

Term of the Rate of Return

SUBMISSION TO THE DRAFT WORKING PAPER – 2 JULY 2021

Queensland Treasury Corporation (QTC) welcomes the opportunity to provide comments on the Australian Energy Regulator's (AER) Draft Working Paper on the Term of the Rate of Return. Our comments and views are as follows:

Return on equity

- The 2022 Rate of Return Instrument (RoRI) should include an approach for making the best estimate of the return on equity required by real-world investors operating in competitive, real-world capital markets. This requires a 10-year risk-free rate to be used in the allowed return on equity.
- There has been no change in real-world valuation practices or theory since the 2013 Rate of Return Guideline (RoRG) or the 2018 RoRI to support a risk-free rate term that is less than 10 years.
- 'Term-matching' arguments for determining the term of the risk-free rate should not be given any further consideration by the AER as it remakes the 2022 RoRI:
 - Term-matching does not hold even if regulated equity is viewed as a very long-term floating rate bond with 5-yearly rate resets. As shown in Section 2, if the coupon is set to equal the prevailing 5-year risk-free rate at each reset, the expected outcome over the life of the asset is **NPV<0**.
 - Term-matching does not reflect contemporary regulatory practice. The Draft Working Paper shows that the vast majority of Australian and international regulators use a 10-year risk-free rate or longer regardless of the length of the regulatory period.
 - Term-matching was abandoned by the Queensland Competition Authority (QCA) in 2020. This is important because the QCA was previously a very strong supporter of term-matching based on the same advice from Dr. Martin Lally that the AER is considering for the third time since 2013.

Cost of debt

- A 10-year trailing average that applies to the total 10-year cost of debt should be used to determine the cost of debt allowance. The debt strategy implied by the trailing average approach reflects sound, established financial risk management principles that have not changed since the trailing average was first adopted in the 2013 RoRG and reconfirmed in the 2018 RoRI.
- The Draft Working Paper outlines three scenarios where the current trailing average approach may not be appropriate. In QTC's view:
 - The first scenario can be addressed by using the same approach that applies to existing service providers as they transition from an on-the-day cost of debt allowance to a trailing average cost of debt allowance.
 - The second scenario can be addressed by using a weighted trailing average of the total 10-year cost of debt.
 - The conclusion in the third scenario is incorrect because it ignores the offsetting effect of the market value of debt that must be repaid when a regulated business is sold.
- The current 10-year benchmark debt term is appropriate as it allows a benchmark firm with 60 per cent gearing to keep refinancing risk at an appropriately low level.
- The weighted average term to maturity at issuance (WATMI) will differ from the 10-year benchmark for periods of time as service providers respond to real-world debt issuance factors and constraints. This should not automatically be interpreted as a change in the benchmark term.
- If the WATMI is used to determine the benchmark debt term in the 2022 RoRI, it is possible that the term will change again at subsequent RoRI reviews. This may place service providers in an ongoing state of transition as they continually re-adjust their debt portfolios and hedges based on the latest WATMI estimate.
 - QTC does not consider these outcomes to be consistent with maintaining a stable regulatory framework.

1 Return on equity

1.1 Objectives

- The 2022 Rate of Return Instrument (RoRI) should include an approach for making the best estimate of the return on equity required by real-world investors operating in competitive, real-world capital markets. This aligns with a broader regulatory objective of seeking to replicate, to the extent possible, competitive market outcomes.
- In the 2018 RoRI the AER concluded that using a 10-year risk-free rate in the allowed return on equity is consistent with how required rates of return are determined in practice by investors¹:

‘We consider a 10 year term is consistent with the theory of the Sharpe-Lintner CAPM which is a single period equilibrium model, estimating the returns an investor requires over a long-term investment horizon. The 10-year term also reflects the actual investor valuation practices and academic works.’

- The AER’s conclusion in 2018 on the appropriate term for the risk-free rate is consistent with the findings in a 2013 report by Incenta on the approaches used by real-world practitioners when valuing regulated and non-regulated infrastructure assets. In regard to the term of the risk-free rate Incenta made the following observations²:

*‘As stated by more than one of the respondents, the fundamental point is that a **long term risk free rate estimate is applied by market practitioners when valuing infrastructure assets, regulated or otherwise.**’*

...

