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Draft Rate of Return Determination

The Australian Energy Council (the AEC) welcomes the opportunity to make a submission on the draft Rate of Return determination.

The AEC is the industry body representing 21 electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. These businesses collectively generate the overwhelming majority of electricity in Australia and sell gas and electricity to over 10 million homes and businesses. The AEC has a number of members who will contribute their own submissions on this draft determination.

The draft Rate of Return determination overall strikes a reasonable balance between the competing demands of the process. The National Electricity and National Gas Objectives (NEO, NGO) require the process to deliver a decision that is in the long-term interest of customers. Given that the lower the allowed Rate of Return the less customers pay, this would seem to be served by setting the rate of return as low as possible. However, networks are capital-intensive businesses and the long-term interest of customers is not served by setting an inadequate rate of return that does not allow a network service provider to fund the necessary expenditure to maintain and operate the network safely and securely.

Nor is the long-term interest of customers served by volatile decision-making that reduces investor confidence in the sector. With this latter point in mind, the AER has signalled that it sees this rate of return process as evolutionary rather than revolutionary. This may have been interpreted by some stakeholders that certain parameters would be kept constant unless there was overwhelming evidence to adjust them. Rather, it seems that the AER has used largely familiar analytical tools, techniques and sources of evidence to arrive at an overall best estimate of each of the parameters of the rate of return.

Arguably some of these estimates are conservative (that is to say, they tend to increase the rate of return) and others less so. Ultimately, it is the overall decision that matters and, on the evidence, available, the draft determination appears reasonable in the context of the very low risk profile of regulated networks. The reaction of the capital markets, while not providing evidence that can be mechanically fed into parameter estimation, at least has not signalled that the draft determination is materially too low, notwithstanding the rhetoric of some investor representatives in the consultation.

Finally, the process itself has been extensive and multi-faceted and represents a full and fair consultation process.

Yours sincerely

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