



AER Consumer Reference Group

OCCASIONAL BULLETIN 3

Engaging Consumers on the Rate of Return Instrument

May 2021

Message from the Chair

Every four years, the Australian Energy Regulator (AER) consults with consumers, energy businesses, investors and other stakeholders on how it should decide the rate of return on investment required to ensure electricity and gas networks invest to meet the services energy users require.

The AER has outlined a 'pathway' leading to its next decision on the rate of return (RoR) for the regulated network business. The AER will publish its final decision in late 2022 in the form of a Rate of Return Instrument (RoRI). The AER will apply the RoRI to all its decisions on regulated electricity and gas networks' revenue allowances for the following four years (from 2023-2026).

What does this decision mean for consumers?

The AER's decision on the Rate of Return (RoR) for the regulated networks has a major impact on your energy prices. Network costs make up some 30% to 50% of your energy prices and the RoR is a significant component of these network costs. The AER's 2022 RoRI decision will therefore influence the price you pay for energy for many years.

To this end, the Consumer Reference Group (CRG) seeks to ensure the AER's 2022 RoR decision reflects consumers' preferences and priorities for electricity and gas regulated network services – now, and into the future. We will do this by applying a variety of research methodologies, and reaching out to a diverse range of consumers and consumer advocates.

We are coming up to a very busy and important period in the development of the RoRI. Over the next six months, the AER will be publishing a series of working papers that address the key elements of the AER's 2022 RoR decision. This bulletin lists the AER's key working papers and sets out how the CRG intends to engage with consumers so that we can best represent consumers' views to the AER.

We welcome your feedback on our proposed approach and look forward to contacting many of you over the next six months. Contact details for the CRG are included in the attached bulletin.

Warm wishes,

Bev Hughson

CRG Chair

The CRG and its role

Under Australian laws, the AER is required to set up a CRG to advise the AER on its 2022 Rate of Return Instrument (RoRI). Details can be found [here](#).

In particular, the laws set out the national energy objectives. These objectives require the AER to promote efficient investment in, and efficient operation and use of, electricity and gas energy services in the long-term interests of consumers.

The CRG must also work within the economic legal, regulatory and policy context set out in the energy laws and rules.

The CRG is expected to broadly engage with consumers and to represent their views to the AER, as well as providing more technical advice to the AER on the RoR.

In particular, the CRG seeks to:

- Genuinely understand energy consumer views in relation to its RoR decision
- Ensure the CRG effectively represents energy consumers' preferences and priorities in relation to the RoR to investors in electricity and gas regulated networks
- Advise the AER of these views and how these should be considered in its decision-making
- Assist the AER to provide greater transparency and predictability, and to build trust and confidence in the regulatory regime

Overview of the CRG's strategy

Our vision

The CRG's vision is to ensure the AER's RoR decision promotes the long-term interests of consumers. This sets the strategic context of our consumer engagement:

- Electricity and gas network services are provided at the least cost to achieve a level of service acceptable to consumers, now and in the long term
- Consumers trust AER regulatory decisions and are confident their interests are fully, openly and fairly understood and considered
- Consumer preferences and perspectives relating to the RoRI are evident in the AER's regulatory decisions

Our guiding principles

The CRG has developed five guiding principles as the basis of our advice to the AER. We are testing these principles with energy consumers through our various engagement activities.

- Principle 1 - Regulatory arrangements serving the long-term interests of consumers must promote behaviour that engenders consumer confidence in the arrangements
- Principle 2 - Any change to the regulatory estimation methods must be tested against consumer impacts in relation to absolute prices and price changes
- Principle 3 - Any change to the regulatory estimation methods must be tested against acceptable consumer impacts in relation to service standards
- Principle 4 - Risks should be borne by the party best placed to manage them

- Principle 5 – There should be a high bar for change

Our stakeholders

Our stakeholders include all current and future users of gas and electricity regulated network services. We are aiming to engage as widely as possible with energy users as well as with energy advocates and others who represent the interests of residential and business customers.

We also recognise energy networks who use their allowed revenues, including the allowed rate of return, to invest in our electricity and gas network infrastructure and investors who provide the funds to the networks for investing in the energy infrastructure. We will also engage with these stakeholders over the course of the development of the RoRI.

Further information on the CRG's role can be found [here](#). You can also find more details on our customer engagement framework and supporting strategic analysis [here](#).

What's coming up in 2021

In 2020, the AER published a series of initial working papers on RoR issues as well as the regulatory treatment of. The CRG has responded to each of these working papers, considering both the technical analysis and consumer perspectives including evidence gathered from residential and business consumer advocates.

Commencing in May 2021, the AER is publishing a further five working papers and an information paper for public consultation. Each of these six topics will contribute to the AER's final decisions on the 2022 RoR. They are:

- 1) Rate of return and cashflows in a low interest rate environment
- 2) The term of rate of return
- 3) Return on Debt
- 4) Return on Equity
- 5) Overall rate of return
- 6) Summary Information paper

The AER will publish the first two working papers for consultation in May 2021. The AER advises it will publish the next three working papers in July 2021. The summary information paper will be published in December 2021. The summary information paper will bring together the AER's preliminary views following the consultation processes on each of the working papers. It will also set the foundation for the AER's 2022 pathway review program and for the final RoRI published in late 2022.

Further details of the AER's RoRI pathway program can be found [here](#).

Our proposed engagement activities

The CRG looks forward to engaging with a broad range of stakeholders over the coming months on each of these working papers to better understand stakeholder preferences and priorities with respect to their electricity and gas network services.

We propose to use a number of different engagement techniques to reflect the complexity of some of the content, and the variety of stakeholders we wish to engage in the process. For example, we are considering the following engagement activities:

- Surveys of residential, small business, commercial and industrial consumers
- In-depth interviews with stakeholders designed to consider the RoR working papers in more detail
- Small group sessions to explore high-level topics including how residential and business consumers understand and assess their long-term interests in energy supply
- Deliberative sessions where consumer advocates and others can further develop their knowledge on RoR matters, facilitating deeper engagement with the content of the AER's working papers
- Community consultations with various stakeholder groups

We would like to hear from you

If you would like to know more about the AER's RoR review and how consumers may be affected, or if you would like to know more about our upcoming work, we would like to hear from you.

You may contact us by replying to this email, which is monitored for us by AER staff. Once we have received your email, we can contact you directly to discuss any confidential or sensitive matters.

Feel free to forward this email on to others who may be interested. They are welcome to contact us if they would like to be added to the mailing list for future versions.

Please let us know if you, or the organisation that you represent, are interested in taking part in our research and skill development programs.

You can get in contact with us here ConsumerReferenceGroup@aer.gov.au .