

# **Consumer Reference Group (CRG)**

Presentation to Public Forum on draft  
RORI

22 June 2026

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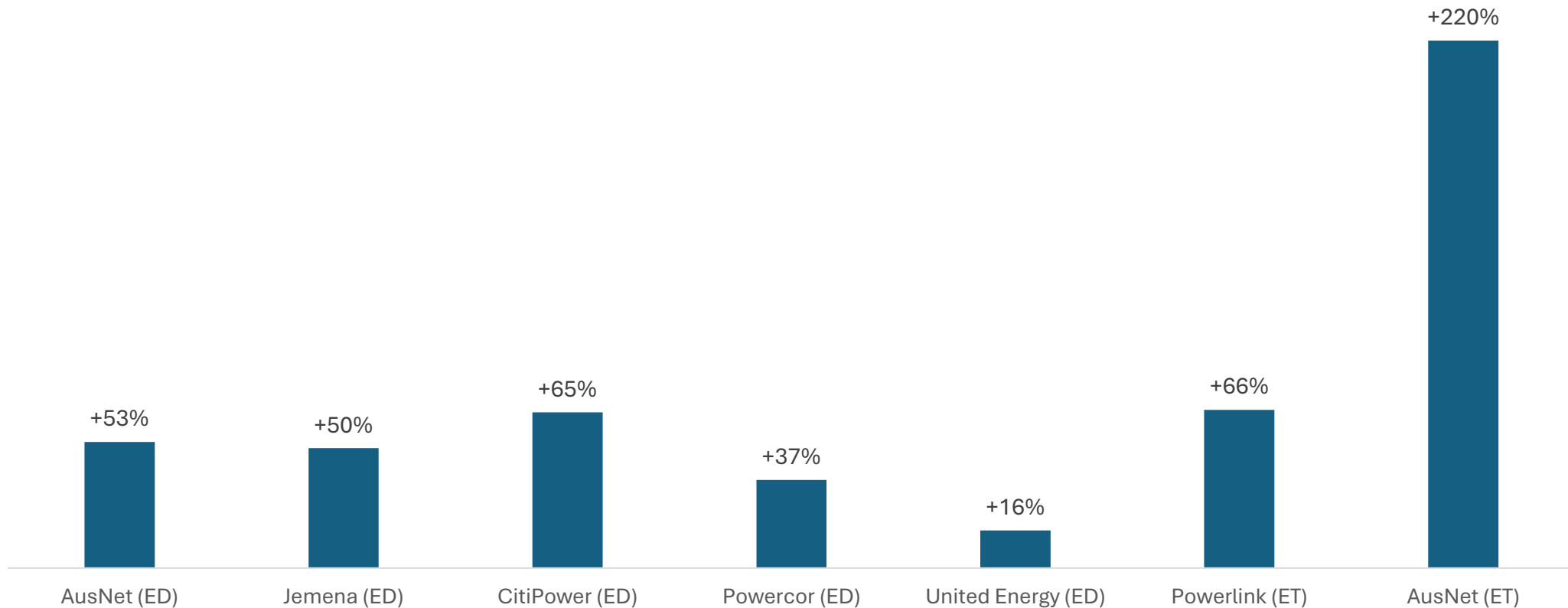
Dr Ron Ben-David

Ashley Bradshaw

# Context for the review

# Networks continue to propose large capital programs. Some electricity networks forecast materially higher capex in the next period

