

## Meeting record

**Date:** 4 February 2021

**Time:** 1.00 to 1.45 pm

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

**Present:** AMP Capital – Stasha Prnjatovic  
ATCO Australia – Hugh Smith  
Australian Super – Paul Dawson, Daniel Walters  
QTC – David Johnston  
SP Group – Mike Williamson  
Ausbil - Paul Johnston  
IFM – Josh Crane  
Magellan – David Costello  
OMERS – Simon Palagyi  
Spark Infrastructure – Michael Colville  
State Grid International – Sandeep Kumar  
AER – Warwick Anderson, Wei Ji, Shaun Collard, Conor McSween, Jacky Chen, Antony Machado

**Apologies:** ATCO Australia– John Ivulich  
Global Infrastructure Partners – Veeral Kanji  
Morgan Stanley – Rob Koh  
State Grid International – Albert Tse  
Spark Infrastructure – Sally McMahon  
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:
  - AER staff advised that the working paper program for 2021 is still in the process of being finalised and that a notice will be published with the confirmed topics when it is. The program is likely to include 2 papers in the first half of 2021 and 3 papers in the second half.
    - The first two papers will look at (1) rate of return and cashflows in a low interest rate environment and (2) the term of rate of return.
    - Working papers in in the second half of 2021 will broadly look at equity, debt and the overall rate of return – the latter will include topics such as gearing, cross-checks and imputation credits.

- At the end of 2021 the AER will publish an information paper of key findings from each paper to help guide expert sessions and submissions in early 2022.
  - AER staff advised that the *2020 Rate of Return Annual Update* was published on 2 December 2020.
  - AER staff advised that ENA has submitted a memo on the *Energy Network Debt Data* working paper, which was published on 18 November 2020. This memo outlines some ENA concerns about the AER's proposed method for incorporating actual debt costs into the benchmark cost of debt.
- AER staff provided an update on the *International Regulatory Approaches to Rate of Return* working paper, which was published on 16 December 2020:
  - The key findings are that the AER will continue to investigate the use of cross-checks, the merits of financeability tests and whether there should be a different RoR between gas and electricity.
- AER staff provided an update on the CAPM and Alternative Return on Equity Models working paper, which was published on 16 December 2020:
  - The key finding is that the AER will continue to use the SL CAPM, and give further consideration to the implementation and input parameters of this model. Key issues that will be considered further are estimating equity beta, the relationship between RFR and MRP and using a more 'forward looking' MRP.
    - In response to a question asked by the IRG, AER staff advised that the role of the DGM in estimating MRP will be considered further.
- AER staff provided an update on the final position paper of the Inflation Review, which was published on 17 December 2020:
  - The key findings are that (1) the AER has moved from a 10 year inflation horizon to a 5 year horizon, with a glide path from year 2 to year 5, (2) the model does deliver the current real rate of return and (3) a real rate of return target will remain instead of a nominal of hybrid target.
    - IRG members asked whether a nominal target would be considered in the future. AER staff advised that nothing is closed, but compelling evidence would be required to open the review process again.
  - The AER noted that submissions on changes to the PTRM closed on 3 February 2021.
- AER staff advised that the outcomes of the working paper program will be important in forming our views for the 2022 Rate of Return Instrument, but they won't bind decisions. It is important for stakeholders to submit their views during this program.
  - IRG members asked how they could best provide evidence to the working paper program. AER staff noted that it is open to discussions on an individual basis, if the different perspectives of IRG members mean it is difficult to submit group views.
- IRG members asked whether the AER had a financeability requirement similar to that of Ofwat and Ofgem. AER staff advised that there is no explicit test of financeability, our test is the long term interest of consumers. Financeability elements will be looked at in the first working paper of 2021.

## Meeting action items

- AER staff to:
  - Publish meeting record on AER website.
  - Organise next meeting and distribute invite (tentatively scheduled for mid-March)
- IRG members to:
  - Read the *International Regulatory Approaches to Rate of Return* working paper if they wish.
  - Read the *CAPM and Alternative Return on Equity Models* working paper if they wish.
  - Read the *Inflation Review* final position paper if they wish.