

5 September 2021

Mr Warwick Anderson  
General Manager, Network Finance and Reporting  
Australian Energy Regulator  
GPO Box 3131  
Canberra ACT 2601

Submitted electronically at: [RateOfReturn@aer.gov.au](mailto:RateOfReturn@aer.gov.au)

Dear Warwick,

**Rate of return omnibus papers.**

The Australian Energy Council (AEC) welcomes the ongoing consultation opportunity in the Australian Energy Regulator (AER) omnibus working papers.

The AEC is the industry body representing 21 electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. These businesses collectively generate the overwhelming majority of electricity in Australia and sell gas and electricity to over 10 million homes and businesses.

The working papers, alongside the separate papers submitted by stakeholder groups, reflect a range of well informed views and expert opinions on the matters at hand. The AEC does not seek to individually contest or endorse those views and accepts that they are all made in good faith. We also accept that it is borne out in both theory and practice that the same apparent state or evidence may be interpreted differently by different parties who will draw differing conclusions. Therefore, it is not as important that the regulatory outcome proposed is different to the preferences of any stakeholder as it is that the proposal is considered and balanced and evidence based and is mindful to any consequent harms.

The AEC recognises that a number of experts have submitted what they believe to be the case for change. We do not however accept that the case has been proved. Whilst interesting corollary can be drawn between the approaches of various regulators internationally, the evidentiary threshold requirement for significant change to the methods for estimating rate of return on the WACC, or for estimating gearing, has not in our view been reached. We accept that these are interesting and perhaps insecure times for capital and equity markets. However, we did not see and do not believe that there is an extant problem in Australia with securing debt or equity for capital intensive, long lived assets. We are of the view that changes to the regulatory treatment of inflation combined with alignments to the regulatory period (from ten to five years) represents sufficient concessional tinkering with the regime at this time.

The AEC agrees that the AER should closely monitor the matters raised by the ENA for the next term. We would prefer an incremental approach guided by “test and adjust” and to date, the AEC has been able to support the AER’s evolving views on rate of return on that basis.

We reiterate from our earlier submission that the NSP’s have not provided:

- Evidence they cannot efficiently raise capital.
- Evidence their capital structures are sufficiently constrained to make regulatory investments unfinanceable.

- Evidence they have been unable to manage their capital structure and cash flows to maintain investment grade credit ratings.
- Evidence they are unable to raise capital in the current low risk free rate environment.

As the AER notes, the NSPs' actual financeability is substantially impacted by the practices and choices made by the NSPs. They engage in a range of practices specific to managing their own operations. This includes adopting individual financing and capital structure decisions to accommodate circumstances and management choices. At this time a change to the regulatory model is not required.

Any questions about this submission should be addressed to David Markham by email to [REDACTED] or by telephone on [REDACTED].

Yours sincerely,

**David Markham**  
Networks and Distributed Energy Resources Policy Manager  
Australian Energy Council