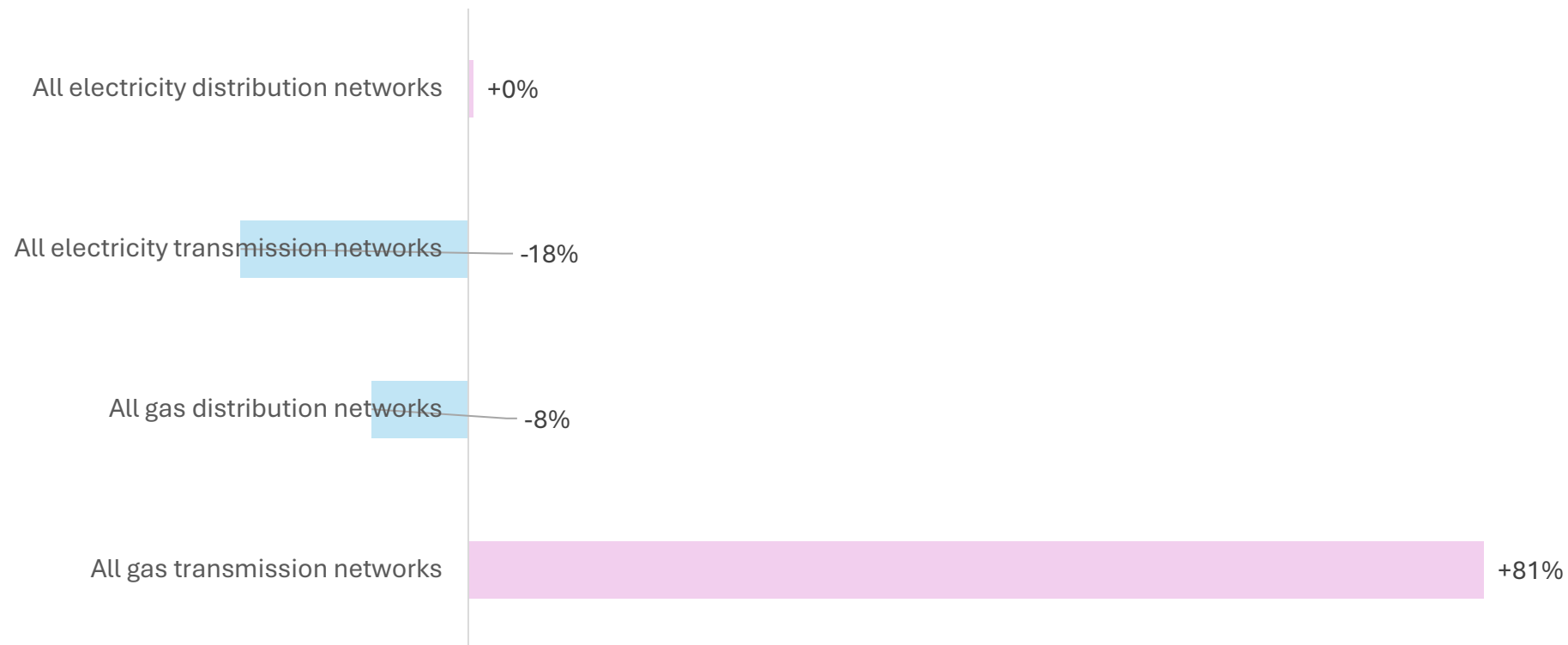
## Capital expenditure forecast for next regulatory period compared to current period capital expenditure



Note: Victorian distribution network figures refer to the upcoming 2027-31 regulatory period. Powerlink and AusNet figures refer to the 2027-32 period  
Source: AER Final Determinations for Victorian Electricity Distribution Networks; Ausgrid and Powerlink Regulatory Proposal. All sourced from AER website 16 June 2026.

# Most networks are spending close to capital expenditure allowances. Some are overspending

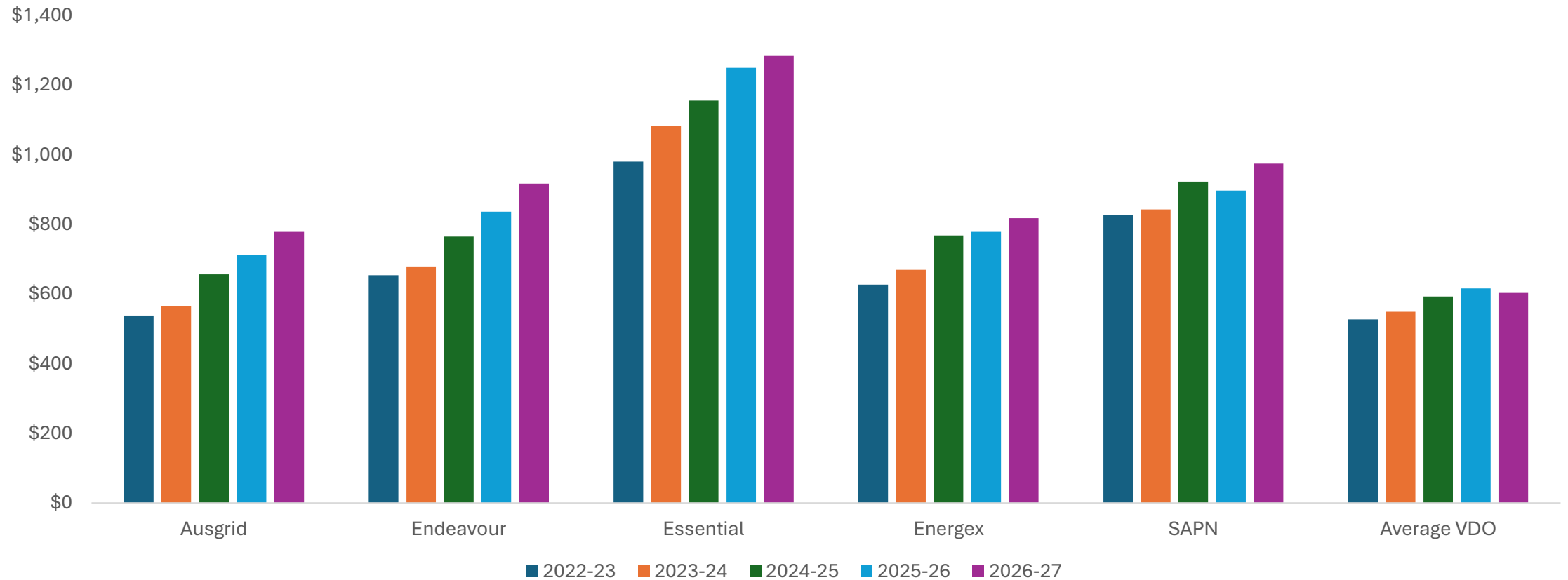
## Actual capital expenditure overspend or underspend compared to forecasts – last 5 years of actual data



