14 October 2026

Economic Regulation Authority

Via website: https://www.erawa.com.au/current-consultations

2026 Draft Gas Rate of Return Instrument

Alinta Energy appreciates the opportunity to provide feedback on the ERA's draft 2026 Gas Rate of Return Instrument.

We welcome the ERA's proposal to replace the hybrid debt approach with a full trailing average method. However, we consider the draft instrument continues to overstate the efficient financing costs of a benchmark regulated gas network in several important respects.

We consider that the available evidence does not support retaining an equity beta of 0.7. Recent analysis undertaken by both the Independent Panel and the AER indicates lower levels of systematic risk for regulated network businesses and supports a greater reliance on domestic regulated network evidence when estimating beta. We also consider the ERA should have regard to whether WA gas networks operate in a lower risk policy and regulatory environment than some comparator jurisdictions and whether this warrants a lower risk assessment.

We also consider that the proposed transition to the full trailing average debt approach is unnecessarily lengthy and delays the consumer benefits associated with the reform. Finally, the draft approach to gamma risks understating the value of imputation credits and increasing costs for consumers.

Accordingly, Alinta Energy recommends that the ERA:

- reduce equity beta below 0.7 to no more than 0.55 – consistent with the AER's recent findings;
- place greater weight on domestic regulated network evidence and carefully consider differences in regulatory risk across comparator jurisdictions;
- adopt immediate implementation of the full trailing average debt approach as a starting point, with any transition justified on clearly quantifiable costs; and
- revise the gamma method to remove bias arising from intermediate rounding.

Together, these changes would better align the rate of return with the efficient financing costs of regulated gas network businesses and promote lower transportation costs for consumers.

1. Equity beta should be reduced to no more than 0.55

Alinta Energy supports a reduction in the equity beta from the draft value of 0.7 and considers the final instrument should adopt an equity beta no higher than 0.55, consistent with the AER's recent findings.

The available evidence continues to indicate that regulated energy network businesses are

exposed to lower systematic risk than the broader market and should therefore attract a lower required return on equity. The Independent Panel concluded that the evidence before the ERA does not support retaining an equity beta of 0.7, finding that most empirical evidence points to a lower value and recommending that the ERA revisit its draft position. The Panel also expressed concern that the current draft decision places insufficient weight on the available evidence and may reflect a degree of status quo bias rather than the balance of empirical results.[1]

Recent work undertaken by the AER reinforces this conclusion. In its draft 2026 Rate of Return Instrument, the AER reduced equity beta to 0.55 and placed increased emphasis on evidence from heavily regulated domestic network businesses. The AER found that majority-regulated network firms exhibit materially lower beta estimates than businesses with significant competitive or unregulated activities, and that firms with a higher proportion of regulated revenue consistently demonstrate lower systematic risk across both domestic and international samples.[2]

The AER's analysis also highlights the limitations of international comparators. It notes material differences in regulatory frameworks, market composition, business structure and risk characteristics across jurisdictions, and concludes that domestic evidence remains more representative of the benchmark Australian regulated network business than international comparators.

We recommend that the ERA also consider whether the policy and regulatory environment faced by WA gas networks is comparable to the jurisdictions represented in its comparator set. Investors require higher returns where future cash flows are more uncertain and lower returns where revenues are more stable and predictable. We consider that WA gas networks operate within a relatively stable policy and regulatory environment. In addition to the protections inherent in incentive-based economic regulation, Western Australia has not adopted restrictions on new residential gas connections, has a domestic gas reservation policy, and continues to exhibit strong underlying gas demand from both residential and industrial consumers. To the extent comparator businesses operate in jurisdictions with greater policy uncertainty or less stable demand outlooks, their observed beta estimates may overstate the systematic risk relevant to a regulated gas network operating in Western Australia.

Taken together, the findings of both the Independent Panel and the AER support greater reliance on domestic regulated network evidence and a lower equity beta than currently proposed. The AER's contemporaneous review concluded that an equity beta of 0.55 is appropriate for regulated Australian energy networks after a detailed assessment of both domestic and international evidence.

