

AER Public Forum

2026 Rate of Return Instrument (RORI) Review

Discussion Paper

26 August 2025

Acknowledgement of Country

We acknowledge the First Peoples of the lands from which you are coming from today across Australia. We recognise their continuing connection to land, sea, waterways, sky and culture and pay our respects to all elders past and present.

Agenda

Time	Duration	Item	Presenter
2:30	5 mins	Welcome	Lynne Gallagher (AER)
2:35	15 mins	Proposed focus areas	Esmond Smith (AER)
2:50	15 mins	Stakeholder presentation 1	Garth Crawford (ENA)
3:05	15 mins	Stakeholder presentation 2	Ashley Bradshaw, Greg Watkinson (ECA)
3:20	35 mins	Q&A session	Lynne Gallagher
3:55	5 mins	Closing	Lynne Gallagher

Purpose of this public forum

- Provide an overview of the review process, including timelines and consultation steps
- Provide an overview of the proposed focus areas for the 2026 RORI review, noting our discussion paper includes our decision-making framework
- Hear early feedback from stakeholders, including any emerging views or evidence
- Stakeholder opportunity to ask questions/clarify issues
- Note that a Consumer Reference Group and an Expert Panel are in the process of being appointed, who will also contribute to the review

Purpose of the 2026 RORI review

- AER must review the RORI every 4 years under national energy laws
- RORI determines how we calculate the allowed return on capital for all regulated electricity and gas networks
- Rate of return is a major component of regulated network business revenues (around 40–60%)
- Ensure the rate of return reflects market conditions and investment risks, supports efficient investment, and protects energy consumers from overpaying

The 2026 RORI review approach

- Successive review cycles have provided a stable foundation for a more targeted and efficient approach to the development of the 2026 RORI
- Of the 6 significant and contested issues in the 2022 RORI review, we consider 4 are largely settled (term of the return on equity, market risk premium, our industry debt index, cross-checks on overall rate of return)
- The 2026 review can focus on a narrower set of issues – equity beta, weighted trailing average return on debt – and third-party yield curve data
- Our discussion paper asks whether there are other issues that warrant being raised and why

Review timeline

Key milestone	Indicative date
2026 RORI review process paper – published (for information)	28 March 2025
2026 RORI discussion paper – published (submissions invited)	4 August 2025
Public forum on AER discussion paper	26 August 2025
Eligible Experts' report – publish (submissions invited)	Late-October 2025
Submissions close on AER discussion paper and Eligible Experts' report	28 November 2025
Draft 2026 RORI & Explanatory Statement – publish (submissions invited)	April 2026
Public forum on draft 2026 RORI	April 2026
Independent Panel's report – publish (for information)	June 2026
Submissions close on draft 2026 RORI & Explanatory Statement	June 2026
Final 2026 RORI & Explanatory Statement – publish	December 2026

Proposed focus areas

Proposed focus areas for the 2026 review

- Equity beta
- Weighted trailing average (WTA) for return on debt
- Whether RBA yield curve can be reintroduced using updated swap data

Focus area 1: Equity beta (1/3)

The issue

- Equity beta is a key input into the return on equity and reflects the systematic risk of regulated energy networks
- Existing comparator set of listed Australian energy networks is diminishing (1 left)
- Concerns about robustness of future estimates and ability to rely solely on domestic data

Focus area 1: Equity beta (2/3)

What we are exploring

- Whether we can continue to rely primarily on the existing domestic comparator set, using regulatory judgement
- Whether a carefully selected set of international energy firms can supplement our estimates – noting this won't eliminate need for using regulatory judgement
- How to ensure estimates from international firms are comparable and reliable (e.g. differences in business mix, gearing, market indices)

Focus area 1: Equity beta (3/3)

Options under consideration

- Continue using existing Australian comparator set, supported by long-term data
- Supplement with set of international energy firms, applying filters and adjustments

Focus area 2: Weighted trailing average (1/3)

The issue

- Current simple trailing average implicitly assumes debt is raised relatively evenly over time
- May not reflect efficient financing costs when there are large, lumpy investments (e.g. Integrated System Plan projects)
- Mismatch between efficient debt costs and the regulatory allowance could lead to under/over-compensation and distort investment in some circumstances

Focus area 2: Weighted trailing average (2/3)

What we are exploring

- WTA to better align the return on debt allowance with efficient financing costs, without adding excessive complexity and cost
- Options around the application of a WTA, including:
 - Application to all network service providers or based on some defined trigger/s
 - Use of transitional debt tranches to force reversion to a given maturity trailing average
 - True-up mechanism to limit risks with uncertainty around capex forecasts

Focus area 2: Weighted trailing average (3/3)

Options under consideration

- WTA approach, as set out in the discussion paper:
 - Applies aggregate capex-based weights; uses transitional debt tranches that smooths the impact of large borrowings; and forces reversion towards a given maturity. This may be done with, or without, a true-up.
- Alternative implementation forms:
 - Use of more detailed Roll Forward Model-based weights
 - Application of a true-up mechanism
- Retain the simple trailing average approach, if change is not justified

Focus area 3: Third-party yield curve data (1/1)

The issue

- When the RBA ceased publishing spread to swap rates, we could no longer generate RBA F3 Statistical Table based yields as per the 2022 RORI

Option under consideration

- Use swap rates from either, or both, Bloomberg and Refinitiv to generate RBA F3 Statistical Table based spreads to swap rates, which should be virtually identical to the RBA F3 spread to swap rates the RBA previously published
- Then using these swap rates to generate RBA F3 Statistical Table based yields estimates, in the way that was done previously in the RORI.

How you can have your say

Next steps

- Submissions on discussion paper due by 5pm (AEST) **28 November 2025**
- Submissions should be emailed to: rateofreturn@aer.gov.au

Today's slidepack will be uploaded to the AER's website

Stakeholder presentation 1: Energy Networks Australia (ENA)

Stakeholder presentation 2: Energy Consumers Australia (ECA)

Q&A session

Closing

Reminder – How you can have your say

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Thank you