Note: Figures have been rounded to the nearest whole percent.  
Source: Analysis of AER 2025 Network Performance Report Data.

# In some regions, residential electricity network costs have increased by more than 30% in the last five years

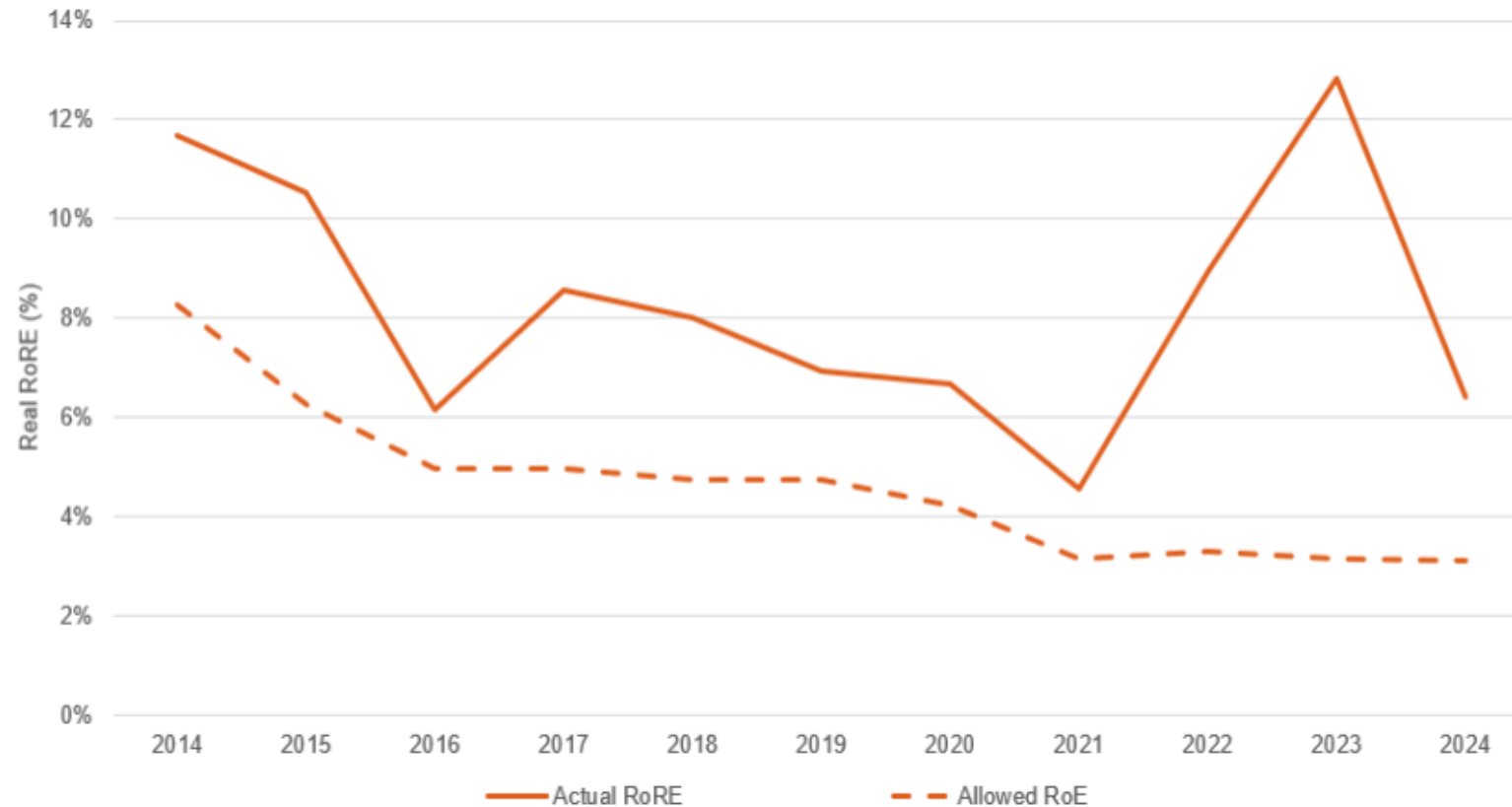
## Network costs included in DMO and VDO for flat rate customers



