



Attachment 10.05

Rate of return averaging period

31 January 2023

PowerWater

1. Averaging periods

This appendix sets out our placeholder and proposed averaging periods used to calculate prevailing market parameters that are used to determine the allowed rate of return.

Placeholder averaging period

We have adopted the period 4 to 31 October 2022 as our placeholder averaging period for the purposes of estimating the rate of return included in our regulatory proposal. We propose that the rate of return be updated using the averaging periods set out in the next two sections.

Proposed risk-free rate averaging period

We propose the following average period to estimate the risk-free rate parameter for the 2024–29 regulatory period:

- [REDACTED] (inclusive).

Consistent with the draft 2022 Rate of Return Instrument,¹ this averaging period:

- is between 20 and 60 business days in length (inclusive)
- starts no earlier than 8 months and finish no later than 4 months prior to the start of each regulatory year, and
- occurs after the date of this regulatory proposal.

We claim confidentiality over the risk-free rate averaging period for the reasons set out over the page.

Proposed return on debt averaging periods

We propose the following averaging periods to estimate the return on debt for the five years of the 2024–29 regulatory period:

- 2024-25: [REDACTED] (inclusive)
- 2025-26: [REDACTED] (inclusive)
- 2026-27: [REDACTED] (inclusive)
- 2027-28: [REDACTED] (inclusive)
- 2028-29: [REDACTED] (inclusive).

Consistent with the draft 2022 Rate of Return Instrument,² these averaging periods:

¹ We have proposed averaging periods that are consistent with the AER's draft 2022 Rate of Return Instrument, clauses 7 and 8. This aligns with the AER's letter dated 7 December 2022. See: AER, *Letter from Warwick Anderson to Scott Wallace: Re Regulatory proposal submission and application of the RORI – follow up*, 7 December 2022.

² We have proposed averaging periods that are consistent with the AER's draft 2022 Rate of Return Instrument, clauses 23 and 24. This aligns with the AER's letter dated 7 December 2022. See: AER, *Letter from Warwick Anderson to Scott Wallace: Re Regulatory proposal submission and application of the RORI – follow up*, 7 December 2022.

- are between 10 business days and 12 months in length (inclusive)
- start no earlier than 17 months and finish no later than 5 months prior to the start of each regulatory year
- do not overlap with each other; and
- occur after the date of this regulatory proposal.

We also claim confidentiality over the return on debt averaging periods for the reasons set out in the next section.

Confidentiality

Consistent with the rate of return instrument and previous regulatory practice, we propose keeping the dates for each averaging period set out in the section above confidential until they have passed. This will give Power and Water Corporation or its shareholder an opportunity to align its actual funding costs with the allowed rate of return estimated over those periods without the risk of other market participants using that information against our legitimate commercial interests.