13 October 2026

Mr Steve Edwell
Chair
Economic Regulation Authority
Level 4, Albert Facey House
469 Wellington Street
PERTH WA 6000

By email: publicsubmissions@erawa.com.au

Dear Mr Edwell

ERA 2006 Gas rate of Return Instrument Review - Consumer Reference Group Submission to ERA Draft decision and Explanatory Statement

Thank you for the opportunity to respond to the ERA's draft decision and explanatory statement for the 2026 gas rate of return instrument review.

On behalf of CRG members, I attach our submission to the ERA's draft decision, which responds to ERA's various positions in its draft decision. The submission is public and can be posted on the ERA's website.

The CRG would also welcome the opportunity to meet (virtually or otherwise) with your colleagues to outline our views as set out in this submission, should this be feasible given your tight timeframes.

Yours sincerely

Chris Pattas
Chair
Consumer Reference Group

cc. Kieran Donoghue
Sarah Holman
Bobby Ditric
Jason Dignard
Deon Bishop

Submission to 2026 draft gas rate of return instrument

Consumer Reference Group

October 26

KEY POINTS

- Ongoing cost pressures for WA households and businesses make it vital that the rate of return is set no higher than absolutely necessary
- The best available evidence is that previous and current instruments have not resulted in a rate of return that has been set too low – it is less clear that it has not been set too high
- Looking forward the regulated gas network businesses are unlikely to have material new capital requirements, so the return on equity does not need to be "competitive" with other sectors or jurisdictions
- In this context the ERA should be more comfortable adjusting parameters lower than adjusting them higher
- Specifically there is scope with the available evidence to set beta at 0.6 or lower. The draft estimate of 0.7 is demonstrably too high
- There is also scope for a modest reduction in the market risk premium to 5.6%. Combined, these two changes would save consumers $60m per year
- Other parameters such as gamma and the cost of raising debt should be reviewed to ensure consumers pay no more than absolutely necessary
- The change in the return on debt methodology to a trailing average is appropriate and should be expedited

Contents

1 Executive Summary 3

2 Introduction and context 4

2.1 Role of Consumer Reference Group 4

2.2 Affordability for household gas customers 5

2.3 Competitively priced gas for businesses 6

2.4 Assessing the current and previous instruments 7

2.5 The requirement for equity capital 9

3 The return on equity 10

3.1 Beta 10

3.1.1 CRG position in response to ERA discussion paper 10

3.1.2 ERA decision in draft RORI Instrument 10

3.1.3 Overall remarks 11

3.1.4 Use of domestic and international samples and comparisons with the AER approach 11

3.1.5 Apparent Change in approach between 2022 and 2026 14

3.2 Market Risk Premium 16

3.3 Equity Risk premium 17

3.4 Risk free rate 17

4 The return on debt 17

4.1 The case for a change 17

4.2 Transition 18

4.2.1 No transition 19

4.2.2 Shorter transition 19

4.2.3 Evaluation of the two transition options presented in the Draft explanatory statement 20

4.3 Debt raising costs 20

5 Value of imputation credits (gamma) 21

Appendix 22

About the Consumer Reference Group (CRG) 22

1 Executive Summary

The Consumer Reference Group (CRG) welcomes the opportunity to respond to the Economic Regulation Authority's (ERA's) Draft Gas Rate of Return Instrument and Explanatory Statement (the draft decision). This follows the ERA's Discussion Paper, on which the CRG made a submission, where it considered a more holistic approach would be preferable to a more limited or selective approach. The ERA has nonetheless kept to its more incremental approach in its draft decision, which we consider raises the issue of whether the allowed rate of return is at an efficient level.

The review is being conducted against the background of Western Australian households, particularly low-income families and those in financial hardship, facing acute cost of living pressures. The rate of return set by regulators represents the cost of capital for a regulated gas network or pipeline business and accounts for between a third and nearly half (40%) of a network's revenues, and network costs in turn make up a substantial share of end-user gas bills.

Significantly, if the allowed rate of return is higher than needed, (taking account of the relevant risks faced by the business) customers pay more for the same service quality but with no additional benefit. This is why it is important that the gas rate of return instrument delivers an efficient rate of return, no higher than necessary, while allowing businesses to maintain a safe and reliable service. Where there is more than one reasonable approach available, the impact on consumers must be a key consideration.

In this regard, we consider that the ERA's attempt to assess the effectiveness of the instrument to be underwhelming. The ERA has selected five potential cross-checks, each of which it then swiftly dismisses as of little or no practical relevance. Accordingly, there is no compelling reason for the ERA to anchor 2026 RORI parameter estimates to previous parameter estimates. A comparison is understandable, given the ERA's preference for regulatory stability and predictability, but this does not entail giving undue weight to maintaining the same estimate (status quo).[1] See section 2.4.

This review is also being conducted at a time of significant global economic uncertainty. As the Independent Panel Report notes, in such an environment the information available to regulators from other (international) jurisdictions is more ambiguous and incomplete and this makes reliance on international benchmarks more problematic than in the absence of such events. This is particularly relevant to the estimation of the equity beta (see section 3.1).[2]

The CRG notes that in some areas of its parameter analysis, the ERA has determined positions with which the CRG is in broad agreement. This includes its positions on certain debt and gearing parameters, noted in section 4.

However, the CRG has concerns with the ERA's position on the following aspects:

- Equity beta (section 3.1)
    - The ERA position on equity beta is difficult to reconcile with the statistical evidence presented. This is even compared to its previous 2022 decision, which arguably put undue weight on its international comparator set, notwithstanding concerns at the time over its comparability and relevance to Australian regulated entities.
    - Its arguments appear to ignore the evidence from its latest domestic and international comparator set, which it has spent so much effort to improve and refine since its 2022 decision. It also appears to prefer estimates derived from its pre-April 2025 work, which predate the US tariff announcements. In doing so, however, it also appears to put less weight on its latest 10 year estimates which should be less impacted by the US tariff announcements.
    - The CRG considers the weight of evidence suggests that equity beta should be no higher than 0.6
- Market Risk Premium (section 3.2)

[1] A point also stressed by the report of the Independent Panel – see Independent Panel Report on the ERA's 2026 Gas Rate of Return Instrument (October 2026) p.9
[2] Ibid. p.4

