INFRASTRUCTURE PARTNERSHIPS AUSTRALIA

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The Australian Energy Regulator

Via email

SUBMISSION TO THE AUSTRALIAN ENERGY REGULATOR ON ITS RATE OF RETURN INSTRUMENT 2026 POST DRAFT DISCUSSION PAPER

Infrastructure Partnerships Australia is pleased to provide this submission to the Australian Energy Regulator (AER) on its 2026 Rate of Return Instrument (RORI) Post draft decision discussion paper, released in October.

Infrastructure Partnerships Australia is an independent think tank and executive member network, providing research focused on excellence in social and economic infrastructure. We exist to shape public debate and drive reform for the national interest. As the national voice for the infrastructure sector in Australia, our membership reflects a diverse range of public and private sector entities, including infrastructure owners, builders, operators, financiers, advisers, technology providers, regulators and policy makers.

The energy transition is at a critical juncture to allow the exit of legacy assets, maintain system reliability and meet our net-zero commitments

Infrastructure Partnerships Australia reaffirms its position that Australia's energy transition is at a pivotal point, with long-term market signals crucial to delivering the transition at the pace and sequencing required to maintain energy system reliability and reach net-zero commitments – and doing so efficiently in the long-term interests of customers. The AER's position on the 2026 RORI is directly contrary to these aims and, combined with other regulatory changes, poses a material risk of inducing capital strikes by the investors crucial to enabling the energy transition. Without appropriate risk-weighted returns, the underlying economics of the transition will be eroded to the point of collapse.

Regulatory changes should be carefully considered and take an industry-wide lens, with particular care given to the repercussions of any decisions on the delivery of the transition. The AER must maintain its ultimate objective to "promote efficient investment in, and efficient operation and use of, electricity services for the long-term interests of consumers".[1] This objective is categorically not served by starving the sector of the capital required to deliver the electricity system consumers need. The AER must ensure it does not sacrifice the long-term interests of consumers and an efficient market through short-sighted regulatory reforms in pursuit of short-term bill relief.

[1] Australian Energy Market Commission. National Energy Objectives (2026).

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Investor certainty is essential to ensure the timely, efficient and successful delivery of the transition

Introducing additional policy and regulatory uncertainty risks driving investors away from our shores amid a global race to deliver transition infrastructure. Infrastructure Partnerships Australia conducts quantitative and qualitative research on investor sentiment toward the Australian infrastructure market, including sentiment on policy and regulatory settings, with the most recent edition of our annual report – the *Australian Infrastructure Investment Monitor* – released in September.

The *Investment Monitor* provides a comprehensive view of investor appetite and sentiment for the Australian infrastructure market. The report reveals insights into the drivers and challenges for infrastructure investors, which include superannuation and pension funds, fund managers, banks and other infrastructure professionals. This report is informed by a survey which captures the views of international and Australian investors. The survey findings are furthered by insights from a series of interviews undertaken with prominent members of the infrastructure investment community. Analysis from the 2025 and 2026 editions was identified in our previous submission to the 2026 RORI consultation process.

This year's report found that 65 per cent of investors agree that policy and regulatory uncertainty is presenting a significant challenge to delivering the energy transition, the third largest challenge identified by participants. Meanwhile, just 16 per cent of participants expressed preferences for investment in regulated assets (over market-based revenue risk) – a 17-percentage point decrease on last year's result and the second lowest in Investment Monitor history. Qualitative interviews corroborated these findings and found substantial hesitancy regarding investment in regulated assets (particularly when compared to unregulated assets):

> "Our regulatory regime is not set up for the distribution and transmission companies to do large projects, but we're trying to rebuild the entire grid three times over." Australian Global Institutional Investor

> "The regulatory environment is very robust for transmission projects, and it protects ratepayers, but it doesn't incentivise rapid build out because these are capital intensive and whether you get a sufficient regulatory return is a question mark." Investment Bank

In addition to investor hesitancy on regulated assets, the AER must also consider the implications of its regulatory decisions in the context of broader market challenges facing investors. This year, Federal taxation changes, coupled with regulatory changes (including the 2026 RORI) have combined to create a perfect storm of investor concern. In this year's *Investment Monitor*, investors stated:

> "At a time when we need to hit the accelerator on investment and project delivery if we're to have any hope of hitting renewable energy targets and fortify the grid, the government is actively telling investors they're going to rewrite the tax regime to disadvantage foreign capital. It's an act of self-sabotage." Bank

> "We need hundreds of billions of dollars for an energy transition but we're taxing the investment that'll underwrite it." Investment Bank

