

Ms Paula Conboy
Chair, Australian Energy Regulator
Level 17, Casselden Place
2 Lonsdale Street
Melbourne VIC 3000

7 September 2018

Dear Ms Conboy

INDEPENDENT PANEL REPORT ASSESSING THE RATE OF RETURN DRAFT GUIDELINES

I am writing in response to your request for the Independent Panel to provide you with a report setting out our view as to whether the AER's Draft Guidelines released on 10 July 2018 are supported by sound reasoning based on the available information such that it is capable of promoting achievement of the national gas and electricity objectives.

The Panel has now completed its review and assessment of the Draft Guidelines and the detailed Explanatory Statement. The report attached reflects the consensus view of the Panel and there are no dissenting opinions. The report does not contain any confidential or commercially sensitive material.

Based on our assessment, we consider that the AER has undertaken an extensive consultation and engagement process. For the most part, the Explanatory Statement has set out in significant detail the evidence, analysis and conclusions that the AER has reached in determining each of the rate of return parameters, and the value of imputation credits, to form an overall estimate of the rate of return.

However, we have identified a number of areas where the AER's explanations and reasoning supporting its approach to various issues needs to be clarified. Our report sets out 30 recommendations for the AER to address. If the AER follows these recommendations, then our view is that the resulting Guidelines will be supported by sound reasoning, based on the available information, such that it is capable of promoting achievement of the national gas and electricity objectives.

We have maintained our independence throughout this assessment process – we have specifically not engaged or been influenced by other stakeholders and have documented all our interactions and queries with AER staff, which I understand are publicly available on the AER website.

As the Chair of the Independent Panel, I would like to sincerely thank my esteemed colleagues— Stewart Myers, Scott Hempling, Pat Duignan and Geoff Frankish – for their valuable experience and knowledge, and the collegiate and professional manner in which they have engaged with this assessment.

I would also like to recognise the staff of the AER who respected our independence in this role and provided timely responses to our questions where required.

We hope that this report assists you to issue the best possible Final Guidelines, and provides stakeholders with confidence both in your review process and the final outcome.

Sincerely

A handwritten signature in black ink, appearing to read 'Natalia Southern', with a stylized, cursive script.

Natalia Southern
Chair, Independent Panel