    - The CRG is in broad agreement with the ERA's methodology to estimate the market risk premium (MRP). Specifically, we agree that historical excess returns (HER) are the most appropriate and stable basis for MRP estimates. We also agree that they represent a very long term indicator and that other data sources could inform an estimate of the current MRP. However, any such approach must be applied symmetrically
    - However, we remain of the view that a 50:50 weighting is a legitimate weighting (results are within a plausible range) and as this leads to slightly lower costs for consumers, we consider this is a preferable weighting. The equal weighting results in an HER estimate of 5.7 per cent (to one decimal place). Taking account of the most recent estimates from the DGM analysis, and applying the same 0.1 per cent adjustment as the ERA, we recommend an MRP of 5.6 per cent.
- Debt transition (section 4)
    - The CRG agrees that changing the trailing average cost of debt from the current hybrid approach to a full ten year trailing average approach is likely to be in customers interests as it should result in a lower cost of debt and smoother and less volatile rates
    - However, the proposed lengthy transition will erode many of the nearer term benefits of the trailing average for customers. Accordingly, we consider that the ERA should consider whether a transition is even necessary and, if so, whether shorter a transition is in customers' interests.
    - The CRG presents an option for a shorter transition, if a transition is seen as necessary. If a longer transition approach is maintained we prefer a 10 year reset over a five year reset.
    - The ERA should review its debt raising cost allowance to ensure that this does not represent an upward bias in the rate of return
- Imputation credits (gamma) (section 5)
    - The parameter values for the component inputs to gamma are such that while the distribution rate is rounded up very slightly, both the utilisation rate and gamma are rounded down significantly.
    - A lower gamma value will, all else being equal, result in gas consumers paying higher prices, and so we consider this approach to be biased in favour of the businesses.
    - We consider rounding should only occur at the final step of determining gamma, which should therefore be set at 0.6 (rounded to one decimal place) or 0.58 (rounded to two decimal places).

2 Introduction and context

2.1 Role of Consumer Reference Group

As part of the ERA's four yearly review of its Gas Rate Of Return Instrument (RoRI), it has set up a Consumer Reference Group (CRG) to provide direct and ongoing feedback to the ERA during its review that represents broad consumer perspectives, including by making submissions throughout the process[3].

The ERA published its Discussion Paper in October 2025[4], where it set out the ERA's working views on the key topics it identified and where it considered further work was needed to determine the 2026 RoRI. The CRG provided a submission to the ERA's Discussion Paper on 21 April 2026[5]. The CRG considered that a holistic approach to the determination of a rate of return methodology is preferable to a more limited or selective approach, as is evident in the ERA's Discussion Paper where specific issues were highlighted. The CRG continues to encourage the ERA to look more broadly on whether the rate of return determined in the draft report is appropriate. This is further discussed in section 2.4 below.

The ERA published its draft decision on 29 July 2026[6]. This is the CRG's formal submission to this draft decision, which addresses key issues raised by the decision, as well as taking account of consumer perspectives. We also

[3] Further information on the Consumer Reference Group is in the Appendix.
[4] ERA 2026 gas rate of return instrument review, Discussion paper (October 2025)
[5] Consumer Reference Group, Submission to ERA 2026 Gas rate of return Discussion Paper (April 2026)
[6] ERA 2026 Draft Gas Rate of Return Instrument and Explanatory Statement (28 July 2026)

look at what we consider as relevant issues raised in previous ERA reviews, as well as the current AER RoRI review, that should be considered in this review by the ERA.

2.2 Affordability for household gas customers

There is growing evidence that Western Australian households are experiencing significant cost of living pressures, with many unable to meet the cost of a basic standard of living.

Modelling by the West Australian Council of Social Service (WACOSS) in 2025 shows that financial pressure is not confined to people receiving income support. Working families, single parent families and renting age pensioners were all unable to meet the cost of basic living expenses, while even modest cost increases can push households further into deficit. This trend is also reflected in emergency relief data, which indicates a 147 per cent increase in employed clients seeking assistance over the past four years. [7]

These pressures are co-occurring with a housing affordability crisis. The WACOSS report also highlighted that housing now accounts for 42 per cent of the average budget of financial counselling clients, up from 37 per cent four years ago, leaving even less capacity to absorb increases in utilities and other essential costs.[7] The 2026 Anglicare WA Rental Affordability Snapshot showed there was no affordable and appropriate rental properties in Perth for a single person receiving JobSeeker.[8]

Consistent with these broader affordability pressures, recent Hardship Utility Grant Scheme (HUGS) data indicates rising demand for assistance. In August 2026 alone, HUGS completed 2,279 assessments and recommended assistance in 2,273 cases. The most commonly reported drivers of hardship were cost of living pressures (97 per cent) and low, restricted or inadequate income (82 per cent). The HUGS client population includes a high proportion of households reliant on government payments (65 per cent) and renters (67 per cent across private, public and community housing). [9] Demand for utility hardship assistance has increased significantly over time, with HUGS forecasting approximately 17,015 grants in 2026/27, compared with around 13,140 grants in 2024/25 and 10,404 grants in 2022/23.[10] This suggests a growing number of households are seeking assistance with utility costs and experiencing financial stress associated with essential utility services, which is borne out by the rise in new applicants as opposed to repeat applicants. In other words an increasing number of West Australian households are getting caught in a cost of living trap, in which gas costs play a significant role.

There is also supporting evidence from the Economic Regulation Authority indicating that energy debts have continued to increase. Residential gas bill debt increased from approximately $2 million in 2019 to approximately $14.5 million in 2025. As of 30 June 2025, 3.1 per cent of residential gas accounts were in bill debt, with average debt of approximately $596 per account.[11]

Together, these findings indicate that many households, including working households, are experiencing severe housing affordability pressures, and significant financial strain, leaving individuals and families increasingly vulnerable to increases in the cost of essential services.

[7] Western Australian Council of Social Service (WACOSS) 2025, *Cost of Living Report 2025,* available at https://wacoss.org.au/wp-content/uploads/2025/12/WACOSS-2025-Cost-of-Living-Report.pdf
[8] Anglicare WA 2026, *Rental Affordability Snapshot 2026*, available at https://www.anglicarewa.org.au/our-initiatives/research/rental-affordability-snapshot-ras
[9] Hardship Utility Grant Scheme (HUGS) 2026, *Monthly Report, August 2026* provided by Anglicare WA.
[10] Hardship Utility Grant Scheme (HUGS) 2026, *Total Annual HUGS Grants Paid 2008*–2027 dashboard, provided by Anglicare WA.
[11] Economic Regulation Authority 2025, *Electricity and Gas Data Mini Report 2 of 4: Debt and Disconnections*, available at https://www.erawa.com.au/energyreports

While some households may be able to reduce their reliance on gas over time through electrification and energy efficiency upgrades, others may face significant financial, housing or practical barriers to doing so.[12] [13] [14] Unlike Synergy's Energy Ahead program aimed at coaching households on ways to manage and reduce electricity costs, there is no such equivalent in gas. Nor are there energy efficiency and electrification policy schemes such as Victoria's Victorian Energy Upgrades and similar jurisdictional schemes that reduce the up-front cost of more energy efficiency appliances and electrification more generally. Consumers who are unable to transition may remain connected to the gas network and face higher costs as those costs are shared across a declining customer base. This creates a risk that vulnerable consumers could bear a disproportionate share of transition costs despite having the least capacity to absorb them.

