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6 November 2025

To: Australian Energy Regulator
Re: Network performance reporting for regulated electricity and gas networks

Thank you for the opportunity for the Institute for Energy Economics and Financial Analysis (IEEFA) to provide input to the AER's consultation paper on *Network performance reporting for regulated electricity and gas networks*.

IEEFA is an independent energy finance think tank that examines issues related to energy markets, trends and policies. The Institute's mission is to accelerate the transition to a diverse, sustainable and profitable energy economy.

IEEFA has found the AER's network performance reporting data to be valuable, and it is an important element of ensuring transparency and accountability for network performance and the effectiveness of the regulatory regime.

However, we see significant room for improvement in the data that is included in these reports. Some critical insights – such as absolute profits by network, and absolute profits above the benchmark level – are not reported on in the AER reports, and this has a significant impact on the ability to assess the effectiveness of the regulatory regime.

Gas networks face a unique context of declining demand, and the AER should consider what data would be most helpful to help governments and other market actors to facilitate this phase-down in a managed way that best supports consumers.

Export services will become increasingly important, and it will be useful to track this under updated utilisation metrics.

Our detailed responses can be found in the following pages. Please don't hesitate to contact us in case of any enquiries.

Kind regards,

[redacted]

[redacted]

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Network performance reporting process

Contents of network performance reports

The current operational and financial performance data included in the reports is useful, and should continue to be reported. However, there are key omissions that should be included in future reports.

Evaluating the effectiveness of the regulatory regime

The AER regulates gas and electricity networks under an incentive-based framework, where networks are provided with opportunities to increase their profits above benchmark levels if this delivers long-term benefits to consumers.

To evaluate whether this framework is working as expected, it is necessary to determine whether it has delivered a net benefit to consumers. This is not possible within the current reporting framework, and we recommend two changes to address this:

The AER should report on network profitability in absolute terms.

Network profitability is reported in terms of percentage returns via several metrics, including return on equity.

Return on equity can be used to estimate the absolute profits made by networks if their debt-to-equity (gearing) ratio matches the AER's benchmark. However, network gearing ratios may (and do) vary materially from this benchmark, and the gearing ratio data is not published on a network level, to IEEFA's knowledge.

IEEFA has analysed the profitability of both electricity and gas networks in absolute terms, relying on unpublished weighted average gearing ratio data provided on request by the AER.[1] In a public response to IEEFA's analysis, the AER confirmed an "outperformance" figure that was broadly similar to IEEFA's estimate of supernormal profits ($9.7 billion compared with IEEFA's $11.1 billion).[2]

Our understanding is that this is the only instance where the AER has quantified actual network profits above the benchmark level in absolute terms. In IEEFA's view, it is in energy consumers' interests for the actual profit data to be provided annually via the network performance report. This should be provided in comparison to the absolute profits expected under the AER's benchmark profit allowance. It should be provided at a network level.

IEEFA considers that in the context of regulated monopoly businesses, confidentiality concerns over network-level data are outweighed by the public benefit of greater transparency over network profits.

[1] First analysed in IEEFA. Regulated electricity network prices are higher than necessary. 4 October 2022.
[2] AER. AER Statement – Institute for Energy Economics and Financial Analysis report on electricity network profits. 22 November 2023.

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The AER should quantify any consumer benefits of the incentive regulation scheme.

IEEFA's estimates found that network profits were considerably higher than their regulated profit allowances. We estimated that the electricity network profits in 2023 were more than four times the regulated profit allowance.[3]

The AER, in response to one of the IEEFA reports, stated, "the current incentive-based regulatory framework delivers large benefits to consumers."[4]

We recommend the AER provides greater clarity over what it considers to be the benefits to consumers under the current incentive regulation scheme and quantifies this in its annual network performance report in a way that can be compared with network profits. This would allow for a more robust assessment over whether networks' exceedance of their profit allowance is in the long-term interests of consumers.

Specific reporting considerations for gas networks

The AER should provide further analysis on the gap between forecast and actual gas network demand.

IEEFA analysis noted a significant and consistent trend of revenue over-recovery for regulated gas networks in the 2014-2022 data, which we suggested was likely driven by under-forecasting.[5] The AER has previously recognised this trend, acknowledging that, "It may be that we are approving volume forecasts that are too low."[6]

There is typically very little post-analysis of gas networks' actual versus forecast demand after an access arrangement period ends. Such analysis could be used to tighten up future forecasts.

The AER should consider reporting additional data to support a managed decline of gas distribution networks.

