



18 December 2025

To: Australian Energy Regulator
Re: Rate of Return Instrument Review discussion paper

Thank you for the opportunity for the Institute for Energy Economics and Financial Analysis (IEEFA) to provide input to the Australian Energy Regulator (AER)'s 2026 Rate of Return Instrument (RORI) Review, in response to the discussion paper.¹

IEEFA is an independent energy finance think tank that examines issues related to energy markets, trends and policies. The Institute's mission is to accelerate the transition to a diverse, sustainable and profitable energy economy.

Efficient network prices are key in a high cost-of-living environment

Australia is facing a cost-of-living crunch, and rising electricity bills are one contributor.² In the context of higher inflation, higher interest rates (which increase the weighted average cost of capital), new capital expenditure and other drivers, the network component of recent Default Market Offers (DMOs) has recently risen for residential consumers.³

The AER found consumers are facing a "wall of capex" from distribution businesses for the 2025-2030 regulatory period.⁴ Transmission capex is also on the rise, with new transmission lines required to connect renewable energy to load centres.⁵ In this context, it is extremely important to keep the rate of return to efficient levels, to keep bills as low as possible while maintaining required levels of investment.

Scope and terms of the RORI review should be broader reaching

Financing costs governed by the RORI are typically the largest single cost-building block influencing total required revenues and changes in network tariffs. The AER proposes that the RORI review be focused on equity beta and the potential use of a weighted trailing average for return on debt.⁶ IEEFA considers that the review should be more far-reaching, given the broader context of rising electricity bills, and given the consistent outperformance by network businesses above the "allowed" return on equity (RoE), as shown in the AER network performance report (see Figure 1).

¹ AER. [Rate of Return Instrument Review discussion paper](#). August 2025.

² ABS. [Selected Living Cost Indexes, Australia](#). September 2025.

³ AER. [Default market offer prices 2025–26](#). 26 May 2025.

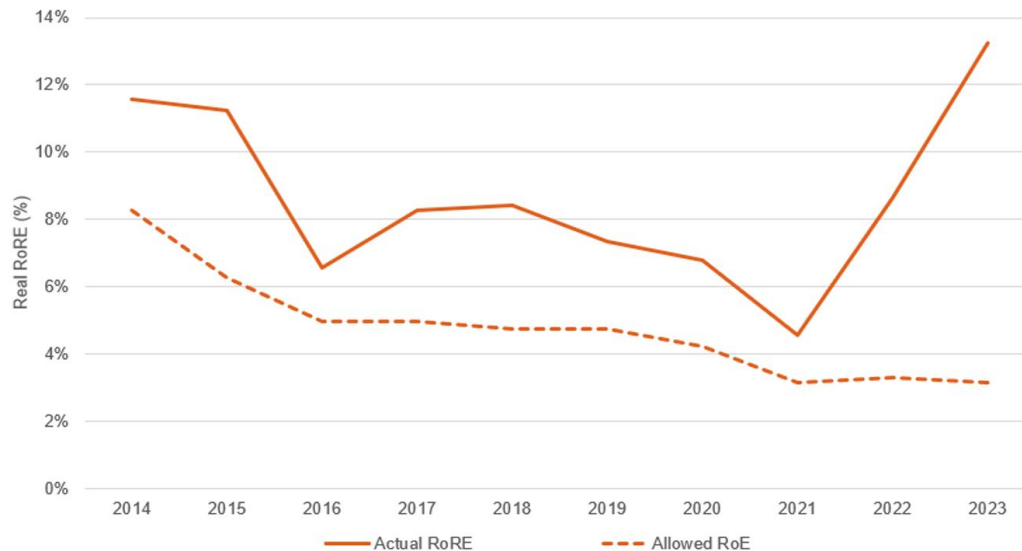
⁴ AER. [SA Power Networks 2025-30 Draft Decision](#). 14 October 2024.

⁵ AEMC. [Residential Electricity Price Trends 2025](#). 4 December 2025.

⁶ AER. [Rate of Return Instrument Review discussion paper](#). August 2025. Page 12.



