

From: Foster, Christie

Sent: Tuesday, 23 December 2014 10:33 AM

Subject: ATCO Gas Australia comment on recent rate of return information published by the ERA

Hi Tyson,

As you will be aware, the ERA published the *Revised Draft Decision for the Review of the method for estimating the Weighted Average Cost of Capital for the Regulated Railway Networks* on the 28 November 2014. ATCO Gas Australia (AGA) has reviewed this publication as it considers common rate of return issues faced by all regulated infrastructure businesses. In the *Response to the ERA's Draft Decision on the required amendments to the Access Arrangement for the Mid-West and South-West Gas Distribution System*, AGA and its consultant SFG submitted that the ERA had been inconsistent in its approach to estimating the WACC for rail and gas businesses.

The *Revised Draft Decision for the Review of the method for estimating the Weighted Average Cost of Capital for the Regulated Railway Networks* makes clear that the ERA considers that rail assets are long term investments and therefore it is the perpetual return that should be estimated. The ERA also state that for gas, the term of the gas rate of return is conditioned by the 5 year term of the regulatory period. As submitted by AGA, the average lives of our assets are substantially greater than the regulatory period - the simple average of our asset lives is 38 years and our longest lived assets have an economic life of 80years. There is no explanation in the ERA's Draft Decision for Regulated Railway Networks why the perpetual term is relevant for estimating the rate of return for rail businesses but not for gas businesses.

AGA submits that the ERA should consider this inconsistency in making its final decision. A consistent approach would lead to the use of 10 year terms for the parameters that are used to estimate the cost of debt and return on equity as well as the use of the long term market risk premium estimated as the difference between the point estimate of the return on equity for the market and the risk free rate. These adjustments to the ERA's approach would also be consistent with AGA's submissions and evidence in response to the ERA's Draft Decision.

Kind Regards

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