



# Briefing on release of 3 rate of return draft working papers

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# Purpose of Briefing

## Brief stakeholders

- where the papers fit in
- what they say
- how you can have your say

## Today

questions about process

## Future forums

questions about issues in the papers

## What we have released?

3 'omnibus' working papers:

- Overall return
- Equity
- Debt

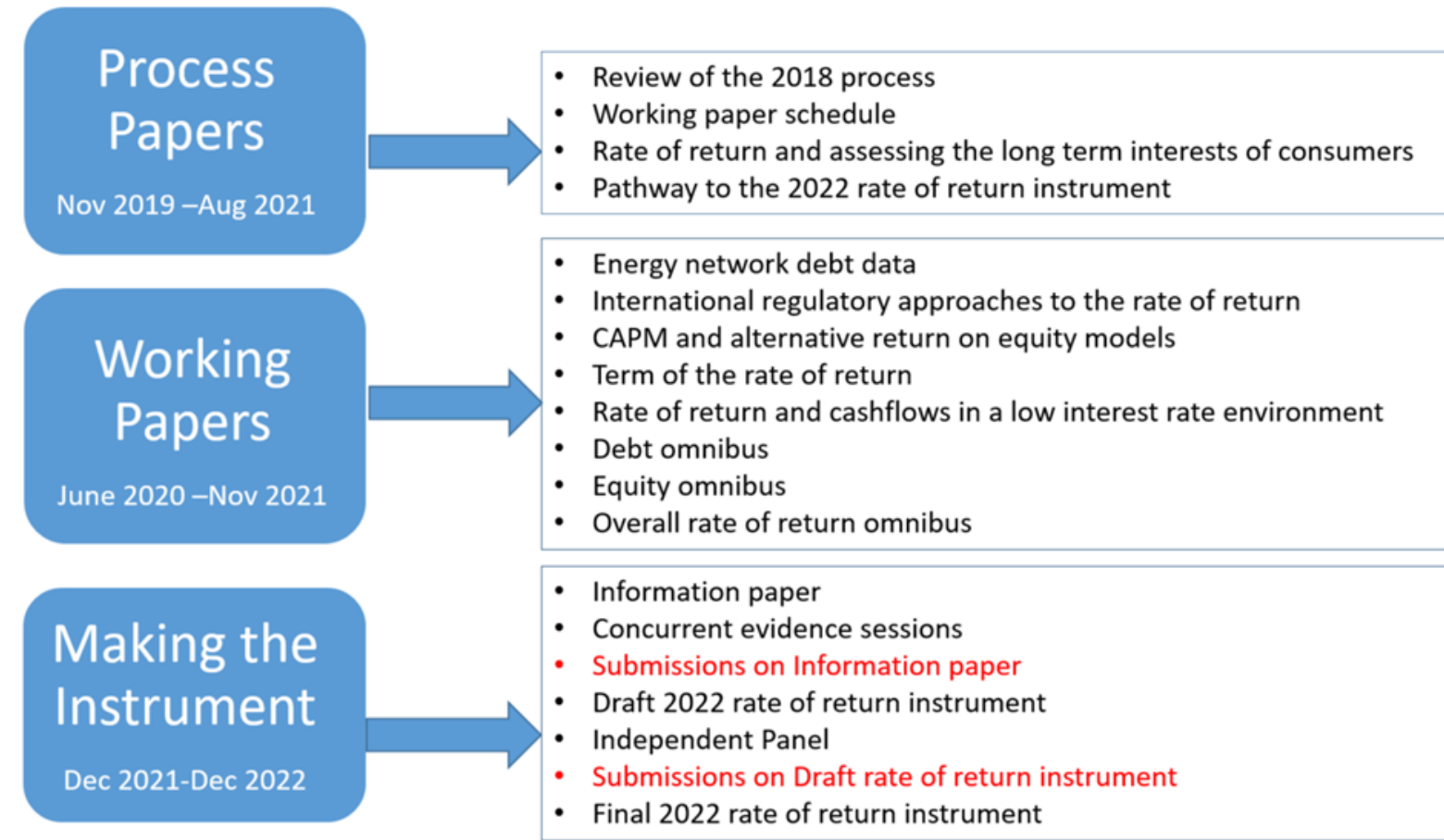
# Where do they fit in?

- Important step towards 2022
- Focal point for consultation on issues and approach
- These papers cover
  - Overall rate of return
  - Debt
  - Equity
- Build on previous papers; contribute to overall paper on ROR
- But it is a long road...

# Pathway to 2022

- **3 key parts in our Pathway to 2022**
  - 1. Process papers**
    - review 2018 process and design process for 2022
  - 2. Working papers**
    - key issues and positions to lay foundation for 2022 Instrument
  - 3. Making the Instrument**
    - Consultation, expert sessions, independent panel
    - papers setting out the 2022 Instruments

# Major elements of our Pathway to 2022



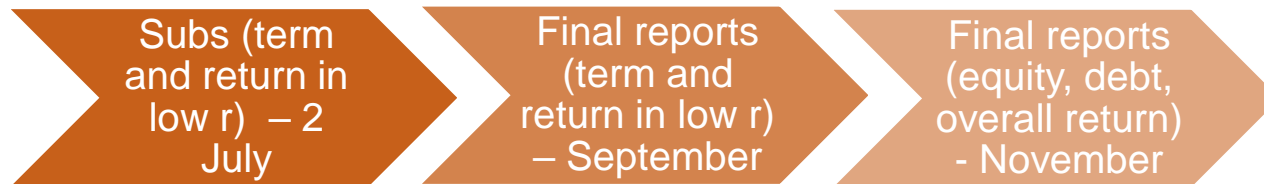
# Where are we at?

