13 August 2020

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

Submitted via email

Dear Mr Anderson,

Submission to Energy network debt data draft working 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 welcomes the opportunity to respond to the AER's draft working paper.

The regulated rate of return and its components, such as the return on debt, are important drivers of network costs in the short- and long-term. It is essential they be set in a way that reflects what prudent and efficient businesses earn and creates incentives for regulated businesses to improve their efficiency. It is also essential that the benchmark level continues to evolve as efficiency improves across the economy and in response to other factors.

On this basis, PIAC supports the AER placing greater reliance on the Energy Infrastructure Credit Spread Index (EICSI). In particular, we support the proposal to use the EICSI in the direct calculation of the regulated return on debt.

PIAC agrees with the advantages listed in the consultation paper – that it would more accurately reflect the cost of debt for regulated networks, streamline the current process and retain the general benchmark approach to regulation.[1] We consider there should be material consumer benefits as a result.

PIAC notes the potential implementation challenges the AER has noted.[2] We consider these challenges are not insurmountable and can be addressed without negating the net consumer benefits of using EICSI more directly to calculate return on debt.

The other two proposals noted in the paper (using the EICSI to test the overall reasonableness of the AER's approach and to assess the impact of possible changes) appear relatively straightforward and non-controversial.

1 AER, *Energy network debt data draft working paper*, June 2020, 18.
2 Ibid, 18-19.

Level 5, 175 Liverpool St
Sydney NSW 2000
Phone: 61 2 8898 6500
Fax: 61 2 8898 6555
www.piac.asn.au
ABN: 77 002 773 524

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