

31 January 2023

# Attachment 4.2: Averaging period for cost of equity and debt

Ausgrid's 2024-29 Regulatory Proposal

Empowering communities for a resilient, affordable and net-zero future.



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### 1. Averaging periods

#### 1.1 Introduction

Under Division 1B of the National Electricity Law, calculation of the rate of return is determined by the Rate of Return Instrument, made every 4 years by the AER. The 2022 Rate of Return Instrument (RORI), scheduled to be made in December 2022, has been delayed therefore the 2018 RORI applies to Ausgrid for the 2024-29 period. The 2018 RORI allows for Ausgrid to nominate an averaging period for return on debt and the risk free rate applicable to return on equity for the 2024-29 period. This attachment states Ausgrid's nominated averaging periods.

This attachment is relevant to Attachment 4.01 – Annual Revenue Requirement. The estimates for return on debt and return on equity to calculate annual revenue in our proposal are placeholder numbers which will be replaced by the AER for the final determination and during the regulatory period (for return on debt only).

#### 1.2 Return on debt

Clause 24 of the 2018 RORI states that the nominated debt average period must:

- be over a period of 10 or more consecutive business days, up to a maximum of 12 months;
- start no earlier than 16 months prior to the commencement of a regulatory year;
- finish no later than 4 months prior to the commencement of a regulatory year;
- be specified for each regulatory year within the regulatory control period, and
- not overlap for each different regulatory year;
- be nominated both:
  - o prior to the start of the return on debt averaging period, and
  - no later than the lodgement date of the regulatory proposal for the regulatory control period.

Figure 2.1 shows Ausgrid's nominated debt averaging periods for the 2024-29 period, in compliance with the above requirements. The proposed periods also meet the requirements of the 2022 Draft RORI.

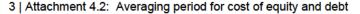
Figure 2.1 Return on debt averaging periods

Regulatory year	Start date	End date
1 July 2024 – 30 June 2025		
1 July 2025 – 30 June 2026		
1 July 2026 – 30 June 2027		
1 July 2027 – 30 June 2028		
1 July 2028 – 30 June 2029		

#### 1.3 Risk free rate

Clause 8 of the 2018 RORI sates that the nominated averaging period for risk free rate must:

- be over a period of 20 or more business days up to a maximum of 60 business days;
- start no earlier than 7 months prior to the commencement of the regulatory control period;
- finish no later than 3 months prior to the commencement of the regulatory control period;





- be nominated both:
  - o prior to the start of the risk free rate averaging period, and
  - o no later than the date of lodgement of the regulatory proposal for the regulatory control period.

In accordance with the above requirements, Ausgrid nominates an averaging period of to calculate the risk free rate applicable to return on equity. This period also meets the requirements of the 2022 Draft RORI.