The AER should not conflate appetite for specific sectors with broader market sentiment, and taking individual survey results out of context grossly mischaracterises data

The Post draft discussion paper references, among others, Infrastructure Partnerships Australia's *2026 Australian Infrastructure Investment Monitor*, stating that "there is continued investor interest in investing in Australian NSPs".[2] The results of our *Investment Monitor* should not be taken in isolation and without the context provided in the report and reiterated in this (and our prior) submission. While appetite for energy transmission and distribution infrastructure did indeed rank equal first as the most attractive asset class to invest in, the AER's discussion paper omits the fact that this attractiveness had fallen by 20 percentage points from last year. Furthermore, as outlined in the *Investment Monitor,* this quantitative research was conducted between late-March and mid-May, prior to the release of the AER's draft decision. It would be reasonable to deduce that this result would fall precipitously further in the context of the draft RORI if the survey were to be deployed today.

The *2026 Investment Monitor* found that investor preferences for all assets fell this year compared to the 2025 results, with market participants in the qualitative analysis suggesting that declines reflected broader industry hesitancy toward the Australian market, noting that the fall in specific assets was a measure of the overall decline in interest in Australia:

> "Take those numbers as a vote of no confidence in the Australian market, rather than specific assets." Investment Bank

The AER's decision to reference headline results for energy transmission and distribution as an attractive asset, without referencing the cooling sentiment that surrounds this finding, is a gross mischaracterisation of the findings in the *Investment Monitor*. Further, the selective use of a narrow data point ignores a range of signals raised by the very same investors financing the energy transition in the *Investment Monitor* which should be cause for significant alarm.

For the avoidance of doubt, we believe that, taken as a whole, the use of the individual finding of the *2026 Investment Monitor* to support that AER's draft RORI decision stretches credibility beyond breaking point. Thus, we respectfully submit that the AER should correct this gratuitous mischaracterisation.

Infrastructure Partnerships Australia's previous submission to the Draft 2026 Rate of Return Instrument is included below as Appendix A to this submission.

Infrastructure Partnerships Australia looks forward to further assisting the AER on this review. If you require additional detail or information, please do not hesitate to contact Jamie Harrison, Senior Policy Adviser at jamie.harrison@infrastructure.org.au.

Yours Sincerely,



ADRIAN DWYER

Chief Executive Officer

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[2] Australian Energy Regulator. 2026 Rate of Return Instrument Post draft discussion paper (2026).

APPENDIX A

INFRASTRUCTURE PARTNERSHIPS AUSTRALIA SUBMISSION TO THE AUSTRALIAN ENERGY REGULATOR ON ITS DRAFT 2026 RATE OF RETURN INSTRUMENT

Infrastructure Partnerships Australia is pleased to provide this submission to the Australian Energy Regulator (AER) on its Draft Rate of Return Instrument (RORI) and accompanying Explanatory Statement, released in May.

Infrastructure Partnerships Australia is an independent think tank and executive member network, providing research focused on excellence in social and economic infrastructure. We exist to shape public debate and drive reform for the national interest. As the national voice for the infrastructure sector in Australia, our membership reflects a diverse range of public and private sector entities, including infrastructure owners, operators, financiers, advisers, technology providers and policy makers.

Australia's energy transition is at a pivotal point. Transparent, evidence-based decision-making, along with stable long-term market signals, are crucial to delivering the pace and sequencing of infrastructure investment required to transition the electricity system – in line with our net-zero commitments and the retirement of the coal-fired generation fleet. The cumulative impact of regulatory and market settings both within and outside the AER's remit is a key determinant of investment appetite in Australia's renewable energy market and regulatory changes should be duly considered within this context. Without appropriate risk-weighted returns, the underlying economics of the transition will be eroded. While the inputs are technical, the AER must not lose sight of its ultimate objective to serve the long-term interest of consumers. This objective is categorically not served by starving the sector of capital required to deliver the electricity system consumers need.

Regulatory outcomes should be appropriately calibrated and evidence-based, ensuring they support the transition to net-zero and protect the long-term interests of consumers

The 2026 RORI will apply at a time when the Australian energy market is at a critical juncture, with the Federal Government seeking to achieve its upcoming target of 82 per cent renewable energy by 2030, and most state and territory governments making similar commitments. This coincides at a time when the sector is also contending with a range of challenges hindering the timely delivery of renewable energy projects. Within this context, the setting of the 2026 RORI should have due regard to the broader investment environment, to ensure that its outcomes do not inadvertently add to the list of challenges already impeding investment into the sector.

