

Meeting record

Date: 2 December 2020

Time: 3.00 to 3.40 pm

Purpose: Fourth meeting of the **Investor Reference Group** for the 2022 Rate of return instrument

Present: AMP Capital – Pat Mellor
Ausbil – Paul Johnston
Australian Super – Daniel Walters
IFM – Josh Crane
Magellan – David Costello
Morgan Stanley – Rob Koh
QTC – David Johnston
SP Group – Mike Williamson
Spark Infrastructure – Sally McMahon
AER – Warwick Anderson, Wei Ji, Conor McSween, Scott Johnson, Antony Machado

Apologies: AMP Capital - Stasha Prnjatovic
ATCO Australia– John Ivulich, Hugh Smith
Australian Super – Paul Dawson
Global Infrastructure Partners – Veeral Kanji
OMERS – Simon Palagyi
State Grid International – Albert Tse
AER – Ben Stonehouse

Meeting notes

- AER staff went through the list of actions from the last IRG meeting, all are complete.
- AER staff provided an update on key rate of return processes. The final working papers for the *International Regulatory Approaches to Rate of Return* and *CAPM and Alternative Return on Equity Models* are expected to be published before the Christmas break.
- AER staff described the current state of the inflation review. The final position paper is expected to be released at 4:30pm on 16 December 2020, with the AER hosting a stakeholder briefing session before this, at 4:00pm.
- AER staff advised that the *2020 Rate of Return Annual Update* was released this morning (2 December), which provides an update on all the data that feeds into the Instrument.
- AER staff advised that the final *Energy Network Debt Data* working paper was released on 18 November. This paper provides updated debt data for the regulated networks as well as analysis on how the index created using this data could be used to calculate the efficient cost of debt.

- IRG members asked why the AER is looking to change the ratio of A and BBB debt curves (1/3 A and 2/3 BBB to align with a BBB+ credit rating) set in the 2018 Instrument. AER staff advised that this potential change is based on analysis of the actual debt costs in the index and that there is a range of costs within credit rating bands. By using the index to weight the ratio of A to BBB curves this range can be narrowed. AER staff also noted that analysis on debt raising costs will continue in 2021.
- IRG members asked whether the BBB+ credit rating ratios calculated using the index would stay fixed for the 2022 Instrument or be updated yearly. AER staff advised that the BBB+ credit rating ratio would be fixed for the life of the 2022 Instrument, however the market data would be updated yearly.
- AER staff discussed the working paper program for 2021, which will be finalised in late January. If a rate of return topic is not included in the program for 2021, it will still be considered as part of the active phase of the 2022 Instrument review.
 - IRG members suggested that a working paper on the long term interest of consumers from the AER's framework and approach should be considered for this program.

Meeting action items

- AER staff to:
 - Organise next meeting and distribute invite (tentatively scheduled for late January or early February 2021).
- IRG members to:
 - Read the *2020 Rate of Return Annual Update* if they wish.
 - Read the *Energy Network Debt Data* final working paper if they wish.