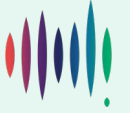


Consumer perspectives on the 2026 Rate of Return Instrument

*Efficient Investment. Affordable Bills.
Consumer Confidence.*



Energy Consumers Australia is the national voice for household and small business energy consumers



- We promote the long-term interests of households and small businesses who use energy in Australia by providing and enabling evidence-based advocacy to the energy sector on the issues that affect consumers.
- Households and small businesses pay most energy network costs. For example, households alone paid over half of electricity distribution network revenues in FY24.¹

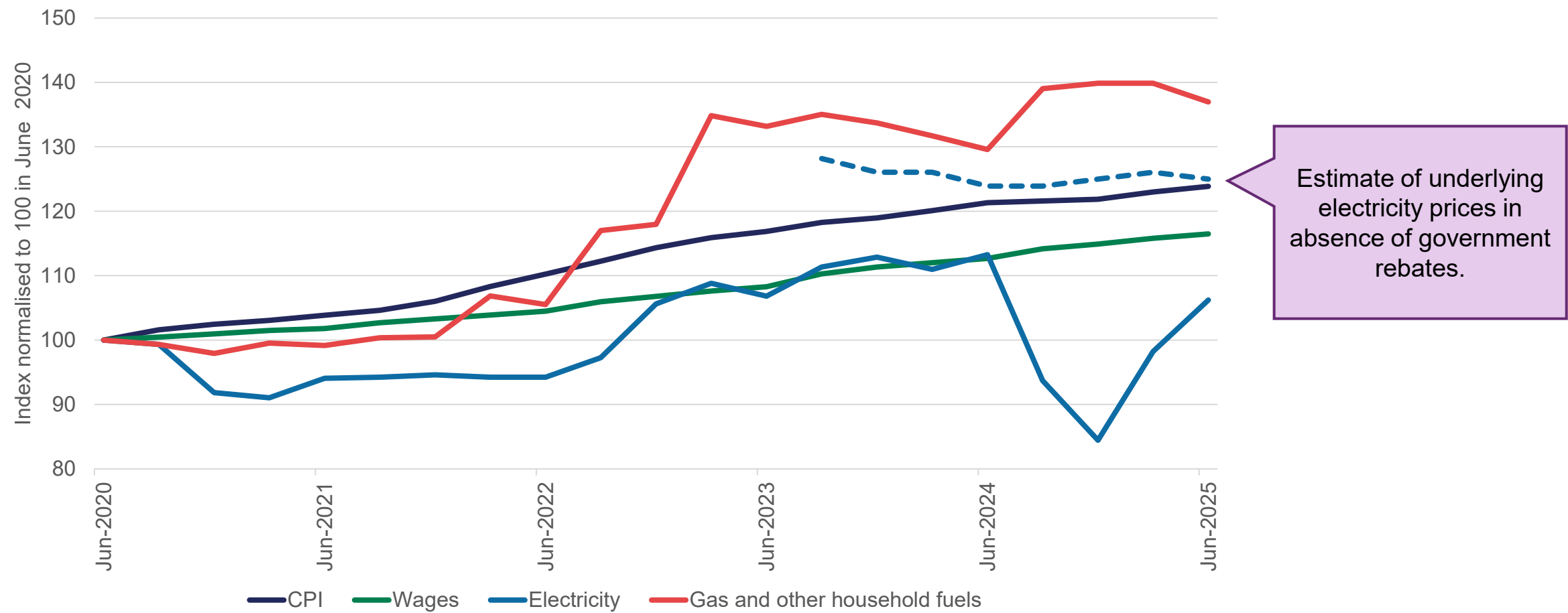


Why the RORI review matters to consumers

Consumers have been hurt by rising inflation and energy costs. Governments spent a lot to offset recent electricity price increases.

