

Australian Pipeline Limited
ABN 99 091 344 704
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Mr K P Kolf
Economic Regulation Authority : Gas Division
PO Box 8469
Perth Business Centre
Western Australia 6849

Dear Mr Kolf,

Review of Rate of Return Methodologies and Practices

Thank you for the opportunity to comment on the Review of Rate of Return Methodologies and Practices prepared for The Office of Gas Regulation by The Institute for Research into International Competitiveness.

While the paper is of interest, we do not see it as advancing the debate on WACC – it as another piece of work in a field in which much has already been written and where researchers, practitioners and experts differ significantly.

As you are aware, the Productivity Commission is currently finalising a review of the Gas Access Regime. We note that the Commission's Draft Report published last December summarises the wide range of views on WACC given in submissions to the Commission, and concludes that:


"This debate highlights the fact that regulatory rates of return are set on the basis of many assumptions. Such assumptions are used because regulation is applied in a world of uncertainty. This uncertainty cannot be removed by requesting more information from service providers, or by hiring consultants to undertake studies.

DRAFT FINDING 7.2

There is disagreement among technical experts about how regulatory rates of return (WACC) in Australia compare to those in other countries. This illustrates the inevitable imprecision and subjectivity that occurs when regulators are required to approve reference tariffs."

In light of the Commission's views, we believe that it is an inappropriate and unnecessary diversion of the industry's resources from its focus on the Productivity Commission's review, for the Authority to embark on a discussion of WACC outside of that review process and while it is still in progress.

Yours faithfully


Michael McCormack
General Manager Commercial

