

28 August 2017

Mr Warwick Anderson
General Manager, Network Finance and Reporting
Australian Energy Regulator
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Dear Warwick,

Re: Consultation Paper – Process for reviewing the rate of return guidelines

AusNet Services welcomes the opportunity to comment on the AER's proposed process for reviewing the Rate of Return Guideline. The Business is very mindful of genuine community and political concerns on energy prices and we will engage in this process with these concerns at the forefront of our considerations.

AusNet Services looks forward to engaging with the AER and other stakeholders throughout this process to ensure that the Rate of Return Guideline enables efficient investment in network assets to promote the long term interests of customers.

AusNet Services welcomes many features of the AER's proposed consultation process. The process includes new and innovative consultation approaches that have not previously been used by the AER. The AER's willingness to adopt new consultation approaches indicates a genuine desire to understand and consider stakeholder views.

In particular, the inclusion of expert 'hot-tubbing' will help to narrow areas of debate. This is particularly important in such a complex issue as the rate of return, and should streamline the review process for the AER, network businesses and customers. In addition, AusNet Services agrees that the establishment of a consumer reference group should assist consumers to effectively engage in the consultation process, and welcomes this addition.

AusNet Services' main concern with the process set out in the Consultation Paper is the proposed scope of the independent expert review of the draft Guideline. The AER's preliminary view is that this should be limited to reviewing that the AER has:

- Undertaken an effective review process;
- Engaged with the material before it with an open mind; and
- Made a decision supported by its stated reasons.

However, the AER proposes that 'the role of the independent panel should not include duplication of [its] regulatory judgment or provision of additional expert opinions on matters already addressed in the expert hot tubbing process.'¹

¹ AER, *Consultation Paper – Process for reviewing the rate of return guidelines*, page 14

AusNet Services agrees that any revisiting or duplication of previous detailed debates should be avoided. However, extending the independent review to opine on the **outcome** of the guideline consultation against the allowed rate of return objective as well as the **process** is critical to achieving the confidence building objective of the independent review. Ultimately, it is the outcome of the Guideline that will impact whether the resulting rate of return enables the long term interests of customers to be promoted through efficient network investment.

If the Guideline results in a rate of return that is higher or lower than that which promotes consumers' long term interests, this could lead to either over or under investment in network assets. The financial and/or reliability consequences of this could be extremely material, given the significance of the rate of return to investors. The cost of an independent review of the outcome of the draft Guideline is comparatively minor compared to these potential consequences that may result.

Please contact Charlotte Eddy, Manager Economic Regulation, on 03 9695 6309 with any questions on this submission. AusNet Services supports the ENA's submission on this matter.

Sincerely,

A handwritten signature in black ink, appearing to read 'Tom Hallam', with a stylized, cursive script.

Tom Hallam
General Manager, Regulation and Network Strategy
AusNet Services