Source: Analysis of AER and ESC DMO and VDO Decisions.

# Consumers remain concerned about the level of ‘outperformance’ on regulated return on equity

## Real regulated return on equity versus allowed Regulated Return on Equity – electricity networks



The rate of return materially impacts consumer bills and network investment decisions. . **It must be set at the minimum possible level such that, on the balance of probabilities, it supports investment.**  
Not a point higher.

The AER must address the inflation issue as soon as possible, so we do not have large swings in return on equity due to inflation spikes.

# **Initial reactions to draft RORI**

# Return on equity - beta

## **CRG welcomes the AER's...**

- careful consideration
- consistency across data sets
- domestic data indicates:  $\beta < 0.6$

## **That said, CRG contends...**

- draft decision unnecessarily conservative
- the case for international data is not made
- the real problem must be addressed (by 2030 RORI)

## Recapping our earlier position...

- Exposure to systematic risk
  - available benchmarks in the domestic market
- The unverifiability of beta (RoE)
  - Complexity  $\neq$  Accuracy.
- Domestic data never supported a beta of 0.6

We consider the AER could and should give even greater weight to these arguments than it has in the draft decision. We will outline why and how in our upcoming submission.

## Our position on international comparators ...

- AER has laid out all the arguments against
- No consensus among the experts
- No conceptual, theoretical or logical foundation
- Lessens transparency
- Relevance? Why bother?

➔ It's a solution of convenience

The absence of data is not the problem. The real problem is that the AER continues to rely on a model that requires data that is not available.

# Return on debt

# Return on debt parameters consistent with evidence?

The analysis used in the RORI process suggests so:

- Gearing 60 % - similar to actual leverage ratios
- Credit rating BBB+ median of comparator set
- Ten year term - slightly higher than average term per EICSI
  
- But what does the performance reporting say...

# Return on debt parameters consistent with evidence?



Source: AER 2025 performance report

# Case for weighting the trailing average not made

- The AER sets a *benchmark* cost of debt - not an inherent flaw if the allowance doesn't match actual service provider's costs.
- Any change needs to be demonstrably in *consumers'* interests
- AER estimates \$200m cost to consumers for move to QTC WTA, for unclear benefit.
- CRG considers AER should look elsewhere in framework for targeted solutions where necessary if outlier NSPs have financing issues.

# If AER changes its mind...

- ...It should continue to explore alternatives to QTC model
- An efficient strategy would not see large amounts of long-term debt retired well before maturity
- Confidentiality claims mean other stakeholders cannot assess network claims about practicality of WTA models
- CRG agrees that if thresholds risk gaming, they should be avoided.

# Other parameters

# Market risk premium

- Support acknowledgement that current market indicators are below long term trend
- Geometric average merits some weight in estimating HER
- Agree this makes strong case for point estimate at low end of range derived from HER analysis
- Low weighting given to geometric average means AER estimate remains conservative.

# And the rest...

- Term of risk free rate could be 5 or 10 years, note AER's high bar for change
- Gamma an arithmetical outcome – no issue with making a modest change.
- Cross checks such as RAB multiples continue to show overall framework very positive for NSPs
- No material deterioration in financeability – supports decision to retain simple trailing average
- Reinstating RBA yield curve is a practical approach, and support method that avoids risk of overestimation.

# Conclusion/wrap up?

The draft RORI is directionally positive and represents a good balance of stability and accounting for the latest information and circumstances.

- Some parameters could safely be set lower still
- Inflation treatment remains a concern – final RORI should allow scope for PTRM changes
- If position on WTA changes, further work is required to specify the debt model in a way that serves consumer interests