

7.02

Averaging period for cost of equity and debt

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1 RATE OF RETURN AVERAGING PERIODS

1.1 Averaging period for return on equity risk free rate

The current (2013) rate of return guideline states that the Australian Energy Regulator (AER) will adopt the yield on 10 year Commonwealth Government Securities (CGS) over a 20 business day observation period, as close as practically possible to the commencement of the regulatory control period, to set the risk free rate parameter within its Capital Asset Pricing Model (CAPM) estimate of the required return on equity.

In accordance with the AER’s rate of return guideline approach, Ausgrid proposes that the AER use the [REDACTED] to observe the allowed return on equity risk free rate for the 2019-24 regulatory period. We believe this period is as close as practically possible to the final decision date for the 2019-24 regulatory period.

We note that final return on equity estimate will need to take account of financial market conditions expected to prevail over the 2019-24 regulatory period, which may be affected by changes between the date of this proposal and the AER’s final decision. If there are changes in financial market conditions that warrant a change in the approach for setting the allowed return on equity, Ausgrid would be keen to discuss any such changes with the AER prior to its final 2019-24 determination for Ausgrid.

1.2 Averaging period for return on debt

The current (2013) rate of return guideline states that the AER will annually update the allowed return on debt using the estimated yields on 10 year BBB+ rated Australian corporate bonds, with the annual updates observed over averaging periods nominated in advance by the relevant service provider. The guideline states that the averaging periods should be:

- Specified prior to the commencement of the regulatory period
- Take place in the future at the time it is nominated
- Be as close as practical to the start of each regulatory year to which the averaging period applies.

In accordance with these requirements, Ausgrid nominates the averaging periods set out below for the annual return on debt updates for the 2019-24 regulatory period.

Table 1. Proposed averaging periods for return on debt

| Regulatory Year | |
|-----------------|------------|
| 2019/20 | [REDACTED] |
| 2020/21 | [REDACTED] |
| 2021/22 | [REDACTED] |
| 2022/23 | [REDACTED] |
| 2023/24 | [REDACTED] |

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| [REDACTED] |
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