AusNet

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Australian Energy Regulator
GPO Box 3131
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To the Australian Energy Regulator,

RE: 2026 Rate of Return Instrument Discussion Paper and Eligible Experts' report (AER reference: AER25010572)

AusNet welcomes the opportunity to respond to the Australian Energy Regulator's (**AER**) Discussion Paper on the 2026 Rate of Return Instrument (**RORI**) and the Eligible Experts' report.

It is important, now more than ever, that the overall rate of return is accurate and incentivises prudent and efficient investments without delays given the energy transition is well underway, and significant amounts of investments have and will continue to be needed. The energy transition is evidenced by a significant shift from traditional coal and gas generation to renewable sources (wind, solar, hydro, and batteries). The latest Victoria's Renewable Energy Targets (**VRET**) report shows that 42.4% of the state's electricity generation came from renewable sources during 2024-25. Increasing electrification of gas and transport requires investment in network capacity to support the consequential increase in peak demand so that customers have a smooth experience when electrified. Such a transition requires adequate investment and must be supported by a robust RORI.

Our submission focuses on improvements to the three areas identified by the AER in its Discussion Paper:

- **Equity beta**: We support the inclusion of international data in quantifying the equity beta given the number of domestic comparators has reduced to one (APA Group) which does not provide meaningful information, and it is common practice among other regulators who also face the same issue of a diminishing sample size.
- **Cost of debt**: We support the Queensland Treasury Corporation (**QTC**) simple Weighted Trailing Average (**WTA**) method that more accurately reflects the timing and size of actual debt issuance, which is particularly important for large and lumpy transmission projects.
- **Reserve Bank Australia (RBA) cost of debt data:** We support the reintroduction of the RBA cost of debt via a straightforward extrapolation of the yield estimates published by the RBA, without the need to independently obtain swap data from commercial sources or to use that data to derive spread risk premiums. This improves the accuracy of the cost of debt estimate as it is derived from three (instead of two) reputable sources.

We strongly support ENA's submission to the RORI and encourage the AER to continue its constructive consultation and engagement with ENA and its members. We also encourage the AER to engage with investors over the critical 2026 year in which the RORI will be finalised. We support ENA's submission to consider a number of issues leading up to the 2030 RORI review, including potential issues arising as a result of decisions on gas network depreciation allowances. AusNet's own submission is to highlight our position and to provide more individualised context.

1. Equity beta

The AER's current approach relies on a set of domestic comparator firms. However, the number of relevant listed domestic firms has declined to one (APA) and APA is far from optimal given it derives approximately 90% of its revenue from unregulated sources. Sole reliance on APA seems contrary to the aim of estimating an accurate equity beta reflective of regulated energy networks.

We support expanding the comparator set to include international firms operating in similar regulated environments using the filters outlined in the AER's Discussion Paper (listed below). Yet, further adjustments to account for differences between them and Australia are not necessary because it is likely to produce errors that outweigh the benefits of having a large and relevant sample size. No further adjustment is consistent with the AER's previous approach whereby changes in market composition over time were not accounted for.

We agree with the following filters proposed by the AER and request that the AER consider the additional feedback in ENA's submission:

- operate in developed economies
- operate in energy-related sectors and industries
- derive most of their revenue from electricity and/or gas networks
- have been listed for at least a specific number of years
- have a market capitalisation that exceeds a certain threshold
- have a bid-ask spread that is below a certain threshold.

We do not support the approach by Professor Partington of applying a priori reasoning given it is a concept and not based on available market data.

2. Cost of debt

The current Simple Trailing Average approach to the cost of debt does not accurately reflect the timing and size of actual debt issuance, particularly for large and lumpy transmission projects. A weighted trailing average approach addresses this issue by reducing the mismatch in timing and therefore provides a more accurate cost of debt. It also better aligns with AusNet's actual financing practices.

We support:

- A simplified weighted trailing average approach, as illustrated by QTC, that is easy to implement and applies uniformly across all network businesses. We support the QTC variant (version 1) whereby businesses with declining RAB (e.g., gas businesses) automatically falls back onto the simple trailing average approach.

- A true-up mechanism to reconcile for differences between forecast and actual capex, ensuring fairness and reducing risk of over/under-recovery. Given any overlaps with the Capital Expenditure Sharing Scheme (**CESS**) is expected to be minor, this issue should be addressed within the CESS instead of the RORI.

We do not support the AER's approach to the weighted trailing average cost of debt because it is overly complex and inconsistent with AusNet's current financing practices.

Treasury's aim is to match AusNet's actual cost of debt with the benchmark cost of debt provided by the AER's regulatory framework. To achieve this, AusNet typically issues one or two benchmark sized long term bonds each year to fund its capex requirements and refinance maturing debt. This approach is consistent with the QTC weighted trailing average methodology, meets investor demand for medium to long term funding in liquid, benchmark sized transactions and minimises administration and transaction costs.

A shift from the current simple trailing average approach to the AER's complex weighted trailing average approach would not be feasible for AusNet to replicate in practice given:

- Lack of investor demand for small illiquid tranches of debt spread across the yield curve;
- Additional administration and transaction costs incurred; and
- Credit rating implications of shortening the average term to maturity of the debt portfolio and additional cost of ensuring adequate liquidity buffer to support refinancing.

3. Reintroduction of RBA cost of debt data

We strongly support the reintroduction of the RBA bond yield data as a reliable source for estimating the cost of debt. Specifically, we support the approach outlined in the ENA submission, being a straightforward extrapolation of the yield estimates published by the RBA, without the need to independently obtain swap data from commercial sources or to use that data to derive spread risk premiums.

Please contact Angella Nhan [redacted] with any questions in relation to this submission.

Sincerely,

Charlotte Eddy
General Manager Strategy & Regulation (Distribution)
AusNet Services