*‘The answer to this question was unequivocally that **analysts treat regulated assets (i.e. those regulated on a 5 year cycle) no differently to unregulated infrastructure with respect to the assumption made about the term of the risk free rate.**’*

- Incenta also reached an important conclusion on why the allowed return on equity should reflect market practice rather than arbitrary factors such as the length of the regulatory period³:

*‘... since the market applies a 10 year risk free rate and a risk premium and prices assets in this way, it drives valuation, and **regulators should not be out-of-step with the market, or they will risk under-investment.**’*

- After taking into account how investment professionals value regulated and non-regulated infrastructure assets, Incenta concluded that regulators should also use a 10-year risk-free rate in the allowed return on equity⁴:

*‘We recommend using a 10 year risk free rate for estimating the cost of equity, and for this rate to be applied consistently to estimate the market risk premium. However, this recommendation is not based squarely on theory, which we view as largely indeterminate given the shortcomings of the CAPM. Rather, our view is based on **achieving consistency with the practice of valuation professionals**, for whom the use of a 10 year term for the risk free rate is widespread, and consistency with our observations of how investors actually value regulated infrastructure assets.’*

- QTC considers Incenta’s findings to be just as relevant today as they were in 2013. There has been no change in real-world valuation practice or theory since the 2013 RoRG or the 2018 RoRI to support a risk-free rate term that is less than 10 years in the allowed return on equity.
- Based on these considerations, QTC supports a 10-year risk-free in the allowed return on equity.

¹ AER (December 2018), *RoRI Explanatory Statement*, p. 126.

² Incenta (June 2013), *Term of the risk free rate for the cost of equity*, p. 9 and p. 28.

³ Incenta (2013), p. 9.

⁴ Incenta (2013), p. 43.

1.2 Term-matching

- The Draft Working Paper refers to an ‘evolution’ in the AER’s thinking that has prompted a reconsideration of whether the term of the risk-free rate in the return on equity should match the 5-year term of the regulatory period. The AER considers the criteria for deciding on the appropriate term to be⁵:
 - satisfying the NPV=0 condition, and
 - setting the return on equity (as part of the revenue requirement) over a regulatory period.

1.2.1 The NPV=0 condition

- The AER has previously considered advice from Lally on term-matching and the NPV=0 condition in the 2013 RoRG and the 2018 RoRI. On both occasions the AER did not follow the advice and retained a 10-year risk-free rate in the allowed return on equity.
- A key problem with term-matching is the assumption that the investor receives an amount equal to the residual regulated asset base (RAB) *in cash* at the end of the 5-year regulatory period. For example, in the 2013 RoRG the AER stated that:⁶

*‘... the cash flow in each year is the allowed revenue net of opex and capex, except in the final year, where the closing value of the regulatory asset base (RAB) is included in the cash flow. **That is, the assumption is that the investor receives a cash payment equal to the RAB in the final year of the regulatory control period.**’*

- A similar observation was made in the 2018 RoRI:⁷

*‘We considered Dr Lally’s advice and noted that using a five-year term required the assumption that the full recovery of the residual RAB (**in cash**) at the end of the term is guaranteed.’*

- In practice, there is no cash flow equal to (or related to) the residual RAB at the end of each regulatory period. This is a problem for the term-matching approach because the 5-year risk-free rate only applies to a bond that repays the original investment at maturity in cash. This rate cannot be used to discount cash flows over a 5-year period if there is no principal cash flow at the end of the 5-year period.

Long-term floating rate bond analogy

- The AER attempts to avoid the cash flow problem by viewing regulated equity as a long-term floating rate bond with 5-yearly rate resets. This appears to be the main change in the AER’s thinking since the 2018 RoRI:⁸

‘[Lally] noted that our return on equity can be thought of as a long-term floating rate bond with a coupon that resets at the start of every regulatory period. Thus, the duration of the cashflow (and consequently the discount rate) is the length of the regulatory period. The expected return on equity allowance (and term) needs to match to the length of the regulatory period to satisfy the NPV=0 condition in expectation.’

- The AER is effectively viewing regulated equity as a long-term floating rate Commonwealth Government Security (CGS) with a coupon that is reset every 5 years to equal the prevailing 5-year CGS yield plus an equity risk premium. From a pricing perspective this assumes that CGS investors are indifferent between committing funds for 5 years or a significantly longer period. In our view, this is unlikely to be true in practice:
 - The owner of a 5-year CGS receives a cash payment at maturity equal to the original investment, and this provides the option to re-invest at the prevailing 5-year CGS yield or to pursue other investments.