The affordability impacts of rate of return decisions should not be understated. Returns on capital typically account for a substantial proportion of network revenues, meaning that the assumptions adopted in the rate of return instrument ultimately affect the prices paid by consumers. Even relatively small increases in network costs can have meaningful consequences for households already experiencing financial stress, particularly where gas is used for essential household needs and consumers have limited ability to reduce consumption or substitute to other energy sources.

Against this backdrop, affordability impacts are highly relevant to the 2026 review. Many households are already struggling to meet the cost of essential goods and services, including utility costs. Decisions that increase network charges will have a greater impact on households with limited financial capacity, particularly those already experiencing housing stress, financial hardship or utility debt. The CRG considers that consumers should pay no more than is necessary to support efficient investment and safe, reliable gas services. Where there is more than one reasonable approach available, the impact on consumers must be a key consideration.

2.3 Competitively priced gas for businesses

The majority of large commercial and industry gas users are connected to one of the three pipelines subject to this rate of the return review. The effects of any changes to the rate of return would have wide reaching outcomes. However, the effects on customers would not be uniform.

Goldfields Gas Pipeline (GGP) large customers are mainly remote mining operations and off-grid electricity generators supplying mining operations. Any increase in the rate of return would have direct increase in haulage charges on the pipeline. Connected mining operations would face higher capacity reservation and haulage costs. For high energy-intensive mining or processing facilities gas transport costs represent a core operation input. Equally, off-grid power production would see an immediate and direct increase in costs as these power producers contracts typically include cost pass through provisions, and a higher transport fee would be passed down directly to higher electricity generation costs.

However, these costs should have minimal flow on effects to residential or commercial customers, especially outside of Kalgoorlie and Esperance regions. Rather it concentrates its economic effect on commercial resource producers and their ability to compete in the global resource markets. How much of an effect it has depends on the global competitiveness of the affected producers.

The effects of any increased rate of return on customers of the Mid-West and South-West Gas Distribution Systems (MWSWGDS) would have wider reaching consequences. Approximately 850,000 customers are connected to the MWSWGDS, all which would feel the effects of an increased rate of return. Residential customers will see increased network charges if passed on by their gas retailers. Commercial customers will also be faced with higher network charges. Small and medium sized business, such as restaurants, hotels, bakeries, or dry cleaners would face pressure to absorb any increased costs and might be required to increase their prices. Larger

[12] Energy Consumers Australia 2024, *Power Move*, available at https://energyconsumersaustralia.com.au/our-work/research/power-move
[13] Energy Consumers Australia 2023, *Stepping Up: A smoother pathway to decarbonising homes*, available at https://energyconsumersaustralia.com.au/our-work/research/stepping-up
[14] Parliament of Australia, Senate Economics References Committee 2025, *Residential electrification: Chapter 3, Consumer barriers and supports*, available at https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/ResElectrification/Report/Chapter_3_-_Consumer_barriers_and_supports

industrial customers involved in manufacturing and processing may have more potential to absorb increased overheads, impacting their operating margins.

While the MWSWGDS has the most direct customers, the Dampier Bunbury Pipeline (DBP) transports the vast majority of Western Australia's domestic gas. Thus, any increase to the rate of return would have considerable effect on consumers. Direct transmission customers (such as mining, power generation and major industry) would be exposed to immediate price increases especially those on reference contracts. The higher transport costs will increase the per Gigajoule (GJ) of operational overheads; potentially impacting the cost competitiveness of Western Australian manufactured products, mineral processing, or wholesale gas-fired electricity generation. Large customers on negotiated commercial contracts may see their cost also increase due to contractual tariff escalation clauses tied to the ERA's approved reference tariff.

A higher pipeline tariff will also increase a gas retailer's wholesale cost of gas. Retailers may absorb this increased cost and tighten their margins. However, as all retailers will be facing the same cost increase a more likely commercial outcome would be to pass the increased transmission fee down to end-use consumers and maintain margin.

Transmission costs alone account for 5% to 10% of an average small businesses gas bill. Gas generates roughly 55% to 60% of all electricity across Western Australia, and roughly 35% to 45% of South West Interconnected System (SWIS) electricity is gas generated. Any increases to pipeline tariffs would likely raise the marginal cost of peaking gas generation, and possibly increase wholesale electricity prices as gas generation is often the marginal generator i.e. the price setter[15].

While it is the case that, in Western Australia, the State Government sets maximum price caps for residential gas and electricity prices, which should protect consumers from sudden price spikes, any prolonged increases in gas prices and electricity prices can lead to upward pressure on government-capped retail rates.

We note that the ERA's draft decision has determined a slightly lower market risk premium (from 6.1 per cent to 5.8 per cent) which also correspondingly reduces the equity risk premium by around 21 basis points (BPs). If this position is maintained in the final decision, this would lead to a slightly lower return on equity (cost of equity) all else equal. If, however, the final decision was to result in a higher return on equity, then the above concerns on gas users would be relevant. In the following sections, the CRG notes areas where larger changes to the WACC parameters would be justified, which would have a more appreciative effect on lowering gas tariffs.

2.4 Assessing the current and previous instruments

ERA has assessed the performance of the current instrument and provided details of this assessment in Attachment 2 of its Draft Explanatory statement.[16]

The regulated gas network businesses note that they are all early in their access arrangement to which the 2022 instrument applies, and that accordingly, it is difficult to assess the impact of the instrument[17]. This is a reasonable point, but it would not preclude the ERA assessing the impact of the 2018 instrument, and using the outcomes of that assessment to inform its judgment this time.

The ERA's evaluation has three components:

- Implementation and calculation.
- Reflectiveness of market conditions and financing costs.
- Effectiveness of the rate of return produced.

[15] Large scale Battery Energy Storage Systems have recently started to displace gas generation and are increasingly setting the marginal price for electricity. Increasing the generation cost for gas will allow battery storage to price higher while still displacing gas generation resulting in a higher marginal price for electricity.
[16] ERA, 2026 Draft Gas Rate of Return Instrument and Explanatory Statement– Attachment 2
[17] Ibid, Gas Instrument Performance, p7

The CRG has no issue with the assessment of implementation and calculation, which is essentially a mechanical process.

In relation to reflectiveness of market conditions and financing costs, the CRG acknowledges that the approach to setting the return on debt and the risk free rate allows the rate of return to adjust to current market conditions at the time each access arrangement is set. It is hard to evaluate whether the instrument reflects actual financing costs because:

- The cost of equity is not directly observable
- The return on debt is not compared to each regulated gas network business's actual financing costs as a cross-check or reality check.

