MARCHMENT HILL
- consulting -

Network RAB At Risk

the challenge

In response to MHC's discussion paper entitled "Network Value at Risk a Briefing for Electricity Network Investors" (http://www.marchmenthill.com/publications/public-reports/?post_type=publication) our client wanted to undertake a more detailed investigation of the specific risks associated with the regulated asset base (RAB) of Australia distribution and transmission businesses.

what Marchment Hill did

In collaboration with a number of expert legal and regulatory advisors, MHC developed a position paper outlining the key risks associated with the value of the regulated asset base. It investigated both physical stranding risk – where elements of the network are no longer required, and under-utilisation risk - where assets are re-valued through regulatory or commercial mechanisms in response to significant and ongoing under-utilisation. The work included:

- Clearly defining the concept of RAB at risk and the relevant elements of the regulatory framework
- Understanding of the drivers and triggers of RAB at risk for both transmission and distribution businesses
- Qualitatively assessing its impact and probability of occurring
- Understanding the risks and potential risk mitigation options
- Investigation of policy and regulatory elements related to RAB at risk and the possible policy responses

The report also outlined a number of recommendations for planning and undertaking quantitative modelling of the value of RAB at risk.

the benefit

The client gained a deep understanding of the risks of a RAB write-down for a distribution and transmission business in Australia. The report also provided some key options for mitigating and managing this risk including opportunities for regulatory reform as well as strategic and management decision making, highlighting the importance of active management. Finally, the report provided a clear foundation for qualitative modelling of the value of RAB at risk which could be applied to specific business conditions and circumstances.

engagement profile