2 September 2022

Mr Warwick Anderson
General Manager, Networks Finance and Reporting
Australian Energy Regulatory (AER)
GPO Box 3131
Canberra ACT 2601

Dear Mr Anderson

DRAFT 2022 RATE OF RETURN INSTRUMENT (RORI)

Endeavour Energy appreciates the opportunity to respond to the AER's Draft 2022 RORI. This 2022 RORI will cover Endeavour Energy's FY25-29 Revenue Determination and a critical period of Australia's energy transition out until 2031. It is therefore important that the RORI is set in a manner that best promotes the National Electricity Objective (NEO) and in accordance with the Revenue and Pricing Principles (RPP) that are both enshrined in the National Electricity Law (NEL).

Consistent with stakeholder feedback, the 2022 RORI starts with the 2018 RORI and assesses any case for change against an agreed set of criteria and the rate of return guiding principle (which in turn promotes the NEO). There is broad consensus that efficient investment in, and efficient operation and use of use, electricity services for the long-term interests of customers with respect to price, quality, safety, reliability, and security of supply will best be promoted by a RORI that is set to produce[1]:

> *an unbiased estimate of the expected efficient return, consistent with the relevant risks involved in providing regulated network services.*

Of note, the AER added two additional criteria to reflect the importance of promoting regulatory stability and certainty to complement the existing criteria and in response to feedback from the Customer Reference Group (CRG)[2]. The agreed premise being that whilst it is open to the AER to make changes, it is important previously held positions are revised only where there is compelling and material evidence in support of these changes and that they are likely to be sustained through time.

As a result the AER's 2022 Draft RORI is largely consistent with the 2018 RORI. For instance, the AER has maintained its approach with respect to calculating the return on debt, equity beta, gamma, gearing and the foundational use of the Sharpe-Lintner Capital Asset Pricing Model (**SL CAPM**) to estimate the return on equity. In response to stakeholder feedback the AER has also decided to make greater use of scenario and financeability testing to ensure the RORI remains robust to changes in market conditions that occur during the period over which it applies.

Risk-free rate and the term of equity

The most material and significant aspect of the Draft RORI is the AER's decision to change its approach to the term of equity so that it matches the length of the regulatory control period (i.e. 5 years) in accordance with:

- Dr Lally's theoretical conception of the Net Present Value (NPV)=0 principle.
- It is unclear, but either the need to match the term for inflation to the term for equity and/or the same principles which underpinned its inflation decision.

On this key issue the AER concluded the opposite in the 2018 RORI[3]:

> *We consider the use of a 10 year term will lead to an overall rate of return that will better contribute to the achievement of the NEO and NGO. We consider a 10 year term is consistent with the theory of the Sharpe-Lintner CAPM which is a single period equilibrium model, estimating the returns an investor requires over a long-term investment horizon. The 10-year term also reflects the actual investor valuation practices and academic works.*

[1] AER, June 2022, *Draft rate of return instrument: Explanatory statement*, p. 6
[2] AER, June 2022, *Draft rate of return instrument: Explanatory statement*, p. 7
[3] AER, December 2018, *Rate of Return Instrument, Final Decision, Explanatory Statement*, p. 126

and in the 2022 RORI Information paper published in December 2021[4]:

> *Preferred position is that the terms of equity, debt and inflation do not have to be of the same value.*

We consider the long-standing use of a 10 year Commonwealth Government Security (CGS) as the proxy for the risk-free rate and equity term should be maintained for several reasons discussed below.

Consistency with the NEO and RORI guiding principle

We maintain that the NPV=0 principle requires that the regulatory allowance should match the return that is required by investors; no more and no less. This criterion is centred around the returns that real-world investors might reasonably require on the capital they invest. Investments in regulated infrastructure assets are long term, and the standard practice of valuation practitioners is to use a 10-year risk free rate as an input to the CAPM.

Our position remains that the NEO and RPP will best be promoted by a RORI set in accordance with the aforementioned guiding principle. For the return on equity, this is not the hypothetical return that investors ***should*** require based on mathematical analysis but instead what investors in the benchmark efficiency entity (**BEE**) ***do*** require, as noted by Schmalensee (2022)[5]:

> *Economic efficiency of course, requires that the allowed rate of return is always commensurate with the return that investors require……..*
>
> *……the regulatory task is conceptually a simple one – determine the return that market investors require and set each period's allowed rate of return and accounting rate of return to match it.*

We consider that the SL CAPM is a model for estimating long-term returns, and that what is relevant to consider is the expectations of real world investors in firms with a similar degree of risk to the businesses regulated by the AER. Setting the return on equity commensurate with returns in the market (also referred to as the "market cost of capital") satisfies the NPV=0 as it promotes efficient investment in regulated assets.