We consider that the ERA's attempt to assess the effectiveness of the instrument to be underwhelming. The ERA has selected five potential cross-checks, each of which it then swiftly dismisses as of little or no practical relevance.

Table 1: Cross checks of the current or prior instruments

Cross check	ERA view	CRG comments
Financeability	It is not a meaningful tool to measure the efficient expected return	Agree financeability needs to be assessed holistically. May be possible to do a "hygiene check" as the AER has done.
RAB multiples	The RAB multiple is a function of various things, most of which we cannot easily attribute to rate of return reliably. There have been no recent gas pipeline sale transactions to inform a RAB multiple analysis	Broader sector has been characterised by high RAB multiples (>1.3) for many years even if there is limited recent data. Indicates that previous rates of return have not been set too low, and may have been set higher than necessary.
Historic profitability	Observed profitability is not a direct indicator of the effectiveness of the allowed rate of return.	Agree, but profitability analysis would still be of interest to stakeholders
Investment trends	We see no material change in investments that would suggest that the allowed rate of return may been inefficient.	Investment trends indicate RORI has not been set too low.
Comparison with other regulatory benchmarks	Approaches to estimating the cost of debt vary materially across regulators and are generally not directly comparable to the hybrid trailing average approach. Our estimated return on equity estimate sits around the middle of the distribution of equity risk premia at 4.3 per cent. This high-level analysis suggests that our approach does not produce outcomes that are outliers with regulatory practice.	Agree limited usefulness, but see further discussion in this section (section 2.4)

Source: ERA views sourced from Explanatory statement for the 2026 draft gas rate of return instrument – Attachment 2: 2022 Gas Instrument Performance

The ERA's apparent conclusion is that it is not possible to elicit any meaningful evidence from the information available, making it difficult to determine robustly whether previous instruments (2018, 2022) - or indeed previous ERA gas rate of return decisions prior to the introduction of the binding rate of return – resulted in a rate of return that was either too high or too low. It would follow that there is no obvious reason for the ERA to anchor 2026 RoRI parameter estimates to previous parameter estimates. A comparison is understandable, given the ERA's preference for regulatory stability and predictability, but this does not entail giving particular weight to maintaining the same estimate (status quo). The Independent Panel was also of the view that a status quo bias risks "undermining the objective of ensuring that the instrument best promotes the NGO"[18].

The CRG considers that on the limited evidence available, we can say with confidence that previous instruments have not set the RORI too low. There is no evidence of an investment "strike" by any of the regulated gas network

[18] Independent Panel Report on the ERA's 2026 Draft Gas Rate of Return Instrument, September 2026, p9

businesses, nor of an inability to raise finance for the investment carried out. This conclusion appears consistent with the observations of the Independent Panel[19].

We cannot however have the same degree of confidence that the RoRI has not been set too high. This is because the likely outcome in that case is that the shareholders enjoy higher returns than their risk exposure warrants, and that is not directly observable. So, while we note that the rate of return must be consistent with the requirements of the NEL, and for parameters where data is used to support the ERA's judgment, the decision should be consistent with the data, we consider that the ERA should be more comfortable setting lower parameters compared to current outcomes rather than higher.

In any case as noted in Table 1 above, the CRG considers that the ERA could do more to evaluate the outcomes of its decision. In particular, an analysis of historical profitability, such as the AER's Return on Regulatory Equity analysis would be highly informative to stakeholders. In this respect we support the Independent Panel's conclusion that the ERA has applied an evaluative standard that is "not appropriate to the task at hand"[20].

Another aspect of the evaluation of the instrument concerns how customer bill impacts that would result from application of the instrument could be presented. We agree with the Independent Panel that by:

"presenting the shape of the instrument in more accessible, revenue and bill-based terms, regulators create opportunities for an ongoing dialogue with a wider group of stakeholders than might otherwise engage with the process".[21]

In this respect, it's been evident to the CRG during this process that while it has reached out to a number of consumer groups and has received meaningful information on customer hardship and related matters, it has been challenging to get engagement from a wider cross-section of consumers. Providing more assessable information about the potential impacts of the RoRI may well help elicit greater interest in these processes in the future.

2.5 The requirement for equity capital

The regulated gas network businesses have opined in their submissions that the ERA should have regard to "Western Australia's competitiveness for new capital" (AGIG) and that we are "in a global environment where capital flows freely and projects compete on risk-adjusted returns" (ATCO)[22].

The ERA also observes: "Capital is mobile, and while regulated infrastructure is largely a sunk investment, capital mobility may affect any incremental investments in regulated infrastructure required to maintain service, improve reliability or service demand. Investors can allocate capital across jurisdictions based on relative trade-offs between risk and return"[23].

The CRG challenges the salience of this perspective, taken at face value and without consideration of current and foreseeable investment trends in the WA gas transport sector. The regulated gas network businesses in fact have little to no need for new capital. Goldfields Gas Pipeline and the Dampier-Bunbury Pipeline both have declining regulated asset bases (RABs), i.e. their annual depreciation allowance exceeds their annual capex expenditure. Accordingly, they can fund capex from cashflows and do not need to raise new equity. This state of affairs should continue into their subsequent access arrangements, to which the 2026 RoRI will apply. The only way it will not is if either business has a significant expansion requirement. We note that AGIG speculates that an expansion of Dampier-Bunbury Pipeline may be required, but it also notes that the last time this occurred it had to be negotiated outside of the access arrangement framework, in which case the regulated rate of return would not be of material relevance.

While ATCO's MWSWGDS distribution network still has a growing RAB in its current access arrangement, growth is modest (six per cent over five years) as capex declines and depreciation accelerates, and a continuation of this

[19] Independent Panel Report on the ERA's 2026 Draft Gas Rate of Return Instrument, September 2026, p11
[20] Independent Panel Report on the ERA's 2026 Draft Gas Rate of Return Instrument, September 2026, p10
[21] Ibid p.15
[22] ERA, 2026 Draft Gas Rate of Return Instrument and Explanatory Statement– Attachment 2, p7
[23] Ibid., p19

trend would mean that by the next access arrangement, its RAB will also begin to shrink in real terms, and it too will be able to fund new capex from cashflows.

None of this absolves the ERA from having to set a risk-adjusted return on equity that is efficient. However, in doing so, and exercising its judgment on where in the plausible range of parameter estimates it should select from, it need not err on the high side (or aim up) and can confidently select the lowest possible parameter estimates consistent with the evidence. It also need not have significant regard to whether its decision results in a relatively lower return on equity compared to some other regulators in other jurisdictions which may have very different gas investment circumstances. This way it can ensure its decisions are most relevant to WA's circumstances and that WA gas customers pay no more than necessary for gas transportation services.