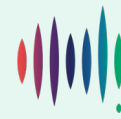


Change in CPI, wages, electricity and gas indexes June quarter 2020 to June quarter 2025

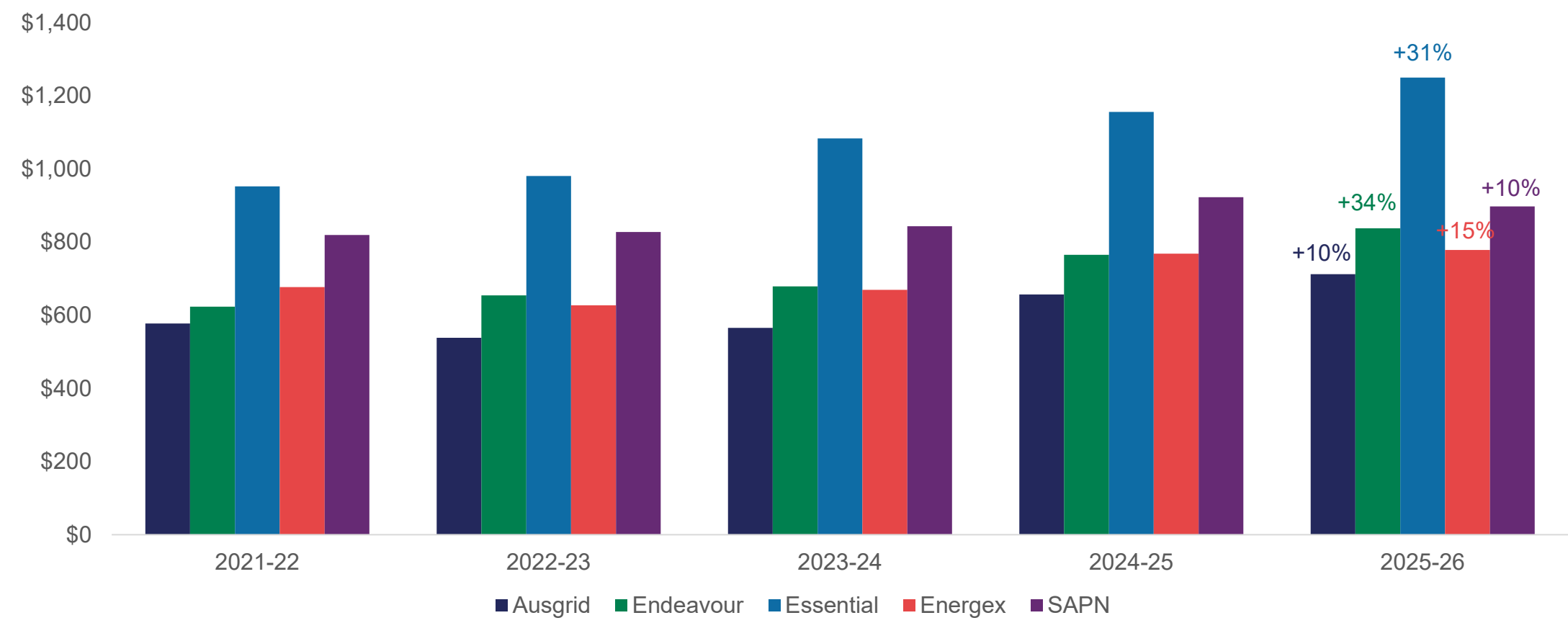


Source: Analysis of ABS CPI and wages data.

Network costs are around 45% of retail electricity bills and these charges have risen materially in the last 5 years

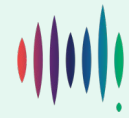


Network costs included in the Default Market Offer for residential flat rate customers – 2021-22 to 2025-26

