



Pathway to the 2022 rate of return instrument

Position Paper on 2021 working paper series

March 2021

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1 Introduction

This paper sets out the timeline and content of our upcoming working papers. We have prepared this program based on our own assessment of the key issues and the feedback and comments we have received from stakeholders on the working papers we developed last year.

We have revised the timetable for developing the 2022 instrument to include additional working papers and the revised timetable is set out below.

Table 1 Indicative dates for key steps in the Pathway to 2022

Stage of Review	2022 Process - Intended
Process Position Paper	March 2021
Draft in-depth working papers	May 2021
Process Consultation Paper - Detailed	June 2021
Draft broad working papers	July 2021
Collection of debt data from regulated energy networks	July 2021
Process Position Paper - Detailed	August 2021
Final in-depth working papers	August 2021
Final broad working papers	November 2021
2021 Rate of Return Annual data Update	November 2021
Information Paper	December 2021
Experts' Conclave	Early February 2022
Concurrent Evidence Sessions	February/March 2022
Draft Instrument	June 2022
Independent Panel Report	August 2022
Final Instrument	December 2022

We think the working papers we developed last year were a success and we therefore want to continue the series. The working papers allow stakeholder discussion and engagement on targeted areas that have been highlighted as significant areas ahead of the concurrent evidence sessions and draft instrument. Stakeholders have told us that they found it useful

to consider key topics well in advance of the draft instrument. From our perspective they have also allowed us to identify key topics and inform our understanding and thinking at an early stage. Table 2 shows the proposed timetable for these working papers in 2021.

Table 2 Indicative schedule for 2021 Rate of Return Working Papers

Type	Topic	Draft Paper	Final Paper
In-depth working papers	Rate of return and cashflows in a low interest rate environment	May 2021	August 2021
	Term of rate of return	May 2021	August 2021
Broad working papers	Debt	July 2021	November 2021
	Equity	July 2021	November 2021
	Overall rate of return	July 2021	November 2021
Summary	Information paper		December 2021

2 Working Papers

We are proposing five working papers this year focussing on two in-depth topics followed by three papers to span the full breadth of rate of return issues. We then intend to bring together the content of the eight papers into an information paper to guide the expert sessions and submissions in the first half of 2022.

2.1 In Depth Papers

The first two papers in the schedule are in-depth papers that will focus on particular areas of interest and importance. These will be similar in scope to our 2020 working papers.

- The topic *Rate of return and cashflows in a low interest rate environment* will look at the impact of low interest rates on our rate of return estimation methods. This will include consideration of financeability elements.
- The topic *Term of rate of return* will consider whether it is necessary for the return on equity, return on debt and inflation to align on term; and the relevant considerations when setting the estimation horizon for each.

The topic *Rate of return and cashflows in a low interest rate environment* has been an area of interest for both us and stakeholders in recent years. It has potentially been made more significant by low interest rates continuing to persist throughout the response to the COVID-19 pandemic.

The topic *Term of rate of return* has risen in priority with the final position of our 2020 inflation review, where the term for expected inflation was changed from ten years to align with the regulatory control period length (usually five years).

2.2 Broad Topic Papers

The following three papers will tackle broader topics, allowing us to consider interactions between related elements in each area. This group of papers will have a few in-depth sections on topics that are important to stakeholders and the estimation of the rate of return, but still need to be considered in wider context. The third of these three topics, on *Overall rate of return*, will include consideration of factors not covered in the broad debt and equity papers that affect the overall rate of return. These include gamma (the value of imputation credits), and gearing, and the use of cross-checks at the rate of return level.

2.3 Information paper

The *Information paper* at the end of the year will present our considerations across all areas, summarising and combining content from all the preceding papers. It will identify areas where there is a reasonably settled view and areas where there are still a number of open options and more work is required. We intend the Information paper will provide an overview of the proposed approach to setting the rate of return, set out the topics to be considered in the expert sessions in early 2022 and to guide submissions in advance of our draft instrument. We will provide a period for submissions on the content of the information paper so we can hear your views on the topics that require further consideration. This will allow you to reflect on the full breadth of the working papers that are being developed progressively.

3 Have Your Say

We encourage all stakeholders to participate in the development of our working papers—this is a key opportunity to put forward perspectives and so shape the 2022 instrument. These working papers are where we will discuss, narrow and potentially settle on options for the 2022 instrument. As such, it is an important opportunity to influence our thinking and formulation of views at an early stage. For example, in the papers we developed last year we were able to set out some preliminary views on a range of topics. Stakeholders should take the opportunity to engage as early as possible on the drafts of the working papers which we will publish in May 2021 and July 2021 and not wait until 2022 to engage. Our three reference groups (Consumer Reference Group, Investor Reference Group, and Retailer Reference Group) also provide a constructive avenue for involvement in this process.¹

We are considering the best forms of stakeholder engagement for each of the working papers, and stakeholders will have opportunities to voice their opinions and present information relevant to the discussion. This could include forums, roundtables or workshops in addition to written submission periods. Details of our consultation process will be released as we work through the series

It is important to note that we will not finalise the in-depth working papers prior to commencing work on the broad working papers. We also understand that with multiple working papers being developed concurrently, there may be some overlap in the issues being considered. We see the Information paper at the end of the year as an important tool for drawing together all the threads from the working paper series. You will be able to draw our attention to issues in early Working papers that could benefit from updating or reconsideration in light of later papers. You will also be able to highlight topics that could benefit from consideration by the experts or more generally in our draft instrument.

¹ See <https://www.aer.gov.au/publications/guidelines-schemes-models/rate-of-return-instrument-2022/consultation>

4 Process Consultation

While much of our process for developing the instrument is settled there are two aspects we highlighted in our Pathway to 2022 where we would like to hear views to inform our decisions regarding key aspects of the process.

These are:

- Engaging experts for the concurrent evidence sessions and expert conclave and the structure of the expert sessions. We want these sessions to be as useful as possible for informing our consideration. We also want them to be balanced and to canvass a full set of perspectives.
- The appointment of the Independent Panel and the operation of the panel. The panel is a critical step in our process and we want to obtain the greatest value from their input.

We are preparing a short consultation paper to inform our decisions so we can start work on setting up the expert sessions and independent panel.