MEU Inc

Major Energy Users Inc.

Australian Energy Regulator

Review of the rate of return guidelines

ISSUES PAPER

Submission by

The Major Energy Users Inc

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1. Introduction

The Major Energy Users Inc (MEU) welcomes the opportunity to provide its views on the AER Issues Paper addressing its review of the rate of return (RoR) guidelines for regulated energy networks. The MEU is well known to the AER as it has provided active involvement and informed observations about capital intensive industries and network regulation for many years.

MEU members are very concerned about the very high prices they pay for the use of the electricity and gas networks and comment that the levels of reliability and security provided are more than adequate for the delivery the supplies of electricity and gas so essential to their ongoing operations.

1.1 MEU member input

The MEU brings to the attention of the AER that its members all have highly capital intensive operations and therefore have specific knowledge about how this feature impacts assessments of investments they make. The MEU has sought information from its members about the financial approaches they use in relation to their investments and this information is used to inform the MEU responses to this Issues Paper.

Firstly, MEU members advise that when assessing the viability of an investment they do use a higher hurdle rate than they expect form past investments. In this regard, the MEU points out that the Capital Asset Pricing Model (CAPM) is used to assist making decisions about adding assets to a well diversified portfolio rather than attempting to forecast what an efficient rate of return might be. This supports the view that the CAPM includes an element of over-recovery to address the risk of introducing a new asset, rather than what the ultimate rate of return needs to be on the existing portfolio. Essentially, MEU members advise that they consider the CAPM approach is likely to deliver a higher rate of return than the networks actually require from their existing assets.

Secondly, the MEU members advise that they acquire debt from a variety of sources with differing tenors. They advise that to source debt via the use of corporate bonds commonly comes at a higher cost than other sources. They also advise that they are aware that debt costs can vary significantly even though the credit ratings might be the same.

Thirdly, the MEU considers that the AER should assess how firms actually raise their capital to invest in their operations. To advise on this, the AER should conduct empirical evidence testing on actual network provider debt portfolios with particular emphasis on portfolio duration metrics. In addition, the AER should also assess how capital intensive firms operating in competitive markets also raise their debt. As MEU members are all capital intensive operations, they have advised a preparedness to provide advice on how such firms actually do raised their debt.

1.2 New high level data availability

At a high level, the AER now has another 4 years of data available to it than when it set the current RoR guideline. In that time, the electricity and gas markets have seen:

- Sales of the number of networks, for which the sale price was at a significant premium to the regulatory asset base. This implies that investors see that the revenue received from the networks supports a higher value for the network firms than implied by the RAB and that there is considerably less risk in taking an ownership position than is asserted by the networks.
- Little reduction in investment in the networks despite the massive fall in consumption and demand growth, to levels where little or no augmentation capex (augex) is needed. But at the same time, the growth in replacement capex (repex) has risen dramatically to such a level that overall capex has not varied significantly.

The clear import of both these outcomes is that networks still see that the RoR they receive from the regulator provides a clear incentive to invest.

What the MEU derives from these observations is that the current RoR set by the AER has not limited the drive to maintaining capex at historic levels, but has effectively maintained it and in some cases led to an increase. In the past, capex has been predominantly for augmentation purposes (augex) as the indications were that more growth in demand and consumption of electricity was expected and augex was required to accommodate these increases. Despite the relative modest historic levels of replacement capex (repex), reliability of the network services had, if anything, increased implying that historical levels of repex were more than adequate to maintain reliability at acceptable levels. With the reductions in growth in demand and consumption, it was expected that capex requirements would reduce but this did not occur, as repex was increased dramatically to offset the lower need for augex.

The clear import of this observation is that RoR is at a level which still provides an incentive for investment.

The MEU also notes an addition to the incentive provided by RoR, the AER has introduced a specific incentive for capex – the Capital Expenditure Sharing Scheme (CESS). The introduction of the CESS implies that RoR is no longer needed to provide a capex incentive and so the RoR needs to be set at a level where it does not provide any incentive for more investment.

1.3 Views on the rate of return (RoR)

The rules require the AER to set a rate of return (RoR) which provides a return for a network commensurate with the efficient financing cost and the risk involved. What is absent from the analysis of the RoR is to what element of the assets provided is the RoR to be applied. The RoR provides two core functions. It provides the networks with:

- A reward for past investment and maintaining the services required
- An incentive to continue investing so that the network can continue to provide the services required by consumers.

