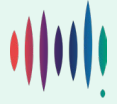


2026 Draft Rate of Return Instrument

Submission to Australian Energy
Regulator

Submitted by: Ashley Bradshaw

DATE: 27/07/2026



2026 Review of the Rate of Return Instrument (RORI) Draft Decision

Dear Gavin

As you know, Energy Consumers Australia (ECA) is the national voice for household and small business energy consumers. We advocate for a fair, affordable, and reliable energy system—one that meets everyone's needs and leaves no one behind on the journey to net zero.

ECA welcomes the opportunity to provide comment on the AER's Draft Rate of Return Instrument. The regulated rate of return sets around 40 to 60% of network revenues and is therefore one of the single biggest drivers of network revenues, and retail energy bills.

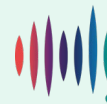
Throughout past reviews, consumer advocates have argued that the rate of return was unjustifiably set above what was necessary to attract efficient investment. This has resulted in retail energy bills being higher than necessary. Setting the rate of return too high distorts investment signals, encouraging overinvestment, contributing to a higher than necessary regulatory asset base.

Our core principle remains unchanged: **the rate of return, and associated parameters, must be set at the lowest possible level that can reliably attract investment.** While we acknowledge that the AER's Draft Decision reduces the regulated returns earned by businesses, particularly through a reduction in the equity beta, it does not go far enough to achieve this principle in practice. We are deeply concerned that the Draft Decision will lead to consumers unnecessarily overpaying to compensate NSPs for risks they are already shielded from.

Our key points are:

- **The AER's equity beta estimate of 0.55 is not justified and is higher than what the evidence suggests.** Equity beta should be no higher than 0.5. The AER's estimate is biased by the inclusion of non-representative firms and the international data which the AER itself expresses caution with. The domestic data shows clearly that the equity beta estimates of majority-regulated Australian firms are generally below 0.4.
- **The AER has not adequately considered our submission on the role of inflation as contributing to higher than forecast returns on equity.** This review provides the scope to fix this mechanism before consumers are forced to fund further unearned outperformance.
- **The Market Risk Premium estimate of 6.1% is not justified and is higher than the evidence suggests.** The Market Risk Premium should be set no higher than 6.0%.
- **There is no evidence of a major problem that moving to a weighted trailing average solves.** There is little evidence that network investment is being constrained under the current approach.

We provide further reasoning for our position below. In addition, we attach an independent response to the Draft Decision by Electricity Market Advisory Services. Please contact Ashley Bradshaw at ashley.b@energyconsumersaustralia.com.au for more information.



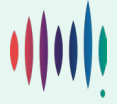
Yours sincerely

Ashley Bradshaw

Ashley Bradshaw

Acting General Manager, Advocacy and Policy

Energy Consumers Australia



Equity beta

ECA considers that the AER's equity beta estimate of 0.55 is higher than necessary to reflect the true level of systematic risk faced by Australian NSPs. **Equity beta should be set at 0.5 at the highest.**

The domestic data is unambiguous: majority-regulated domestic firms do not exceed an equity beta of 0.50. The AER continues to unjustifiably inflate the equity beta above what is empirically required to compensate NSPs for their exposure to systematic risk.

We agree with the AER that the systematic risk for an Australian NSP is lower than that of the market average firm.¹ The regulatory framework protects NSPs from several systematic risks suggesting qualitatively that equity beta should be low.²

As the AER notes, the average equity beta estimate of the domestic comparator set is 0.56. **However, the specific businesses the AER chooses to aggregate in its broader domestic analysis remain unrepresentative.** As per our previous submission, the comparator set should only use firms that are majority-regulated monopolies operating in a similar regime as Australian NSPs.³ But when the AER only includes majority-regulated firms, the equity beta estimate falls dramatically to 0.4.⁴

Figure 1 illustrates the negative relationship between equity beta estimates and the proportion of business revenue that is from regulated services. As the proportion of regulated monopoly services revenue increases, the corresponding equity beta estimate falls.

As we understand the draft decision, the AER has landed at an equity beta estimate of 0.55 as it is the midpoint of the estimated range of 0.4 to 0.7. The AER appears to have developed the max point of the range 0.7 by considering the average of its new international set. We see several flaws in the AER's approach.

