Energy Users Rule Change Committee proposed amendments to Chapter 6A of the National Electricity Rules

Note

This draft of proposed amendments to Chapter 6A of the National Electricity Rules has been prepared based upon the information contained in the Energy Users Rule Change Committee's rule change request proposal.

The Energy Users Rule Change Committee's rule change request proposal includes proposed amendments to Chapter 6 of the National Electricity Rules (however, the proposed amendments may not capture all consequential amendments to the rules).

The proposal also seeks to implement an annually varying cost of capital in place of the current arrangement where the cost of capital is fixed for the five year regulatory control period (however, neither the proposed Chapter 6 nor 6A of the National Electricity Rules contain proposed amendments to implement an annually varying cost of capital).

Whether a rule is made that amends Chapter 6 and Chapter 6A of the National Electricity Rules is subject to the procedure for the making of a rule by the AEMC under Chapter 7 of the National Electricity Law.

Proposed amendment to the National Electricity Rules

[1] Clause 6A.6.2 Return on capital

Omit clause 6A.6.2(b) and substitute:

(b) The rate of return for a *Transmission Network Service Provider* for each year (i) of a *regulatory control period* is a nominal post-tax *weighted average cost of capital (WACC)* to be established in accordance with the following formula:

$$WACC_{(i)} = k_e E/V + k_{d(i)} D/V$$

where:

k_e is the return on equity (determined using the Capital Asset Pricing Model) and is calculated as:

$$r_f + \beta_e \times MRP$$

where:

r_f is the nominal risk free rate for the *regulatory control period* determined in accordance with paragraph (c);

β_e is the equity beta;

MRP is the market risk premium;

$k_{(d)i}$ is the Return on Debt for year (i) and is calculated in accordance with paragraph (e);

E/V is the value of equity as a proportion of the value of equity and debt, which is 1 – D/V; and

D/V is the value of debt as a proportion of the market value of equity and debt.

[2] Clause 6A.6.2 Return on capital

Omit clause 6A.6.2(e) and substitute:

(e) For each year (i) of the *regulatory control period*, the Return on Debt for a *Transmission Network Service Provider* is to be calculated in accordance with the following formula:

$$kd_{(i)} = RoD(p)_{(i)} \times PR(p)_{(i)} + RoD(g)_{(i)} \times PR(g)_{(i)}$$

where:

$RoD(g)_{(i)}$ is the Return on Debt issued to or guaranteed by jurisdictional governments. It is to be calculated for each year (i) of the *regulatory control period* as the average yield to maturity for the most recently completed calendar year for all eligible bonds. Eligible bonds are those bonds issued by the government that provides the debt for that *Transmission Network Service Provider*, and that have between three and seven years to maturity at the end of that calendar year.

$RoD(p)_{(i)}$ is the Return on Debt issued to private lenders. It is to be calculated as the simple average yield to maturity of A and broad BBB fair market value estimates of corporate bonds issued in Australia over the five year period ending on December 31st of year (i-1).

$PR(p)_{(i)}$ for a *Transmission Network Service Provider* is the forecast fraction of debt issued to private lenders for year (i). It is to be calculated as:

$$V(p)_{(i)} / (V(p)_{(i)} + V(g)_{(i)})$$

where:

$V(p)_{(i)}$ is the forecast value of debt issued to private lenders for year (i);

V(g)(i) is the forecast value of debt issued to or guaranteed by governments for year (i);

$PR(g)_{(i)}$ for a *Transmission Network Service Provider* is the forecast fraction of debt issued to or guaranteed by governments for year (i). It is to be calculated as:

$$V(g)_{(i)} / (V(p)_{(i)} + V(g)_{(i)})$$

[3] Clause 6A.6.2 Return on capital

Omit clause 6A.6.2(h) and substitute:

(h) The *AER* may, as a consequence of a review, adopt revised values and methodologies, and, if it does so, it must use those revised values, methodologies and levels, but only for the purposes of a *Revenue Proposal* that is submitted to the *AER* under clause 6A.10.1(a) after the completion of the first review or after completion of the five yearly reviews (as the case may be).

[4] Clause 6A.6.2 Return on capital

Omit clauses 6A.6.2(i)(1)(iv), 6A.6.2(i)(2), 6A.6.2(j)(1), 6A.6.2(j)(2) and 6A.6.2(j)(3), and substitute in each case "**[Deleted]**".

[5] Clause 6A.6.2 Return on capital

Omit clause 6A.6.2(j)(4) and substitute:

(4) where the values that are attributable to, or the methodologies used to calculate, the parameters referred to in paragraph (i) cannot be determined with certainty:

(i) the need to achieve an outcome that is consistent with the *national electricity objective*; and

(ii) the need for persuasive evidence before adopting a value for, or a methodology used to calculate, that parameter that differs from the credit rating level, value or methodology that has previously been adopted for it.

[6] Clause 6A.6.4 Estimated cost of corporate income tax

In clause 6A.6.4(a), omit, including all the words in 6A.6.4(1) and 6A.6.4(2), "For the purposes:" and substitute:

For these purposes, the estimate must take into account the estimated depreciation for that *regulatory year* for *tax* purposes, for a benchmark efficient *Transmission Network Service Provider*, of assets where the value of those assets is included in the regulatory asset base for the relevant *transmission system* for that *regulatory year*.