

Attachment 1

Agriculture Industries Energy Taskforce: Submission to AER position paper on Profitability measures for network businesses

AER draft position on proposed profitability measures	AER Calculation	Comparators	Taskforce Comment
Return on Assets (Regulatory)	Regulatory EBIT/RAB, where Regulatory EBIT is for core regulated services and the RAB for core regulated services	<p>Pre-tax real WACC in a service provider's regulatory determination</p> <p>Regulatory returns of other service providers</p> <p>Regulatory returns of Australian and international regulated businesses where the RAB is valued on a reasonably consistent basis to that of the service provider.</p>	<p>Support</p> <p>Support</p> <p>Strongly support</p>
Return on Assets (Statutory)	Statutory EBIT for the Service Provider/Statutory Total Assets for the Service Provider	<p>Statutory returns of other service providers</p> <p>Statutory returns of other businesses outside of the sector that have a similar capital intensity and risk.</p>	<p>Support</p> <p>Support</p>
Return on Equity (Statutory)	Statutory NPAT for the service provider/Statutory Equity for the service provider	<p>Statutory returns of other service providers</p> <p>Statutory returns of other businesses outside of the sector that have a similar capital intensity and risk.</p>	<p>Support</p> <p>Support</p>
Return on Regulatory Equity (Regulatory)	Regulatory NPAT/Regulated Equity, where Regulatory NPAT is the core regulated services, and Regulatory equity is determined by applying the benchmark gearing ratio to the RAB for core regulated services.	<p>Post tax real return on equity allowed in a service provider's regulatory determination</p> <p>Regulatory returns of other service providers</p> <p>Regulatory returns of Australian and international regulated businesses where the RAB is valued on a reasonably consistent basis, and the debt to equity mix is similar to the service providers.</p>	<p>Support</p> <p>Support</p> <p>Support</p>

EBIT/customers numbers (Regulatory)	Regulatory EBIT/Total customer/connections, where Regulatory EBIT and customer/connection numbers are for core regulated services	Previous year's outcomes for the service provider Other service providers in the same sub-sector.	Support Support
RAB multiples	Enterprise Value/RAB, where Enterprise Value is the total market value of the business as determined by reference to a sale value or based on the value of the company's shares (if listed).	Transactions/valuations of other service providers. Transactions/valuations of other regulated business outside of the sector that have a similar level of risk of capital intensity.	Support Support

EBIT: Earnings before interest and tax

RAB: Regulatory Asset Base (is the closing asset base for core regulated services for a regulatory year based on regulatory rules).

NPAT: Net profit after tax

WACC: Weighted Average Cost of Capital