Most regulated gas distribution networks anticipate a long-term decline in their demand, driven largely by residential electrification. The AEMC is progressing several rule changes in response to this context.[7]

As gas demand declines, regulators and governments face complicated decisions on how to ensure an efficient and equitable phase-down of gas networks. However, there are often information asymmetries between gas networks and other parties. The AER should consider including further information for gas distribution networks in future network performance reports, such as:

- Tracking abolishments by customer group
- Categorisation of capital expenditure
- Growth or decline in the overall length of pipelines

[3] IEEFA. Taming electricity price inflation starts with addressing network supernormal profits. 5 November 2024.
[4] AER. AER Statement – Institute for Energy Economics and Financial Analysis report on electricity network profits. 22 November 2023.
[5] IEEFA. Gas networks are making persistent and significant supernormal profits. 6 June 2024. Page 19.
[6] AER. Review of gas distribution network reference tariff variation mechanism and declining block tariffs: Issues paper for stakeholder feedback. May 2023. Page 15.
[7] For example, AEMC. Consultation paper: National Gas Rule Amendments 2026 (Gas networks in transition). 18 September 2025

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- Increased detail on the age of network assets, ideally by geographic region of the network.

Additionally, the reporting of actual versus allowed absolute profits may assist governments to make decisions regarding fair cost recovery approaches as customers leave the network.

Network performance report datasets

It is useful to have network performance data available in an Excel format. However, for ease of data extraction, it would be most useful if these workbooks included a visible worksheet with the complete performance data in a raw table form.

In IEEFA's opinion, a Power BI dashboard may be less convenient than an Excel workbook for the purposes of extracting and analysing network performance data. At a minimum, raw data downloads ought to be enabled for all dashboards, and network performance data should be provided in raw table form.

In IEEFA's view, it would be most useful and convenient to keep data prior to the 2014 regulatory period in the main workbook.

Integration of export service network performance reporting

Consumers already derive two distinct services from electricity networks: the ability to import electricity from the grid, and the ability to export it. As Australia undergoes an extraordinary surge in the uptake of residential batteries, it is likely more customers will use the network for export services, at more times of the day

IEEFA's analysis suggests typical households with efficient appliances, 8kW rooftop solar and a 10kWh battery will be able to satisfy their own energy needs across most days of the year, in most regions.[8]

However, consumers are opting for much larger batteries – close to 25kWh on average.[9] This implies a considerable amount of excess battery capacity may be available for grid export purposes. A growing share of households may end up utilising the grid more for export services than they do for import services.

Import-centric performance metrics are no longer fit for purpose. IEEFA understands there are proposals to introduce new utilisation metrics that better represent the two-way nature of energy flows in the distribution network, including Total Energy Throughput Utilisation (TETU).[10]

IEEFA supports the use of improved metrics, and notes TETU offers several advantages over existing utilisation metrics. However, we also recommend the AER consult further on the details of any proposed new metric.

Specifically, IEEFA considers that customer self-consumption should be excluded from any utilisation metric. Self-consumption of DER results in a real reduction of energy flows on the distribution network, with DER essentially competing with networks for the provision of some

[8] IEEFA. A focus on homes, not power plants, could halve energy bills. 9 July 2025. Page 13.
[9] Renew Economy. Australians install 100,000 home battery systems in 17 weeks, and they are getting bigger. 24 October 2025.
[10] Institute for Sustainable Futures. Reimagining Network Utilisation in the Era of Consumer Energy Resources. December 2024. Page 23.

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energy services. Increasing self-consumption frees up capacity for greater energy flows in the distribution network, and this ought to remain visible in utilisation metrics.

IEEFA has previously recommended the need for a review of the economic regulation of electricity networks in light of the contestable services DER may provide.[11] Such a review would be far better informed if network utilisation metrics reflect only real energy flows on the network, and not self-consumption of network customers.

Objectives and priorities

Objectives for network performance reporting

IEEFA agrees with the AER's proposed objectives for network performance reporting, but suggests a less ambiguous wording for Objective 5:

Improve transparency and accountability over **the effectiveness of the regulatory regime.**

Our comments above note that network performance reporting does not provide enough information for stakeholders to assess the effectiveness of the regulatory framework. IEEFA recommends making this priority clearer, and refer to our specific comments above regarding how the reporting could improve to support this.

Priorities for network performance reporting

IEEFA broadly agrees with the AER's proposed priorities. We note that the inclusion of *Emission reduction targets* and amendments to *Emerging trends and issues* are of particular importance for gas networks in the near term, and our comments above provide some views on how the performance reporting could better work towards these priorities.

[11] IEEFA. Reforming the economic regulation of Australian electricity distribution networks. 31 May 2024. Page 8.