On this basis the term of equity should remain at 10 years given *"actual investor valuation practices appear to be consistent with using long-term government bonds. In the case of Australia these are 10-year CGS"* as noted in the Draft 2022 RORI by the AER[6].

The approach to the risk-free rate is internally inconsistent

The AER states unequivocally in the Draft RORI that employing a rate of return that is commensurate with the prevailing market cost of capital is consistent with the NPV=0 investment condition[7]:

> *Therefore, we consider efficient financing costs are reflected in the prevailing market cost of capital (or WACC) for an investment with a similar degree of risk as that which applies to a service provider for providing regulated services. As Alfred Kahn stated:*
>
> > *since the regulated company must go to the open capital market and sell its securities in competition with every other would-be issuer, there is clearly a market price (a rate of interest on borrowed funds, an expected return on equity) that it must be permitted and enabled to pay for the capital it requires.*
>
> *We consider employing a rate of return that is commensurate with the prevailing market cost of capital (or WACC) is consistent with the NPV=0 investment condition. We also consider economic efficiency more generally is advanced by employing a rate of return that reflects rates in the market for capital finance.*

The AER has defined the NPV=0 condition by reference to the required return of investors. This conception is consistent with the NEO, RPP and RORI guiding principle as satisfying it will promote both investment and consumption efficiency as noted by the AER[8]. It is by this correct logic that the AER sets every other observable parameter in the WACC based on market returns and practices.

---

[4] AER, December 2021, *Rate of return: Information paper*, p. 11

[5] Schmalensee, R., July 2022, *Statement of Richard Schmalensee PhD to the Australian Energy Regulator*, pp. 11-12

[6] AER, June 2022, *Draft rate of return instrument: Explanatory statement*, p. 107

[7] AER, June 2022, *Draft rate of return instrument: Explanatory statement*, pp. 56-57

[8] AER, December 2018, *Rate of Return Instrument, Final Decision, Explanatory Statement*, p. 44

For instance, the AER rejects the use of a 5 year term for debt as it is not a replicable and viable debt financing approach for real world investors[9]. The AER accepts that a mismatch between the cost of debt allowance and the market return required by debt investors would distort investment decisions and lead to inefficient outcomes.

We agree with this logic and therefore do not understand how it then follows that the AER can disregard the market return of equity and conclude[10]:

> *…we do not estimate the allowed rate of return to be used as a discount rate for a business valuation over a long investment horizon.*

We consider this conclusion requires an elevation of a mathematical test instead of the factors required to be considered in the NEO, RPP and RORI guiding principle.

Dr Lally's advice is incorrect and an abstraction of the AER's regulatory task

It appears the AER has reversed its previous position on the return on equity by deciding its task is different to the role of a market practitioner performing a business valuation. Instead, the AER assumes an investor in the BEE only has an expectation of a return over the upcoming regulatory period.

This premise is based on advice from Dr Lally, that Lally suggests follows the analysis in Schmalensee (1989) [11], on how the NPV=0 principle should theoretically require term matching to the regulatory period. Dr Lally's analysis assumes that investors do not consider cash flows after the regulatory allowance re-sets, similar to a 'resetting bond'. It also assumes that a regulated business does not have any operating expenditure, taxes, or revenue adjustments[12].

We do not consider there is any logic to suggest an investor in the BEE has an expectation that it is only investing for a 5 year period in a manner similar to a re-setting bond. In fact, the Queensland Treasury Corporation (QTC) has produced analysis which demonstrates that investors have expectations beyond the next re-set as yields on long-term floating rate bonds are higher than on shorter-term floating rate bonds.