However, any reward for providing services must be reflective of the risk of providing the service and be compared to the risk of a greater reward for providing other (non-network) services. With this in mind, to assess the RoR in the absence of what it is to be applied to becomes an essential element in the assessment of RoR.

The RoR is what a firm ultimately gets from its investments and the AER process is to attempt to replicate this outcome for a network before that happens. This means that the outturn of a RoR decision must be assessed ex post to identify if the outcome is consistent with the input. It is clear from sales of networks being at a multiple of RAB, there is an indication that outcomes (ie that actually seen after the event) and inputs (the RoR used to set the revenues) are significantly divergent. The MEU is therefore pleased that the AER has commenced a process for carrying out an ex post assessment of network profitability to test whether their input values for RoR are consistent with the outcomes of the return[1]. Unfortunately the information from this initiative will be too late to inform for this current RoR guideline process.

Another test for whether the input RoR is sufficient is at what point investment ceases to occur. The MEU points out that a tool for this assessment is where the network is indifferent to whether it invests capital or increases opex in order to maintain reliability. Such an assessment provides a guide as to whether the RoR is set at the efficient level or not.

[1] Some consumer representatives have raised the question of: ‘if you’re planning to use the current approach to setting the RoR as a starting point, how do you know if your current approach is working’?

A high RoR provides an incentive to use more capex than opex and a too low RoR will result in less capex and more opex. The RoR needs to result in an outcome where there is indifference between whether capex (particularly repex) or opex is needed to maintain the reliability measures to assess whether the RoR is set at the efficient level as this would be when there is this indifference between capex and opex.

In this regard, as noted in section 1.2 above, there has been a move by networks to increase repex to offset the loss of augmentation capex (augex) such there has not been much (if any) overall reduction in capex. This clearly provides a view that the current RoR approach has not delivered an outcome where the network is indifferent to repex or opex and that the RoR is still providing an incentive for investment.

1.4 What the RoR is applied to

Whether the fact there has been so little reduction in overall capex is from an excessive RoR or from another cause is conjecture but accepting that opex is returned at cost, then the WACC*RAB calculation could be a primary cause of any excessive revenue

The RoR is a nominal post tax rate of return applied to an asset base that includes an element of inflation (from indexing the asset base to a replacement cost basis) so the RAB includes historic inflation[2].

The RAB also includes assets which are not optimised which therefore provides a lesser risk for networks than is faced by other firms for technological obsolescence, yet this risk is effectively ignored in the assessment of RoR.

Effectively, the full RoR is applied to historic inflation, to assets that are not used or are oversized allowing a return on capacity that is not required.

The RoR cannot be looked at in isolation as consumers rightly object to paying a return on assets that are not real (like accumulated past inflation) or provide no service to them.

1.5 The sources of information

The data that is used to inform the RoR (especially the RoE) is derived from the performance of firms operating in the market monitored by the ASX.

[2] The MEU notes that the inflation element for a current reset is adjusted out in the PTRM but this model does not “wash out” the amounts of inflation already included in the RAB prior to the new regulatory period.

The market risk premium (ie the capital benefit delivered by ASX listed firms) is derived from the accumulation index which aggregates dividends and share growth. What is not realised in this assessment is that this data is based on firms which are exposed to competition risk, to technological obsolescence and valuation of plant and equipment based on purchase cost less depreciation; ASX firms in general do not value their assets on a replacement cost basis.

Therefore to apply the market risk premium from data based on the performance of firms that are subject to competition, where the outcomes reflect no indexation of assets and there is significant optimisation of assets from technological obsolescence, then the AER is mismatching the application of the market risk premium seen from the ASX accumulation index inputs with the use it is using it for.

There has also been expressed a view that the historical performance of firms in the ASX has benefited in the past from a market which delivered a higher return than for similar firms operating in the global market. As the Australian market has become more globalised the market risk premium has fallen. This means that the market risk premium seen in past years needs to be moderated by the use of more recent data which shows a reduction in market risk premium to more like global market returns.

