

29 July 2020

Mr Warwick Anderson
General Manager, Networks Finance and Reporting
Australian Energy Regulator

Sent via email to: InflationReview2020@aer.gov.au



Dear Mr Anderson,

Submission to Regulatory treatment of inflation – discussion paper

The Public Interest Advocacy Centre (PIAC) is an independent, non-profit legal centre based in New South Wales. Established in 1982, PIAC tackles systemic issues that have a significant impact upon people who are marginalised and facing disadvantage. We ensure basic rights are enjoyed across the community through litigation, public policy development, communication and training. The Energy + Water Consumers' Advocacy Program represents the interests of low-income and other residential consumers, developing policy and advocating in energy and water markets.

PIAC is not convinced of the need to change the current regulatory treatment of inflation. As the AER notes:

In our 2017 review, there was no clear view from stakeholders about whether we should change to a nominal or hybrid approach. We see this as a substantial change to the framework which moves risk between NSPs, their investors and consumers and would impact the ultimate level of compensation required.¹

Any change to the regulatory framework that materially shifts the risk (either the quantum of the risk or the circumstances under which a risk may eventuate) between consumers, businesses and investors must be backed by thorough modelling showing how this is in consumers' interests.

In order to ensure fair and efficient outcomes, PIAC considers that risk should be borne by those parties who are best able to manage that risk (as opposed to being borne by whoever is best able to wear the risk). We do not consider consumers to be well placed to manage inflation risk and this should be reflected in any change to how regulatory inflation is treated.

The treatment of inflation is just one part of a larger framework for regulating the revenues and prices of network businesses. Any change to the treatment of inflation must also consider how it affects other aspects of this framework, due to the change in risk profile that an efficient network business would bear. This is especially true for any impact on the overall rate of return given how significantly the rate of return drives network prices paid by consumers and can drive longer-term investment incentives for businesses.

PIAC supports the AER using its Consumer Reference Group in addition to public consultation to examine these issues of risk allocation and consumers' interests in further detail through this review and the broader review of the Rate of Return Guideline.

¹ AER, *Discussion paper – Regulatory Treatment of Inflation*, May 2020, 15.

Continued engagement

PIAC would welcome the opportunity to meet with the AER and other stakeholders to discuss these issues in more depth.

Yours sincerely,

Miyuru Ediriweera

Senior Policy Officer, Energy and Water
Public Interest Advocacy Centre

Direct phone: +61 2 8898 6525

E-mail: mediriweera@piac.asn.au