3 The return on equity

3.1 Beta

The equity beta measures the systematic risk of an entity such as regulated business (or a security) in comparison to the market as a whole. Typically regulated firms have relatively low risks because of their regulated status. The ERA's draft decision is to determine an equity beta of 0.7 for the 2026 Rate of Return Instrument (RoRI). This is unchanged from its determination in its 2022 RoRI decision. The CRG considers this is demonstrably higher than the available evidence warrants, and with a more appropriate weighting towards the most directly relevant comparator businesses, a beta of no higher than 0.6 would better serve the long term interests of WA gas customers.

3.1.1 CRG position in response to ERA discussion paper

An equity beta of 0.7 (as determined by the ERA in 2022) appears high in comparison to what other regulators have determined for similar businesses, given regulated gas businesses are protected from most normal market and commercial risks. A beta of 0.5-0.6 would appear more appropriate, based on recent Australian and international evidence as was evident in the period leading to the 2026 review.[24]

It is also not apparent why the ERA decided to put most weight on its international comparator set in its previous decisions, notwithstanding its concerns around the comparability of these estimates with Australian (and Western Australian) regulated firms.[25]

3.1.2 ERA decision in draft RORI Instrument

ERA decided to leave the equity beta unchanged at 0.7. In particular:

- ERA noted this is a forward-looking concept so historical beta estimates should be treated with caution;
- Geopolitical shocks (particularly the 2025 tariff decisions of the US administration and wars in Middle East and Ukraine) may have affected the more recent evidence from international samples and at the very least have increased volatility in returns - this is notwithstanding it accepts using 10 year estimates to better address short-term impacts;
- ERA also accepted the systematic risk of network service providers is relatively static or time invariant[26] to support the continuing use of a domestic comparator set which is becoming increasingly dated; this tends to undermine its argument about the impact of recent shocks
- The ERA put very little weight on its domestic sample which is much more relevant to the type of firms being regulated – this sample shows an equity beta in the range of 0.4 to 0.5. This is in contrast to the AER's approach of putting more weight on its domestic sample.

[24] Submission to the 2026 Gas rate of return instrument discussion paper – Consumer Reference Group p.3, 11.
[25] Ibid.
[26] ERA, Explanatory statement for the 2026 draft gas rate of return instrument – Attachment 5, p.47

- ERA admits there is now stronger evidence to support a beta of 0.6 and the evidence supporting 0.7 is weakened, but still thinks 0.7 is appropriate on the basis this reduces volatility and supports stability.[27]

3.1.3 Overall remarks

The ERA position on equity beta is difficult to reconcile with the statistical evidence presented. This is even compared to its previous 2022 decision, which arguably put undue weight on its international comparator set, notwithstanding concerns at the time over its comparability and relevance to Australian regulated entities.

Its arguments appear to ignore the evidence from its most recent domestic and international comparator set, which it has spent so much effort to improve and refine since its 2022 decision. It also appears to prefer estimates derived from its pre-April 2025 work which predate the US tariff announcements. In doing so, however, it also appears to put less weight on its latest 10 year estimates which should be less impacted by the US tariff announcements.

3.1.4 Use of domestic and international samples and comparisons with the AER approach

The ERA has cautioned about the use of historical series in estimating beta, as this is a forward-looking concept, and notes the need to look at both 5 and 10 year estimates to derive an appropriate estimate which captures changes to systematic risk in a changing market environment[28]. At the same time, it is concerned the shorter term estimates may be unduly affected by recent geopolitical events or shocks. What is clear, however, is that it still decided to refine and simplify its methodology of its international sample, which now yields a lower beta estimate than its previous estimates in 2022 – and even compared its recent work as set out in its 2025 RoRI discussion paper (October 2025).[29]

In this regard it is worth comparing the ERA's approach to that of the Australian Energy Regulator (AER) which regulates similar gas network and pipeline businesses in all other states and territories in Australia under comparable laws and rules[30]. The AER is also undertaking a RoRI review at the present time and made its draft decision in May 2026[31]. While the AER has used international firms in its sample for the first time, it still gave more weight to its domestic sample, notwithstanding the largely historical nature of this data set, which has diminishing value as most domestic businesses are no longer listed.

In effect, the AER considered that the relative merits of using a largely historical domestic series outweighs the broader based international data set, which it considers is still problematic as a comparator given underlying and inherent differences between Australian and international regulated firms, which cannot be adequately addressed. In this regard, it also cited the evidence from its expert group that there is no real consensus about the best approach on the use of international comparators and so a good deal of regulatory judgement is required.[32]

In our submission to the ERA on its 2025 Discussion Paper we made the point that international comparators should be used with caution because international firms differ substantially from pure play regulated Australian firms and these differences are difficult to quantify. This remains an important consideration, particularly in how regulators should use their regulatory judgement.

More specifically, as noted in our previous submission to the ERA's discussion paper[33], there are significant problems with using such comparators, including:

[27] Ibid, p 65
[28] Ibid, p.43
[29] ERA, 2026 gas rate of return instrument review – Discussion Paper, 23 October 2025, Appendix 4 Equity beta estimates, p.43
[30] The AER regulates gas network businesses under the National Energy Law and National Energy Rules which are broadly comparable but not identical to those applicable in Western Australia.
[31] AER Draft rate of return instrument – Explanatory Statement, 29 May 2026
[32] AER Eligible experts report, 2026 Rate of Return review
[33] Submission to the 2026 Gas rate of return instrument discussion paper – Consumer Reference Group p.11.

- Addressing the fundamentally different operating environments faced by international energy firms and Australian energy networks – including differences in regulatory frameworks, business cycles, local geographies, political contexts, and corporate profiles (i.e. vertical integration and horizontal diversification).
- Overcoming the "leverage anomaly" – upward bias in estimates – when attempting to correct for the difference in gearing between international firms and domestic networks by de-levering and re-levering the equity beta estimates of international firms.
- Accounting for the difference between the structure of the Australian market and market composition of each international market – and their differing exposures to systematic risk.

We made the further point that to the extent some international comparators are used because of the diminishing value of historical Australian data, that an appropriate weighting and filtering approach should be used, such as that suggested by EMAS in their paper for the ECA's RORI submission to the AER review[34]. This would provide grounds for a lower equity beta.

The ERA did not accept this approach to narrow the number and type of international comparators and continued to use its broader international comparator set, although in the end it used its regulatory judgement to largely ignore the most recent estimates from its two comparator sets which were pointing to lower beta estimates.

This appears to introduce a level of inconsistency in approach across regulatory determinations (see 3.1.5). Moreover, a full re-consideration of equity beta would not necessarily start from a position that the current 0.7 estimate is the correct starting point[35]. But if this is how ERA sees its (narrow) task, then its failure to make any change from this position, notwithstanding the overwhelming evidence from its statistical work, undermines the incremental or targeted approach it claims to favour.