Notwithstanding the invalidity of the comparison underpinning the maths, it is predicated on an *"almost exactly backwards"* understanding of Schmalensee (1989) according the Schmalensee himself. He notes[13]:

> *What is perhaps most odd about Dr. Lally's characterization of Schmalensee (1989) is the assertion that it shows that "the term to which the allowed cost of capital relates matches the term of the regulatory cycle." It is a general principle that the allowed cost of capital should be an estimate of the relevant efficient expected return demanded by investors. I have no idea why Dr. Lally thinks that Schmalensee (1989) implies that this estimate must depend precisely on how often it is computed. Schmalensee (1989) is agnostic about how investors might go about determining their required return. Schmalensee (1989) certainly does not "show" that the term of the allowed return must match the term of the regulatory cycle. Efficient regulation generally requires that the allowed rate of return must be consistent with the return required by investors – however they determine it….*
>
> *….It is not clear to me why Dr. Lally says that bonds with five-year maturities rather than one-year maturities should be used in this process – or why, as a general matter, investors should care how frequently allowed rates of return are computed.*

As a result, the NPV=0 test has been construed and applied in a manner that is at odds with the NEO, RPP and RORI guiding principle. These legislative tests are focussed on real-world concepts of investment, incentives, and risk, rather than a mathematical formulae.

The term should reflect the role of each parameter in the regulatory framework

The other reason offered for the change, and the actual only observed change in circumstance since the 2018 RORI, is the AER's desire to promote consistency between its regulatory treatment of inflation and the term of equity. In 2020, the AER determined that a 5-year term of inflation better

[9] AER, June 2022, *Draft rate of return instrument: Explanatory statement*, pp. 193-194

[10] AER, June 2022, *Draft rate of return instrument: Explanatory statement*, p. 107

[11] Lally, M., April 2021, *The appropriate term for the allowed cost of capital,* p. 7

[12] AER, June 2022, *Draft rate of return instrument: Explanatory statement*, p. 104

[13] Schmalensee, R., July 2022, *Statement of Richard Schmalensee PhD to the Australian Energy Regulator*, pp. 7-8

promotes the NEO as this matches the term set by the roll-forward model (RFM), which 'puts back in' 5 years of inflation at the time of a determination.

At the time of the Inflation review, it was established that there were two possible conceptions of the role of regulatory inflation:

1. To 'take out what you expect to put back in' in which case the term is determined by RAB indexation in the RFM; or
2. To 'convert real returns to nominal returns' in which case the term is determined by the term of the allowed return in the PTRM

The AER accepted the shared position of the ENA and Dr Lally in its final decision on inflation that the correct rationale is to 'take out what you expect to put back in'[14]. The AER acknowledged that this approach ensures that in expectation, the nominal rate of return and real rate of return is achieved over the regulatory period[15]. Further, Dr Lally noted there is no inconsistency in adopting a 5 year term for inflation, even if the AER were to adopt a 10 year term for the allowed return[16].

The NPV=0 principle has separable and independent consequences for the term of inflation and equity (and debt), namely:

a) Inflation: as determined in the AER's inflation review; the role is to "take out what you expect to put back in" rather than treating it as a 'convert real to nominal' exercise. This requires an estimate over 5 years as the Roll-Forward Model (RFM) will put back in actual inflation over 5 years as part of a Revenue Determination.

b) Return on equity: its role is to compensate for the required return on equity at the time of the decision. This requires a term commensurate with the expectations of investors for assets of a similar degree of risk with returns set in a workably competitive environment.

It is therefore confusing that in the Draft 2022 RORI the AER, in places, maintain their view that the term of inflation **has no impact** on appropriate term of equity[17]:

> *Terms of equity, debt and inflation do not have to be of the same value*

Yet also suggest that in principle the inflation term change **is associated with** the change in the term of equity:[18]

> *The change to the term of equity is also supported by the same basic propositions that led us to change our approach to estimating expected inflation.*

Whilst also suggesting the change in equity term **is a consequence of** the change in inflation term[19]:

> *we consider that aligning the term of return on equity and the term of expected inflation would mitigate the mismatch between the inflation expectations embedded in the allowed (nominal) return on equity and the expected inflation in the PTRM.*

Setting this aside, the change in inflation term is the only material change in circumstances since the 2018 RORI. However, it has been well established and accepted by the AER and its own expert Dr Lally, that the role of inflation is separate to, and independent of, the role of the return on equity estimate[20]. The inflation decision should be of no consequence or relevance to this decision. In which case, this gives rise to the question of why a change in equity term is justified when there has been no change in the evidence related to this issue?

