

## Meeting record

**Date:** 3 February 2021

**Time:** 1.00 pm to 1.50 pm

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

**Present:** AGL – Patrick Whish-Wilson  
AEC – David Markham  
Energy Australia – Lawrence Irlam  
Lumo Energy – Constantine Noutso  
Momentum – Randall Brown  
Origin Energy - Gary Davies  
AER – Warwick Anderson, Ben Stonehouse, Wei Ji, Antony Machado, Shaun Collard, Jacky Chen, Conor McSween, Karen Ho

**Apologies:** Energy Australia – Eleonora Mentyukova

## 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:
  - 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 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.
  - 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.

- RRG members asked what differences may exist between gas and electricity network providers. AER staff advised that the Brattle report noted some differences in approaches internationally and that the AER should continue to investigate. The AER will also consider whether gas-specific issues in Australia would result in a different systematic risk compared to electricity networks.
- 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.
- AER staff advised that the outcomes of the working paper program in 2020 and 2021 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.
- 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 hybrid target.
  - The AER noted that submissions on changes to the PTRM closed on 3 February 2021.

### Meeting action items

- AER staff to:
  - Publish meeting record on AER website.
  - Organise next meeting and distribute invite (tentatively scheduled for mid-March)
- RRG 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.