**Draft Revised National Electricity Rules or Law Guidance***

**6.5.2/6A.6.2 Return on capital principles**

(a) The return on capital for each *regulatory year* is calculated by applying a rate of return specified in, or calculated in accordance with the *applicable Rate of Return Instrument* for that *regulatory year* to the value of the regulatory asset base for the relevant [*distribution system/transmission system*] as at the beginning of that *regulatory year* (as established in accordance with [clause 6.5.1/6A.6.1 and schedule 6.2/6A.2).

(b) In making a *rate of return instrument,* in addition to the matters in section 18L of the *National Electricity Law,* the AER must have regard to the following:

(i) The *allowed rate of return objective,* that the rate of return for a *Distribution Network Service Provider/Transmission Network Service Provider*] should be commensurate with the efficient financing costs of a benchmark efficient entity with a similar degree of risk as that which applies to the [*Distribution Network Service Provider/Transmission Network Service Provider*] in respect of the provision of *standard control services*;

(ii) the use of a weighted average of the return on equity and the return on debt for each regulatory year;

(iii) relevant estimation methods, financial models, market data and other evidence relevant to the determination of the rate of return in accordance with Part 3, Division 1B of the *National Electricity Law* and this clause [insert];

(iv) if a return on equity is to be determined, prevailing conditions in the market for equity funds;

(v) if a return on debt is to be determined, a methodology which results in:

(1) the return that would be required by debt investors in a benchmark efficient entity if it raised debt at the time or shortly before the making of the [distribution/transmission] determination for the *regulatory control period*;

(2) the average return that would have been required by debt investors in a benchmark efficient entity if it raised debt over an historical period prior to the commencement of a *regulatory year* in the *regulatory control period*; or

(3) some combination of the returns referred to in subparagraphs (1) and (2); and

(vi) any impacts (including in relation to the costs of servicing debt across *regulatory control periods*) on a benchmark efficient entity referred to in the *allowed rate of return objective* that could arise as a result of changing the methodology that is used to estimate the return on debt from one *regulatory control period* to the next.

* It is proposed that equivalent principles apply to the National Gas Law or Rules.