We are confused why the AER would consider 0.4 to be the low point of its range estimate of equity beta. Four of the five businesses in the domestic sample that are majority-regulated have an equity beta below 0.4. And the one that is, Spark Infrastructure, has an equity beta estimate of just 0.44.⁵ **In our view, this demonstrates that 0.40 represents the realistic centre of gravity for the baseline for the estimate, rather than treated as the lower bound of the range.**

The AER acknowledges that international utilities operate under different regulatory regimes and that they are "imperfect substitutes"⁶. Further, the AER states that "the relative merits of using domestic data to inform our point estimate, notwithstanding their largely historical nature, outweigh those of using international data at this time."⁷ The AER acknowledges these issues in the Draft Decision yet appears to give material weight to the international estimates.

Therefore, choosing a mathematical midpoint between the domestic majority-regulated dataset (0.4) and an acknowledged noisy, upwardly distorted international dataset (0.7) is methodologically unsound. It allows unrepresentative upwardly biased data to directly dilute highly representative data. There is no

¹ AER, Draft 2026 RORI Explanatory Statement, 29 May 2026, p. 39.

² EMAS, Submission to AER Consultation Paper, 2025. Access [here](#).

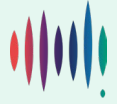
³ Ibid.

⁴ AER, Draft 2026 RORI Explanatory Statement, 29 May 2026, p. 48.

⁵ Ibid, p. 44.

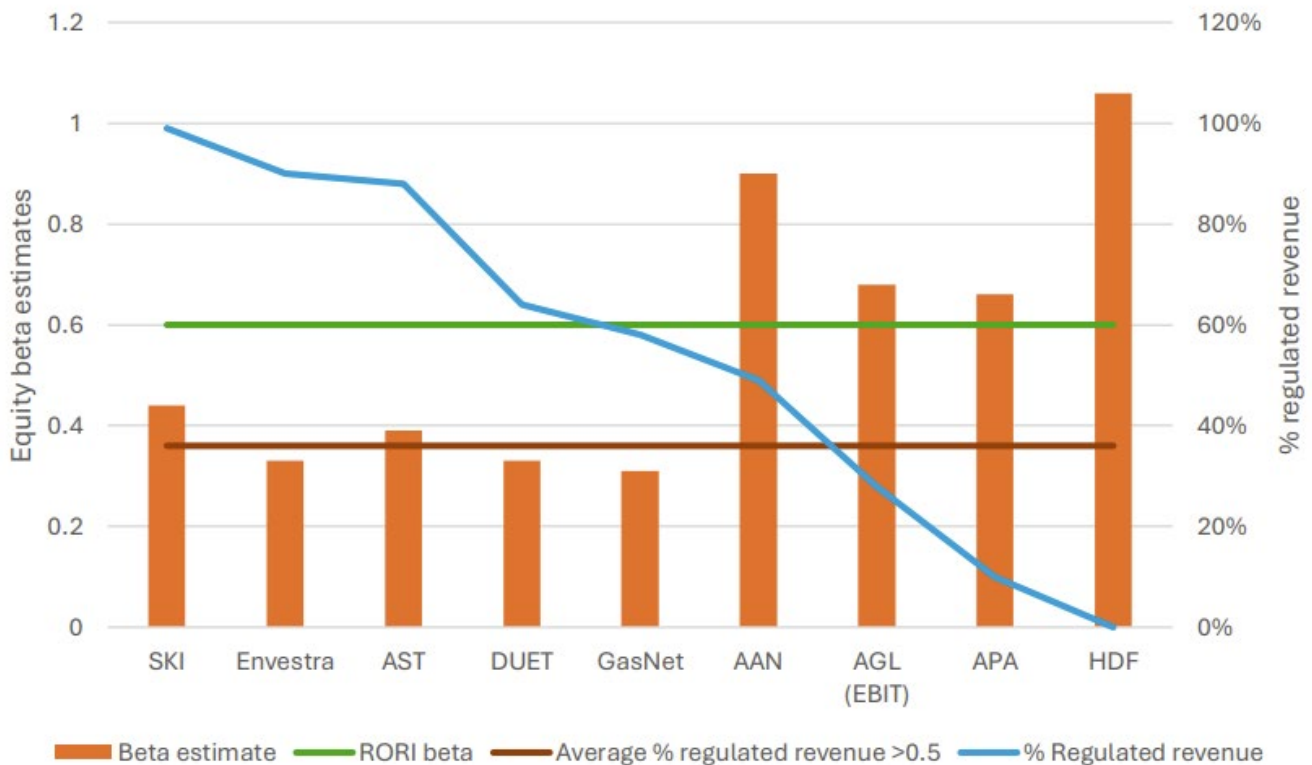
⁶ Ibid, p., 2.

