

**Better Regulation—Rate of Return Forum**

**Agenda**

**First meeting—5 February 2013**

**Venues: AER offices**

Level 35, The Tower, 360 Elizabeth Street, Melbourne and

Level 20, 175 Pitt Street, Sydney

Both venues will be connected via VCU

9.30 am registration and tea and coffee

**Forum begins 9.45 am**

11.15 am to 11.30 am break

11.30 am recommence, conclude at 1.00 pm, followed by light lunch

1. **Introductions**

* Role of the forum
* Workgroup meetings and role
  + Smaller groups to discuss key issues
* Future meeting dates
* Publishing of forum and workgroup material on AER website

1. **Discussion of the overall program and AER’s objectives, including**

* Role of guidelines
* Links with electricity determinations and gas access arrangements

1. **Major issues for discussion and feedback from forum (centred on the December 2012 issues paper questions)**

* Economic principles will guide our discussions
  + Best approach to setting rate of return
  + Approaches that are in the long term interest of consumers
  + Framework that matches investor and customer interests
  + Are the proposed principles in the issues paper reasonable?
  + How determine ‘relevant’ information to take into account
* How should AER exercise its judgement
  + At the overall rate of return, or at specific parameter value?
* Key concepts and terms
* Benchmark efficient entity
  + Difference in market risks between gas and electricity sectors
  + Differing financial arrangements based on:
    - Size of network service provider
    - government vs private sector owned service providers

1. **Overall rate of return**

* Standard WACC formula
* Use of cross checks on the overall rate of return (and/or on cost of equity and cost of debt)
* Appropriate balance between certainty and flexibility in determining the WACC

1. **Return on Equity**

* Which cost of equity model or models best meet the overall rate of return objective?
* What other evidence would be relevant to determining cost of equity?

1. **Return on Debt**

* Trailing average- strengths and weaknesses of this approach compared with the current ‘on the day’ approach.

1. **Other business**

Note: Gamma will not be discussed at this forum, however will be discussed in future forums or sub-group meetings.