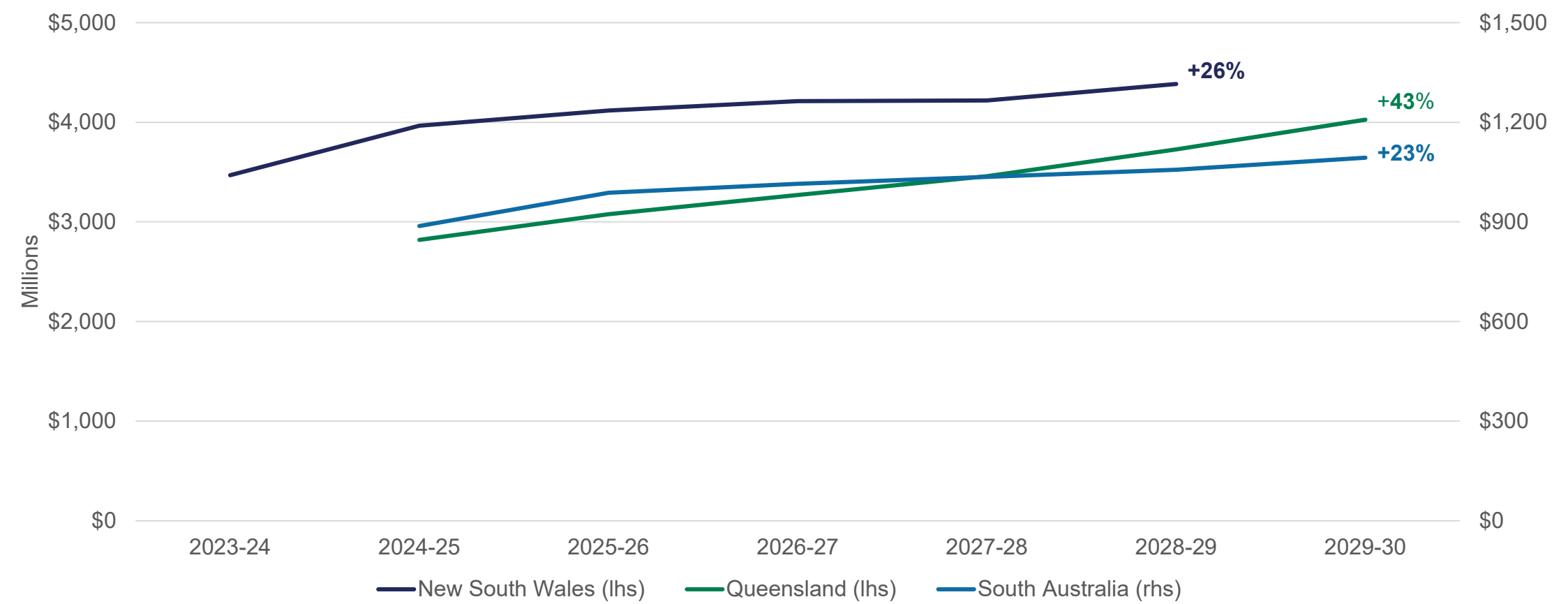


Source: Analysis of AER Default Market Offer Decisions; ACCC, Retail Electricity Pricing Inquiry, July 2025.

Network costs are about to rise further due to a “wall of capex” that is about to hit consumers.



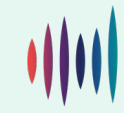
Allowed forecast actual and forecast unsmoothed nominal distribution network revenues by jurisdiction



Source: Analysis of AER Final Decision PTRM models. AER – Q&A with the AER, 13 August 2024.