⁷ Ibid.



economic justification for compensating Australian NSPs for systematic risks beyond what is empirically observed for pure-play utilities operating directly within the domestic market.

Figure 1: Analysis of the businesses in the domestic comparator set



Source: EMAS, Report for Energy Consumer Australia's Submission to the AER's 2026 Rate of Return Instrument Review, p. 28

Further, AER's international dataset is dominated by unrepresentative firms with different risk profiles to Australian NSPs. Most of the sample set includes vertically integrated utilities subject to trading, demand and competition risks.⁸

As per our previous submission, any international comparator should only be included if it operates under a similar regime as Australian NSPs.⁹ This will mean that the AER would have to exclude most international firms. For these reasons, our previous submission proposed a sample of three international firms, which the AER has clearly had regard to in making their Draft Decision.¹⁰

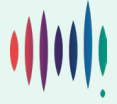
Figure 2 shows the equity beta estimates of the AER's international sample, the ECA sample, and from other sources. It shows that the equity beta estimates of our sample are below those of the other sample sets and is generally around 0.6. In addition:

- Between 2011 and 2019, all equity beta estimates followed a decreasing trend, converging to around 0.5 to 0.6 in 2019.

⁸ EMAS, Submission to AER Draft RORI Decision, July 2026.

⁹ EMAS, Submission to AER Consultation Paper, 2025. Access [here](#).

¹⁰ AER, Draft 2026 RORI Explanatory Statement, 29 May 2026, pp. 47-48.



- Except for our sample, equity beta estimates increased materially from 2020 to 2024. As the AER notes in the Draft Decision, during the COVID-19 pandemic period, equity beta estimates of international firms increased, while Australian firm equity beta estimates decreased.
- In the most recent year of data, all international equity beta estimates fell back to the pre-2020 levels of around 0.5 to 0.6.

The AER has chosen the top of its estimate range as 0.7, noting that the average equity beta estimate for its international sample over the longest period is 0.68.¹¹ We see several issues with the AER's approach:

- The AER has rounded up from 0.68 to 0.7 with little justification, which subsequently biases its midpoint estimate upward by 0.01.
- The AER's estimates are biased by the impact of COVID-19 on international equity beta estimates which increase the long-term average. The AER has clearly said that COVID-19 did not have the same impact on the equity beta estimates of domestic firms.¹²
- As mentioned above, we do not agree with the firms selected in the AER's sample as they include firms that face greater risks than Australian NSPs.

As per Figure 2, the equity beta estimates of our more representative sample of international firms is around 0.6. We consider this should be replaced as the top end of the estimate range. Consequently, if the AER insists on using a midpoint methodology, pairing the domestic baseline (0.4) with a corrected international ceiling (0.6) mathematically yields an equity beta of exactly 0.5—not 0.55.

In conclusion, an equity beta estimate of 0.55 remains well above what is empirically required to compensate Australian NSPs for the relatively few systematic risks they face.

