Online forum
Rate of return working papers

International regulatory approaches to rate of return
CAPM and alternative return on equity models

16th September 2020, 2.00 pm to 5.00 pm

Agenda

Time	Duration	Item	Presenter	
2:00	5 min	Check in period	Warwick Anderson	
2:05	5 min	Welcome and Introduction	Eric Groom	
2:10	40 min	Overview of expert reports	Toby Brown and Graham Partington	
2:50	10 min	Overview of working paper options	Eric Groom	
3:00	40 min	Q&A session with report authors	Toby Brown, Graham Partington and Warwick Anderson	
3:40	5 min	Break		
3:45	70 min	Stakeholder Presentations	Networks	ENA and APGA
			Investors	Morgan Stanley & QTC
			Consumers	CRG
			Retailers	AEC
4:55	5 min	Next steps	Warwick Anderson	

Context and background

- Working paper program so far:

	Title	Draft paper	Forum	Subs close	Final paper
1	Energy networks debt data	26 Jun	29 Jul	14 Aug	Nov
2	International regulatory approaches to rate of return	27 Aug	**16 Sep**	9 Oct	Dec
3	Capital asset pricing model and alternative return on equity models	27 Aug	**16 Sep**	9 Oct	Dec

Welcome and introduction

Eric Groom PSM, Board Member AER

Objectives

- National electricity objective (NEO)
  - To promote **efficient investment** in, and **efficient operation** and use of, electricity services for the **long term interests of consumers** of electricity with respect to:
    - price, quality, safety and reliability and security of supply of electricity
    - the reliability, safety and security of the national electricity system.
- Hearing – and understanding – stakeholder views is essential to our ability to advance the NEO and NGO
  - Also constructive for stakeholders to listen to each other's perspectives

Two working papers

- International regulatory approaches to rate of return
  - Expert report by The Brattle Group:
    A review of international approaches to regulated rates of return
- CAPM and alternative asset pricing models
  - Expert report by Graham Partington and Stephen Satchell:
    Alternative asset pricing models
- Areas of overlap between the two working papers, and the two expert reports
  - Benefit from the experts' differing backgrounds and perspectives
  - Released at same time so we could consider those interactions

Brattle Presentation – Summary of report

Dr Toby Brown, The Brattle Group

Partington Presentation – Summary of report

Prof Graham Partington

Overview of options in AER working paper

Eric Groom PSM, Board Member, AER

Purpose of the two AER draft working papers

- The working papers aim to:
  - Provide accessible introductions to the key issues
  - Briefly present the AER's assessment of current evidence, building on the content of the expert reports
  - Identify options for potential changes to our rate of return approach
  - Invite stakeholder comment, and in particular provide constructive guidance on focus areas for stakeholders
- Comment on any area of the papers is welcome

Areas for stakeholder comment - International regulatory approaches to rate of return

- The Brattle report will plant ideas and suggestions for subsequent processes.
- Key areas for stakeholder comment:
  - Framework for comparing across countries, and relevance of overseas outcomes
  - Changes to frequency of rate of return reviews or process for applying to reset cycles
  - Annual update of the risk free rate
  - Adjustments to the rate of return, particularly with regard to interaction with incentive schemes

Areas for stakeholder comment - CAPM and alternative return on equity models

- Key areas for stakeholder comment:
  - Standard (Sharpe-Lintner) CAPM as preeminent model
  - Use of a more ‘forward looking’ model (i.e. the dividend growth model, DGM)
  - More ‘forward-looking’ implementation of the CAPM
    - Method for estimating the market risk premium
    - Relationship between risk free rate and market risk premium
    - Beta estimation
  - Use of other models, and how multiple models might be combined
  - Scope for use of international data

Stakeholder questions

Dr Toby Brown and Prof Graham Partington
Moderated by Warwick Anderson

Stakeholder presentations

Networks/Pipelines - Energy Networks Australia &
Australian Pipelines and Gas Association

Investors - Morgan Stanley &
Queensland Treasury Corporation

Consumers - Consumer Reference Group

Retailers - Australian Energy Council

Wrap up and next steps

Warwick Anderson

Key dates

Category	Process	Next steps
Rate of return working papers	Energy networks debt data	Final working paper in **November**
	International regulatory approaches to rate of return	Submissions close **9 October**
		Final working paper in **December**
	CAPM and alternative return on equity models	Submissions close **9 October**
		Final working paper in **December**
	Rate of return and cashflows in a low return environment	Commences in **Q1 2021**
	Additional 2021 working papers	To be determined
Data	Collection of actual debt costs from energy networks	Core debt data due on **8 October**
		Debt raising cost data in **November**
	Rate of return 2020 update	Released in **December**
Inflation	Review of treatment of inflation	Draft position **end September**
		Online forum **21 October**
		Submissions close **6 November**

Thank you