⁵ AER (May 2021), *Term of the rate of return - Draft Working Paper*, p. 38–39.

⁶ AER (August 2013), *Draft Rate of Return Guideline*, p. 183.

⁷ AER Draft Working Paper, p. 15.

⁸ AER Draft Working Paper, p. 39.

- The owner of a long-term CGS with 5-yearly rate resets does not have the same options because the original investment is not returned in cash at the end of each 5-year period. There is an expectation that funds will be committed for the term of the CGS, and this commitment should be compensated by coupon that is higher than the prevailing 5-year CGS yield on each reset date.
- Furthermore, if there was no expected difference between the coupon and the 5-year CGS yield, this would imply that the Commonwealth Government could significantly reduce refinancing risk at zero cost, which is also unlikely to be true in practice.
- The above reasoning is consistent with current market pricing:
 - The longest CGS has a remaining term to maturity of ~30 years. The current yield on this CGS is ~40 basis points above swap, whereas the 5-year CGS yield is ~10 basis points below swap⁹.
 - If an investor buys a 30-year CGS on a floating rate basis and swaps the base rate to fixed for the next 5 years, they will receive a coupon equal to the prevailing 5-year swap rate plus 40 basis points. This is 50 basis points higher than the prevailing 5-year CGS yield.
 - Due to the positive slope of the CGS/swap spread curve, the expected difference between the coupon and the 5-year CGS yield across the five remaining rate resets is also positive.
 - Therefore, if a term-matching approach was imposed on this investment (ie, setting the coupon to equal the prevailing 5-year CGS yield on each reset date), the expected outcome over the 30-year life of the asset is $NPV < 0$. This does not support Lally's 2021 advice to the AER that¹⁰:

'... in respect of the appropriate term for the cost of equity, the NPV = 0 principle implies that this term must match the regulatory cycle (of five years). Thus, the risk-free rate must match the regulatory cycle. Exact satisfaction of the NPV = 0 principle requires use of the yield on a five-year government bond whose duration matches that of the regulatory payoffs, but a very close approximation is achieved with the available bonds.'

How long is 'long-term'?

- Regulated energy assets can be depreciated for regulatory purposes over periods as long as 60 years¹¹. Furthermore, the only type of bond that can be treated as equity or quasi-equity in practice is a perpetual bond. Even if equity is viewed as a long-term floating rate bond, the relevant investment horizon is significantly longer than the 30-year horizon used in the preceding analysis.
- The CGS and swap yield curves only extend out to 30 years, and there is no agreed approach for extrapolating the curves beyond 30 years¹². As such, there is no agreed method for calculating the expected difference between the coupon on a very long-term/perpetual floating rate CGS with 5-yearly rate resets and the 5-year CGS yield.
- The only conclusion that can be reached is that due to the positive slope of the CGS/swap spread curve, the difference at the 30-year tenor is as a lower bound for the expected difference that would likely apply at the significantly longer tenors that are relevant if equity is viewed as a very long-term or perpetual floating rate bond.

Implications for the 2022 RoRI

- The above analysis shows that even if the risk-free component of regulated equity is viewed as a very long-term floating rate CGS with 5-yearly rate resets, the coupon should be higher than the prevailing 5-year CGS yield on each reset date. However there is no reliable, transparent or robust way to determine the difference, either now or over a sufficiently long historical period to make an internally consistent estimate of the equity risk premium.
- Attempting to estimate these differences would be highly contentious and would require two new cost of capital parameters to be determined in the 2022 RoRI. This would only make the allowed return on equity a more contentious issue than it already is.
- In QTC's view, there are sound reasons for the AER to commit to:
 - retaining 10-year term for the risk-free rate in the allowed return on equity, and

⁹ As at 22 June 2021. The rates are par rates and have been calculated using the zero coupon CGS and swap curves.

¹⁰ Martin Lally (April 2021), *The appropriate term for the allowed cost of capital*, p. 3

¹¹ AER Draft Working Paper, p. 14.

¹² Convexity effects are likely to have a significant impact on the shape of the zero coupon yield curves beyond 30 years. The value of convexity is directly related to expected yield volatility, which is unobservable and likely to change over time.

