

Meeting record

Date: 22 October 2020

Time: 2.00 pm to 3.00 pm

Purpose: Third meeting of the **Retailer Reference Group** for the 2022 Rate of return instrument

Present: Energy Australia – Lawrence Irlam, Eleonora Mentyukova
AEC – David Markham
Lumo Energy – Constantine Noutso
Momentum – Randall Brown
Origin Energy – Gary Davies
AER – Warwick Anderson, Ben Stonehouse, Scott Johnson, Conor McSween, Karen Ho, Robyn Pickering

Apologies: AGL – Patrick Whish- Wilson

Meeting notes

- AER staff went through the list of actions from the last RRG meeting, all are complete
- AER staff provided an update on key rate of return processes:
 - The *Energy Network Debt Data – Final Working Paper* is close to being finalised and will be released in mid-November.
 - Submissions closed on 9 October on the *International Regulatory Approaches to Rate of Return* and *CAPM and Alternative Return on Equity Models* draft working papers. Final working papers will be released mid-December.
 - AER staff advised that the final working paper on each topic would narrow scope and propose preferred option/s, but would not lock in a final position.
 - The *2020 Rate of Return Annual Update* is on track to be released in late November or early December and will include EICSI debt costs updates.
 - RRG members expressed that they are interested in participating more actively in these rate of return processes but noted that there are bottlenecks and other processes occurring concurrently which they are involved in.
- AER staff described the current state of the inflation review. The draft position paper was released on 30 September and a public online forum was held on 21 October, which 60 people attended.
 - AER staff summarised the key outcomes and questions from the draft position paper. The AER is proposing to change the approach to a 5-year horizon and glide path, but maintain the real return target (rather than change to a hybrid target). The AER is asking for comment on whether a transition period is necessary to move to a 5-year horizon.

- The meeting discussed the inflation paper. RRG members noted that international regulators don't update their approaches as frequently as the AER and that there is potential to slip into a constant adjustment paradigm. AER staff noted that this point was raised by the CRG at the inflation forum and that submissions are welcome on this topic.
- RRG members asked for more explanation of a hybrid inflation target. AER staff advised that such an approach would have regulated revenues reflect debt fixed in nominal terms but equity moving in real terms. The current AER position is that the existing approach is well established, and there was no additional material provided engaging with the consumer consequences around the potential change in inflation risk.
- AER staff outlined the working paper program for 2021:
 - There will be a working paper on *Rate of Return and Cash Flows in a Low Return Environment* and there is the possibility of additional working papers prior to the mid-year start of the active phase of the 2022 rate of return process.
 - RRG members provided suggestions for other working paper topics, including adjusting the rate of return for gas networks and depreciation.

Meeting action items

- AER staff to:
 - Publish slides from the Rate of Return Fundamentals training on the AER website.
 - Organise next meeting and distribute invite (tentatively scheduled for early December)
- RRG members to:
 - Consider preferred times for when they will have additional availability to participate in rate of return processes.
 - Peruse slides from the 21 October inflation forum if they wish.