As outlined in the 2026 Draft RORI Explanatory Statement, the combined effect of changes to the values for the equity beta and the Market Risk Premium, if implemented, is estimated to result in an aggregate reduction in regulated revenues of approximately $1.1 billion through revenue determinations to be set under the 2026 RORI. The rationale given to justify lowering key risk parameters, namely the equity beta, appears to depart from reasoning undertaken in prior reviews. This uncertainty and regulatory departure creates a risk that global investment in Australian renewable energy infrastructure will be deterred if our settings are comparatively unattractive with those available elsewhere.

Regulatory decisions must crucially be rooted in a solid evidence base. To this end, the AER should have due regard to the Independent Panel's Report released in July which, among its recommendations, calls for further evidence and rationale to underpin the proposed changes to the setting of the equity beta and the Market Risk Premium. Additionally, the Panel's Report notes that the AER's rationale for retaining a simple trailing average framework for estimating return on debt appears to be in-part guided by the short-term cost impacts on consumers of moving to a weighted trailing average approach. Regulators must prioritise the long-term interests

of consumers by efficiently supporting the delivery of the transition. This should not be undermined by considerations which are unduly focused on short-term outcomes.

The AER should be acutely concerned by some of the themes of the Independent Panel's broader findings that point to an insufficient evidence base for multiple decisions outlined in the draft proposal. The regulatory model is predicated on an assumption of trust, a trust that if undermined by decisions without evidence, will significantly harm consumers over the long term.

Investor certainty is critical to delivering the transition and retaining Australia's position as a competitive destination for infrastructure investment

Capital is a coward, and it will go where it is best treated. Introducing additional policy and regulatory uncertainty risks driving investors away from our shores amid a global race to deliver transition infrastructure. Infrastructure Partnerships Australia conducts quantitative and qualitative research on investor sentiment toward the Australian infrastructure market, including sentiment on policy and regulatory settings, with the most recent edition of our annual report – the ***Australian Infrastructure Investment Monitor*** – released last October, and the 2026 edition due to be published shortly. The Investment Monitor provides a comprehensive view of investor appetite and sentiment for the Australian infrastructure market. The report reveals insights into the drivers and challenges for infrastructure investors, which include superannuation and pension funds, fund managers, banks and other infrastructure professionals. This report is informed by a survey which captures the views of international and Australian investors. The survey findings are furthered by insights from a series of interviews undertaken with prominent members of the infrastructure investment community.

In the 2026 edition of the report, due to be released in the coming months, surveyed respondents indicated transmission and distribution assets were the most attractive infrastructure asset class to invest in Australia, equal with renewable grid storage and firming. Support for Australian assets is underpinned by investors viewing Australia as a transparent and predictable market that provides investment certainty – an advantage which can be readily disturbed through disproportionate or unforeseen regulatory changes. This year's report also finds that 65 per cent of investors agree that policy and regulatory uncertainty are presenting a significant challenge to delivering the energy transition, the third largest challenge identified by participants. Meanwhile, just 16 per cent of participants expressed preferences for investment in regulated assets (over market-based revenue risk) – a 17-percentage point decrease and the second lowest in *Investment Monitor* history, while just 18 per cent of participants saw 'return on investment' as a driving factor for Australia's investment attractiveness. Qualitative findings from our 2025 research, released last year, demonstrated significant investor hesitancy regarding investment in regulated assets (when compared to unregulated assets):

> *"There is still an appetite for regulated utilities, but we're very cautious about the nature of the regulator. The honest answer is you need both* [regulated and unregulated assets] *across a portfolio, because there is a fair degree of risk in the regulated space given regulators have proven to be surprising to us at times." - Institutional Investor*[3]

[3] Australian Infrastructure Investment Monitor (2025)

> *"We're practical. We're keen for exposure to both* [regulated and unregulated assets]*, but when governments are likely to shift the goal posts in response to consumer and cost-of-living pressures, that's the piece that makes us nervous about regulated assets."- Institutional Investor*[4]

It should be of deep concern to the Australian regulatory community that global investors' confidence in Australian regulated utility investment (and by extension, regulators) is deteriorating.

Amid mounting delays in the delivery of generation and storage infrastructure for a multitude of reasons, investors are increasingly wary as the energy market struggles to deliver the existing pipeline, let alone meet the demand required to achieve our transition targets. Infrastructure Partnerships Australia has identified that the decrease in new public projects being funded over the last three years has contributed to the emergence of an 'Air Gap' of latent capacity in the pipeline, where delivery of transition infrastructure is not accelerating fast enough to absorb the outgoing delivery capacity of this decline in public sector projects. This materially threatens redistributing Australia's globally sought-after infrastructure workforce to international destinations or other sectors, and risks further delaying the delivery of critical transition infrastructure.

