

Meeting record

Date: 25 August 2021

Time: 1.30 pm to 2.30 pm

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

Present: AGL – Patrick Whish-Wilson
AEC – David Markham
Red / Lumo Energy – Constantine Noutso
Momentum – Randall Brown
Origin Energy – Sean Greenup
Simply Energy – Matthew Giampiccolo
AER – Warwick Anderson, Pradeep Fernando, Zhen Wang, Conor McSween

Apologies: AER – Yuliya Moore
Energy Australia – Lawrence Irlam, Eleonora Mentnyukova

Meeting notes

- AER staff went through the list of actions from the last RRG meeting, all are complete.
- AER staff provided an update on rate of return working papers:
 - Stakeholder forums were held on 15 June and 23 June respectively for the *Term of the rate of return* and *Rate of return and cashflows in a low interest rate environment* working papers. Submissions closed on these papers on 2 July and the final versions of these papers are expected to be published during the week of 13 September.
- AER staff provided an update on rate of return omnibus papers:
 - Drafts of the three omnibus papers – *Equity, Debt* and *Overall Rate of Return* – were released on 15 July and stakeholder forums were held for each of these papers in early August.
 - The submission period for these papers was extended by a week and submissions are now due by 3 September.
 - Regarding the *Debt Omnibus* paper:
 - RRG members queried why networks wouldn't issue all of their debt at 5 years if it is cheaper than issuing 10 year debt. AER staff responded that networks also need to manage interest rate and refinancing risks when issuing shorter term debt. The trailing average provides sufficient allowance to fund all debt on a rolling 10 year basis, if networks deviate from the benchmark and issue shorter term debt, they could do better or worse.

- RRG members asked what weighting the trailing average by CAPEX spending means. AER staff responded that the current 10 year trailing average weights each year equally and this approach would weight each year based on CAPEX spend in that year. This approach could address financing issues when big steps up or down in capital raised occur, but could be complicated. The AER is seeking submissions on this approach.
 - Regarding the Equity Omnibus paper:
 - RRG members asked what the significance is between the relationship between the MRP and the risk free rate. AER staff responded that there is concern that we're in an environment where interest rates have dropped (lowering the risk free rate) but the overall expectation of the return on equity hasn't fallen as much, which could result in a shortage of capital.
- AER staff provided an update on the *Pathway to 2022* process paper:
 - The paper will be released on 27 August and includes an open call for nominations for members of the Concurrent Evidence Sessions (CES) and the Independent Panel (IP). Anyone can nominate experts for the CES or IP. The AER will consider these nominations and contract and fund experts for both groups. Nominations are required by 17 September.
 - The CES will be run across four sessions over 10 and 17 February 2022.
- Other relevant developments:
 - An information paper will be published at the end of 2021 that summarises all our working and omnibus papers in preparation for the CES next year. Submissions will be due on this paper 2 weeks after the final CES and they will feed into the draft Instrument.
 - A RIN was issued on 23 August to the privately owned networks asking for information on their debt portfolios. This information is due back to the AER by September 27 and will be used to update the Energy Infrastructure Credit Spread Index.

Meeting action items

- AER staff to:
 - Publish meeting record on AER website
 - Organise next meeting and distribute invites (tentatively scheduled for early October).
- RRG members to:
 - Consider submitting on the three omnibus papers prior to 3 September.
 - Consider nominating experts for the Concurrent Evidence Sessions or the Independent Panel prior to 17 September.