

9 November 2022

Mr Warwick Anderson
General Manager
Australian Energy Regulator
GPO Box 3131
Canberra, ACT, 2601

Submitted electronically: rateofreturn@aer.gov.au

Dear Warwick,

Draft Rate of Return Instrument 2022, Independent Panel Recommendations

The Australian Energy Council (AEC) is the peak industry body for electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. Our members collectively generate the overwhelming majority of electricity in Australia, sell gas and electricity to millions of homes and businesses, and are major investors in renewable energy generation. The AEC supports reaching net-zero by 2050 as well as a 55 percent emissions reduction target by 2035 and is part of the Australian Climate Roundtable promoting climate ambition.

Impacts of low interest rates and quantitative easing

As recommended by the Independent Panel, the AER has sought expert advice from the Reserve Bank of Australia and the Australian Commonwealth Treasury. Given the Treasury advice on the alternative options for estimating the market risk premium (MRP), the AEC supports delaying the 2022 RORI into 2023 until the full calendar year data is available. We do not believe there is a benefit to using either very old historical data, or with the incorporation of a mechanistic formula into the 2022 instrument to be applied post determination. The timely publication of network tariffs should not be impacted by this proposed delay.

Report to the AER, EV:RAB multiples

The AEC agrees with the CEPA's view that estimates of EV/RAB multiples are uncertain, as are estimates of the sources of EV/RAB premia or discounts. The AEC supports CEPA's view that notwithstanding this uncertainty conclusions about return expectations may still be drawn. EV/RAB ratios are an appropriate cross check on the adequacy of allowed returns.

The AEC finds that the CEPA report is logical and methodical in its approach and uses appropriate assumptions and sources. The AEC supports CEPA's conclusions.

Any questions about this submission should be addressed to David Markham by email to david.markham@energycouncil.com.au or by telephone on (03) 9205 3107.

Yours sincerely,

David Markham

Networks and Distributed Energy Resources Policy Manager
Australian Energy Council