In the SL CAPM model, the market risk premium is moderated by the asset beta of the market and the assessment of the asset beta known for the firms that provide network services. However, this approach is flawed because:

- The asset beta is a measure of volatility of share price and not of the risks that the firm faces for its operation which ultimately drives its revenue. The MEU considers that use of asset beta is useful for investors of shares in companies (the initial reason for the development of the CAPM model) so while volatility of a share price provides a guide to the investor of shares on the risks they may face, it does little to assess what the operational risks faced by the firm are; an assessment of the operational risks is what is needed to set the risks to set a forward looking RoE for a network.
- There is now a very small data set from which to derive an asset beta for network service providers listed on the ASX, noting that many of the Australian networks are now privately owned.
- Those network service providers that are listed have varying degrees of revenue derived from unregulated sources, skewing the asset beta as a measure of risk for the regulated component of the firm's portfolio. In the detailed development of the RoR guidelines during the Better Regulation program, the MEU noted that the AER relied on data available from publicly listed network service providers. What has not been assessed by the AER is the degree to which these publicly listed service providers

have revenue from other forms of investment (eg unregulated services). This view was expressed to the AER in its RoR Discussion Paper during the Better Regulation program. Since that program, the MEU is aware that more of the owners of regulated assets are obtaining considerable revenues from unregulated services they provide. This raises the fundamental question as to whether sufficient market data is available to identify what risks are faced by network services providers and whether a new approach (eg a bottom up build of risk) is needed to assess the operational risks faced by network service providers

There is a strong argument that a global CAPM approach should be considered given that capital and equity is globalised and that a comparable global market risk premium (and potentially equity beta) would be more appropriate to determine a global cost of equity due to the fact that globalisation has lowered risk because of the greater scope of risk diversification.

As an alternative to using flawed data, the AER could assess the fundamental risks faced by the networks and to carry out a bottom up assessment of the risks above the risk free rate when developing its value for RoE

1.6 The form of control and risk

The form of control (ie price cap or revenue cap) has an impact on the risks accepted by networks and consumers. Under the former (price cap) the risk of volume of transported energy lies with the service provider but the service provider has the ability under a weighted average price cap approach to vary the tariffs to mitigate the volume risk. Indeed, what has been seen, is that the price cap approach has allowed service providers to increase revenue well beyond what the AER decided was the efficient revenue for providing the services. To counter this, the AER has taken actions with electricity transport to prevent this excessive generation of revenue by requiring the imposition of a revenue cap approach. In the case of gas transportation, price caps still persist.

As a revenue cap approach transfers risk from service providers to consumers, it would be expected that there would be a corresponding move to reduce the risk premium used in the RoR formulae, but this has not occurred. In fact, the valuation of equity beta used by the AER is based on historical values of market volatility, when price caps prevailed in regulation of electricity distribution gas transport. This implies that the equity beta being applied is currently overstated.

The MEU is concerned that the valuation of equity beta (where the AER uses the Black CAPM to guide the outcome) is flawed as equity beta is an indication of volatility (which informs on risk of buying a share in a firm) rather than the underlying risk of facing the operation of a firm. This fundamental difference could explain why the Black CAPM has been developed to explain anomalies in share price transactions. But such anomalies have no similar application for assessing the operational risks that should guide the RoE calculation.

1.7 Gearing

The MEU has a significant issue with regard to gearing for the benchmark efficient network. Currently the AER considers the levels of debt actually used by networks and subtracts this from the RAB and assumes the balance is all equity. In fact, recognising that equity is effectively injections of capital and retained earnings, there is a mismatch between what the AER assesses is equity and its reality.

The MEU is aware that equity can be increased by a revaluation of assets (eg when a building goes from partially leased to fully leased) but the assets that a network holds are not in this category. In fact the overwhelming value of the RAB is based on the values of plant and equipment which only reduce over time.

In its response to the AER Discussion Paper on profitability measures, the MEU commented

> "Because the RAB is required to be based on a depreciated replacement cost of the plant and equipment provided by the network, and where there is no requirement to devalue under- or un-used assets, this means that the RAB includes a considerable amount of inflation and the full value for assets ever when they do not contribute to generating profits. In contrast, firms in the competitive environment assess their asset base on a depreciated actual cost basis[3] but also exclude other assets which do not contribute[4]. The MEU considers that measures of profitability between regulated firms and firms operating in the competitive markets need to be carried out on a consistent basis for asset valuation.
>
> The MEU has observed that the financial statements for regulated networks separate out the inflation component of RAB into a separate line item (such as a revaluation reserve[5]) in order to have their financial accounts consistent with accounting standards used by all firms. In theory, subtracting the revaluation

[3] The MEU is aware that some firms do revalue some assets when circumstances change (eg when an office building becomes fully tenanted or land is rezoned) but the bulk of assets (eg plant and equipment used by firms to generate their revenue) are recorded financially on a depreciated actual costs basis

[4] This is done through a devaluation (effectively a re-optimisation) or write off of these assets

[5] The MEU notes that the revaluation reserve is considered to be part of equity and receives an equity return. The MEU notes that as the rate of return is a nominal value, applying a nominal rate of return to inflation included in the RAB is effectively applying double inflation costs to consumers.

