19 December 2025

Mr Gavin Fox

General Manager Network Pricing

Australian Energy Regulator

By email: RateofReturn@aer.gov.au

Dear Mr Fox,

Re: Response to AER Rate of Return Instrument Discussion Paper and Eligible Experts' Report

IFM Investors (**IFM**), AustralianSuper and APG Asset Management (**APG**), together as long-term investors in Ausgrid, welcome the opportunity to provide a response to the Australian Energy Regulator's (**AER**) Rate of Return Instrument (**RORI**) 2026 Review Discussion Paper and Eligible Experts' Report.

Ausgrid plays a critical role delivering safe, reliable and affordable electricity to more than1.8 million homes and businesses, serving more than 4 million people across Australia's east coast. As Australia transitions to a net-zero economy, the RORI framework is fundamental to ensuring that essential infrastructure investment continues to support consumers and communities.

The RORI underpins the substantial investments that Ausgrid undertakes to ensure it delivers power to customers safely and reliably, and that the network remains resilient to facilitate the energy transition to net zero. A RORI which does not reflect efficient costs will deter capital flows to vital infrastructure. Conversely an appropriate RORI will be an important part of enabling governments to achieve Australia's net zero targets, allow investors to sustainably support essential investment, and ensure consumers continue to benefit from a resilient, reliable, adequate and sustainable energy system.

We would also like to emphasise the importance of regulatory certainty and stability, in particular predictability and transparency in regulatory settings to attract and retain long-term investment in infrastructure required for the energy transition.

Investors use a range of methods for estimating equity beta, including using international comparators, and require adjustments where there are changes in systematic risk. In relation to the Discussion Paper and with reference to the Eligible Experts Joint Report, we wish to make the following key points in relation to equity beta.

Incorporating international comparators: We note that the AER's current adopted beta of 0.6 is materially lower compared to peer regulators and international comparators. We support the conclusion of the AER's August Rate of Return Instrument Review, which was referenced again in the Eligible Experts Joint Report, that "*expanding the existing sample to include listed international energy firms appears to be the only potentially viable option*."

As the Eligible Expert Joint Report notes, all but one of the sample of nine domestic comparator firms used by the AER to estimate the equity beta have now been de-listed due to mergers and takeovers. The declining number of publicly listed network service providers means the current methodology for estimating equity beta is no longer reliable. This view was clearly stated by the Eligible Experts who noted that "*if the AER continues to rely exclusively on its sample of nine domestic comparators, its equity beta estimates will essentially be frozen in time*."

Our view is that the AER should have regard for relevant evidence, including international comparators and decisions made by comparable regulators. We note the need for careful selection of international comparators to ensure appropriate comparability.

Pricing in risk: AER's 2020-2025 Strategic Plan articulates a key objective to *"evolve our regulatory frameworks and approaches to support the transition to net zero emissions."* The energy transition involves unprecedented investment in infrastructure, including climate resilience, distributed energy resources, and consumer energy technologies. Distribution network service providers are an important part of the energy system, with workforce, infrastructure and network capabilities that can be used to accelerate delivery of new infrastructure in support of this goal.

We are working with a range of stakeholders to achieve outcomes that balance investor confidence with consumer interests. We support the AER's strategic objective to evolve regulatory frameworks to enable a secure, reliable, and affordable energy system through the transition.

Ausgrid has undertaken significant investments and will continue in the future to deliver this outcome. To facilitate efficient capital towards these investments, risks associated with energy transition initiatives, such as large bespoke capex, asset-stranding risks, and net-zero uncertainty, need to be addressed.

Ensuring changes to systemic risks are captured in an accurate and timely manner in the equity beta is crucial for sustainable and efficient capital flows to network investments. Other Australian electricity distribution and transmission networks face similar pressures, including from climate resilience related investments, distributed energy resources and consumer energy resources, which contribute to systematic risk.

The investment required to enable the energy transition across Australia's energy system is unprecedented, and we encourage the AER to ensure that the equity beta remains responsive to and reflective of these evolving systematic risks.

Separately, Energy Network Australia ("ENA") has commissioned a study on the topics raised in the Discussion Paper, including setting out ENA's preferred approach to building and using an international comparator set, which supplement our views in this submission.

It is imperative that the RORI enables investors to sustainably support essential investments required to achieve the Government's net zero targets, while ensuring consumers continue to benefit from a resilient, reliable and affordable energy system.

We look forward to further engagement with the AER throughout the RORI review process and to supporting a framework that delivers long-term benefits for Australian consumers and communities.

apg

As the largest pension services provider in the Netherlands APG manages approximately €602 billion (November 2025) in pension assets for 4.6 million participants. APG provides executive consultancy, asset management, pension administration and pension communication. With approximately 4,000 employees we work from Heerlen, Amsterdam, Brussels, New York, Hong Kong, and Singapore. We work for pension funds and employers in the sectors of education, government, construction, cleaning, housing associations, sheltered employment organizations, medical specialists, and architects.

[redacted]

Hans-Martin Aerts

AustralianSuper is Australia's largest superannuation fund and is run solely to benefit members. Over 3.6 million Australians are members of AustralianSuper, and we invest over A$400 billion of retirement savings on their behalf (as of 30 September 2025). AustralianSuper's purpose is to help members achieve their best financial position in retirement, and our investment approach is designed to deliver on this goal.

[redacted]

Steve MacMillan

IFM Investors is a global asset manager, founded and owned by pension funds, with capabilities in infrastructure equity and debt, private equity, private credit, real estate and listed equities. Our purpose is to invest, protect and grow the long-term retirement savings of working people.

With assets under management over A$260 billion as of October 2025, we serve more than 800 institutional investors worldwide, operating from 13 offices across Australia, Europe, North America and Asia.

[redacted]

Michael Hanna