2026 Rate of Return Instrument Discussion Paper

Submission to Australian Energy Regulator

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2026 Review of the Rate of Return Instrument (RORI)

Dear Clare, Justin, Jarrod, Lynne, and Kate

As you know, Energy Consumers Australia (ECA) is the national voice for household and small business energy consumers. We advocate for a fair, affordable, and reliable energy system—one that meets everyone's needs and leaves no one behind on the journey to net zero.

We welcome the opportunity to comment on the 2026 RORI Review. As the AER explains, the rate of return accounts for around 40 to 60% of network revenues.[1] The ACCC estimates that in 2023-24, network costs were around 39% of retail costs for supplying the average residential electricity customer in the National Electricity Market (NEM).[2]

Despite the significant impact the RORI has on retail energy prices, consumer advocates often have limited awareness and understanding of the rate of return decision. This creates challenges for ensuring consumer perspectives are effectively represented.

The 2026 Rate of Return Review comes at a critical time for energy consumers and the economy as a whole:

- Retail electricity costs have increased substantially in recent years, with rising network prices a major contributing factor. Over the past two years, residential network charges have increased on average 16% across the regulated electricity distribution networks in the NEM.[3]
- Governments have invested billions in energy bill relief to offset some of these price increases.[4] Despite bill relief, around two thirds of households say they are having some difficulty affording their energy bills.[5] Around 1 in 5 households are estimated to be vulnerable to or experiencing energy hardship.[6]
- Consumers have been hit hard by broader inflation, for which rising electricity prices was found to be a major driver.[7] Network costs are forecast to rise significantly over the coming years, driven by major transmission and distribution investment.[8]

In summary, decisions made now will have material impacts on energy prices for years to come. Against this backdrop, it is essential that the 2026 RORI settings strike the right balance between investment certainty and affordability for consumers.

We agree with the AER's conclusion that there is no evidence that the current regime constrains networks' ability to attract capital or invest in networks.[9] For example, excluding Transgrid (with well-known unique financing issues), electricity network service providers (NSPs) underspent their capital

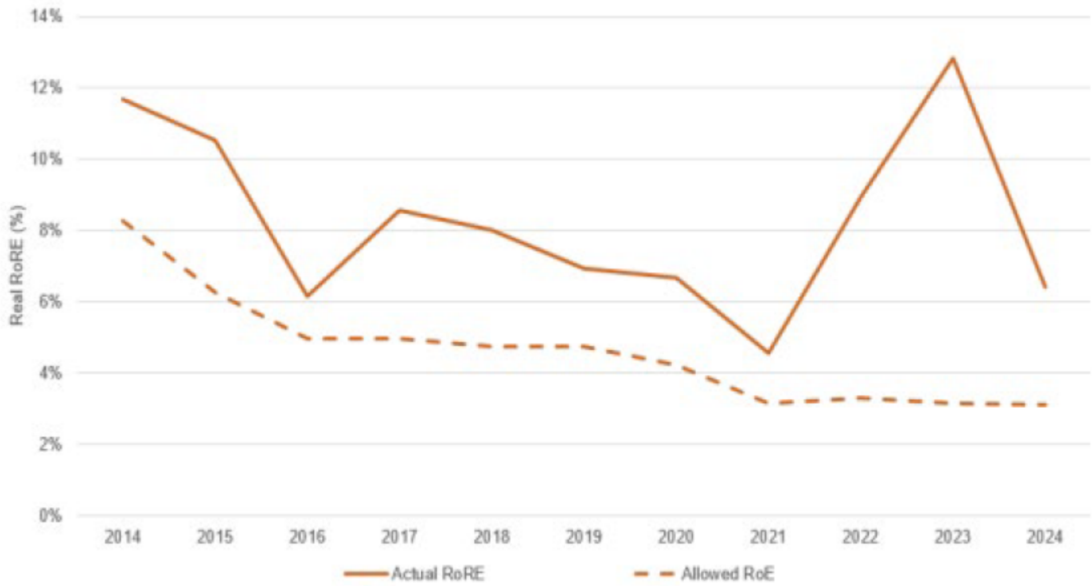
[1] AER, 2026 Rate of Return Instrument Public Forum Presentation, 26 August 2025. Accessed here.
[2] ACCC, Inquiry into the National Electricity Market December 2024 Report, December 2024, p. 66.
[3] AER, Consolidated stakeholder report 2025-26, 2025. Access here.
[4] See for example: Treasury, Media release: New power bill relief, May 2024. Accessed here.
[5] Energy Consumers Australia, Consumer Energy Report Card survey, December 2025.
[6] Energy Consumers Australia, Understanding and measuring energy hardship in Australia, July 2025.
[7] Australian Bureau of Statistics, September Quarter 2025 Consumer Price Index Update, October 2025.
[8] See recent AER final and draft determinations for regulated electricity transmission and distribution networks.
[9] AER, Rate of Return Instrument Review Discussion Paper, August 2025, p. 7

expenditure allowances by a combined 2.8% across 2020 to 2023[10] – even though the Capital Expenditure Sharing Scheme rewards these companies for underspending.

However, we disagree with the AER that the overall rate of return is a balanced outcome as we consider there remains evidence of the instrument continuing to be in favour of networks. We observe that the 2022 Consumer Reference Group submitted that the overall instrument reflected an upward bias across many parameters.[11] For example, equity beta remains at the top of the AER's estimated range, with the CRG arguing there was limited justification for this decision.[12]

AER analysis also repeatedly shows that networks materially outperform regulated returns.[13] In recent years, this outperformance has been substantial (see Figure 1) - due mostly to how inflation is treated in the instrument. While outperformance is a feature of the current regime, this level of profitability and the impact of electricity prices on households come during a cost-of-living crisis. It is fortunate timing that the AER can therefore review the current settings to give consumers confidence in the framework.

Figure 1: Actual and forecast real return on equity by electricity NSPs



Source: AER, 2025 Electricity and Gas Network Performance Report, December 2025, p. 79

The AER has stated an intention to limit the scope of this review to two core issues - the method for determining equity beta and whether the RORI should use a weighted trailing average to determine the return on debt. As with previous reviews, this approach focuses the discussion on methodological issues. This focus risks the review getting lost in details and theory, missing sight of the bigger picture and the impact of the decision on consumers.

Accordingly, we encourage the AER to use this process to take every pathway possible to set the rate of return at the absolute minimum level required to support investment. In our view, the most obvious and impactful opportunity to support this goal is reducing equity beta from 0.6 to 0.5.

[10] Analysis of AER, Electricity Network Operational Performance databook, October 2024.
[11] AER Consumer Reference Group, Response to the AER's Draft Rate of Return Instrument, September 2022.
[12] Ibid, p. 21.
[13] AER, 2024 Electricity and Gas Network Performance Report, September 2024.

As evidence for our views, please see the attached report by Electricity Market Advisory Services. Their report responds to the issues raised by the AER, while also presenting opportunities to adjust the RORI to limit network prices without distorting investment signals. We also endorse the views of the 2026 Consumer Reference Group.

We look forward to engaging with the AER throughout this process to deliver a fair and balanced outcome for consumers. If you have any questions, please contact Ashley Bradshaw at [redacted]

Yours sincerely

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