It is also noteworthy that the Independent Panel in its assessment of the ERA's draft decision made a further point about the usefulness of these international comparisons at a time of global economic uncertainty. This volatility means incorporating international benchmarks is more challenging than in more stable period periods:

"Comparator jurisdictions may be subject to idiosyncratic shocks, differing monetary policy responses, or regulatory settings adapted to conditions materially different from Australia's, all of which reduce the confidence with which international data can be treated as informative of an efficient benchmark applicable to the gas pipelines the ERA regulates"[36]

Moreover, the ERA's estimates from its most recent quantitative work are now much more aligned with that of the AER in its 2026 draft decision than was the case in 2022. The AER determined a beta of 0.55 based on its most recent estimates, but putting primary weight on its domestic sample. The ERA's domestic sample (table 2 below) shows a mean of 0.50 (for 10 year estimates).

Table 2 Australian five and ten year equity beta estimates at benchmark leverage (ERA 2026)

Panel A: 5 year estimates

Estimator	APA	AST	SKI	Mean all Assets
OLS	0.45	0.29	0.38	0.37
LAD	0.42	0.44	0.45	0.43
Mean all methods	**0.43**	**0.36**	**0.41**	**0.40**

Source: ERA analyses

Panel B: 10 year estimates

[34] EMAS, Report for Energy Consumer Australia's Submission to the AER's 2026 Rate of Return Instrument Review, December 2025. Available at https://www.aer.gov.au/documents/eca-attachment-emas-report-energy-consumer-australias-submission-aer-2026-rate-return-instrument-review-december-2025

[35] See also section 2.4 above.

[36] Independent Panel Report on the ERA's 2026 Gas Rate of Return Instrument (October 2026) p.11

Estimator	APA	AST	SKI	Mean all Assets
OLS	0.63	0.41	0.41	0.49
LAD	0.61	0.50	0.46	0.52
Mean all methods	**0.62**	**0.46**	**0.43**	**0.50**

Source ERA Analyses

As noted in table 3 below, the ERA's international and domestic sample (combined) shows a mean of 0.63 (10 year estimates) which is well below its recent, previous estimate in its 2025 discussion paper of 0.73 (see Table 4 below). Even if the ERA does not want to put primary weight on its domestic sample because of the timeliness of the estimates, the combined estimate of 0.63 in no way supports 0.7. If the ERA had merely followed its 2022 approach of relying on its quantitative analysis, there would be strong grounds to reduce its equity beta estimate from 0.7.

Table 3 Domestic and International five and ten-year equity beta estimates at benchmark leverage (ERA 2026)

Panel A: 5 year estimates

Estimator	AUS	US	Canada	UK	NZ	Mean all Countries
OLS	0.37	0.54	0.59	0.82	0.68	0.60
LAD	0.43	0.50	0.59	0.82	0.57	0.58
Mean all methods	**0.40**	**0.52**	**0.59**	**0.82**	**0.62**	**0.59**

Source: ERA analyses

Panel B: 10 year estimates

Estimator	AUS	US	Canada	UK	NZ	Mean all Countries
OLS	0.49	0.71	0.78	0.69	0.65	0.66
LAD	0.52	0.55	0.69	0.66	0.57	0.60
Mean all methods	**0.50**	**0.63**	**0.74**	**0.67**	**0.61**	**0.63**

Source: ERA Analysis

Instead, the ERA appears to be taking the beta estimates from its combined (domestic and international) sample that it derived in 2025 as part of its preliminary work for the 2026 RoRI review[37] which came up with an estimate of 0.73 (which predate the US tariff decisions) as a better estimate than its 2026 estimate of 0.63. See Table 4 below. In this regard, it is using its regulatory judgement to 'look through' the results of its comparator sets because of apparent concerns these latest results may have been affected by recent geopolitical events.

Table 4 Domestic and international equity beta estimates at benchmark leverage (ERA 2025)

Panel B: 10 year estimates

Estimator	AUS	US	Canada	UK	NZ	Mean all Countries
OLS	0.50	0.82	0.87	0.95	0.67	0.76
LAD	0.59	0.61	0.84	0.88	0.58	0.70

[37] ERA, 2026 gas rate of return instrument review – Discussion Paper, 23 October 2025, Appendix 4 Equity beta estimates, p.43

Mean all methods	**0.55**	**0.72**	**0.86**	**0.92**	**0.63**	**0.73**

Source: ERA analysis

By contrast, the AER has expressed no such concerns that such events have affected the reliability of the international estimates. In that process, the networks think the international sample should be primarily relied on and would support a beta of between 0.6 and 0.7.[38]

In addition, as noted in Table 2, (10 year estimates) the ERA appears to be relying on estimates from Canada (0.74) and the UK (0.67) in particular to support the reasonableness of its 0.70 estimate. There is no specific evidence to suggest that these Canadian or UK estimates should be accorded any particular significance, if that is underlying the ERA's approach. As noted in section 2.5 above, the ERA should be more concerned about the market and investment conditions in WA. Also, as this is essentially a statistical exercise, the use of mean or median estimates to provide an overall trend makes more sense than pointing to particular country estimates, which in this case appear to be outliers. The Independent Panel also considered that reliance on specific country estimates was problematic and its overall sample seemed to be dominated by US firms whose regulatory and market circumstances are likely to be less comparable as compared to European firms.[39]

It's also evident the derivation of these estimates are simple averages across countries and assets. This means it's giving equal weight to estimates from every source. While this is consistent with previous approaches, it does highlight the problematic nature of this analysis which treats all estimates equally regardless of their relative comparability to the regulated Australian (or Western Australian) benchmark. For example, putting the same weight on APA as other Australian estimates, when it is clearly an outlier in terms of its prime areas of business (notwithstanding its ownership of one of the regulated assets) effectively increases the domestic average to 0.50 instead of around 0.40, if it was weighted lower than AST and SKI.

A similar observation can be made with combined domestic and international estimates, if in exercising its regulatory judgement, somewhat greater weight was given to domestic estimates than the international estimates. At present, the ERA looks at data from network businesses in 5 countries and gives an equal weight to each. This means Australian businesses only get a 20 per cent weight compared to 80 per cent for international businesses, which is problematic given the well-known comparability issues highlighted above. For example, the combined estimate would be closer to 0.6 if combined international estimates were weighted at 60 per cent rather than 80 per cent, with domestic estimates weighted at 40 per cent instead of 20 per cent.