A 5-year term is inconsistent with the RORI assessment criteria

We have observed the AER has re-interpreted its regulatory task and came to an opposing conclusion to previous decisions based on no material change in evidence or circumstances relevant to this decision. This reinterpretation is based on advice from Dr Lally from a 2021 paper[21]. However, the reasoning offered by Dr Lally's 2021 paper is previously well covered ground. Dr Lally's position

[14] AER, October 2020, *Regulatory treatment of inflation: Final position*, p. 7

[15] AER, October 2020, *Regulatory treatment of inflation: Final position*, p. 60

[16] Lally, M., July 2020, *Review of the AER's inflation forecasting methodology*, p. 6.

[17] AER, June 2022, *Draft rate of return instrument: Explanatory statement*, p. 39

[18] AER, June 2022, *Draft rate of return instrument: Explanatory statement*, p. 31

[19] AER, June 2022, *Draft rate of return instrument: Explanatory statement*, p. 114

[20] AER, June 2022, *Draft rate of return instrument: Explanatory statement*, p. 114.

[21] Lally, M., April 2021, *The appropriate term for the allowed cost of capital*, p. 7

that the term of equity should match the length of the regulatory period is unchanged from papers published in 2002[22], 2004[23] and 2012[24] (and several more). As noted by the CRG[25]:

> *Lally's 2021 report to the AER also cites a paper he published in 2004 supporting his proposition that the term to which the allowed cost of capital should match the term of the regulatory period. This earlier paper also cites Schmalensee (1989) and like Schmalensee's paper, it defines (rather than finds) the cost of capital is equal to the one period risk-free rate "plus an appropriate premium for cost and demand risk over the following period." The discussion in Lally (2004) is otherwise very similar to the one provided in his 2021 report.*

In fact, the AER explicitly consulted on this very proposition from Dr Lally's in developing the 2013 Rate of Return Guideline[26]:

> *In the consultation paper, we said that different terms may be appropriate for equity and debt. The consultation paper drew attention to a recent paper by Associate Professor Lally which supports a term of equity that matches the regulatory control period. We sought submissions from stakeholders on the appropriate term of equity in the consultation paper.*

Following this consultation, the AER rejected Dr Lally's argument in favour of maintaining a 10-year term for several reasons[27]:

- The term of the return on equity should match the long life of the assets owned by infrastructure businesses.
- In apply the CAPM, practitioners assume that the equity investment for an ongoing business is long-term.
- In practice, the 10 year rate tends to be used in valuations this was confirmed by a survey of market practitioners.
- The change is unlikely to be material when considering the consequential change required to the MRP[28].
- In general, long-term government bond rates are more likely to generate a stable return than shorter-term bond rates.

It is not clear how this change accords with the AER's assessment criteria when it:

- is not based on any new evidence;
- increases volatility in changing market conditions, for instance it would increase the price electricity customers pay in times of recession or a financial crisis;
- is not based on observable and replicable market data but instead complex mathematical analysis that is circular in nature and fundamentally inconsistent with the work it claims to extend; and
- does not reflect standard market practice, economic and finance principles, or the practice of comparable regulators.

[22] Lally, M., August 2002, *Determining the risk free rate for regulated companies: Report for the Australian Competition and Consumer Commission*

[23] Lally, M., 2004, *Regulation and the Choice of the Risk Free Rate*, Accounting Research Journal, Vol. 17(1)

[24] Lally, M., August 2012, *The risk free rate and the present value principle*

[25] CRG, March 2022, *Advice to the Australian Energy Regulator: CRG Response to the AER's December 2021 Information Paper*, pp. 51-52

[26] AER, August 2013, *Draft rate of return instrument: Explanatory statement*, p. 182

[27] AER, August 2013, *Draft rate of return instrument: Explanatory statement*, pp. 181-184

[28] It should be noted that even if the revenue impact of the change to a 5-year term is immaterial we consider the implications of the AER's decision to be material by virtue of the precedent it sets and the volatility it introduces to the WACC estimate.

A 5 year term is inconsistent with the approach taken by other regulators

Early in this consultation process The Brattle report commissioned by the AER highlighted that the AER's return on equity (per the 2018 RORI) was lower than all comparable regulators examined[29]. The 2022 RORI will result in further reductions. Despite this, the AER consider there is[30]:

> *…limited value in the use of other regulators' rate of return as a cross check. We note that differences in outcome reflect differences in the underlying methodology.*

We do not accept that the AER is performing a markedly different task to other economic regulators or that the NEM regulatory framework is not comparable to other frameworks underpinned by the same economic concepts and principles. We remain of the view that there is value in understanding how other regulators performing a similar task have exercised their regulatory judgement and discretion.