The AER should have no regard to its historical point estimates when finalizing this instrument; it must focus strictly on the empirical evidence derived from its own analysis. The previous equity beta estimate of 0.6 was never justified by the available evidence, nor were the previous decisions to have it at 0.7 or 0.8.¹³

We understand the AER may have reservations about making substantial structural adjustments within a single review period—such as moving immediately from the previous 0.6 estimate to 0.4. However, there is clear regulatory precedent for the AER implementing a full 0.1 point change when the evidence demands it, as seen in the transition from 0.8 down to 0.7.¹⁴

The AER must execute its legislative duties under the National Electricity Objective NEO and National Gas Objective NGO. The revenue and pricing principles explicitly dictate that while NSPs must have a reasonable opportunity to recover efficient costs, pricing must ultimately promote the efficient use of, and investment in, infrastructure in the long-term interest of consumers.¹⁵ A final equity beta capped at 0.5 is the only outcome consistent with that mandate.

¹¹ AER, Draft 2026 RORI Explanatory Statement, 29 May 2026, p. 21.

¹² Ibid, p. 34

¹³ AER, AER releases equity beta issues paper as part of consultation on our rate of return guideline - Request for submissions, 2013. Access [here](#).

¹⁴ Ibid.

¹⁵ AER, Draft 2026 RORI Explanatory Statement, 29 May 2026, pp. 9-10.

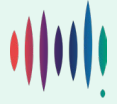
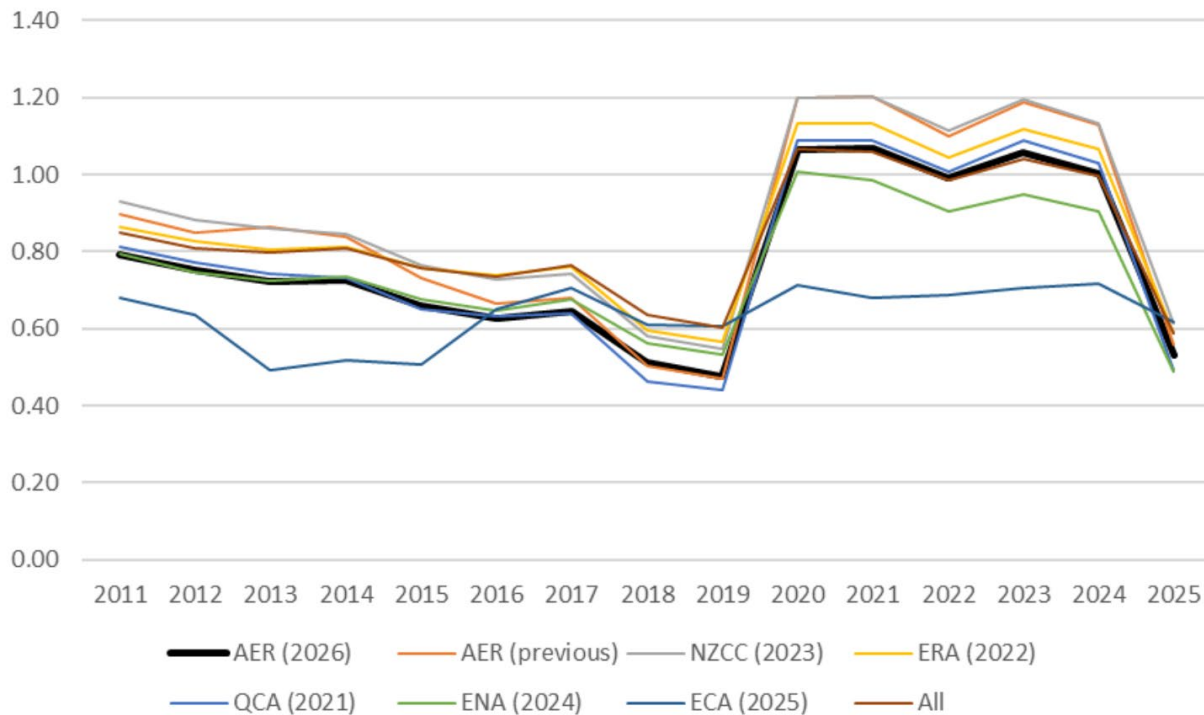


Figure 2: International equity beta sample estimates



Source: AER, Draft 2026 RORI Explanatory Statement, 29 May 2026, p. 48.

