AER and Investor Meeting

2026 Rate of Return Instrument (RORI) Review

Draft 2026 RORI

23 July 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

45-minute session

3:15 5 mins	Welcome and introduction	Lynne Gallagher (AER)
3:20 5 mins	Overview of draft 2026 RORI	Esmond Smith (AER)
3:25 30 mins	Investor views on draft 2026 RORI	Investors
3:55 5 mins	Closing	Lynne Gallagher (AER)

Session closes at 4:00 pm

Introduction

Introduction

- AER released the draft 2026 RORI on 29 May; open for consultation until 31 July.
- Today is an opportunity to hear from investors in energy networks, ask clarifying questions, and for the AER to provide information to help inform submissions.
- We will overview our draft decision and the next steps in this review.
- Our December final decision will consider stakeholders' submissions, the Independent Panel's report, and any further internal analysis.
- We will be clear and transparent in our final decision-making.

Rationale for a more targeted review

- AER proposed to focus work on a few key issues given the extensive stakeholder engagement and expert assessment of issues undertaken in past RORI reviews.
- This was aimed at delivering a less onerous, but more efficient and effective, process for all interested stakeholders.
- Our draft decision, while making a draft decision covering all input parameters for the RORI, focused on the priority issues of equity beta and the potential use of a weighted trailing average for estimating the return on debt. We also considered and proposed the reintroduction of corporate yield estimates published by the RBA.
- Our draft decision also made decisions on the other RORI parameters, including the market risk premium where we made a small downward adjustment based on updated information.

AUSTRALIAN ENERGY REGULATOR

Overview of the draft 2026 RORI

Equity beta

- A key focus area because most of our domestic comparators have been delisted.
- We reviewed international data, but found it to be an imperfect substitute to Australian data.
- We also recognised that the equity beta estimates of the majority-regulated domestic firms (around 0.4) are below the average estimate of our domestic comparator set (0.56), while international estimates are significantly higher (0.68).
- Based on this data, we formed the view that 0.55 (down from 0.6) was the appropriate estimate at this time.

Weighted trailing average

- We considered changing the methodology for estimating the return on debt and moving from the current simple trailing average (STA) to a weighted trailing average (WTA).
- On balance, the evidence did not present a strong case for changing the methodology at this time.
- A targeted mechanism for affected NSPs would be arbitrary, complex and open to gaming.
- Our draft decision retained the STA based on the relative merits of the STA methodology.

Market risk premium

- Settled methodology, unchanged from 2022.
  - Historical excess returns (HER) sets the range; the point estimate is set within it.
- HER arithmetic range of 6.1% to 6.6%, consistent with 2022.
- Evidence pointed in two directions: HER edged marginally higher, while market evidence over recent years has eased.
- We weighed a marginal movement in the long-run HER average against current market evidence, and set the point estimate at 6.1% within the range.
- Placing some weight on the recent easing trend indicates the direction of forward settings.

Next steps in the review process

- AER will consider the Independent Panel’s report (published 17 July), stakeholders’ submissions (due 31 July), and any further internal analysis undertaken.
- There is consistency in the AER’s approach across multiple RORI reviews.
  - The expected rate of return should be an unbiased estimate of the expected efficient return, consistent with the relevant risk involved in providing regulated network services.
- AER will make a final decision in December based on evidence and our exercise of judgement with respect to what best achieves the national energy objectives.

How you can have your say

Next steps

- **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**

Investor views on the draft 2026 RORI

Thank you