Competition for capital – particularly among projects with strong ESG credentials – has arguably never been stronger, driven by rapidly expanding pipelines in overseas markets. Now is the time to ensure the regulatory environment provides the certainty required for investment, and does not produce settings that may discourage investment and reduce the commercial basis for renewable energy infrastructure projects. Other significant challenges – including planning system stagnation – are already placing artificial barriers on delivery of energy infrastructure. The AER should refrain from imposing additional conditions which further throttle investment appetite, while still delivering outcomes which are in the long-term interests of consumers.

The timely delivery of transmission and distribution is crucial for bringing new generation online

The timely build-out of transmission and distribution is fundamental to the success of the energy transition. Connecting renewable generation with demand is a prerequisite for bringing new projects online, however, delays in the delivery of several key network projects are pushing back the point of commercial viability for grid-scale renewables and hindering their timely build-out.

In its 2026 Integrated System Plan, the Australian Energy Market Operator (AEMO) highlighted that if the current pipeline of grid-scale renewables was delivered as planned, it would meet only around three-quarters of the new capacity required by 2030 to meet emissions targets under the Optimal Development Path. The largest deficits were for wind and solar generation, with shortfalls forecast to be 8.9 gigawatts and 1.1 gigawatts respectively. Additionally, AEMO's Constrained Delivery sensitivity, which applied delays, slower build rates and higher capital costs to the delivery of projects at a rate closer to what is being observed on the ground, showed that coal and gas would need to play a larger role for longer and, consequently, Australia would fall short of its 2030 targets.

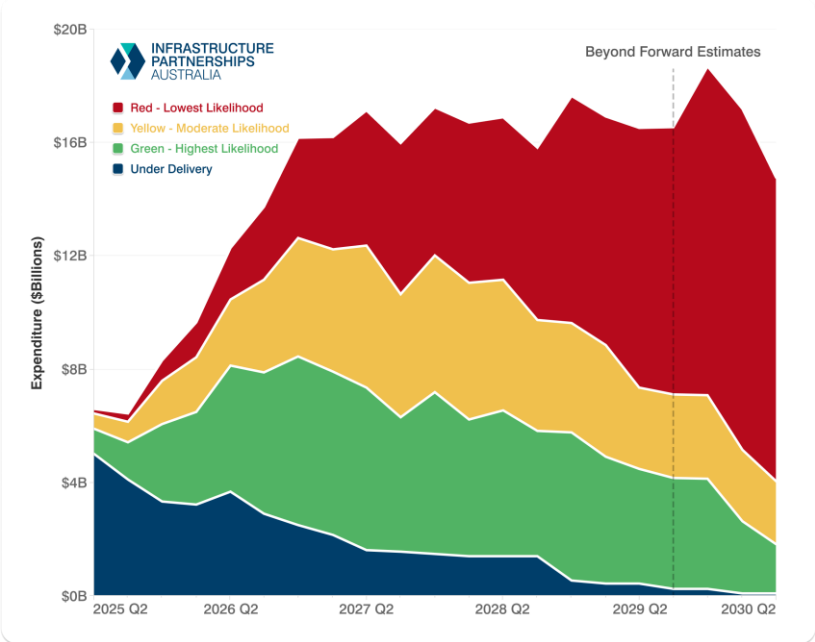
Infrastructure Partnerships Australia has researched the likelihood that energy projects recorded on our Australia and New Zealand Infrastructure Pipeline will meet their planned delivery schedule, the results of which corroborate AEMO's findings. The Energy Infrastructure Plausibility Matrix makes this assessment by running energy projects not yet under delivery through a multi-criteria analysis model that assesses projects against their achievement of

[4] IBID

lead indicators of success[5]. This criterion is then applied to a model which estimates the quarterly rate of expenditure for each project using expenditure benchmarks based on the project's sector and position in the planning and delivery cycle. Projects categorised as Green are assessed as being most plausible to proceed as currently planned, Yellow projects have moderate potential to be delivered as scheduled, and Red projects are least plausible to be delivered as scheduled. While the pipeline of projects assessed by AEMO and ANZIP are unlikely to be entirely identical lists, Infrastructure Partnerships Australia has already observed considerable delay in the delivery of energy infrastructure and expects this to continue for some time.

