

AER 2026 Rate of Return Instrument Review Public Forum

Initial Network Sector Perspectives on Discussion Paper

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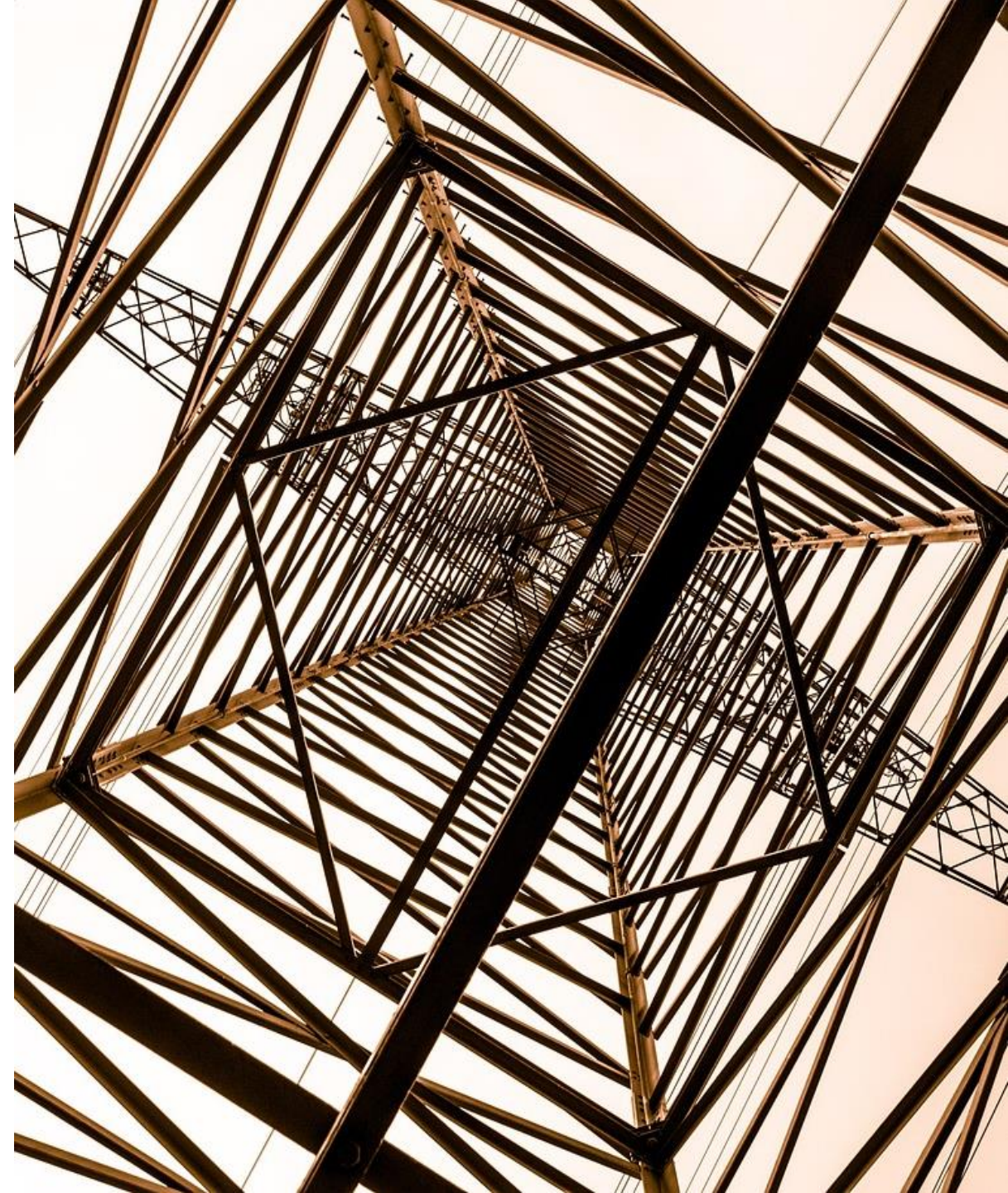
Role and impact

- Review is critical to interests of the full range of current and future customers using energy networks over decades to come
- Instrument effect means direct impacts of up to 9 years, and investment incentive impacts for decades beyond
- Global capital is being allocated across transition-enabling investments every day
- Getting the right investments made, at the right time, has never been more important



Summary points

1. Support a focused review, but need for caution on performance assessments
2. AER's beta estimate should be genuinely informed by robustly filtered international estimates, combined in a transparent, replicable and objective way
3. A simple and proportionate approach to implementing a capex weighted cost of debt measure is both possible and preferable
4. In a focused review, transparency and predictability are critical ingredients, not trade-offs



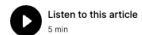
Keep the review focused, with caution on performance

- Support a streamlined review focusing on beta and cost of debt
- Avoid re-opening settled 2022 issues
- There is, however, only limited and conflicting evidence that the current RORI is “performing well”
 - There is no available counter-factual
 - Non-discretionary obligations: service, reliability standards, connections, meeting and managing demand
- Capex levels \neq proof of success (e.g. taxpayer underwriting, investor exits)

— Street Talk

Eyes on Transgrid as super funds bail out of \$8b infra fund UTA

Sarah Thompson, Kanika Sood and Emma Rapaport



May 14, 2024 - 3.15pm

By BRIDGET CARTER

DATAROOM

A Future Fund stake in Transgrid expected to go through



MEDIA RELEASE

Historic CEFC investment to kickstart nation building Project EnergyConnect

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Cost of equity estimates: use of international evidence

- Support AER proposals to move to develop and refine an approach to using international beta evidence
- Australian sample is increasingly out of date and inadequate
- Care needed on interpreting divergences and lack of correlation between Australian and international evidence, e.g.
 - Genuine and accurately measured differences?
 - Chance, measurement error and uncertainty?
 - Beta estimate too low?
- International data = opportunity to reassess, not just an “upper bound”
- Role for regulatory judgement in setting approach and methodology → but non-transparent ‘outcome’ judgement should be minimised to that necessary for the task



A simple and proportionate capex-weighted cost of debt

- What problem are we trying to solve?
- What principles should inform a sound capex weighted trailing debt cost approach which promotes the NEO/NGO?
 1. Simplicity
 2. Proportionality
 3. Consistency with past AER decisions
 4. Transparency
 5. Avoidance of unintended consequences and costs
- Benefits of using the transition approach the AER has already applied
- Simplicity in approach potentially assists on issues of triggers, eligibility and ongoing application



Maximising review transparency and predictability

- Nature of the task → “price estimation” where the estimate reached does **not** change the true value
- Long-term interests of consumers are served best by a predictable, accurate and unbiased estimate
- Fundamental importance of process demands the highest levels of transparency and predictability possible
 - Suggest maintaining the AER’s consistent past practice of Eligible Experts round-table in recognition of benefits of public, iteratively developed, and accessible evidence

