Monday, 17 August 2026

Clare Savage
Chair
Australian Energy Regulator

Dear Chair,

We are writing to you to outline our joint position on the Australian Energy Regulator's (AER) draft decision on the 2026 Rate of Return Instrument (RORI) and urge you to keep the interests of energy consumers front of mind in making your final decision.

Our organisations represent energy consumers from across Australia, including our nation's most vulnerable people. We are unified in our view that this upcoming decision on the RORI is one of the most significant opportunities to support household and small business 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. It also drives broader inflationary and flow-on economic impacts for the community.

Our core principle remains unchanged: the RORI, 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 networks, 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 regulated networks for risks they are already shielded from.

As you may be aware, our key policy recommendations 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

In the coming months, our organisations will continue to publicly call for these concerns to be addressed in the final decision on the RORI. We would welcome the opportunity to brief you and your team on this matter, should you wish.

Please reach out to Ashley Bradshaw - Executive Manager, Analysis and Advocacy, via ashley.bradshaw@energyconsumersaustralia.com.au to arrange a suitable time.

Kind regards,

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