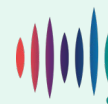
Outperformance on regulated return on equity and the impact of inflation

As per our previous submission, AER Network Performance Reports repeatedly show aggregate real returns on equity by Australian NSPs are above forecast returns.¹⁶ In some years this 'outperformance' has been over 5 percentage points. Importantly, we argue that the forecast returns in historical years were more than necessary, meaning that the true outperformance on efficient and fair returns is likely understated in the AER analysis.

Figure 3 illustrates that in recent years, some electricity networks have earned real returns on equity well above AER forecasts. Figure 3 shows the average annual real return on equity earned by electricity distribution providers over the last four years of available data (2022 to 2025) and compares this to the AER's *forecast* return on equity. It shows that all but one electricity distribution network received returns above the AER forecast.

Some degree of outperformance relative to expectations is an anticipated feature of the regulatory framework. However, such persistent and, at times, material outperformance raises questions about whether regulatory outcomes remain consistent with the NEO and the revenue and pricing principles. As Figure 3 shows, 8 of the 13 distribution networks are estimated to have exceeded the forecast real return on equity by more than four percentage points. We cannot reconcile windfall gains of this magnitude as promoting the long-term interests of consumers.

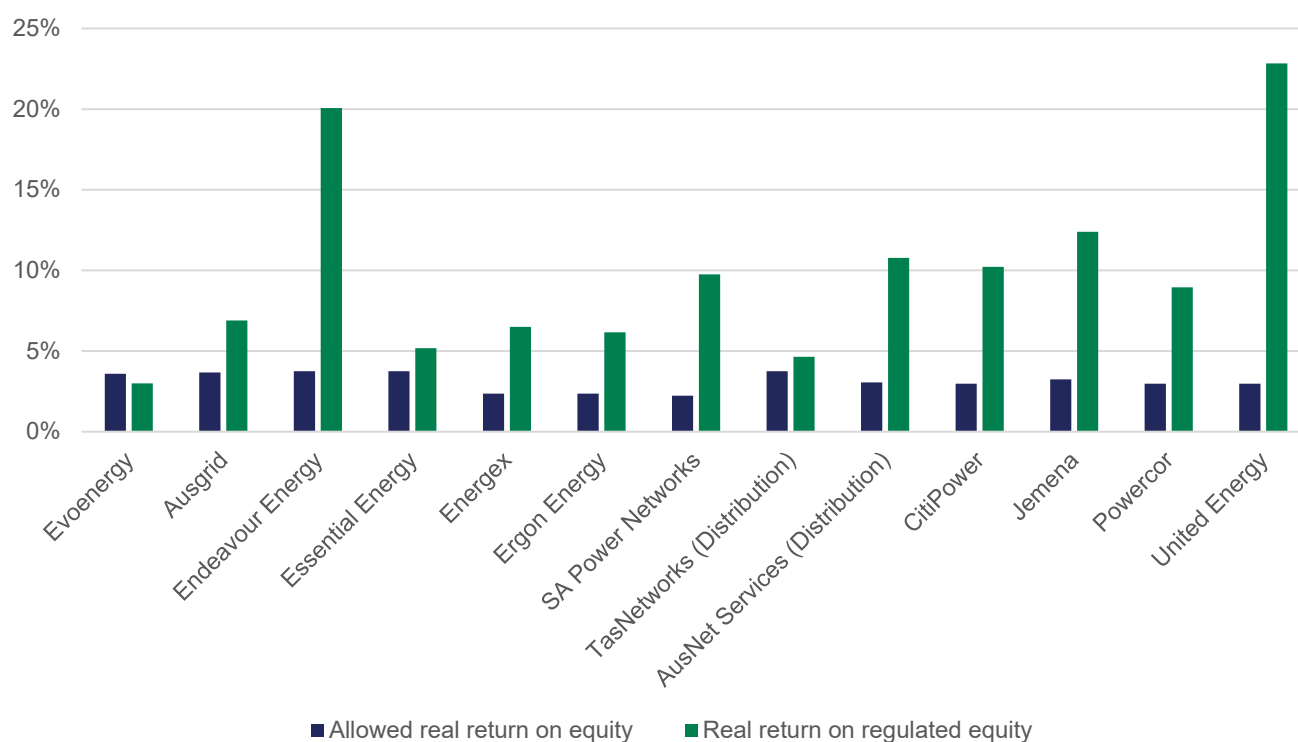
¹⁶ AER, 2026 Network Performance Report, 2026.