Figure 1 breaks down the Q2 2025 energy pipeline expenditure forecast using this Matrix. Applying the Matrix to the energy pipeline on ANZIP finds 18 per cent of projects are under delivery, 24 per cent of not-yet-delivered projects are Green, 25 per cent are Yellow, and 33 per cent are Red (as of Q2 2025).

Figure 1: Energy Infrastructure Plausibility Matrix, all energy asset classes, as of Q2 2025

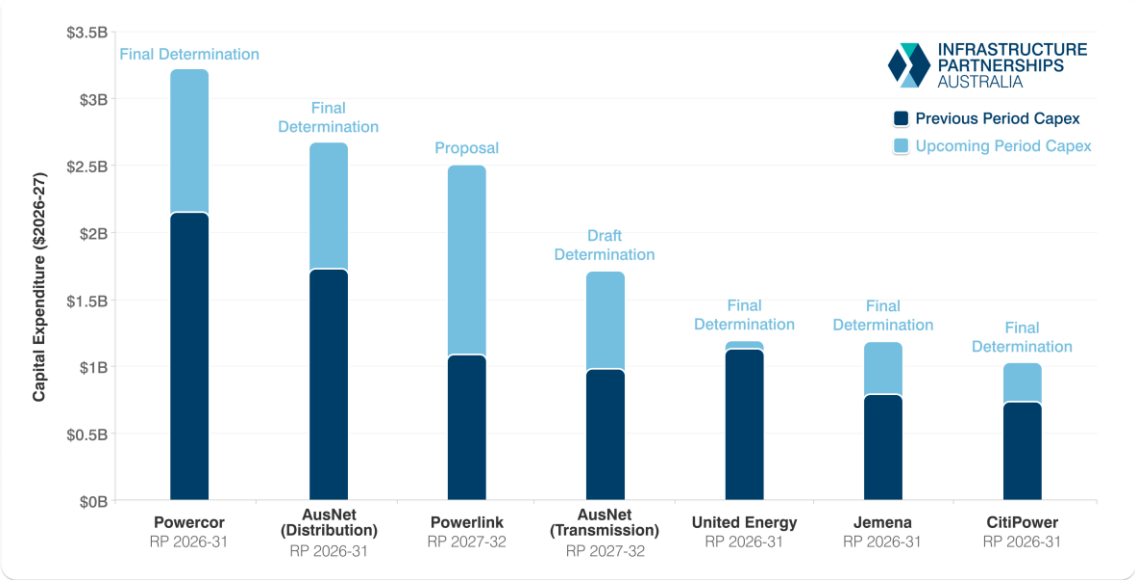


Source: Infrastructure Partnerships Australia

Within this context, it is essential that further challenges are not introduced which would hinder the build-out of Australia's transmission and distribution networks. This is particularly pertinent in the current regulatory context, as recent AER determinations and network service provider proposals over the past 12 months for upcoming regulatory periods show a substantial uplift in the level of capital expenditure forecast over the coming years to deliver the transition (Figure 2). Deploying capital at this scale will require investors to be confident that the commercial case for investment remains robust, and will not be subject to undue regulatory change.

Figure 2: Capital expenditure forecasts for TNSPs and DNSPs in AER determination processes in past 12 months

[5] Further details on Infrastructure Partnerships Australia's Plausibility Indicator, including its methodology, can be accessed here: https://infrastructure.org.au/policy-research/energy-infrastructure-plausibility-matrix



Source: Infrastructure Partnerships Australia's analysis of AER regulatory documents

AusNet (Distribution), Jemena, CitiPower, Powercor and United Energy compares final determination for 2026-31 with final determination for 2021-2026. Powerlink compares 2022-27 final determination with 2027-32 proposed capital expenditure. AusNet (Transmission) compares 2022-2027 final determination with 2027-32 AER draft capital expenditure.

Faltering confidence among global investors in Australian regulated utility assets, and by extension in the regulatory framework underpinning them, places a material risk to the pace of infrastructure delivery required for the energy transition. Addressing this requires concerted attention to the cumulative effect of regulatory and market decisions – both within the AER's remit, and in the broader policy settings that shape investment decisions. The setting of the final 2026 RORI should have due regard to this, with a clear focus on ensuring the stability and predictability investors require to commit capital at the scale and speed the transition demands, which ultimately is in the long-term interest of consumers.

Infrastructure Partnerships Australia looks forward to further assisting the AER on this review. If you require additional detail or information, please do not hesitate to contact Katie Dempsey at katie.dempsey@infrastructure.org.au.

Yours Sincerely,

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Chief Executive Officer

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