Part of Energy Queensland

19 December 2025

Mr Gavin Fox
General Manager Network Pricing
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

Email: RateOfReturn@aer.gov.au

Dear Mr Fox

2026 Rate of Return Instrument Review Discussion Paper

Energex Limited (Energex) and Ergon Energy Corporation Limited (Ergon Energy Network), as Energy Queensland's distribution network service providers, welcome the opportunity to comment on the Australian Energy Regulator's (AER) August 2025 Discussion Paper on the 2026 Rate of Return Instrument (RoRI).

Setting the rate of return is arguably the AER's most critical decision in the economic regulation of network businesses. If set too high, customers pay inefficiently high prices for network services but if set too low, it threatens the financial viability of network businesses. Neither of these scenarios are in the long-term interests of consumers.

Energex and Ergon Energy Network are members of Energy Networks Australia (ENA) and support the positions outlined in ENA's submission to the AER's RoRI Discussion Paper. This submission supplements, rather than duplicates those views by highlighting matters of particular relevance to Energex and Ergon Energy Network.

We support the AER's proposed streamlined and targeted scope for the 2026 RoRI review, including its focus on the equity beta and on revisiting the method for implementing the trailing average return on debt. We consider that other aspects of the rate of return framework examined in previous reviews such as the term of the return on equity to be largely settled and should not be reopened. Maintaining stability in these areas is critical to regulatory predictability and supporting investor confidence.

Equity Beta

We support the AER's proposal to reconsider the evidentiary basis for estimating the equity beta. It is increasingly clear that the AER's historical reliance on Australian listed comparators is no longer reasonable or robust. Of the nine Australian comparator firms previously relied upon by the AER, only one remains listed. This materially undermines the statistical reliability and relevance of domestic estimates and weakens confidence in any conclusions drawn solely from Australian data.

We have consistently advocated for the AER to place greater weight on international empirical evidence, particularly where domestic data is demonstrably thin or no longer fit for purpose. We note that other Australian regulators have already adopted international evidence in similar circumstances, recognising the global nature of capital markets and the common risk characteristics of regulated network utilities.

In this context, Energex and Ergon Energy Network welcome the AER's proposal to explicitly consider international evidence in its 2026 RoRI review. We consider this both necessary and timely, as a broader evidentiary base will strengthen the robustness of the equity beta estimate. We encourage the AER to incorporate international evidence in a manner that is transparent and predictable.

Weighted Trailing Average Return on Debt

Since replacing the 'on-the-day' approach with the trailing average return on debt in the 2013 Rate of Return Guidelines, we have supported the use of a weighted trailing average, rather than a simple trailing average, for determining the allowed return on debt.

In our view, a simple trailing average does not accurately reflect the efficient financing costs faced by network businesses, primarily because it assumes new borrowings occur at historical rates. This issue is exacerbated when businesses undertake large or uneven capital expenditure programs, resulting in systematic mismatches between the allowed return on debt and the actual efficient financing costs incurred.

For these reasons, we welcome the AER's proposal to consider adopting a weighted trailing average approach in the 2026 RoRI. However, we are concerned that the approach outlined in the AER's Discussion Paper may introduce unnecessary complexity, reduce transparency and potentially increase implementation risk.

We support the alternative weighted trailing average methodology developed by the Queensland Treasury Corporation (QTC). In our view, QTC's approach better balances conceptual soundness, transparency, and practical implementability, while more accurately reflecting the efficient debt financing costs faced by regulated businesses at the time capital is deployed.

We appreciate the AER's willingness to revisit elements of the Rate of Return framework where the underlying evidence base has materially changed, while maintaining stability in areas that are well-established. We consider that the approaches outlined above would improve the robustness, credibility, and workability of the 2026 RoRI, consistent with the National Electricity Objective.

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Energex and Ergon Energy Network look forward to continuing to engage constructively with the AER as its review progresses. Should you wish to discuss any aspect of our submission, please contact me on [redacted].

Yours sincerely

[redacted]

Guy Mutasa
Economic Regulation Manager

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