

2022 Rate of Return Instrument Review

Concurrent Evidence Session – ENA Suggested Additional Questions

Session/topic	Possible additional question
Debt and use of AER's industry index (EICSI)	<ol style="list-style-type: none"> 1. Discuss the evidentiary basis for the proposed cap or constraint (e.g., Options 1 and 2 in Section 3.4.3 of the AER's <i>Information Paper</i> released in December 2021) being considered by the AER against the applicable regulatory framework objectives and principles, the AER's assessment criteria, and the potential for unintended consequences or regulatory error. 2. What are the potential trade-offs impacting consumers and network investment incentives between use of a stable benchmark which is accurate over the longer-term, and an approach which may reflect shorter-term and small movements in more volatile actual network debt data? How should the AER appropriately analyse and weigh those two approaches?
Term of the rate of return	<ol style="list-style-type: none"> 3. Is there any evidence of equity investors considering the returns of regulated equity as being equivalent to a long-term floating bond with 5-yearly resets? How is this concept useful for a regulator seeking to provide the cost of capital necessary in the marketplace? 4. Would an 'NPV=0' criterion be satisfied by the use of a 5-year term for risk-free estimates? Would this conclusion change in the presence of any degree of uncertainty around full recovery of the regulatory asset base in the future?
Market risk premium	<ol style="list-style-type: none"> 5. What are the appropriate roles or weights to be assigned to arithmetic or geometric averages of historical market risk premiums given: <ul style="list-style-type: none"> • the AER's regulatory task of estimating an unbiased estimate of the expected efficient return, consistent with the relevant risks involved in providing regulated network services; and • the specific manner in which the rate of return is applied to determine a return on capital allowance in AER models and regulatory practice.
Cross checks of the overall rate of return	<ol style="list-style-type: none"> 6. How can cross-checks be meaningfully used in a sense-check or contextual role in a manner that does not displace the foundational role assigned to the CAPM in the review? Are there examples or principles of good practice in this area?