SUBMISSION

DRAFT RATE OF RETURN INSTRUMENT | 02 SEP 22

EUAA
Energy Users Association of Australia

The Energy Users' Association of Australia (EUAA) is the peak body representing Australian commercial and industrial energy users. Our membership covers a broad cross section of the Australian economy including significant retail, manufacturing, building materials and food processing industries. Combined our members employ over 1 million Australians, pay billions in energy bills every year and in many cases are exposed to the fluctuations and challenges of international trade.

As large energy users, our members are highly exposed to movements in both gas and electricity prices and have been under increasing financial stress due to escalating energy costs. These increased costs are either absorbed by the business, making it more difficult to maintain existing levels of employment or passed through to consumers in the form of increases in the prices paid for many everyday items.

This submission is made to support the submission made by the AER Consumer Reference Group (CRG).

We have had the opportunity to engage at regular intervals with the CRG over the nearly 2½ years that the review has been underway and we appreciate the efforts of the CRG to engage with a wide range of consumer advocates. This engagement has given us the opportunity to exchange views on the major building blocks of the Rate of Return calculation and how the stakeholder debate had progressed over that period.

In reading the Draft Instrument we have come to the same conclusion as the CRG – that there is 'systematic upward bias' across the key building blocks - beta, market risk premium, return on debt and equity premium - where the AER is called on to exercise its judgement. As the CRG note, they are not advocating a decision skewed in favour of consumers, only a decision that reflects the AER's guiding principle in this review that:

> "In our view, the best possible estimate of the expected rate of return—neither upwardly biased nor downwardly biased—will promote efficient investment in, and efficient operation and use of, energy network services."

Our members are facing significant cost pressures in their energy supply – with significant increases in the commodity component of both electricity and gas. In recent years networks have been able to lower prices with lower interest rates and this has served to offset commodity component price pressures. But the interest rate cycle has reversed just as the full impact of the commodity component price rises are hitting our members. As we are now seeing in the current round of network resets, networks costs are set to escalate for the 'BAU' services. Then there is the huge investment required from building ISP projects as well as the various State based initiatives like the NSW Roadmap that will bring large additional costs.

The EUAA has been a co-proposer of the Material Change on Network Infrastructure Project Costs rule change that is currently under consideration by the AEMC[1]. This rule change was driven by the significant increase in capex for major transmission projects above the ISP estimates and the expectation that consumers bear most of the capex risk. An upwardly biased Rate of Return calculation on a capex cost that is significantly above ISP cost estimates will have a major adverse impact on the viability of large energy intensive users and lead to flow-on price impacts for their products bought by consumers throughout the country.

[1] https://www.aemc.gov.au/rule-changes/material-change-network-infrastructure-project-costs

The CRG highlights the need for consumers to have confidence that the regulatory framework does indeed further the NEO and NGO. A key driver for our rule change has been how the AER no longer has the ability to independently and fully assess transmission investment to ensure that it meets the rules requirements of being the preferred option and have net benefits at the time of its contingent project application. That assessment is solely with the TNSP and we do not believe this meets the NEO.

So we look to the AER to be able to use its judgement not to make an upwardly biased Rate of Return decision to not only meet its guiding principle but to ensure that the transition is based on efficient transmission, not transmission at any cost. We do not accept the claim by network equity investors that the rate of return needs to increase to provide sufficient incentive to build the network to facilitate the NEM transition.

Our extensive involvement in network stakeholder advisory committees and current network resets shows us no evidence that networks are unwilling to invest under the current Rate of Return Guideline. Rarely has a network initial proposal level of capex not be reduced by the AER in a reset. So it seems that the 2018 Rate of Return binding guideline is not restraining networks willingness to invest.

We endorse the CRG's conclusion (p. 19):

> "The AER therefore needs to clearly demonstrate in its words, and in its decision, that it has heard consumers, and it can demonstrate openness and balance when it exercises its judgement on the rate of return parameter values."

Do not hesitate to be in contact should you have any questions.

Kind regards,

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Andrew Richards
Chief Executive Officer