> reserve from the RAB would be part of delivering an asset base similar to a depreciated actual cost approach, but an assessment also needs to be made of what assets are surplus to needs and these have to be removed from the asset base. This would provide a level of consistency for comparison purposes.

With these comments in mind, the MEU considers that the gearing approach needs to be modified to reflect the reality that the RAB includes a significant element of retained inflation and assets that do not contribute to the provision of the services. Consumers rightly ask why they are expected to provide a RoE on assets that provide no benefit to them.

1.7 Debt allowance

While the MEU accepts that the trailing average debt approach provides a guide to a reasonable allowance for provision of debt, it has some significant concerns about the development of the inputs.

The MEU is aware that the AER is required to apply incentive regulation as this is a way of ensuring that networks will continue to improve efficiency and pass the benefit of this increased efficiency on to consumers. While the benefits of improved reliability, opex and capex all now have incentives built into them where the benefits are to accrue to consumers, this does not apply to the cost of debt. There is no reason why the AER cannot implement a sharing scheme where the benefits a network gains from implementing better financial practices cannot be shared with consumers. This is consistent with incentive regulation and still provides the networks with improved outcomes from better financial management.

As the MEU commented to the AER during the development of the RoR under the Better Regulation program:

- Debt is secured by a firm from a number of sources – including internal debt (eg where provisions are made for future payments but are used in the short term for funding the firm’s activities), bank debt, corporate bonds and other sources used. The AER has determined that it will only benchmark debt to one source – corporate bonds. This results in a higher debt cost than networks have revealed in their financial accounts
- The AER has assumed that the tenor of the debt is 10 years. Again, financial accounts reveal that the average tenor of the network’s debt is significantly less than this, and possibly as short as 5-7 years[6]

[6] The MEU suggests that the AER carry out a survey of other capital intensive firms to assess what is the average tenor of debt used more widely

- Borrowing costs for debt of firms with the same credit rating vary significantly even when the debt is secured at the same time. This implies that credit rating is only one of a number of factors a lender assesses when setting the cost of debt

The MEU has also noted that there is likely to be a poor correlation of the yield curves and spreads with what the actual duration weighted cost of debt is for networks. This is due to convexity and differences in liquidity, interest rate sensitivity and credit ratings. To use 10 year BBB bond yield curves alone is likely to introduce errors in the cost of debt determination. The AER should assess sensitivity differences and may need to apply some calibration constant to account for such differences between bonds and other debt securities used by networks.

Despite these realties, the AER has approached the debt allowance for networks by ignoring them. The AER must reassess its approach to setting the debt allowance. As one MEU member has observed: “one way of addressing this disparity is by using the actual realised cost of debt”. While the AER has commented that such an approach would reduce the incentive for networks to improve their financial management, the MEU points out that the current AER approach merely allow the networks to have all of the benefit.

In this regard, the AER has overlooked that it is the combined commitment of all electricity and gas consumers to effectively underwrite the ability of the networks to get lower costs of debt so it is appropriate that consumers should get some of the reward from this underwriting. Such a reward could be through an appropriately structured sharing approach to debt management.

1.8 Conservatism in RoR settings

The issue of conservatism used by the AER in assessing input point values remains a continuing issue for the MEU.

As the MEU has stated many times, using conservative values for each of the various inputs to the development of a RoR results in a massive increase in the overall conservatism in the final value for RoR, especially where two conservative values are multiplied.

The MEU agrees there is a need for conservatism in the regulatory process as the costs of a loss of supply are greater than a small premium in the cost of the service. But the overall level of conservatism in a regulatory decision is never calculated but it is certainly higher than what might be considered to be an acceptable level if the premium for conservatism was separately determined.

