

19 August 2020

Ms Clare Savage
Chair
Australian Energy Regulator

Sent via email

Dear Ms Savage,

AER Review of Treatment of Inflation

The member firms of Energy Networks Australia welcome the opportunity to engage with the AER and other stakeholders as part of the AER's review of its approach to regulatory inflation.

The Board of Energy Networks Australia, writing on behalf of chief executives of all electricity transmission and distribution networks and gas distribution networks, is strongly supportive of this review and endorses the ENA's submission.

Australia recently recorded its largest quarter fall in headline inflation in 72 years, taking the annual inflation rate to June 2020 to -0.3 per cent. COVID-19 impacts have exacerbated and reinforced deflationary trends which have seen actual inflation consistently fall below the RBA target band over the past decade.

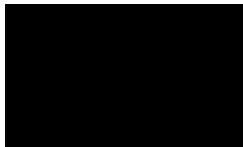
The unprecedented global market conditions emerging since 2017 mean that the rate of return set by the AER has not been delivered under the current inflation approach. Through no fault of any party, the prevailing economic conditions are breaking the current regime, resulting in commercially unsustainable outcomes. This cannot be in the long-term interests of customers.

To promote regulatory soundness and predictability, it is essential that when a fundamental aim of a regulatory model is not met, timely action is taken to ensure the regulatory regime continues to deliver sensible outcomes for industry and customers.

It is an urgent priority that substantive action is taken now. The decisions made in this review will have important and long-lasting implications for current and future customer outcomes through the network investment incentives provided.

We endorse the approaches suggested in the ENA submission and urge the AER Board to approach this review in a manner which supports the overall outcome of a commercially sustainable level of regulatory revenues capable of supporting long-term customer outcomes.

Yours sincerely,



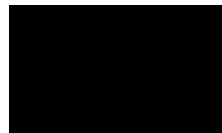
Tim Rourke
Chair, Energy Networks Australia



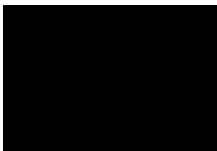
Ben Wilson
Deputy Chair, Energy Networks Australia



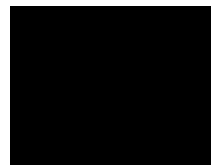
Richard Gross
Chair, Policy and Strategy Committee



Stephanie Unwin
Director



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Director



Frank Tudor
Director



Guy Chalkley
Director



Rob Stobbe
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John Cleland
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