More broadly, it is open to the ERA to make a qualitative judgement along these lines which would support a reduction to its equity beta estimate from 0.7 to an estimate closer to or below 0.6 even without having to mathematically manipulate the numbers with differing weights. As the ERA itself admits there is now stronger evidence to support a beta of at least 0.6 and the evidence supporting 0.7 is weakened[40]. It also considers less weight should be given to recent volatility (likely affecting shorter-term estimates) but does not apparently take more account of 10 year estimates to account for this.

3.1.5 Apparent Change in approach between 2022 and 2026

The ERA in 2022 noted the impact of COVID and the volatility that was associated with the pandemic, but also made the point that such market shocks can be ameliorated by looking at longer time-frames:

> *"The ERA notes that the current five-year window includes market shocks such as COVID-19 and the conflict in Ukraine…*

[38] Energy Networks Australia (ENA) Response to AER draft rate of return instrument and explanatory statement, 31 July 2026, p.5

[39] Independent Panel Report ibid. P.23. Also interesting are the AER's observations on its latest international estimates where its sub-sample (excluding US firms) was materially lower than its overall sample – see AER RoRI Post draft decision discussion paper, 9 October 2026, p.24

[40] ERA, Explanatory statement for the 2026 draft gas rate of return instrument – Attachment 5, p.65

To the extent that these shocks do not represent permanent changes to systematic risk and bias equity beta estimates, the consideration of a longer window can moderate the impact of these shocks. Therefore, the ERA will expand its considerations to include the 10-year window"[41]

In its 2026 draft decision, the ERA cites geopolitical shocks (wars in Ukraine and Middle East, and particularly the (initial) market impact of the 2025 US tariff announcements) as a potential concern with its most recent equity beta estimates. However, it is not apparent that these shocks represent any more permanent changes to systematic risk for regulated entities than the previous shocks did. It is therefore not clear why the ERA did not have more regard for its 10 year estimates. As well, as it itself has noted, essential services, such as energy networks, are likely in any case to be more immune from such shocks.[42]

The other interesting contrast was that in 2022, while the pandemic was apparently factored into the ERA's decision, its international sample provided a range of 0.6 to 1 with an average across all countries and estimation windows of 0.75 (for both 5 and 10 years)[43]. Therefore, ERA considered a point estimate of 0.7 to lie well within this range and would support leaving equity beta unchanged at 0.7.[44] It also cited a range of equity beta determinations from 'comparable' regulators – from 0.56 in Canada to 0.89 in NZ (NZCC) (US FERC was 0.73 and UK Ofgem was 0.68)[45].

In its 2026 draft decision, while the ERA cites the impact of geopolitical events, unlike in 2022 the latest supporting statistical evidence is not being used to buttress its position. In this sense, the ERA, while noting the exercise of regulatory judgement, appears to be taking a noticeably different approach than it did in 2022.

In particular, it does not clearly explain:

- why its underlying statistical analysis (which shows equity betas have declined since 2022) is not apparently as reliable as it was in in its previous review in 2022, despite the work it has undertaken to make these more robust;
- while it considers that 5 year estimates may better capture changing market conditions, it notes these have become more volatile, but if so, why it does not put more weight on the 10 year estimates, which would better address concerns about shorter-term impacts:
    - it is evident that the US tariff announcement did appear to have a somewhat greater effect on the 5 year estimates (particularly for the US and the UK) but, as expected, the 10 year estimates did not change as much, which reinforces the point about using longer-term estimates to address shorter-term impacts
    - the ERA has pointed to the relevance of 10 year estimates in its previous decisions as additional information for the exercise of regulatory discretion[46]
- how it determined the precise effect of short-term impacts such as the US tariff announcement;
- how concerns about short-term impacts are reconciled with its expectation that the systematic risk of regulated pipeline and network providers is relatively static or time invariant:
    - this position is being used to provide support for the continuing use of a domestic comparator set, but is equally relevant to any shorter term effects on its latest estimates and how such concerns may be overstated
    - it is evident that market shocks may affect measured systematic risk due to increased volatility, however, conceptually essential services such as energy networks would have been relatively more immune from shocks compared to other industries.[47]

[41] 2022 ERA Gas Rate of Return Instrument, Explanatory Statement, p. 171
[42] Ibid p.168
[43] Ibid p. 190
[44] Ibid
[45] Ibid p. 191
[46] Ibid p. 172
[47] Ibid p. 168

3.2 Market Risk Premium

The CRG is in broad agreement with the ERA's methodology to estimate the market risk premium (MRP). Specifically, we agree that historical excess returns (HER) are the most appropriate and stable basis for MRP estimates. We also agree that they represent a very long term indicator and that other data sources could inform an estimate of the current MRP. However, any such approach must be applied symmetrically.

We agree that the best HER average to use is a blend of arithmetic and geometric averages, as explained by ERA and Pink Lake Analytics. We consider that the Pink Lake Analytics paper comprehensively repudiates the regulated gas network businesses' claims that only the arithmetic average should be taken into account.

Further, we understand that Pink Lake Analytics has advised that each of the individual formulaic statistical methods for weighting the arithmetic and geometric average all have issues and so a pragmatic weighting is appropriate and reasonable. We consider that there are sound reasons to adopt a 50:50 weighting, as follows:

It has precedent – the ERA used it in 2018, and as noted in section 2.3 the available evidence is that the 2018 instrument did not result in a RORI that was too low.

- When there is no definitive ratio that can be statistically determined, an equal weighting is the most pragmatic way to avoid bias.
- Pink Lake Analytics note that: "The JKM small sample estimator is the most applicable of the analytically derived weightings to the current estimation context, where T is comparatively small for the 1988-2026 period. The JKM small sample estimator assigns more weight to the geometric mean than the other estimators"[48]. Applying greater weight to the JKM small sample results would support a greater weighting to the geometric mean.
- Pink Lake Analytics assume a ten year investment horizon in calculating the weightings arising from the three statistical methods. But the investment horizon of long-lived infrastructure assets is - at least arguably – considerably longer than ten years. Ten years is often used as a *proxy* for a long-term investment horizon for estimating the risk free rate because it is "the longest term generally available"[49], rather than a definitive determination of a long term investment horizon. Using a longer investment horizon would support a greater weighting on the geometric mean.
- Conversely, we do not see any need to place significant weight on what investors may or may not favour, given that they are often estimating a cost of capital for a different purpose from that of a regulator.

To that end the CRG considers our previous position , and that of the 2022 CRG, to use 50:50 remains appropriate, and that Pink Lake Analytics did not disagree that this could be an appropriate weighting, but equally did not disagree with the ERA's 60:40 weighting. Given 50:50 is a legitimate weighting (results are within a plausible range) and leads to slightly lower costs for consumers, we consider this is a preferable weighting. The equal weighting results in an HER estimate of 5.7 per cent (to one decimal place).