Retention of the proposed equity beta of 0.7 would require a detailed, evidence-based justification as to why a regulated WA gas network warrants a higher equity beta than that adopted by the AER for regulated Australian energy networks more broadly. In the absence of compelling evidence that WA gas networks face greater systematic risk than the businesses considered by the AER, Alinta Energy considers the final instrument should adopt an equity beta no higher than 0.55.

2. There should no be transitional period to adopting the full trailing average debt unless it is demonstrably necessary

[1] Independent Panel Report, pp. 21-24
[2] AER Draft RORI Explanatory Statement, pp. 2-3, 44-54; AER Post Draft Decision Discussion Paper, pp. 23-25, 45.

Alinta Energy supports the ERA's decision to replace the hybrid debt approach with a full trailing average method. However, we do not support the proposed transition arrangements.

The ERA's draft explanatory statement concludes that the hybrid approach has contributed to material debt cost volatility and significant price pressure in recent access arrangements. It considers a 10-year transition is necessary because, “The benchmark entity will have entered into ongoing financial arrangements to implement the hybrid debt approach, and therefore it is necessary to recognise and transition this legacy exposure”.

The Independent Panel accepted the case for moving to a full trailing average approach but questioned whether a 10-year transition is in consumers' long-term interests. The Panel found that, once the ERA has identified a deficiency in the hybrid approach, the relevant question becomes how quickly that deficiency can be corrected without imposing unjustified costs on consumers. The Panel recommended that the ERA consider alternatives including a zero-transition option, shorter transition periods and evidence-based arrangements linked to demonstrated financing costs.[3]

Alinta Energy agrees with this assessment. A lengthy transition delays the benefits of the new method and prolongs consumer exposure to a debt framework that the ERA has itself concluded is no longer appropriate. Alinta Energy considers the appropriate starting point should be immediate implementation of the full trailing average approach. A transition may not be necessary given there will already be approximately 3 to 4 years between publication of the final instrument and its application through future access arrangement reviews. During this period, service providers will have advance notice of the change and the opportunity to adapt their financing strategies accordingly. Additionally, in relation to the argument that networks may have made decisions based on the previous approach and that these are stranded, we would expect an efficient service provider to raise and manage debt in a manner that minimises long-term financing costs regardless of the prevailing cost of debt method. We recommend that any transition period be justified based on genuine and quantifiable financing costs arising from prudent reliance on the existing framework, or clear evidence that a transition is necessary to minimise costs to consumers.

3. The gamma method should be revised

Alinta Energy supports the Independent Panel's recommendation that the ERA revisit its treatment of gamma.

The Panel concluded that the ERA's draft approach may introduce a downward bias by rounding intermediate inputs before calculating gamma. Using unrounded inputs produces a gamma estimate materially above the draft value of 0.5. The Panel concluded that this approach risks understating the value of imputation credits and increasing costs for consumers.[4]

The ERA should adopt a consistent approach and calculate gamma using unrounded parameter estimates.

Conclusion

Alinta Energy supports the ERA's proposed move to a full trailing average debt method but considers that further changes are required to ensure the final instrument reflects the efficient financing costs of a benchmark regulated gas network and promotes the long-term interests of consumers.

[3] Independent Panel Report, pp. 25-31
[4] Independent Panel Report, pp. 32-35

We recommend that the ERA:

- reduce the equity beta to no more than 0.55, consistent with the findings of the AER's contemporaneous review and the weight of the available empirical evidence;
- place greater weight on domestic regulated network evidence and carefully consider whether differences in regulatory and policy risk between WA and comparator jurisdictions warrant a lower assessment of systematic risk;
- adopt immediate implementation of the full trailing average debt approach as a starting point, with any transition justified on clearly quantifiable costs; and
- revise the gamma method to remove bias arising from intermediate rounding.

Together, these changes would better align the rate of return with the risks faced by regulated gas network businesses, ensure consumers receive the benefits of recent evidence and analysis, and reduce transportation costs without compromising the ability of efficient network businesses to recover their financing costs.

Thank you for your consideration of Alinta Energy's submission. If you would like to discuss this further, please contact me at [redacted].

Yours sincerely,

Oscar Carlberg
Regulatory Affairs Manager