September 15, 2023

Attachment 9: Forecast Rate of Return

9.1   Return on capital

Rule clause 6A.6.2 provides that:

> *The return on capital for a Transmission Network Service Provider for a regulatory year (RCt) is to be calculated using the following formula:*
>
> *RCt= a_t x v_t*
>
> *where:*
>
> *a_t is the allowed rate of return for the Transmission Network Service Provider for the regulatory year; and*
>
> *v_t is the value, as at the beginning of the regulatory year, of the regulatory asset base for the transmission system owned, controlled or operated by the Transmission Network Service Provider (as established in accordance with clause 6A.6.1 and schedule 6A.2).*

Value of Regulatory Asset Base (RAB)

The return on capital is determined by applying the rate of return (discussed below) to the RAB value.

The RAB is the total regulatory value of all the assets used to provide the prescribed transmission service. The value of the RAB, and the methodology used to derive that value is discussed **Attachment 5**.

Weighted Average Cost of Capital

The rate of return is based on a Weighted Average Cost of Capital (WACC), as required by the AER's rate of return instrument.

Based on the available data, the estimated nominal WACC for the financial year 2025-26 is 5.47%.

The data specifically needed for estimating the WACC for financial year 2025-2026 is not yet available at the time of writing, and the most up-to-date data available for estimating the WACC is for the financial year 2023-24.

Given this limitation, the estimation of the WACC for the financial year 2025-26 was determined by:

- treating the financial year 2023-24 as though it is the financial year 2025-26;

- utilising the Rate of Return Instrument 2022 as published by the AER, and as amended in February 2023.

Nomination of the averaging periods for the WACC estimation was conducted in accordance with the guidelines provided in the Rate of Return Instrument 2022. The Rate of Return Instrument 2022 requires RBA, Blomberg and Refinitiv data to be used for estimating the cost of debt. As APA does not subscribe to the Refinitiv data service, our cost of debt was estimated using only the RBA and Bloomberg data.