



Economic Regulation of Network Service Providers Rule Change Requests Further Cost of Debt Workshop

Agenda

13 July 2012

Radisson Blu Hotel Sydney, 27 O'Connell St, Sydney

The AEMC is holding a further cost of debt workshop following an additional short round of consultation on various trailing average approaches to estimating the cost of debt allowances and related issues currently being considered as part of the AEMC's assessment of the rule change requests from the Australian Energy Regulator (AER) and the Energy Users Rule Change Committee (EURCC).

The additional round of consultation was undertaken to seek specific comments on alternative approaches to EURCC's rule change proposal to determine the cost of debt allowance. The alternative approaches have been suggested by CitiPower/Powercor/ ETSA Utilities and Queensland Treasury Corporation (QTC). Submissions on the additional round of consultation closed on 5 July 2012 and are available on the AEMC's website.

The purpose of this workshop is to provide stakeholders with a final opportunity to discuss the details of the various approaches currently being considered before the Commission makes its Draft Determination on the rule change requests. To assist stakeholders in gaining a better understanding of the various approaches, the workshop will include:

- A presentation from QTC outlining its alternative approach. This will be followed by a discussion on some of the specific issues raised in submissions such as how the approach would be implemented in the Rules, the potential need for transitional arrangements for businesses intending to adopt the approach and the choice of methodologies to determine the cost of debt each quarter.
- A presentation from SFG Consulting (SFG) on the preliminary results of the empirical study on cost of debt methodologies that the AEMC has commissioned SFG to undertake as part of the Commission's assessment of the rule change requests. As part of this study, SFG is assessing the various trailing average approaches to estimating cost of debt and modelling the potential impacts. The presentation will be followed by a discussion on SFG's initial analysis and the relative merits of each of the approaches.

We would also like to discuss three further issues that appear to be important in considering the implementation of a historical trailing average approach where the cost of debt allowance would be updated annually. These include:

- whether the provisions in the Rules requiring the rate of return to reflect 'prevailing conditions in the market for funds' would limit the application of a historical trailing average approach. If this is the case then it may also be appropriate to consider how best to address this issue to allow a historical trailing average approach to be adopted;

- the process for annually updating the cost of debt allowance, in particular whether substantive methodological and data selection issues for the bonds or/ and fair value curve to be used, can be identified at the determination stage (i.e. limit the annual update to a relatively mechanistic process); and
- the mechanisms in Chapters 6 and 6A of the National Electricity Rules and the National Gas Rules through which the annual update cost of debt would be reflected in prices.

The agenda for the workshop follows in the table below.

Time	Item	Speaker/Chair
8.30am	Registration - tea/coffee and light refreshments provided	
9.00am	Introduction	Paul Smith, Senior Director, AEMC
	Part 1 - Discussion on QTC's proposed approach	
9.05am	Presentation of QTC's proposed approach to estimating cost of debt	Presentation: David Johnston and Brian Carrick, Queensland Treasury Corporation
9.20am	Discussion from the floor	Chair: Paul Smith, Senior Director, AEMC
10.15am	Morning-tea break	
	Part 2 – Detailed discussion on cost of debt methodologies	
10.30am	Presentation of preliminary results on the AEMC empirical study of cost of debt methodologies	Presentation: Professor Stephen Gray, SFG Consulting
10.50am	Discussion from the floor	Chair: Paul Smith, Senior Director, AEMC
11.30am	Discussion on implementation and process issues for annually updating cost of debt	Chair: Paul Smith, Senior Director, AEMC
12:00pm	End of workshop - followed by lunch	