

28 June 2018

[www.atco.com.au](http://www.atco.com.au)

Ms Nicola Cusworth  
Chair, Economic Regulation Authority  
Level 4, Albert Facey House  
469 Wellington Street  
PERTH WA 6000

Dear Ms Cusworth

**RE: Consultation Paper – Method for determining the weighted average cost of capital for railway networks**

Thank you for the opportunity to comment on the Consultation Paper outlining the ERA's proposed method of estimating the weighted average cost of capital (WACC) for regulated railways published on 22 May 2018. This letter outlines a submission from ATCO Australia.

### Overarching comments

Regulatory certainty and stability are key drivers of investor confidence and therefore drive the ability of energy network businesses to provide valuable services to energy consumers over the long term. In this context, it is important that any proposed changes to the approach for determining the rate of return for energy network businesses by regulators, are transparent and based on sound evidence. This is especially relevant in a global market for capital where new investment opportunities must compete for investor and financial backing.

ATCO is concerned that the ERA appears to have made an unexpected departure from its long-standing approach to estimating the Market Risk Premium (MRP). We are also concerned the ERA is not giving due recognition to concerns about the efficacy of the equity ownership approach or the quality of the underlying Australian Bureau of Statistics data used to construct equity ownership estimates of gamma.

ATCO commented on these matters in our recent submission to the ERA in response to the Western Power Draft Decision, which is provided for your reference in Attachment 1.

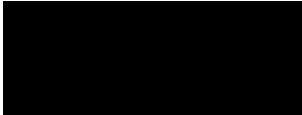
In summary, ATCO's submission commented that:

- The proposed reduction in Western Power's market risk premium, relative to other recent decisions for regulated businesses by the ERA, was an area of concern for ATCO, particularly as it did not appear to be based on new evidence; and
- ATCO supported adopting ATO tax statistics as the best, and most direct, estimate of an upper-bound for a 'utilisation' gamma.

## **Conclusion**

ATCO welcomes the opportunity to engage with the ERA on rate of return matters. To that end we will be providing detailed submissions as part of the forthcoming rate of return guideline consultation.

If you have any questions or would like to discuss any of these issues further please contact me or Amy Stanley, General Manager Human Resources & Corporate Affairs.



J.D Patrick Creaghan  
**Managing Director & Chief Operating Officer**

Attachment 1: ATCO Australia submission in response to the ERA's Western Power draft decision.