

Regulatory treatment of inflationary expectations

Response to AER position paper

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1. What is the CRG?

<https://www.aer.gov.au/about-us/stakeholder-engagement/consumer-reference-group>

Our role derives from the National Electricity Law and National Gas Law

2. What is going on here?



3. Regulatory decisions take place within a context

- Current climate
- Consumer expectations
- **CRG principle 1 : Consumer confidence**
 - What behaviours does the regulatory framework permit, encourage & reward?
 - The unsettling effect of regulatory 'tweaks' on consumers
- **CRG principle 2: High bar for change**

4. Regulatory approach to inflation

- CRG supports retaining the real rate of return approach

5. Regulatory returns

- CRG supports AER's finding that real returns are delivered

6. Market-based approaches to estimating inflationary expectations

- CRG agrees market-based approaches to unreliable

7. The 'RBA method'

- Has its limitations but...

8. Switching from 10 to 5 year estimation period (1)

- What evidence is needed?
 - Can we turn this into a statement?

9. Glide path

- Must be symmetric & enduring

10. Transition & timing

A change **now** will benefit networks. So wait or phase-in?

But ...

The CRG has bigger concerns ...

This is not just a regulatory tweak - much bigger issues at play

11. Switching from 10 to 5 year estimation period (2)

- Does a mash-up even make sense?
- Are consumers losing out?
- Impact on regulatory risk?
- Relationship with RoR?

=> CRG Preferred position: Deferral of final decision

Conclusion: Taking a helicopter view

12. A step down the slippery slope?

- ... of pragmatism
- ... of short-termism

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