

Meeting record

Date: 19 May 2021

Time: 1.00 pm to 2.00 pm

Purpose: Seventh meeting of the **Retailer Reference Group** for the 2022 rate of return instrument

Present: AGL – Patrick Whish-Wilson
AEC – David Markham
Momentum – Randall Brown
Origin Energy - Gary Davies
Simply Energy – Matthew Giampiccolo
AER – Warwick Anderson, Steve Williams, Shaun Collard, Pradeep Fernando, Scott Johnson, Wei Ji, Antony Machado Conor McSween

Apologies: Energy Australia – Lawrence Irlam, Eleonora Mentyukova
Red / Lumo Energy – Constantine Noutso

Meeting notes

- AER staff went through the list of actions from the last RRG meeting, all are complete.
- AER staff provided an update on the working paper program for 2021:
 - The *Pathway to 2022* position paper that outlines the finalised working paper program for 2021 was released on 31 March.
 - Two draft working papers on (1) *Rate of return and cashflows in a low interest rate environment* and (2) *Term of the rate of return* will be released on 21 May. There will be a six week consultation period with submissions due on 2 July. A stakeholder forum will be hosted by the AER for each of these papers during the submission period, which RRG members are invited to present at.
 - A further three working (omnibus) papers will be published in 2021 on (1) *Equity*, (2) *Debt* and (3) *Overall rate of return*. The current timeline has each of the draft versions of these papers being released on 9 July.
 - In addition to the working papers, a position paper on the *Long term interests of consumers* will be published on 21 May. The AER is not seeking feedback on this paper.
- AER staff outlined the key outcomes and open questions of the draft *Rate of return and cashflows in low interest rate environment* working paper:
 - We are currently in a low interest rate environment.
 - Our methods for calculating return on debt and risk free rate remain appropriate in a low interest rate environment.

- It's harder to evaluate the effects of low interest rates on return on equity, in particular the relationship between the market risk premium and the risk free rate. Submissions are welcome on this topic and are best directed through the *Equity* working paper.
- AER staff outlined the key outcomes and open questions of the draft *Term of the rate of return* working paper:
 - The term for expected inflation and rate of return does not need to align and should be independently considered
 - We are considering whether to change the term of equity to the length of the regulatory period (5 years).
 - RRG members queried whether moving to a 5 year term for equity would result in lower rates. AER staff responded return on equity will not necessarily be lower with a 5 year term as adjustments may be required for other parameters, such as Beta.
 - We propose to explore whether to match the term of debt to that of an efficient firm's borrowing, which may be estimated using an industry-wide metric such as the Energy Infrastructure Credit Spread Index (EICSI).
- AER staff outlined the content of the *Long term interests of consumers* position paper:
 - Includes our views around what the NEO and NGO mean in the context of setting the expected rate of return and how the concept of long term interests of consumers feature in setting the expected rate of return.
 - Include a guiding principle which we developed. It is an unbiased estimate of the expected efficient return, consistent with the relevant risks involved in providing regulated network services.
- AER staff provided an update on the *Rate of return* process paper, which will outline the preferred process used by the AER in setting the 2022 rate of return Instrument:
 - This paper focuses on the role of the concurrent evidence sessions and the independent panel and will be published in the first weeks of June.
- AER staff notified RRG members that the AER will be collecting actual debt costs of the privately owned networks through a regulatory information notice (RIN). This information will be used to update the EICSI.

Meeting action items

- AER staff to:
 - Publish meeting record on AER website.
 - Organise next meeting and distribute invitations (tentatively scheduled for mid-July).
- RRG members to:
 - Read and consider submitting on the *Rate of return and cashflows in a low interest rate environment* draft working paper, if they wish.
 - Read and consider submitting on the *Term of the rate of return* draft working paper, if they wish.

- Read the *Long term interests of consumers* position paper, if they wish.
- Consider presenting at the stakeholder forums for the draft working papers.