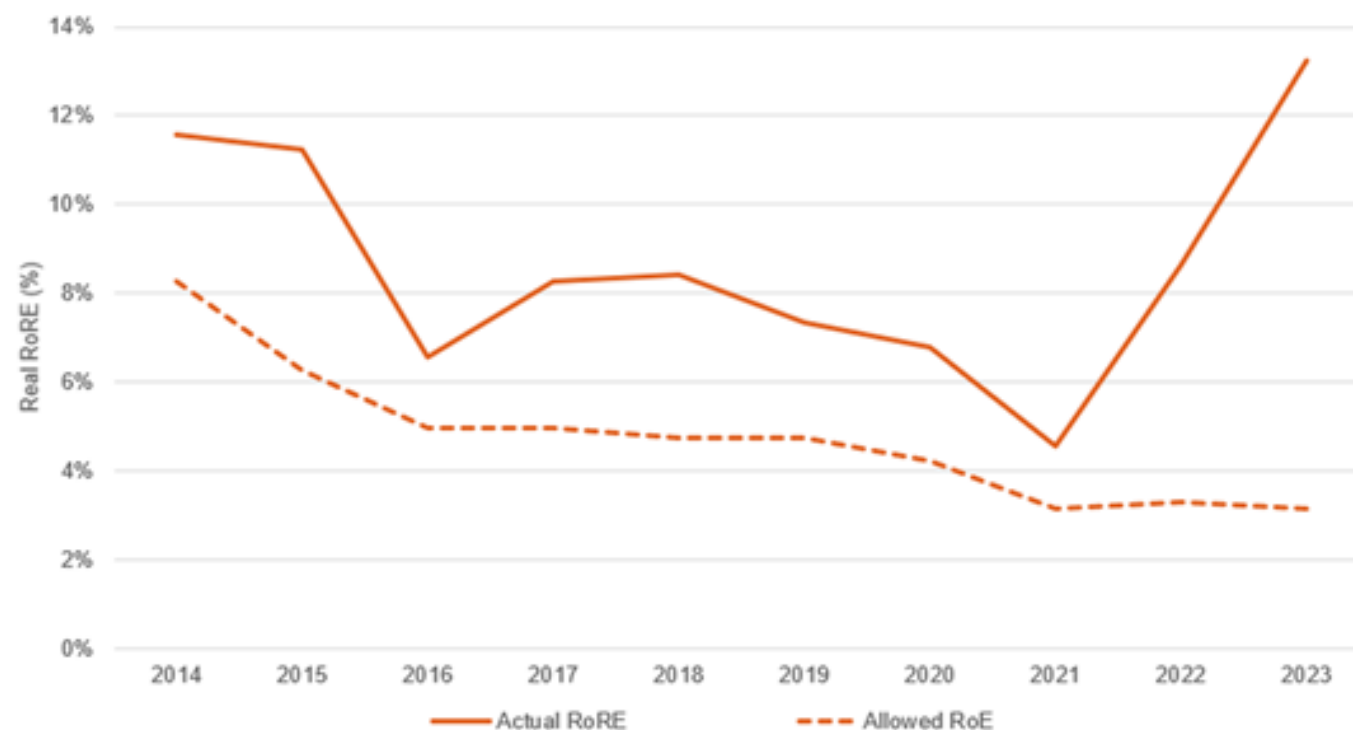
What needs to happen

Aligning the Return on Equity with consumers and regulatory intent (1/2)



Equity returns are not ‘commensurate with the regulatory and commercial risks’

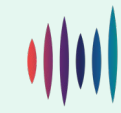
Figure 5-7 Real RoRE¹¹¹ versus allowed RoE - electricity NSP



Source: Electricity financial performance model

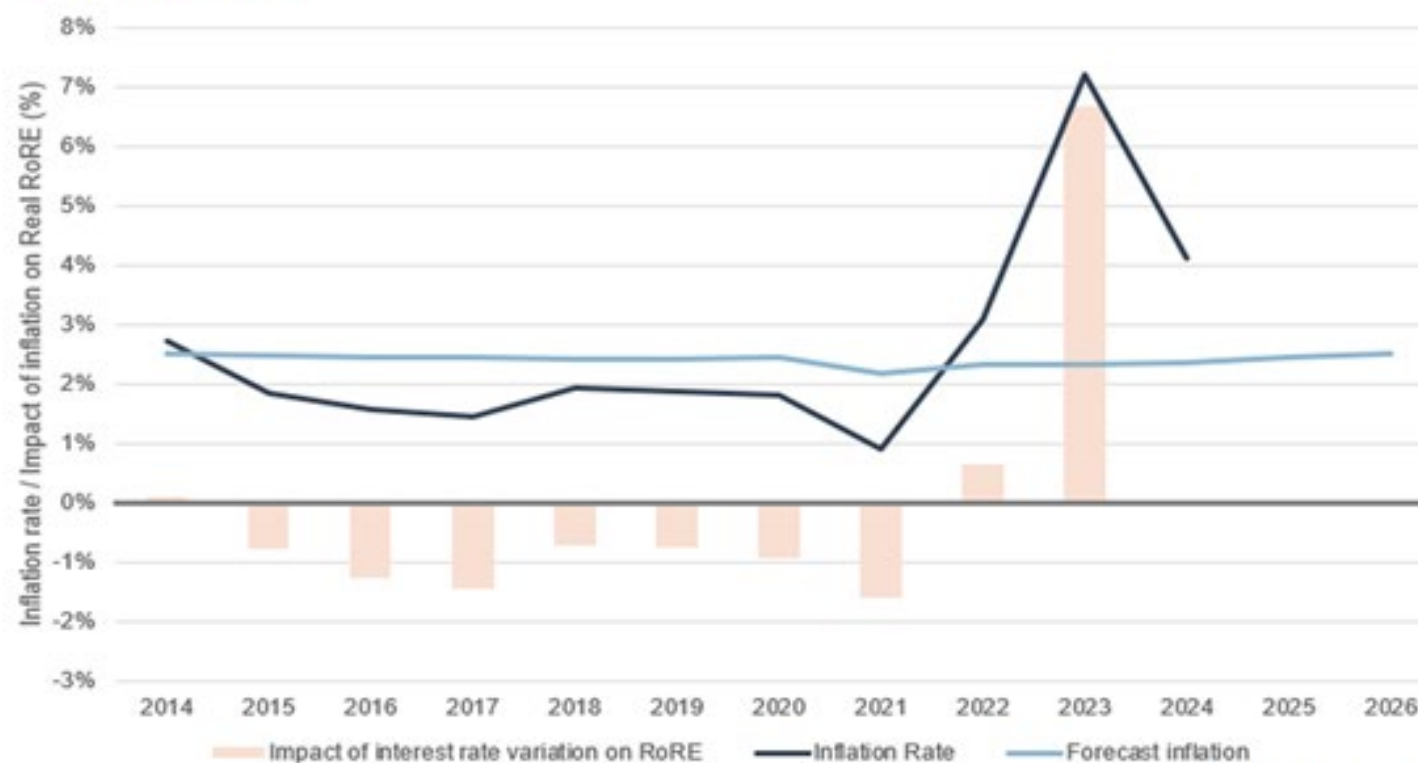
Note: Financial performance numbers are nominal. The weighted average RoRE is calculated by multiplying an electricity NSP's real RoRE against the proportional size of the electricity NSP's regulated equity.