1.9 Summary of views

The MEU is concerned at the observation made by the AER that it considers the development of a binding rate of return should be considered as an incremental process rather than a major review of the underlying issues for reassessment. That the networks have so readily agreed with the AER on this statement raises immediate concerns that such an approach will not be in the long term interests of consumers

The MEU considers that the current approach to setting the RoR has provided a massive transfer of wealth from consumers to network asset owners, not only directly but also in the incentive it has provided to inefficient network investment causing future consumers to inherit a massively overstated value for the network assets they will need. Allowing the same RoR to apply for the next 4 years will only exacerbate this problem.

The MEU considers that the AER needs to readdress its approach to reflect the realities of excessive growth in the regulatory asset base and that buyers are prepared to pay high premiums for these assets.

There is little doubt that the market information the AER has used in the past to set RoR has not been properly investigated to ensure that there is consistency between what is measured and its applicability to regulation of networks.

While the MEU accepts, at least at this time, that the approach used by the AER might still be based on the SL CAPM, it considers that there needs to be a serious examination of:

- Gearing to reflect the realities that the RAB includes significant value attributable to historic inflation and assets not needed by consumers
- Market risk premium to remove the effects of the differences that the market risk premium measures and its applicability to regulated networks
- Equity beta as to whether
  - It is a true measure of the risks faced by networks
  - There is sufficient data on which to base a viable assessment for all networks
  - The data is too much compromised by unregulated revenue biasing the measure
- Debt measures as to whether
  - They overstate the cost of debt
  - The average tenor is appropriate

  - Other sources of debt be included in the measure
  - Credit rating is the only determinant of the cost for debt
- The degree of conservatism embodied in the approach

The MEU considers that the gearing should be changed to reflect that the assets subject to a RoE are based on equity injection and retained earnings and that the amount subject to the debt element is consistent with the amount of debt the network actually has. The balance of the funds (ie RAB less actual equity less actual debt) should not receive a return at all.

While the MEU believes that the cost or equity should be reassessed to be the risk free rate augmented by defined amounts to reflect the risk exposures networks actually have, this might be a step too far at this time. However, the MEU considers that the AER should immediately commence implementing such an approach for the review of the RoR guideline in 4 years time.

The MEU considers that there is a valid reason to change from the current approach to the cost of debt by implementing a sharing scheme where networks and consumers share in the benefits afforded by the network's improved financial approach to debt. Such an approach would reduce the concerns that consumers have over the AER overstating the cost of debt

2. Responses to AER questions

The MEU provides the following responses to the specific questions raised in the Issues Paper. The MEU has endeavoured to keep its answers as concise as possible and refers to the commentary in the preceding sections to amplify its reasoning.

	Description	MEU observations
1	**In your view, to what extent has the current approach to setting the allowed rate of return achieved the National Electricity Objective (NEO) and National Gas Objective (NGO), the Allowed Rate of Return Objective (ARORO), and the related revenue and pricing principles (RPPs)?**	The MEU is of the view that resulting from a number of observations of the market over recent years, the current RoR guideline has resulted in network service providers receiving a RoR much greater than is intended. Such market observations include • the actual amounts of tax paid compared to that allowed • the actual cost of debt paid by networks is significantly lower than that allowed by the AER • the sale of networks has delivered a significant premium over the regulatory asset base • networks are still investing considerable capital despite reliability being very high and there being little need for augmenting the networks All of these indicators imply that the networks are enjoying an excessively high RoR. In contrast, there are no indicators that imply networks are experiencing a RoR that is too low.
2	**Should information on profitability, asset sales, financeability and any other financial information be used when assessing outcomes against the NEO and NGO,**	Yes. There is little information available regarding the regulated network provider sector, and what there is, is usually contaminated by income from unregulated activities. This means that the only reliable source of

