

12 December 2017

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Dear Warwick

Re: Review of Rate of Return Guideline – Issues Paper

AusNet Services welcomes the opportunity to provide this submission to the AER's Rate of Return Guideline review Issues Paper. AusNet Services supports the submission made by both the Energy Networks Australia and the Victorian electricity distributors.

In relation to the cost of debt, the AER has taken steps to reduce this volatility through the implementation of a ten-year trailing average. It is critical that, now that network businesses are transitioning to the trailing average, the forthcoming Rate of Return Guideline continues this transition to ensure both customers and networks realise the benefits of the trailing average approach. Indeed, a move away from the trailing average, and hence also the current transition path, would be extremely problematic given the ten-year financing arrangements that have been entered into based on the expectation that the transition to a full trailing average would continue.

Any change to the transition path would necessitate an unwinding of these financial arrangements, resulting in a one-off cost or gain to the network business, depending on market rates at the time the change is made. This would not be desirable, and indeed, may require a separate transition.

The trailing average approach to the cost of debt will benefit both networks and customers. This is because it more accurately reflects the costs of networks than alternative approaches, enabling better cash flow management, and results in prices that are less volatile and more accurately reflect network costs. AusNet Services encourages the AER to continue implementing the current transition path, to encourage the benefits of the trailing average approach to be realised.

If you have any queries in relation to this submission, please contact Charlotte Eddy, Manager Economic Regulation on 03 9695 6309.

Sincerely,



Tom Hallam
General Manager Regulation and Network Strategy