As the attached EMAS report demonstrates, a material proportion of this recent outperformance is due to how inflation is treated in the rate of return instrument. When actual inflation is higher than the AER's forecast, networks get higher than forecast real returns.

The AER must address this issue now to reduce the risk that future periods of elevated inflation result in windfall gains that are not reflective of underlying efficiency or performance improvements. We commend the AER for being aware of this issue and suggesting it warrants further investigation.¹⁷ However we disagree with the AER that addressing this issue requires a separate specific review of inflation. In section 3 of the EMAS report, they explain how the existing RORI can be amended to address this issue.

Figure 3: Average annual allowed and actual real return on equity – 2022 to 2025

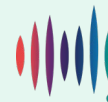


Source: ECA Analysis of AER, Operational performance data 2026 – electricity distribution networks. Accessed [here](#).

Market risk premium

ECA considers the AER's MRP estimate of 6.1% is above what the evidence suggests it should be. The AER should adopt an MRP of no more than 6.0% in the final decision.

¹⁷ AER, Draft 2026 RORI Explanatory Statement, 29 May 2026, pp. 4-5.



We support the use of the historical excess returns (HER) analysis as the primary indicator of the MRP. Based on the most recent sample period, the HER is estimated to be:¹⁸

- 6.3% based on an arithmetic average;
- 5.0% based on a geometric average; and
- 6.0% based on a weighted average.

We consider this analysis would place a reasonable HER estimate at around 5.7% to 6.1%. This is because we recognise that the arithmetic average is subject to an upward bias and the geometric average has a downward bias.¹⁹ The AER's draft decision of 6.1% is at the top of a reasonable range, with limited evidence to support this decision. This appears to contradict the AER's approach of using a midpoint to estimate equity beta. By selecting 6.1%, the AER is heavily skewing its decision toward the upwardly biased arithmetic mean (6.3%), rather than anchoring near the true midpoint (5.65%) or the weighted average (6.0%).

Further, the dividend growth model (DGM), survey results and other market data suggest a lower MRP estimate:

- While we agree with previous Consumer Reference Groups that caution is needed when using the DGM, the DGM estimates have materially declined from the 2022 estimates. The 2026 DGM estimates are also well below the HER estimates.
- While we place limited weight on surveys, the median estimate of the MRP based on market practitioner surveys is exactly 6.0%.
- Analysis of dividend yields, market volatility, and credit spreads all show a decreasing trend.

Combined, this analysis would suggest there is no empirical justification for keeping the MRP estimate at the top of a reasonable range based on the analysis provided. The MRP in the final decision should be no higher than 6.0%.

Weighted trailing average

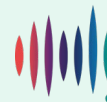
We support the AER's decision to retain the simple trailing average for estimating the return on debt. This is for many of the reasons the AER gives in the Draft Decision. In addition:

- We see no strong evidence of a material problem that requires solving. Networks for the most part are generally spending their capital expenditure allowances despite the Capital Expenditure Sharing Scheme incentivising underspending.²⁰ This gives little weight to claims that the current RORI instrument is constraining the ability of NSPs to raise debt.
- Where specific financing challenges exist (such as funding large transmission projects) government-backed concessional finance is already being utilised. As the AEMC's recent rule changes

¹⁸ Ibid, pp. 94-95.

¹⁹ Ibid, pp. 93-94.

²⁰ See AER, 2026 Operational performance data, 2026. Access [here](#). Additionally, see analysis at Renew Economy, One of the highest impact decisions for home energy bills is about to be made. Here's why it matters, 2026. Access [here](#).



demonstrate, targeted mechanisms are the appropriate tool to manage these unique projects, rather than altering the core RORI framework for all networks.²¹

- A move to a weighted trailing average now would lead to a price increase for consumers.²²

The AER should not implement a move to a weighted trailing average in the final decision.

²¹ See AEMC, Concessional finance rule changes, 2024. Access [here](#).

²² EMAS, Submission to AER Draft RORI Decision, July 2026.

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