- not giving any further consideration to term-matching when remaking the 2022 RoRI.
- These commitments are consistent with the QCA’s conclusion in February 2020 that¹³:

‘... we are no longer convinced that term-matching provides for an overall return on investment that is commensurate with the commercial and regulatory risks involved for regulated entities. As such, we have decided to adopt a 10-year bond term to estimate the risk-free rate, as part of our bottom-up WACC assessment.’

- This change is important because prior to 2020 the QCA was a very strong supporter of term-matching based on the same advice from Lally that the AER is considering for the third time since 2013.
- For these reasons set out in this section, QTC does not consider the long-term floating rate bond analogy to be a suitable or practical way to determine the risk-free rate in the return on equity. In our view, the return on equity approach should be consistent with the way real-world investors value regulated and non-regulated infrastructure assets in competitive, real-world capital markets. This requires a 10-year term for the risk-free rate.

1.2.2 Setting a return for the length of the regulatory period

- Another reason for reconsidering term-matching is captured in the following quote from the Draft Working Paper¹⁴:

‘Matching the term of equity to the length of regulatory period means that we would be providing compensation that is consistent with our regulatory task and investors’ expectation over the same period. Otherwise, regulated businesses and investors would be over compensated for risks they do not bear when the term of equity exceeds the length of the regulatory period.’

- The AER’s regulatory task has not changed since the 2018 RoRI. The current assessment of ‘investor expectations’ in the 2018 RoRI is that they extend beyond the 5-year term of the regulatory period, which also applies to competing non-regulated investments. This one of the reasons why a 10-year risk-free rate¹⁵:

‘... will provide for allowed returns on an investment in a regulated business that are comparable with the investor valuations of other stocks within the market with a similar degree of systematic risk.’

- If a 10-year risk-free rate provides a regulated return that is comparable with other investments with a similar degree of systematic risk, it follows that a 5-year risk-free rate *will not* (on average) provide a regulated allowed return that is comparable with investments with a similar degree of systematic risk. The Draft Working Paper does not explain how this outcome is consistent with a regulatory task that has not changed since the 2018 RoRI.

1.3 Contemporary regulatory practice

- The Draft Working Paper shows that the vast majority of Australian and international regulators use a 10-year risk-free rate or longer regardless of the length of the regulatory period¹⁶. It is clear that contemporary regulatory practice is more aligned with market practice rather than term-matching.
- In our view, it is concerning that an evolution in the AER’s thinking since 2018 is leading it towards the term-matching approach, which is out of step with contemporary regulatory practice, and that has recently been abandoned by the QCA because it **does not**:

‘provide for an overall return on investment that is commensurate with the commercial and regulatory risks involved for regulated entities.’

¹³ QCA (February 2020), *Queensland Rail 2020 draft access undertaking*, p. 42.

¹⁴ AER Draft Working Paper, p. 39–40.

¹⁵ AER (December 2018), *RoRI Explanatory Statement*, p. 127.

¹⁶ AER Draft Working paper, p. 19 (Table 1) and p. 21 (Table 2).

2 Cost of debt

2.1 Form of the cost of debt approach

- A 10-year trailing average that applies to the total 10-year cost of debt should be used to determine the cost of debt allowance. The debt strategy implied by the trailing average approach reflects sound, established financial risk management principles that have not changed since the approach was first adopted in the 2013 RoRG and reconfirmed in the 2018 RoRI.
- The Draft Working Paper outlines three scenarios where the current trailing average approach may not be appropriate. In QTC's view:
 - The first scenario can be addressed by using the same approach that applies to existing service providers as they transition from an on-the-day cost of debt allowance to a trailing average cost of debt allowance.
 - The second scenario can be addressed by using a weighted trailing average of the total 10-year cost of debt.
 - The conclusion in the third scenario is incorrect because it ignores the offsetting effect of the market value of debt that must be repaid when a regulated business is sold.
 - As such, none of the scenarios support a move away from a trailing average that applies to the total cost of debt.
- It should also be noted that the QCA's preliminary position in its 2021 rate of return review to move to a 10-year trailing average that applies to the total 10-year cost of debt. The QCA currently uses the on-the-day approach.¹⁷

2.1.1 Scenario 1 – New market entrant

- The Draft Working Paper states that an on-the-day cost of debt may be more appropriate for a new entrant with new assets because it will be raising debt at the prevailing cost of debt to fund the assets rather than the historical trailing average cost of debt¹⁸.
- In transitioning from the on-the-day approach to the trailing average approach, the AER effectively treated existing service providers as new entrants by setting the starting value of the trailing average cost of debt to equal the on-the-day cost of debt. Specifically:
 - The ten initial observations in the trailing average were set to equal the prevailing 10-year BBB+ benchmark debt yield during the service provider's nominated averaging period.
 - In each subsequent year one of the original observations will drop out of the trailing average and be replaced by the prevailing 10-year BBB+ benchmark debt yield during the service provider's nominated averaging period.
- The same approach can be applied to a new market entrant with new assets.

