



AUSTRALIAN
ENERGY
COUNCIL

AER RETAILER REFERENCE GROUP

INTERNATIONAL APPROACHES AND EQUITY MODELS

Key areas of concern

We have provided a number of questions in advance on international approaches and equity models for the discussion. We hope the responses to these will further our understanding of the issues raised.

From our understanding to date, our views and concerns are consolidating around the following.

International Approaches:

- Brattle's suggestion of frequent WACC updates is inconsistent with the NER and NGR requirements.
- We oppose annual updates of the risk free rate. This will be a significant driver of annual network price changes and is inconsistent with consumer desires for price stability.
- We oppose to the idea of ad hoc adjustments to the WACC for incentives. These should be explicitly accounted for in the cashflows as per the AER's current practice.

Key areas of concern

Equity models

- We agree with the AER in its assessment of the SL-CAPM.
- On face value from the consultants report, we'd also be happy to close out any further consideration of the Wright approach.
- The use of forward looking assumptions/ data should be narrowed to estimation of the MRP. As in the past, the AER can get some surveys done to inform its selection from the range of possible estimates derived from historical returns.