It is noteworthy that every other Australian regulator adopts a 10 year term to match the approach of real-word investors along with the majority of comparable international regulators (many of which use 10 to 30 year terms). Each of IPART, QCA and WA ERA have all moved from using a 5 year term matching based approach to a 10 year approach. These regulators have sought to address the very same NPV=0 condition that the AER seeks to answer and have come to the opposite conclusion. The WA ERA note:

> *[s]etting a short-term rate would not best meet the NPV=0 principle, nor would it support efficient signals for both network owners or consumers*[31]

On a 10 year approach, QCA state[32]:

> *We consider this approach reflects the requirements of investors and lenders who, in relation to long-lived infrastructure assets, will deploy equity over the entire life of the asset, rather than over any given regulatory period. While we prefer a long-term bond based on the life of the assets, 10 years is the longest-term bond available that is sufficiently liquid.*

We accept that reasonable minds can differ, and it is the quality of the evidence that should inform regulatory decisions. However, there should be cause for review when the AER's interpretation of its task and the evidence is wholly at odds with its previous decisions and almost all comparable domestic and international regulators.

Lack of stakeholder support

We note this change has been suggested by the AER rather than something proposed by a stakeholder with a case for change supported by new or compelling evidence. We note the CRG disagreed with the AER's decision on the term of inflation. At the time they were of the view the term should match the term of equity and this should remain so. However, this position was considered at the time and as noted above it was rightly concluded that the term of equity and inflation were independent matters.

Despite supporting the change in equity term on account of the AER's inflation decision alone, the CRG[33] have still gone on to raise a number of concerns with the AER's decision[34]:

> *We find:*
>
> - *Lally's report does not 'prove' the term of the regulatory allowance for equity should match the length of the regulatory period.*
> - *The report's mathematical model demonstrates that the regulatory allowance must match the regulator's estimate of the investors' true discount rate for the NPV=0 principle to be satisfied. This is true by construction rather than a proof. It does not explain how the regulator should estimate investors' true discount rate.*

[29] Brattle, June 2020, *A Review of international approaches to regulated rates of return*, Table 4, Row 3, p. 49.

[30] AER, June 2022, *Draft rate of return instrument: Explanatory statement*, p. 31.

[31] Economic Regulation Authority of WA, June 2022, *Explanatory statement for the 2022 draft gas rate of return instrument*, paragraphs 598-601.

[32] QCA, November 2021, *Rate of return review: Final report*, p. 83

[33] It must be noted that these views were expressed by the CRG in response to the AER's December 2021 Information paper and therefore may have been addressed by the AER's Draft 2022 RORI (although we do not consider these questions have been answered).

[34] CRG, March 2022, *Advice to the Australian Energy Regulator: CRG Response to the AER's December 2021 Information Paper*, p. 57

- *This gap in the argument is filled by the report's assertion that a proof already exists showing that the appropriate discount rate is one that matches the term of the regulatory period. The CRG is not convinced this proof does in fact exist. We also find the AER has not sought to confirm for itself whether such a proof has been previously derived. It appears to have accepted the report's assertion at face value.*
- *The report contends, and the AER accepts, that the regulatory valuation problem is analogous to the pricing of a floating rate bond. The CRG finds this analogy does not support Lally's proposition. Indeed, we find this analogy might support the opposite conclusion to the one being asserted.*
- *If Lally's proposition is correct, then the AER has been systematically overpricing the cost of capital over multiple rounds of regulatory resets. If so, it should be possible to identify some tell-tale signs of this mispricing. The AER has not attempted this analysis.*

The CRG suggest the AER must fill in the "missing piece" of Dr Lally's argument if it wishes to conclude that ownership of a network asset (that it regulates) can be considered comparable to ownership of a 5 year bond. Although the CRG note[35]:

> *[if its] suspicions are right, then it would be reasonable to conclude that none of these conditions are satisfied for energy networks regulated by the Australian Energy Regulator.*

In our view, it sets a worrying regulatory precedent for the AER to reason itself, to a wholly differing interpretation of an issue that has remained settled for almost two decades of regulatory practice.

Other key matters

Market Risk Premium

We agree that the MRP should be calculated in a manner consistent with the term of the risk free rate, noting we consider a 10 year term should be maintained. We note the AER continues to rely on a Historical Excess Returns (HER) approach (notably a 30 year observation period is used) and support the AER not giving weight to geometric means, survey responses or conditioning variables in setting the MRP.