2.1.2 Scenario 2 – Existing business with large future capital projects

- The current trailing average approach compensates increases in the benchmark debt balance 'as if' it is raised at the historical cost of debt rather than the prevailing cost of debt.
- If this is considered to be an issue when new investment is large relative to the existing RAB, a weighted trailing average approach could be used with the weights based on the change in the benchmark debt balance. Although not mentioned in the Draft Working Paper, the AER already seems to be considering this approach¹⁹:

'We consider this issue might also be addressed by using a trailing average weighted according to the amount of debt relative to the RAB each year. This approach was originally proposed by Queensland Treasury Corporation. We will consider if this is desirable and can be done under the RoRI when we remake the RoRI in 2022.'

2.1.3 Scenario 3 – Businesses conducting asset sales

- The Draft Working Paper states that²⁰:

¹⁷ QCA (June 21), p. 24.

¹⁸ AER Draft Working Paper, p. 48.

¹⁹ AER (December 2020), *AER submission – Consultation on TransGrid and ElectraNet participant derogations – Financeability of ISP projects*, p. 17

²⁰ AER Draft Working Paper, p. 49.

'... when the trailing average return on debt is higher than the prevailing rates, there may be reasons for either holding or selling the asset. Principally, holding the asset can yield a return above the prevailing rate while selling the asset would yield higher prices (because the sale price would presumably be at the lower prevailing/on-the-day rate).'

- If a regulated business maintains a debt portfolio that is aligned with the trailing average approach, the cost of debt allowance will match the cost of servicing the debt portfolio in each regulatory year. This results in a zero net cash flow to the equity providers, which is consistent with the trailing average approach being consistent with the NPV=0 condition. Therefore, there is no net benefit (cost) from holding a regulated asset if the trailing average cost of debt is higher (lower) than the prevailing cost of debt²¹.
- There is also no net benefit (cost) if a regulated business is sold when its trailing average cost of debt is higher (lower) than the prevailing cost of debt. The present value of any difference will be reflected in the sale price *and* the market value of debt, which is the amount that must be paid to extinguish the existing debt. For example:
 - If the trailing average cost of debt is 1.0 per cent higher than the prevailing cost of debt, the debt market value will be approximately 5.0 per cent higher than the debt book value²². If the book value of debt is \$100, the market value of debt will be approximately \$105.
 - The sale price will include the present value of the higher trailing average cash flows based on the lower prevailing cost of debt. The present value of these cash flows is also \$105²³.
 - There is no net benefit to the seller because \$105 from the sale price (ie, the present value of the trailing average cash flows) is used to repay the \$105 market value of debt, resulting in a zero residual cash flow.
 - There is no net benefit to the buyer because the higher sale price paid offsets the benefit (in present value terms) from raising new debt at the lower prevailing cost of debt.

2.2 Benchmark debt term

- The appropriate benchmark term should be consistent with a first principles approach based on sound financial risk management principles, and supplemented by an analysis of actual debt issuance by service providers.
- Both approaches support a benchmark debt term of 10 years.

2.2.1 First principles approach

- A first principles approach supports a benchmark debt term of at least 10 years:
 - The benchmark firm maintains a debt portfolio with annual maturities so that only a percentage of the total debt balance needs to be refinanced each year.
 - The percentage of total debt that is refinanced each year is inversely related to the benchmark debt term (ie, the term of debt issued to refinance the maturing portion of the total debt balance).
 - The benchmark service provider maintains gearing of 60 per cent, which is almost double the average gearing for listed firms. As such, the benchmark service provider has a significantly higher debt burden compared to the average levered firm.
 - Given the relatively high debt burden, refinancing risk can be reduced by maintaining annual maturities out to the longest possible debt term.
- There is relatively less investor demand in the Australian market for corporate debt that is significantly longer than 10 years, although 15–30 year tenors can be achieved in the US and European markets. Therefore, practical considerations support a benchmark debt term of at least 10 years.

