Purpose of the session

1. In July 2019, the Board gave the staff permission to start the balloting process for the publication of an exposure draft for the accounting model for regulatory assets and regulatory liabilities (model).

2. When developing the model, the Board discussed ‘total allowed compensation’ and its components. However, in drafting the exposure draft, the staff observed that the earlier Board discussions were not detailed enough to determine whether some components included in the regulated rates in a period form part of total allowed compensation for the goods or services supplied by an entity in the same period or in a different period.

3. In particular, the discussions were not explicit about whether the following elements of target profit included in the regulated rates for a period form part of the total allowed compensation for to the goods or services supplied in the same period:
   
   (a) regulatory returns; and
   
   (b) performance incentives.

Therefore, the staff has prepared a set of papers that provide further clarification and specific recommendations on this aspect of the model.
Agenda papers prepared for this session

4. This cover note accompanies the following agenda papers:
   (a) Agenda Paper 9A *Background and Regulatory Capital Base (RCB)* provides background information about total allowed compensation and discusses the recognition of regulatory returns on the RCB.
   (b) Agenda Paper 9B *Regulatory returns on Construction Work in Progress (CWIP) base* uses the analysis in Agenda Paper 9A and discusses the recognition of regulatory returns on a construction work in progress base.
   (c) Agenda Paper 9C *Performance incentives* discusses the recognition of performance incentives.

5. The agenda papers above describe the subject matters and include related staff recommendations. These papers do not ask questions to the Board. Staff recommendations and questions to the Board are in Agenda Paper 9D *Summary of staff recommendations*.

Next steps

6. The staff will continue drafting the exposure draft. The staff expect that the document will be ready for publication in H2 2020.