

Mr Warwick Anderson
General Manager, Network Pricing
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

Dear Warwick,

We are pleased at this opportunity to respond to your three recent working papers on the cost of equity, the cost of debt and the overall rate of return. We have been heavily involved in the AER's process in respect of the 2022 Rate of Return Instrument and commend the AER for the comprehensive approach it has taken.

Our submission is brief, as our views are reflected in detail in the submissions from the Energy Networks Association (ENA) and the Australian Pipelines and Gas Association (APGA). Key issues for us in those submissions include:

- The future of the gas industry – the APGA submission clearly lays out the different ways in which this can be considered and their inter-relationships, as well as the importance of ensuring all risks are adequately addressed. Our preference is to deal with these issues through a review of the speed of recovery of the regulated asset base. However we support the APGA's submission call for flexibility and pragmatism and, most especially, its call that the AER consider the way in which the RoRI interacts with other measures to address risks associated with the future of the industry.
- Low interest rate environment and the return on equity – we support the ENA's logically consistent approach to deal with the current low rate environment when setting the allowed return on equity. If a mechanism for adjusting the allowed return on equity which captures the relevant inter-relationships is used, we support the ENA's logical framework for ensuring it is consistent with the starting allowance. We also note the benefits this may have in respect of more stable consumer prices.
- Cross checks – particularly in respect of the cost of equity, we agree with the ENA and APGA submissions that consideration should be given to the amount of uncertainty in parameter estimation given the quality of available market data as a means of checking the AER's exercise of judgement.
- Cost of debt – we echo the concerns expressed by the ENA and APGA in respect of the potential for the EICSI to create a debt allowance which cannot be replicated by efficient networks. We understand the AER is analysing this issue and support this key aspect of work.

We look forward to discussing our views with you on these topics over coming months.

Yours sincerely,



Roxanne Smith
Executive General Manager – Corporate and Regulation