APGA
Australian Pipelines & Gas Association

AER Rate of Return – draft working papers
Online Public Forum

APGA Presentation
16 September 2020

Context

2018 RORI → **2022 RORI**

2018 RORI

- A new process, but it was a bit rushed
- Not all evidence appeared to be fairly considered → with limited change to approaches from past practice

2022 RORI

- Longer timelines provide a good opportunity to address unresolved issues and re-evaluate evidence
- Focus on overseas regulatory practice is a good idea
- AER already uses international data for cost benchmarking

One size fits all approach may not work anymore – start by assuming that we need to estimate separate risks for electricity and gas businesses

VS

Three questions

1 **Unique market conditions**

…bond yields are low or negative, stock markets are swinging from lows to highs, recessions are being seen or expected almost everywhere, and people are worried about Covid-19

How do the current social and economic conditions affect efficient financing costs? What does this mean for rate of return estimation? How are overseas regulators looking at this?

2 **Different risk profiles**

…both gas and electricity networks are responding to innovation and market disruption, but the causes and impacts are different (e.g. DER, climate policy etc)

Do changes to the gas and electricity markets affect the relative risks of regulated networks? How do overseas regulators consider this?

3 **A fresh look at the evidence**

…it is easy to retain past positions and gloss over points raised against them, yet evidence evolves over time and it is important re-assess it from time to time

What is being done to bring in new perspectives? How is rate of return estimation evolving overseas?

So what for 2022 RORI?

- **Consider reliability of approaches / models to conditions like the present → important role for cross-checks**
- **Test assumption that risk is the same across gas and electricity networks**
- **Consciously avoid simply dusting off old evidence and beliefs → opportunity for *all* participants**