We do however consider there remains merit in having regard to the Wright approach to which the AER is setting an impossibly high evidentiary standard to be considered. There is no single perfect method for estimating market returns. The Wright approach is used by other regulators and supported by compelling evidence that there is a negative relationship between the MRP and risk-free rate.

We also consider the AER should continue to review opportunities, either in this RORI or the next, to have regard to other sources of evidence such as Dividend Growth Model (DGM) estimates. It is disappointing that the AER have rejected the ENA's calibrated DGM in favour of its own DGM specification from the 2018 RORI which was previously rejected and produces demonstrably low bias estimates. The ENA's calibration was developed to address the concerns raised by the AER in the 2018 RORI and should be given further consideration.

Equity Beta

The AER's position represents an outlier amongst other domestic and international regulators. The decision not to use comparable international firms, as many regulators do, leaves the AER with only a single 'live' firm in its already limited comparator set of nine firms.

The AER propose to have no regard to the estimates adopted by comparable regulators as there are differences between its approach and that of other regulators. As noted above, the approach taken by other regulators will of course differ, but as it relates to the same task, it remains highly relevant information.

It is for similar reasons that the AER should include comparable international firms in its dataset. Many other regulators do so, and the Independent Panel recommend further urgent work in this area. It does not make sense that networks regulated by the AER are materially less risky than other regulated electricity firms both domestically and international. Other regulators in Australia and NZ recognise the problem of a small set of comparators and therefore have regard to international comparators.

[35] CRG, March 2022, *Advice to the Australian Energy Regulator: CRG Response to the AER's December 2021 Information Paper*, p. 52

This issue was well known at the commencement of the 2022 RORI consultation so it is of concern that it has not been progressed as part of this review. The current position is unreliable and sets a regulatory precedent of a low evidentiary quality for the existing approach coupled with a high bar for change that appears inconsistent with the assessment criteria and other positions taken in the Draft 2022 RORI.

Other matters

We support the AER's proposed approach with regards to:

- the Cost of Debt: we support setting the allowed return on debt using a 10 year trailing average and using the AER's proposed credit rating and independent data sources. This position follows extensive analysis of actual network debt data, the Energy Infrastructure Credit Spread Index (EICSI). This analysis confirmed the AER's benchmark assumptions remain appropriate and there has been no material outperformance of the AER's benchmark. We support the ongoing refinement of the EICSI and its use as a reasonableness check.
- Gamma: we remain of the view that gamma should be interpreted as the market value of dividend imputation franking credits noting this matter warrants further consideration in future RORI review.
- Gearing: we support the AER's proposed gearing estimate of 60%.

The use of sense checks

We support the use of financeability and scenario testing by the AER but not the conclusions drawn from it. We continue to see little to no value in the complex task of disaggregating recent transaction RAB multiples if no regard is going to be had to the market cost of capital that the independent experts used in performing the discounted cash-flow analysis. In the case of the Spark Infrastructure and Ausnet Services transactions the return on equity estimate underpinning the valuations were both in the order of 150 bps higher than the AER's prevailing return on equity.

Of greater relevance, and concern, is the AER's FFO/net debt analysis which indicates that a significant number of regulated networks continue to fail the 7% rule of thumb benchmark (8 of 32 firms)[36]. Despite this, further reductions to the return on equity are now being proposed to a RORI that is already lower than that set by domestic and international peer regulators.

We note analysis undertaken by the ENA which indicates that under the Draft 2022 RORI the allowed return is now insufficient for the BEE to pay its interest bill. It is this kind of financeability sense check that goes to the purpose and value of the exercise and one that requires a re-consideration of key components of the Draft RORI by the AER.

We would be pleased and welcome the opportunity to work with the AER regarding our response to the draft instrument . We reiterate that it is critically important that the RORI is set in a manner that best promotes the NEO and in accordance with the RPP that are both enshrined in the NEL and at this critical point of the energy transition. For our more detailed position and questions responses we refer the AER to the ENA's submission to this review, which we fully endorse.

If you have any queries or wish to discuss our submission further please contact myself on [redacted] or Patrick Duffy, Manager Regulatory Transformation & Policy at Endeavour Energy on [redacted] or via email at [redacted]

Yours sincerely

[redacted]

Françoise Merit

Chief Financial Officer

[36] AER, June 2022, *Draft rate of return instrument: Explanatory statement*, p. 267