²¹ Consistent with incentive-based regulation, a net cost or benefit may occur if a service provider has deliberately departed from the debt management strategy implied by the trailing average approach, however these departures are not relevant to the scenario being considered.

²² The modified duration of the trailing average debt portfolio is approximately 5 years.

²³ The trailing average cost of debt allowance is based on a benchmark debt portfolio of 10 fixed-rate loans with annual maturities from 1–10 years. The rate that applies to each loan will depend on how far the service provider has progressed through the transition for the previous on-the-day approach. The market value of the benchmark portfolio (based on the prevailing cost of debt) will be reflected in the sale price because the new owner is effectively buying the benchmark debt portfolio cash flows. This is similar to an investor paying more than par for a fixed-rate bond with a coupon that is higher than the prevailing market yield.

2.2.2 Actual debt issuance

- The AER's *2020 Network Debt Data* paper estimated a WATMI of 8–11 years depending on the scenario modelled²⁴. Similarly, the Energy Networks Australia presentation at a recent AER stakeholder forum provided evidence of a stable WATMI between June 2018–2020 of approximately 10 years²⁵.
 - Both sets of estimates support retaining a 10-year benchmark debt term in the 2022 RoRI.
- The WATMI will differ from the 10-year benchmark for periods of time as service providers respond to real-world debt issuance factors and constraints. This should not automatically be interpreted as a change in the benchmark term. Some of these factors and constraints are discussed below.

Investor demand

- Actual debt issuance terms are often the outcome from extensive negotiations between the borrower, its lenders (ie, debt investors) and the banks responsible for arranging the transaction. Even during normal market conditions, there will often be differences between the preferred debt term for the borrower and the investors.
- If a borrower was to insist on issuing 10-year debt when investor demand was for a shorter term, it would be at risk of not achieving the required volume of issuance. Furthermore, any issuance achieved would likely be priced at an unfavourable spread to swap, which may set a reference point in the market that adversely affects the pricing of future issuance at a 10-year tenor.
- In these instances it would be appropriate for the borrower to respond to investor demand and not issue 10-year debt. By being willing to compromise on a particular transaction, the borrower could reasonably expect the investors to be flexible on future transactions and accommodate terms of 10 years or longer.
- Maintaining long-term relationships with debt investors is essential for all borrowers, especially those with high debt levels and/or high gearing. This requires striking a balance between achieving a preferred issuance term on average over time, and being responsive to investor demand for different terms at particular points in time.

Market conditions

- Periods of market stress such as the global financial crisis in 2008, the sovereign debt crisis in 2012 and the impact of COVID-19 in 2020, can constrain a service provider's ability to issue 10-year debt. During these periods the only option may be to issue shorter-term debt (eg, bank debt) on a temporary basis and refinance with longer-term debt when market conditions improve.
- For example, if a service provider temporarily draws down from a 1-year bank debt facility and later refinances with 10-year capital market debt, the average debt issue tenor of 5.5 years provides no useful information on the service provider's preferred debt issuance term or the appropriate benchmark debt term.

Active debt management strategies

- Under incentive-based regulation, service providers are free to depart from benchmark parameters they (not consumers) bear the costs or benefits from doing so.
- It is reasonable to assume that some service providers will make a conscious decision to depart from the benchmark debt management strategy implied by the trailing average approach. For example, a service provider may change its debt portfolio based on a view on interest rates or credit spreads. The time frame for maintaining these views can be short-term (ie, tactical) or long-term (ie, strategic).
- These active debt management strategies will be reflected in an industry-wide estimate of WATMI, however they are not indicative of a change in the benchmark debt term.

2.2.3 Ongoing debt transitions

- If the WATMI is used to determine the benchmark debt term in the 2022 RoRI, it is possible that the term will change again at subsequent RoRI reviews. This may place service providers in an ongoing state of transition as they continually re-adjust their debt portfolios and hedges based on the latest WATMI estimate.
- QTC does not consider these outcomes to be consistent with maintaining a stable regulatory framework.

²⁴ Draft Working Paper, p. 49.

²⁵ ENA (June 2021), *Term of the rate of return – Initial network sector views, AER Stakeholder Forum*, slide 9. It is QTC's understanding that the 10 year WATMI estimates include subordinated debt and exclude NSW firms due to impact of temporary shorter-term debt structures associated with recent privatisations.