

Meeting record

Date: 3 September 2020

Time: 1.30 to 2.30 pm

Purpose: Second meeting of the **Investor Reference Group** for the 2022 Rate of Return Instrument

Present: Australian Super – Paul Dawson, Daniel Walters
IFM – Josh Crane
Magellan – David Costello
Morgan Stanley – Rob Koh
OMERS – Simon Palagyi
QTC – David Johnston
SP Group – Mike Williamson
Spark Infrastructure – Sally McMahon
Wattle Hill Capital – Albert Tse
AER – Warwick Anderson, Ben Stonehouse, Scott Johnson, Conor McSween, Karen Ho, Antony Machado, Harry Gordon

Apologies: ATCO Australia– John Ivulich, Hugh Smith
Global Infrastructure Partners – Veeral Kanji

Meeting notes

- AER staff went through the list of actions from the last IRG meeting, all are complete.
- The draft Terms of Reference (ToR) were discussed. Additional ToR points were proposed to assist the IRG throughout the process. These were supported by AER staff.
- AER staff outlined the two recently published working papers on *International Regulatory Approaches to Rate of Return* and *CAPM and Alternative Return on Equity Models*. AER staff invited submissions from IRG members, individually or as a group, on any of the topics discussed in the working papers.
 - AER staff advised that our intention is that the working papers will lay a foundation for the 2022 instrument and we would like to make some progress in advancing position. However, the AER is unable to make a binding decision until 2022.
 - AER staff advised that these papers are open for submissions until 9 October and a public forum will be hosted on 16 September from 2 to 5pm. The IRG has been asked to consider whether they would like to present.
- The IRG requested a background session to run through the AER's existing approach to debt and equity and the decision making process in 2018.

- AER staff described the current state of the inflation review. Submissions closed a month ago and the AER is in the process of writing the draft position paper. This paper is tentatively due for release on 30 September.
 - IRG members noted that this was the same release date as the Victorian draft electricity decisions and asked whether one of the dates could be moved. AER staff noted that one of the releases may move, but it is not known at this time.
- AER staff described the current state of the Energy Network Debt Data Working Paper and 2020 annual update with AER staff clarifying points raised by IRG members.
 - Submissions closed on 14 August and the final working paper will be published in mid-November (originally scheduled for late October).
 - The IRG asked whether the AER will be making a decision in the paper or simply publishing an updated index. The AER advised that the paper would likely narrow the options for how the index could be used in 2022.
 - The IRG asked for actual debt compensation to be included on the same graph as the AER index.
 - The AER is in the process of collecting additional debt information from the networks to update then network debt index, this will be published in our annual update for 2020.
- AER staff outlined the working paper program for 2021:
 - A working paper on *Rate of Return and Cash Flows in a Low Return Environment* has been pushed back until Q1 of 2021.
 - The meeting discussed potential topics for future working papers, which included a possible paper on Financeability (including issues like credit rating metrics and working capital).

Meeting action items

- AER staff to:
 - Circulate the revised draft Terms of Reference for the 2022 IRG.
 - Organise a briefing for interested members of the Investor, Retailer and Consumer Reference Groups to outline the AER's approach in the 2018 Rate of Return Instrument.
 - Set up next meeting and distribute invite (tentatively scheduled for mid-October)
- IRG members to:
 - Consider whether the IRG would like to make a short presentation at the next Rate of Return stakeholder forum and report back to the AER next week.
 - Consider making written submissions (either individually or as a group) on the two recently published working papers by 9 October.
 - Read the Pathway to 2022 working paper and advise whether there are any working paper topics they are interested in for 2021.