Observed RAB multiples generally provide no useful information on the reasonableness of the allowed rate of return

- What the AER can observe in practice:

$$RAB\ multiple = \frac{E[Enterprise\ Value]}{Existing\ RAB}$$

$$= \frac{E\left[REV_{existing}\right] + E\left[REV_{future}\right] + E[OUT] + E[UNREG]}{Existing\ RAB}$$

- Where:
  - Revenue allowances (i.e., return on and return of capital) related to the existing RAB $\left(REV_{existing}\right)$;
  - Revenue allowances related to future investments in regulated assets $\left(REV_{future}\right)$;
  - Payoffs from outperformance of regulatory allowances (OUT), such as incentive payments; and
  - Net cash flows from unregulated activities $(UNREG)$.

Observed RAB multiples generally provide no useful information on the reasonableness of the allowed rate of return

- What the AER *actually* needs in order to provide a meaningful cross-check of its rate of return determinations:

$$RAB\ multiple = \frac{E\left[REV_{existing}\right]}{Existing\ RAB}$$

- The ratio above would be a fair test of the NPV = 0 condition and, therefore, a good cross-check on the AER's rate of return determinations.
- But, in practice, the AER can never observe this ratio. Nor can the AER calculate it.
- Using observed RAB multiples as a check on the sufficiency of the *"total compensation (inclusive of the rate of return) provided to investors"* (AER Final Omnibus Paper) is not a fair test of the NPV = 0 condition.
- So observed RAB multiples cannot be used practically as a meaningful cross-check.