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25 September 2018

Mr Warrick Anderson
General Manager
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

Submitted via email: [redacted]

Dear Mr Anderson

**Re: Draft Rate of Return Guideline**

Red Energy (Red) and Lumo Energy (Lumo) welcome the opportunity to provide input to the draft rate of return guidelines (draft guideline).

Under the current legislative framework, the Australian Energy Regulator (AER) is required to periodically review the Rate of Return Guideline (guideline) and publish an amended guideline if necessary. Following an extensive consultation process on the review of the 2013 guideline, in July 2018 it released its draft guideline.

The draft guideline has been developed following a transparent and open lengthy regulatory process. As a result, the AER has delivered a predictable and measured decision in attempting to balance the competing interests of consumers and network businesses. This has resulted in a rate of return that is commensurate with the efficient financing costs of a benchmark efficient entity under the current market conditions. As such, Red and Lumo support the AER's draft guideline.

We make the following comments on the draft guideline:

- The draft guideline will ensure that capital continues to be invested in network businesses. Adjustments to the 2013 guideline follow an extensive consultation process which have delivered a range of measured rate of return parameters reflected in the draft guideline. This will allow network businesses to continue to attract capital to fund their asset expansion programs.

- We strongly support the Independent Panel's review of the draft guideline and the AER adopting their recommendations. This review will ensure that the methodology and the parameters that are reflected in the draft guideline are reasonable. It will also give investors and the broader market additional confidence in the guideline.

- A binding framework for the rate of return is supported. The methodology for calculating the rate of return would be "locked in" to a binding regulatory instrument. This would provide greater certainty to network businesses and promote investor certainty. As a result, we do not support re-opening of the guideline during a regulatory period.

- We consider that an ex-post review of all capital expenditure over a regulatory period ensures that only efficient capital expenditure is added to the Regulated Asset Base. To the extent that the value of any capital expenditure is deemed to be in-efficient, than it should be adjusted ex-post.

**Additional steps to delivering a robust Guideline**

Red and Lumo consider that there is a key risk that the AER must mitigate, that the draft guideline does not reflect the actual funding costs of network businesses. A practical way to mitigate against this risk is for the AER to undertake the following actions:

1. Applying the methodology in the guideline to some previous regulatory determinations to ensure the outcomes are reasonable. This will ensure the adopted methodology is robust.

2. Gathering information on the actual cost of funding for the network businesses. Understanding the actual funding costs of network businesses and comparing to outcomes in the draft guideline will ensure the final guideline is credible.

These actions will give the AER and industry more confidence that they have delivered the right parameters in their guideline.

**About Red and Lumo**

Red and Lumo are 100% Australian owned subsidiaries of Snowy Hydro Limited. Collectively, we retail gas and electricity in Victoria, South Australia, New South Wales and Queensland to approximately 1.1 million customers.

Should the AER have any enquiries regarding this submission, please call Con Noutso, Regulatory Manager on [redacted].

Yours sincerely

[redacted]

**Ramy Soussou**
General Manager Regulatory Affairs & Stakeholder Relations
**Red Energy Pty Ltd**
**Lumo Energy (Australia) Pty Ltd**