Figure 1: Real return on regulated equity (RoRE) versus allowed RoE – electricity network service providers (NSPs)



Source: AER ⁷

IEEFA has estimated that network businesses received \$15 billion in supernormal profits between 2014 and 2023, on top of their “allowed” profits of \$17.6 billion for the period.⁸ In a public response to IEEFA’s earlier 2022 and 2023 analysis, the AER confirmed an “outperformance” figure that was broadly similar to IEEFA’s estimate of supernormal profits.⁹

A range of factors contributed to this outcome, so focusing solely on the equity beta and the weighted trailing average approach for the return on debt misses key opportunities to improve efficiency in the regulatory system within the scope of the RORI. IEEFA believes that the RORI review scope should be broadened to consider any possible financing cost levers that could bring network prices to a more efficient level.

The AER should continue benchmarking equity beta based on historical Australian data and consider an equity beta at 0.5 or below

IEEFA believes there are significant risks with using international data for equity beta benchmarking, given the very different risk dynamics and scope of activities in other countries, as the AER has noted in the discussion paper. IEEFA believes the AER should continue using historical Australian monopoly network firm data in equity beta benchmarking, given the challenges with adjusting any international data reliably.

⁷ AER. [2024 Electricity and gas networks performance report](#). September 2024. Page 82.

⁸ IEEFA. [Taming electricity price inflation starts with addressing network supernormal profits](#). 5 November 2024.

⁹ AER. [AER Statement – Institute for Energy Economics and Financial Analysis report on electricity network profits](#). 22 November 2023.



Further, the AER should consider reducing the equity beta to 0.5 or below. The Consumer Reference Group's 2022 submission to the draft RORl decision¹⁰ stated:

"Across almost every aspect of this rate of return review, the AER is proposing to make decisions that give the benefit of the doubt to networks in the form of a higher rate of return than is otherwise justified. Consumers will be paying until 2031 for the AER's unwarranted permissiveness."

"The range of estimates presented in the 2022 Draft Explanatory Statement (and the AER's observations in 2018) clearly do not support an estimate of beta as high as 0.6."

"We find the evidence and the AER's analysis overwhelmingly supports a point estimate of beta of 0.5 or less."

Recent analysis from the consultancy Electricity Market Advisory Services shows that the current equity beta appears to overcompensate network businesses by including comparators where the majority of revenues are not protected by statutory monopolies. Excluding such comparators suggests the equity beta should be 0.5 or below.¹¹ The AER should consider this in the draft RORl.

The weighted trailing average approach to calculate the return on debt requires further analysis

IEEFA considers that the AER should undertake further analysis of the potential weighted trailing average approach for the return on debt, to quantify the potential impact of this change and assess whether it is required by network businesses. In the AER's discussion paper, the explanation for shifting to a weighted trailing average approach overlooks the fact that recent rule changes and the establishment of the Rewiring the Nation Corporation already address financeability issues arising from "lumpy" transmission capex. The views of the eligible experts on the weighted trailing average approach are mixed, and Transgrid viewed it as a "second-order consideration".¹² The AER has outlined benefits, risks and trade-offs.¹³ However the financial and network cost implications, as well as the requirements of network businesses, remain unclear at this stage. IEEFA therefore considers that further analysis is required to determine whether a weighted trailing average approach to calculating the return on debt is warranted.

Please do not hesitate to get in touch with any questions on any part of this submission at aus_staff@ieefa.org.

Kind regards,
Johanna Bowyer – Lead Analyst, Australian Electricity, IEEFA

¹⁰ Consumer Reference Group. [Advice to the Australian Energy Regulator CRG Response to the AER's Draft Rate of Return Instrument](#). 2 September 2022. Pages 3, 4, 21.

¹¹ Electricity Market Advisory Services. Report for Energy Consumer Australia's Submission to the AER's 2026 Rate of Return Instrument Review. December 2025.

¹² AER. [Rate of Return Instrument Review discussion paper](#). August 2025. Page 22 and 27.

¹³ Ibid. Page 31.