Attachment: CRG Questions for the experts at the Concurrent Evidence Session

Session number	Topics to be covered	Question(s) topic A	Question(s) topic B
1	A EICSI B beta	Is it reasonable for the AER to adopt the approach used by Ofgem ('the halo effect') to adjust the modelled return on debt given the AER's observation that providers may be insulated from high average risk premiums at times in the secondary market" (Information Paper, p 25)? If so, how would that be determined in the context of the RoRI?	The AER has previously relied largely on the long-term data to calculate the equity beta. If the AER moves to a 5-year estimate of the return on equity, does this have implications for the period over which it measures beta? Should the AER place more reliance on the last 5-years?
2	A Term B weighted trailing average	The CRG's discussions with independent investors indicate that these assets are held with a view to a long term average return. By contrast, in a report for the AER, Dr Lally argues that "[the] return on equity can be thought of as a long-term floating rate bond with a coupon that resets at the start of every regulatory period[1]." If it is established that the expectations of investors in these assets are based on expected long-term returns (rather than linked to a regulatory period), how should this be taken into account by the AER?	The CRG understands the technical basis of Dr Lally's argument that the current approach (equal weighting) will only meet the NPV=0 criterion, if the NSPs raise debt at equal levels year-on-year. How important is the NPV=0 criterion in the context of this issue? Is there merit in a fifth option for the AER, namely, to split the RAB so that past and BAU investments continue to be subject to the well-established equal-weighted trailing average approach?

[1] Dr Martin Lally (Capital Financial Consultants), The appropriate term for the allowed cost of capital, April 2021, p. 21.

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3	A MRP	What conditions need to be satisfied for the DGM to be assessed as a 'better estimate' of the MRP than the current approach? Given the volatility of the DGM results, and dependency on the inputs and model structure chosen, how can consumers have confidence that the AER has selected the best forecasts for input variables?	N/A
4	A Cross-checks B overall rate of return	How should the AER conduct scenario testing in a way that is fair and transparent to all stakeholders and does not bias the results (e.g., by selecting scenarios for financeability testing with very low probabilities)? The AER's annual analysis of network performance indicates NSPs have achieved a persistent average return on equity of around 100 basis points above their allowed return on equity. This persistent effect is of concern to consumer representatives that the CRG has engaged with. Is there a way that this apparent structural excess profitability can be taken into account in determining the future allowed rate of return?	N/a