has acknowledged that the current AEMO VCR estimates may need to be adjusted to be fit for purpose for RIT assessments, during the previous AER coordinated RIT workshops. It would be appreciated if this reference can also be included in the planning note.

Clarification on Least Regret

The AER makes reference to the concept of “least regret” on on page 14 of the planning note. TasNetworks requests that the AER provide further information on the concept of “least regret”, specifically with reference to prudent investment decisions.

Clarification on disproportionality factor particularly to Value of Statistical Life

The AER makes reference to the concept of “disproportionality factor” particularly to Value of Statistical Life as outlined on page 56. TasNetworks requests that further clarity be provided in regard to the utilisation of disproportionality factor. TasNetworks understands that it is to the discretion of the network business to apply these factors. Clarity on expectations associated with disproportionality factor particularly to Value of Statistical Life within the planning note would be appreciated.

Thank you again for the opportunity to provide feedback on the draft application note and should you wish to discuss any of the matters raised above further please contact myself on 0362716226 or by nicole.eastoe@tasnetworks.com.au.

Yours sincerely,

Nicole Eastoe, Leader Asset Strategy and Performance