	ARORO, and the related RPPs? If so, how?	information about a “pure play Australian benchmark efficient entity” must come directly from each regulated network to inform whether the RoR is too high and what might be an appropriate level
3	**Is the current approach to setting the benchmark term and level of gearing appropriate?**	No. See comments in section 1
4	**Should the conditions and process for setting averaging periods be refined?**	Yes. The MEU has noted that the regulated networks attempt to apply an averaging period that delivers a better outcome for them. The MEU considers that the averaging period should be set by the AER and be consistent eg that the averaging period will be X days long, with the last day of the period set Y days from the release of the AER final decision.
5	**To what extent are changes required to the current approach of transitioning from an on-the-day rate to a trailing average?**	The MEU is concerned that the length of 10 years for the debt period is too long and should reflect the length of the average tenor for all debt. The MEU supports a transition to the trailing average approach but it should be only over the average debt tenor.
6	**Is it appropriate for us to review the return on debt implementation approach by performing a review of the four third party debt data series currently available to us? Please also explain if you think there is further valuing in broadening this scope of debt implementation issues and why you hold this view?**	The MEU does not consider that the cost of debt should be based on the corporate bond rate but over a number of sources of debt, such as internal debt (eg where provisions are made for future payments but are used for funding the firm’s activities), bank debt, corporate bonds and other sources used. The current approach used by the AER delivers an outcome that is too conservative and therefore is higher than that the cost of debt actually incurred and, as a result, imposes an unnecessary premium on consumers.

		In setting the various costs of debt for each category, the AER should use what sources are available but weighted by the reliability of the data.
7	**Would a more prescriptive approach to setting the equity risk premium be appropriate? If the Guideline has a more prescriptive approach to estimating equity risk premium, what set of conditions for reopening the Guideline would best achieve the national gas and electricity objectives and the allowed rate of return objective?**	Once set, the MEU considers that the only parameters that should be adjusted in the setting of a return on equity, should be the value of the risk free rate. To allow an opening for any other determinant in the calculation of RoE during the life of the RoR guideline merely opens up further debate and argument, and the possibility of appeals. Having just one parameter allowed to move (ie risk free rate) provides certainty for investors and consumers.
8	**Is the theory underlying the Black CAPM still appropriate for informing an equity beta point estimate? In its place, should alternative information to guide the selection of an equity beta point estimate?**	See comments in section 1 The MEU considers that the use of the volatility of a firm's share price is not a good surrogate for the underlying risks faced by the firm. This was highlighted in the Better Regulation program by McKenzie and Partington where they provided a listing of the risks faced by a firm rather than those faced by a trader in the firm's shares which is what is measured by asset beta. This might also explain why the Black CAPM appears to be in conflict with the SL CAPM outcome.
9	**What is the appropriate role of dividend growth models (DGMs) in setting the allowed return on equity?**	No The MEU does not consider the DGM has a role in the development of the RoE calculation. The MEU considers that the risk premium used should reflect the underlying risks facing a network, that this should be assessed and added to the risk free rate. The MEU is very concerned that the DGM is has inputs (eg the dividend growth rate) which are too subjective to provide a sound basis for setting a forward looking RoE.

10	**Is it appropriate to limit the review of the valuation of imputation credits to updating the empirical analysis? Are there any particular issues we should take into account when updating empirical analysis?**	No The MEU is concerned that the actual tax paid by networks is so far under the amount of tax assumed by the AER that there must be a fatal flaw in the AER approach. The MEU is concerned that the AER is using data from tax paid by all firms as a surrogate for the tax paid by networks. It is clear from recent assessments of the amounts of tax paid by firms in the wider market, that any assumptions made about how much tax is paid are erroneous. For example, the view that all firms pay the 30% tax rate is demonstrably incorrect. To assume that regulated networks will pay 30% tax is an assumption that is not borne out by the outcomes from the wider market. Similarly, the MEU has reservations about the assessment of utilisation and distribution rates that are used. For example, research indicates that the market places a significant value on distributed franking credits (eg Handley & Maheswaran 2003, McKinsey & Co 1994, Hathaway & Officer 1992 and 1996). At a 90% confidence level and based on these studies the average value as a percentage of face value is between 50 – 90%. Furthermore, off-market buybacks and selective capital market buybacks indicate 40 - 60% of face value. Overall, there is evidence that the AER is way too conservative at an imputation gamma of 0.4 and it needs to be increased
11	**Should expected inflation and its interaction with the allowed rate of return be a priority under the Guideline review?**	The MEU considers that the concerns raised by networks about the AER approach to setting a rate for inflation in the models is a non-issue as the models are adjusted over time to reflect the actual inflation that occurred. The MEU accepts that the AER does need to assess inflation in its

		forward looking approach, and the current approach by the AER provides certainty for and replicability by all concerned. To insert a rate of inflation that based on subjectivity at each reset does not provide increased certainty for investors or consumers.