## Process papers

- most aspects of process set

## Working papers

1. Framework and data (2020)
    - Debt data, International regulatory approaches, CAPM and its alternatives.
  2. Specific issues (May 2021)
    - Term, Return in a low interest rate environment
  3. Components of return (current)
    - Debt, Equity, Overall return
- Overlap of (2) and (3) is not ideal
    - Issues and timetables overlap



- Where necessary, we will set up further engagement

# Have your say

| Milestone                    | Date                 |
|------------------------------|----------------------|
| Forums:                      |                      |
| • Overall rate of return     | 4 Aug 2021           |
| • Debt                       | 9 Aug 2021           |
| • Equity                     | 11 Aug 2021          |
| Submissions due              | 27 Aug 2021          |
| Further engagement/workshops | 26 Aug – 17 Sep 2021 |
| Final paper                  | November 2021        |



## Focus issues

- WPs identified issues and indicated position
  - Preferred, preliminary or open
- Open position on:
  - Equity term
  - Use of DGM
  - Relationship between the MRP and RFR
  - Weighting trailing average for debt
  - Inclusion of hybrid securities for gearing
  - Cross checks of the overall rate of return

# How does this all come together?

## **The Information Paper**

- Draws upon WPs
- Starts the Making the Instrument stage of process
- Sets out settled issues and options for open issues
- Informs concurrent evidence ('expert') sessions.

## **The Draft Instrument**

- Draws upon subs to Information Paper and concurrent evidence sessions
- Stakeholder submissions
- Reviewed by Independent Panel

## **The Final Report**

- Draws upon subs to draft instrument and Independent Panel Report

# Making the Instrument timeline

| Milestone                                     | Date           |
|---|----------------|
| Publish Information Paper                     | December 2021  |
| Expert Conclave                               | February 2022  |
| Concurrent Evidence Sessions                  | February 2022  |
| Submissions on Information Paper close        | February 2022  |
| Draft 2022 Rate of Return Instrument released | June 2022      |
| Release of Independent Panel's Report         | August 2022    |
| Submissions on Draft Instrument close         | September 2022 |
| Final 2022 Rate of Return Instrument released | December 2022  |

# What do the papers cover?

- Next slides briefly set out issues covered
- But today is not the day for detailed discussion...
- These working papers:
  - explore key issues,
  - focus consultation, establish positions and
  - lay a foundation for 2022 Instrument.
- Preliminary and preferred positions identified – as are open issues.
- Stakeholders should use the engagement opportunities on these draft working papers to put forward their positions.
- We want to hear what you don't agree with
- But where you don't agree, it is best to clearly specify the proposed change, the reasons for it, and how it would be implemented.

# Overall rate of return working paper

- Split into Part A and Part B
- Part A
  - High level road map of the rate of return and our process
    - Elements of Pathway to 2022
  - Overview of rate of return framework
    - Rate of return instrument
    - Inter-relationships between rate of return parameters
  - Overview of working paper series
    - Positions and issues canvassed
    - Potential impact on the rate of return
  - Decision making framework

## Overall rate of return – Part B

- **Form of rate of return**
  - No change.
- **Benchmark gearing**
  - continuing using market values
  - latest data: potential for gearing <60%.
- **Gamma**
  - maintaining 2018 approach but investigating
    - December 2018 ATO note
- **Possible use of cross checks**
  - Open position
    - exploring if/how cross checks can be used
    - can scenario testing inform overall rate of return?

# Debt working paper

- Use Energy Infrastructure Credit Spread Index (EICSI) to inform our benchmark
  - to better reflect debt costs of networks
- Weighting trailing average by capex spend
- Minor change to timing of averaging periods
  - to improve processes.

## Debt working paper

- Objective: ensure debt allowance is in line with network data.
  - builds on Energy Network Debt Data paper
  - reflects on updated network debt data,
- Exploring how trailing average could be adjusted to better reflect debt raising practices for large projects.
  - builds on previous work and submissions
- Other areas relatively settled
  - but looking to improve processes to reduce ‘crunch’ at the end



# Equity working paper

## Issues raised:

- Estimating a forward looking MRP.
- Relationship between RFR and MRP?  
Implementation?
- Comparators and period for equity beta estimate.
- Use of cross checks at overall return on equity level.
- Equity beta for electricity vs gas networks.
- Averaging period — nomination window for equity.

# Equity working paper

- Open to views on all issues but
- we have no position and especially seek views on :
  - Potential for a relationship between the MRP and risk-free rate, and whether an appropriate implementation method is available
  - Possible use of DGM is estimating forward looking MRP
- Issues initially raised in *Rate of return and cash flow in a low interest rate environment*.
  - Your submissions to that paper will be considered in this process
- Any change in the use of DGM would be a methodology change to our current approach and it is important that we hear from all stakeholders.
- It is important that proposals to change our current approach, clearly specify the change and why it would deliver superior results to our current approach.

# Questions