Aligning the Return on Equity with consumers and regulatory intent (2/2)



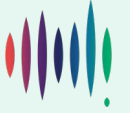
The treatment of inflation has been a key driver of recent higher returns

Figure 5-6 Inflation impact on real RoRE compared with actual and forecast inflation - electricity NSPs



Source: Electricity financial performance model and Reserve Bank of Australia's (RBA) [February 2024 Statement of monetary policy](#).

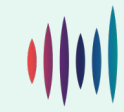
This RORI review needs to focus on the trailing average from a consumer as well as a supplier perspective (1/2)



What the trailing average is, and why it matters

- The trailing average was meant to address the concern with refinancing cost mismatches under the previous approach to setting the benchmark cost of debt.
- But the new trailing average benchmark can't be matched by NSPs.
- There are 2 problems:
 - The implementation of the trailing average has led to NSP windfall gains recently that well exceed the typical windfall losses of previous years.
 - The uniform trailing average compromises incentives.

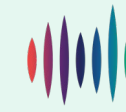
This RORI review needs to focus on the trailing average from a consumer as well as a supplier perspective (2/2)



How to fix the trailing average

- A possible fix to these problems is to implement the trailing average in a way that can be matched by NSPs. ENA made a similar proposal in the past.
- We have a solution that could be reconciled with the rules - changing the method to calculate the X factors. The possible solution achieves a similar result to a fix put in place by Ofgem.
- In any event, the Rules should not prevent sound options to amend the RORI to align with the revenue and pricing principles.
- The issue for the expert review group is to consider the trailing average from the perspective of consumers as well as investors.

This RORI review needs to consider the reasons systematic risk is lower for Australian NSPs



- We accept the current basis for setting the equity beta and leverage is a problem. However, the remaining APA data appears to be an outlier compared to historical evidence.
- There is a reason Australian equity betas have been low by international standards - the regulatory settings protect returns and investors from systematic risk.
- The issue for the expert review group is to:
 - understand the factors that reduce systematic risk for Australian NSPs.
 - not compromise this understanding when forming a comparator set and applying the output.
- Data for most international firms appears to overstate NSP exposure to systematic risk. Therefore, if we reference international data, the firms need to be comparable to NSPs.
- It is likely the closest comparators are from NZ and the UK.



Thank you

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