24 November 2017

Baethan Mullen
General Manager, Retail Electricity Pricing Inquiry
Australian Competition and Consumer Commission
23 Marcus Clarke Street
Canberra
ACT 2601

By email: retailelectricityinquiry@accc.gov.au

Dear Mr Mullen

Retail Electricity Pricing Inquiry

IFM Investors and AustralianSuper welcomes the opportunity to respond to the Preliminary Report by the Australian Competition and Consumer Commission (**ACCC**) into Retail Electricity Pricing (the **Report**). IFM Investors and AustralianSuper hold a combined 50.4% equity interest in Ausgrid, with the NSW Government retaining the other 49.6%.

We have reviewed and endorse the submission made by Energy Networks Australia in response to the Report. In addition, we would like to make some further observations from the broader perspective as investors in regulated electricity networks. We recognise and support the imperative for fair and affordable electricity outcomes for customers, including by minimising network costs (amongst other drivers of electricity prices). As highlighted in Energy Networks Australia's submission:

- Network costs have largely fallen in recent years;
- Networks continue to focus on delivering further material reductions to network costs; and
- A transition to fairer and cost-reflective pricing structures is necessary to support further network cost reductions.

In the case of Ausgrid, network costs for a typical residential customer fell by 3.4% on 1 July 2017, reflecting the focus of the new private owners to pursue significant operational efficiencies and prudent capital program delivery, and share the resulting network cost savings with consumers. Past historical capital investment was focused on improving reliability for customers, as ageing assets were replaced to meet required reliability standards. With reliability now addressed, Ausgrid has shifted the focus to sustainable capital investment (including utilising new technology and innovation), and expects to absorb any surplus network capacity by the mid-2020s.

We are, however, concerned that the Report has flagged consideration of asset write-downs in response to perceived historical network over-investment. We believe such an action would materially impact the robustness, transparency and equity of the existing regulatory framework, and ultimately would not be in the interests of consumers.

Moreover, as IFM Investors and AustralianSuper collectively invest on behalf of six million working and retired Australians, a compulsory write-down of Ausgrid's regulated asset base has the potential to directly impact the retirement savings of many of the consumers such an action is intended to assist.

In particular, we note that:

- Certainty of regulatory asset base is a consistent feature of mature regulatory frameworks throughout the world, and underpins low-cost, long-term capital investment. Compulsory asset write-downs would significantly erode investor and financier confidence in electricity networks, leading to an increase in the risk premium applied to the sector to compensate for the increased regulatory risk, and driving up the cost of capital to the sector. This cost will ultimately be borne by consumers, and potentially reduce the capital available for efficient investment in Australian regulated energy assets should investors not believe allowed returns adequately compensate for the risk associated with capital investments.

  By way of example, Ausgrid manages one of the largest debt books of any Australian corporate and recently completed:
    - The largest US private placement issuance (A$2.4 billion) by a utility; and
    - The largest Australian AMTN issuance (A$1.2 billion) from any Australian 'BBB band' issuer.

  The success of these landmark refinancings was underpinned by the stability of the existing regulatory framework and confidence by the global financing community in Ausgrid's ability to recover efficient capital investment. Compulsory asset write-downs would significantly negatively impact this certainty, thereby increasing capital costs for network businesses and, as a consequence, network costs for consumers.

- Regulatory and policy actions should address future network cost drivers (such as smart meter penetration and tariff structures), rather than focusing on past network investment decisions. Compulsory asset write-downs would effectively require investors to write-off unrecovered capital investment associated with capital investment that, at the time of the original investment decision, was assessed as prudent and efficient by the AER, having regard to the long term interests of consumers and the peak demand outlook. We do not believe this would be equitable or appropriate and, moreover, would not address future network cost drivers.

- For the Australian Government to implement compulsory write-downs of assets that were deemed by its own regulatory body to be prudent and efficient at time of investment will introduce an element of sovereign risk that would need to be included in future investment decisions, likely driving up the required cost of capital for these investments.

- We are concerned that the Report misinterprets the Finkel Review's findings in relation to asset write downs. The Report asserts that "*the Finkel Review found that consideration should be given to writing down assets values, either voluntarily or compulsorily, where appropriate*" and as a result "*such a write down may be appropriate where it can be determined that over-investment has occurred or where assets become stranded*". The Finkel Review makes no connection between over-investment and consideration of asset write-downs. On the contrary, the review states that:
    - the issue of historical network <u>over-investment</u> is beyond the scope of the review; and
    - in the context of <u>stranded assets only</u>, there is merit in a future examination of the most appropriate method to address the long-term interests of consumers.

Further, the Finkel Review describes compulsory write-downs as "*problematic*" on the basis that they "*would increase creditors' perceptions of risk, resulting in a higher cost of capital for future projects or refinancing, leading to potentially higher costs for consumers over all*". Both IFM Investors and AustralianSuper concur with this analysis, and the uncertainty created by asset write-downs would require us, and bank and debt capital markets more broadly, to revisit the required rate of return for future investments in the network.

IFM Investors is one of the largest and most experienced owners and managers of critical infrastructure globally. IFM Investors is a global fund manager with over $98 billion in funds under management and an institutional investor base that includes some of Australia's largest superannuation funds, representing six million working Australians and pensioners. IFM holds significant investments in the regulated and energy infrastructure sectors globally.

AustralianSuper is Australia's largest industry superannuation fund and manages over A$120 billion of members' savings on behalf of over 2.2 million members from across over 220,000 businesses. Within its infrastructure portfolio, AustralianSuper has in excess of A$13 billion in investments. AustralianSuper is a large-scale and long-term infrastructure investor with holdings in many significant Australian assets.

Should you have any further queries, please feel free to contact Michael Hanna on 03 8672 5357 or Nik Kemp on 03 8677 3223.

Yours sincerely

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