AUSTRALIAN ENERGY COUNCIL

14 October 2026

Economic Regulation Authority
Level 4, 469 Wellington Street
Perth WA 6000

Submitted online

Submission on the Consultation for the 2026 Gas Rate of Return Instrument Review

The Australian Energy Council (AEC) welcomes the opportunity to make a submission to the Economic Regulation Authority's (ERA) consultation on the 2026 gas rate of return instrument (RORI) review.

The AEC is the peak body for electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. Our members generate and sell energy to over 10 million homes and businesses and are committed to delivering a reliable, affordable and decarbonised energy system for consumers. The AEC supports net zero by 2050 and recognises the electricity sector's role in reducing Australia's emissions. Our members are major investors in renewables, firming and storage technologies that are critical to ensuring that customers continue to receive reliable and sustainable energy supply as we navigate the energy transition.

The AEC supports a gas RORI that enables prudent, efficient investment without imposing unnecessary costs on consumers. From the ERA's own analysis and other evidence, we believe that the rate of return proposed in the draft RORI is above that required to attract investment. This risks inflating network revenues and unnecessarily causing higher retail electricity and gas prices. The AEC therefore recommends the following adjustments:

1. **Equity beta**: an equity beta of 0.6 or lower should better reflect the evidence and risk characteristics of an efficient Australian regulated gas network; and
2. **Market risk premium:** apply equal weighting to the arithmetic and geometric means when estimating the market risk premium, which would produce a market risk premium of 5.6 per cent after the dividend growth model adjustment.

The submission below sets out the above points in more detail.

For more information on this submission, please contact Jo De Silva by email at [redacted]

Yours sincerely,

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Equity beta

The AEC does not consider that the ERA's proposed equity beta of 0.7 is the best estimate supported by the available evidence. The ERA's empirical analysis produces an estimate of 0.63, yet the draft instrument proposes to retain 0.7. An equity beta of 0.6, or potentially lower, would better reflect the evidence and the risk characteristics of an efficient Australian regulated gas network.

A key concern is the weight placed on international comparators. The ERA considers energy businesses from five countries, calculates an estimate for each country and then gives each country equal weight. This effectively gives Australian evidence a weight of only 20 per cent and international evidence a combined weight of 80 per cent. While international data may be informative, it should not dominate the estimate unless the ERA demonstrates that differences in regulatory frameworks, market structures, business mixes and financial conditions do not materially reduce comparability. The draft material does not establish this proposition.

There are also limitations within the Australian sample. APA Group appears to receive material weight despite holding a substantial portfolio of unregulated assets, which weakens its comparability to a benchmark regulated gas network. AusNet Services and Spark Infrastructure Group are also included in the domestic comparator set, but this data is increasingly losing relevance due to age (both firms de-listed in 2021). These limitations call for careful judgment, but do not justify placing disproportionate reliance on a broad international sample.

The ERA also refers to possible effects of United States tariff announcements in selecting 0.7. The reasons for why the ERA considers US tariff-related market movements to have material effect on the equity beta are not provided.

The proposed value also compares unfavourably with the Australian Energy Regulator's draft estimate of 0.55, reduced from 0.6 and derived using higher gearing. The ERA's estimate is materially different.

On balance, and for the above reasons, the AEC submits that the ERA should adopt an equity beta of 0.6 or below.

Market risk premium

The AEC considers that the ERA's methodology for estimating the market risk premium is reasonable, but that there is a credible basis for an estimate below the proposed 5.8 per cent. In particular, the AEC submits that the ERA should give equal weight to the arithmetic mean and geometric mean, rather than the proposed 60:40 weighting. Applying a 50:50 weighting, together with the ERA's dividend growth model adjustment, would produce a market risk premium of 5.6 per cent.

Where no definitive weighting can be determined statistically, equal weighting is the most transparent and pragmatic approach, avoiding bias toward either estimator. We note that Pink Lake Analytics also supports placing greater weight on the geometric mean than the draft proposal does. Pink Lake observes that the JKM small-sample estimator is the most applicable of the analytically derived weightings, and assigns more weight to the geometric mean than the other methods considered. Giving greater weight to the result that is most applicable to the available sample supports moving from 60:40 to at least a 50:50 weighting.

A more accurate investment horizon also supports a greater weighting on the geometric mean. Pink Lake derives the statistical weightings using a ten-year investment horizon. However, regulated gas networks are long-lived infrastructure assets, and the relevant investment horizon is arguably considerably longer than ten years. Because the geometric mean becomes more informative over longer horizons, an

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assumption better aligned with the economic life of network assets would increase its appropriate weight.

Accordingly, the AEC submits that the ERA should adopt a 50:50 weighting of the arithmetic and geometric means. With the dividend growth model adjustment, this would result in a market risk premium of 5.6 per cent. This approach is transparent, avoids unwarranted bias and better reflects both Pink Lake's small-sample analysis and the long-term nature of regulated infrastructure investment.

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