

AER Public Forum

2026 Rate of Return Instrument (RORI) Review

Draft 2026 RORI

22 June 2026

Acknowledgement of Country

We acknowledge the First Peoples of the lands from which you are coming from today across Australia.

We recognise their continuing connection to land, sea, waterways, sky and culture and pay our respects to all elders past and present.

Agenda

01 Opening & context

3:00–3:15 • 15 mins

- **3:00 Welcome**
Lynne Gallagher
Australian Energy Regulator
- **3:05 Draft decision overview**
Esmond Smith
Australian Energy Regulator

02 Stakeholder views

3:15–4:00 • 45 mins

- **3:15 Stakeholder presentation 1**
Kieran Donoghue
Dr Ron Ben-David
Ashley Bradshaw
Consumer Reference Group
- **3:30 Stakeholder presentation 2**
Garth Crawford
Sandeep Kumar
Energy Networks Australia
- **3:45 Stakeholder presentation 3**
David Johnston
Queensland Treasury Corporation

03 Discussion & close

4:00–4:30 • 30 mins

- **4:00 Q&A session**
Lynne Gallagher
Australian Energy Regulator
 - **4:30 Closing**
Lynne Gallagher
Australian Energy Regulator
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Purpose of this public forum

- Overview the 2026 RORI review process, including next steps
- Overview the AER's draft decision on the 2026 RORI
- Hear early feedback from stakeholders, including consumer and network viewpoints
- Opportunity for stakeholders to ask questions / clarify issues
- Provide information to help inform upcoming stakeholder submissions

Purpose of the 2026 RORI review

- AER must review the RORI every 4 years under national energy laws
- RORI determines how we calculate the allowed return on capital for all regulated electricity and gas networks
- Rate of return is a major component of regulated network business revenues (around 40–60%)
- Ensure the rate of return reflects market conditions and investment risks, supports efficient investment, and protects energy consumers from overpaying

Review context and approach

- 2026 RORI review builds on extensive stakeholder engagement and expert analysis undertaken in the 2018 and 2022 reviews
- While the 2022 RORI has remained broadly fit for purpose, we have considered opportunities for making further refinements in the long-term interest of consumers
- AER discussion paper proposed a focus on three key areas:
 - Equity beta
 - Trailing average approach to estimating the return on debt
 - Choice of third-party yield data providers (reintroduce RBA data)
- Appointed Consumer Reference Group, Eligible Experts and Independent Panel
- Draft decision reflects our consideration of submissions, expert views and evidence

Review timeline

Key milestone	Indicative date
2026 RORI review process paper – published (for information)	28 March 2025
2026 RORI discussion paper – published (submissions invited)	4 August 2025
Public forum on AER discussion paper	26 August 2025
Eligible Experts' report – published (submissions invited)	24 November 2025
Public forum on Eligible Experts' report	4 December 2025
Submissions closed on AER discussion paper and Eligible Experts' report	19 December 2025
Draft 2026 RORI & Explanatory Statement – published (submissions invited)	29 May 2026
Public forum on draft 2026 RORI	22 June 2026
Independent Panel's report – publish (for information)	17 July 2026
Submissions close on draft 2026 RORI & Explanatory Statement	31 July 2026
Finalised 2026 RORI & Explanatory Statement – publish	December 2026

Overview of the draft 2026 RORI

Draft decision:

Equity beta and Trailing average approach

- **Equity Beta** – reduced from 0.6 to 0.55. Key considerations:
 - A possible range for equity beta is 0.4 – 0.7
 - The relative merits of using domestic data to inform our point estimate, notwithstanding its largely historical nature, outweigh those of using international data at this time
 - The majority-regulated domestic firms' equity betas were under the domestic firm average.
 - We refined the sample of international firms and used a debt beta of 0.1
 - We considered the 5-year beta estimates of domestic and international firms (although we place less weight on these estimates)
- **Trailing average approach** – retained the simple trailing average (STA). Key considerations:
 - A weighted trailing average (WTA) may better reflect borrowing costs in some circumstances
 - Only a small number of NSPs with large investment programs are likely materially impacted
 - While a targeted approach would be desirable, targeting would be somewhat arbitrary, add complexity, and create incentives for strategic behaviour
 - A change would impose material costs on consumers given the low historical interest rates in the STA relative to current interest rates

Draft decision: MRP, RBA yield curve and Imputation credits

- **Market risk premium (MRP)** – reduced from 6.2% p.a. to 6.1% p.a. Key considerations:
 - Updated historic excess returns
 - DGM results, survey evidence and market-based indicators (dividend yields, ASX volatility, credit spreads)
- **Third party yield curves (RBA curve consideration)** – reintroduced RBA F3 yield data using spread-to-CGS extrapolation. Key considerations:
 - Better to have the third yield curve to be used in conjunction with data from Bloomberg and Refinitiv/LSEG
 - Spread-to-CGS extrapolation is simple and transparent and can be replicated by all stakeholders (on this, we published a spreadsheet with the draft decision to show the methodology and calculations)
- **Value of imputation credits (gamma)** – increased from 0.57 to 0.58. Key considerations:
 - We updated the values for the dividend payout ratio and imputation credit usage (theta) adding new data
 - The updates resulted in a slight increase in our gamma value (and slightly lower tax allowances)
- **Other parameters** – no change
 - While we targeted equity beta, WTA and the reintroduction of the RBA yield data for relatively more work, we considered the entire Instrument and its components. Most other parameters have largely been settled in prior reviews and there was no compelling case for change.

Draft decision: Summary

Discussion paper proposed the review focus on three key areas:

- 1 Equity beta
- 2 Trailing average approach to estimating the return on debt
- 3 Choice of third-party yield data providers (reintroduce RBA data)

Draft decision:

Reduces

equity beta to 0.55; down from 0.6

Retains

the simple trailing average approach to estimating the return on debt

Reintroduces

RBA yield curve data, alongside data from two other providers, with a refined extrapolation method

Updates

MRP to 6.1% (down from 6.2%) and Gamma to 0.58 (up from 0.57) for the latest available data

Retains

all other RORI parameters, as no new or compelling evidence warranting a change

Combined effect of adjustments to equity beta and MRP estimated to reduce regulated revenues by \$1.1B over 8 yrs

Reminder – How you can have your say

Next steps

- AER to publish the **Independent Panel's report** by **17 July 2026**
- **Submissions** on the draft 2026 RORI are due by **31 July 2026**
 - Submissions can be emailed to: RateOfReturn@aer.gov.au
- AER to publish the **final 2026 RORI** in **December 2026**

Stakeholder presentation 1: Consumer Reference Group (CRG)

Stakeholder presentation 2: Energy Networks Australia (ENA)

Stakeholder presentation 3: Queensland Treasury Corporation (QTC)

Q&A session

Closing

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Presentation

- Today's presentation will be uploaded to the AER's website.

Thank you