



28 February 2013

Mr Lyndon Rowe, Chairman  
Economic Regulatory Authority of Western Australia  
PO Box 8469  
Perth BC WA 6849

By Email: [publicsubmissions@erawa.com.au](mailto:publicsubmissions@erawa.com.au)

Dear Mr Rowe:

## Rate of Return Guidelines Review

APA Group is Australia's largest owner and operator of natural gas pipeline infrastructure, including a significant investment in the Goldfields Gas Pipeline in Western Australia.

We have participated with Goldfields Gas Transmission Pty Ltd and the Australian Pipeline Industry Association in preparing submissions to the Authority in its current consultation on the development of the Rate of Return Guidelines under the new *National Gas Rules*. We endorse those submissions and commend them to your review.

While the Consultation Paper goes into considerable detail on the mechanics of the Capital Asset Pricing Model, it is clearly the outturn Allowed Rate of Return that is the most important.

Like any business, APA Group must compete for capital in the open marketplace. To the extent the regulator's determination of the Allowed Rate of Return falls short of the cost of capital in the marketplace, APA Group will not be able to source capital to undertake investments in regulated assets.

To the extent the Allowed Rate of Return arising from the ERA's application of these Guidelines is less than the rates of return APA Group can earn on non-regulated activities, then APA Group will not be able to attract capital to invest in its regulated assets in Western Australia. This will invariably result in a chilling effect on infrastructure investment, and a consequential chilling effect on those sectors of the WA economy that rely on that infrastructure investment.

Moreover, to the extent the Allowed Rate of Return emanating from ERA decisions is lower than that in the decisions of the Australian Energy Regulator applicable to the eastern states, capital will naturally flow to the higher-earning eastern states in preference to Western Australia. Again, the chilling effect on infrastructure in Western Australia could have a consequential chilling effect in other sectors of the Western Australian economy.

APA Group is on the public record stating that when regulated rates of return are below acceptable levels it will focus on investment in non-regulated opportunities in preference to regulated assets.



In summary, APA Group strongly believes that the Authority's focus must remain firmly on the outturn Allowed Rate of Return rather than on the inputs to the various models applied to guide the Authority's judgement.

We would be pleased to discuss the Allowed Rate of Return Guidelines with the Authority in more detail at your convenience. Please call Scott Young on (02) 9275 0031 or email [scott.young@apa.com.au](mailto:scott.young@apa.com.au).

Yours faithfully

Peter Bolding  
General Manager Regulatory and Strategy