In any case, we agree with the modest downward adjustment to reflect the fact that Dividend Growth Model (DGM) estimates are materially lower than HER estimates at the current time. This is a pragmatic recognition that the HER estimates are very long term and that DGM, while unsuitable as a primary estimation tool, provides an indication of current market conditions. Accordingly, applying the same 0.1 per cent adjustment as the ERA, we recommend an MRP of 5.6 per cent.

We note that the explanatory statement also discusses the merits of a fixed versus a variable market risk premium within the rate of return instrument. We agree with the ERA that there would be risks associated with a variable market risk premium that had to be determined via a formula due to the binding nature of the rate of return instrument. To the extent that there is some inverse relationship between the risk free rate and the market risk premium (on which the literature is not definitive), a rate of return that incorporated this relationship could be more stable than the current approach, but this is a hypothetical case, and a broader review of all return on equity

[48] Pink Lake Analytics, Evaluating the Market Risk Premium - Statistical properties of the historic market risk premium, 2026, p42

[49] ERA, Explanatory statement for the 2022 final gas rate of return instrument, 2023, p117

parameters would be required to determine if and how such an approach could be implemented. We do not consider it necessary to do so in this review.

3.3 Equity Risk premium

The ERA's proposed changes to the market risk premium to 5.8 but maintaining the equity beta of 0.7 means the equity risk premium (which is the product of the two) only changes marginally. By contrast, a reduction of beta to 0.6 would have the biggest single effect on the WACC.

Under the ERA's 2022 determination, the equity risk premium was 4.27. Under its draft decision for its 2026 RoRI, the equity risk premium would be 4.06, a reduction of 21 basis points, reflecting the small reduction to the market risk premium. If the equity beta was reduced to 0.6 (in line with the bulk of statistical evidence presented) and the ERA decided to apply a 50:50 weighting to the MRP (see s. 3.2 above favouring an MRP of 5.6 per cent) the equity risk premium would fall to 3.36, a reduction of 91 basis points or nearly $60 million per year.[50]

3.4 Risk free rate

The CRG accepts that the ERA has decided there is no new evidence to support a reversion to a five-year risk free rate. We note that in making a change in 2022, the ERA gave little weight to the stability of the RoRI, given that it was not definitively wrong to maintain a five-year rate, and the rationale cited for a move to ten years didn't really represent new information. At best, one might note it was following prevailing Australian regulatory practice, in that more Australian regulatory decisions were applying ten-year terms than five-year terms.

Now it is almost impossible for the ERA to change back because it requires specific evidence for a change. Given there is no objectively right answer it's unclear how any stakeholder could find suitably robust evidence. This means the 2022 decision resulted in an increase in the rate of return despite lack of evidence that it had been set too low, and ERA's framing of stability and the evidence threshold now means consumers will pay (marginally) higher network tariffs for an indefinite future period. We mention this as a cautionary tale to avoid "locking in" unnecessarily high parameter decisions in this or future RoRIs.[51]

4 The return on debt

Given the information broadly available to stakeholders, the CRG has no issue with the ERA's decisions on benchmark gearing (55 per cent debt), benchmark credit rating (BBB+) or benchmark term of debt (ten years). We consider that the ERA's approach to estimating the cost of ten-year BBB+ debt is appropriate. We note that stakeholder confidence in these decisions could be further enhanced by the ERA confirming that the benchmark return on debt is comparable to the regulated gas network businesses' actual cost of debt and that the benchmark gearing is comparable to their actual debt: RAB ratios. This is a more useful reference point for gearing going forward as market gearing data becomes increasingly scarce with the delisting of regulated network businesses.

Accordingly, the main issue under consideration is whether to make a change from the hybrid approach to a full, simple trailing average and around what if any transition is required if the change is made.

4.1 The case for a change

The change could be in consumers' interests because:

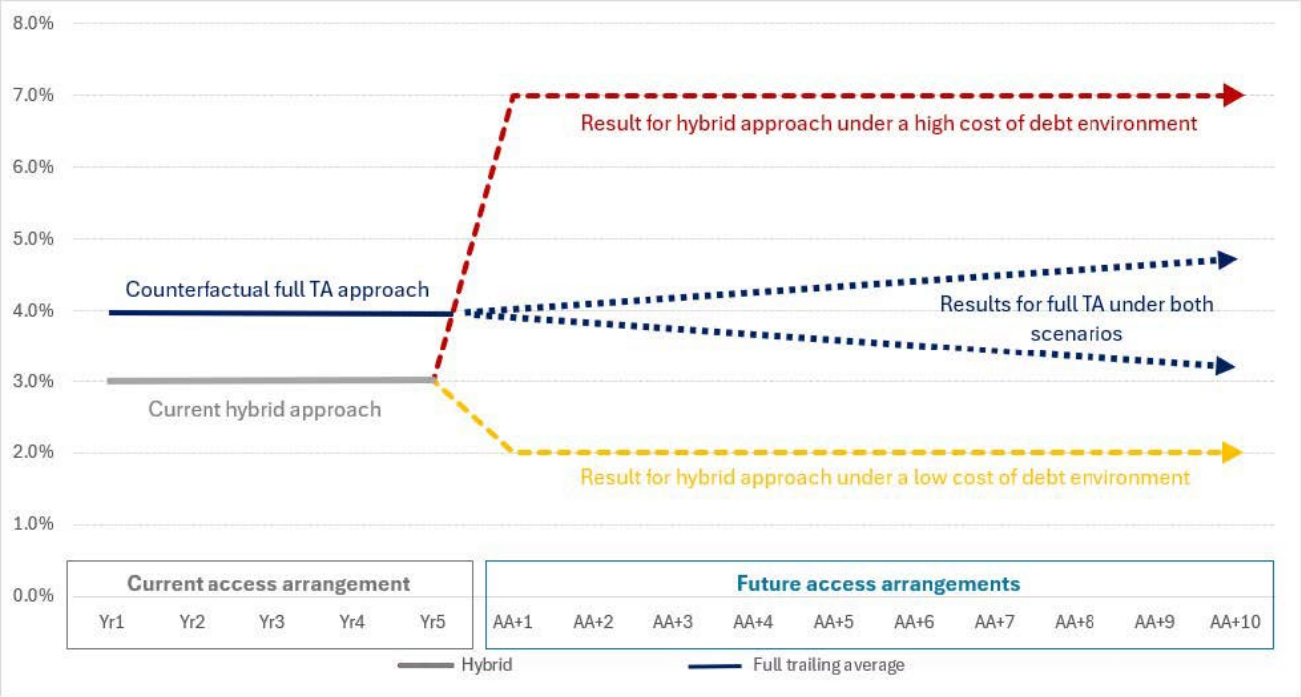
- Consumers would no longer need to fund the cost of swaps required under the hybrid approach
- On the face of it the average cost of debt before including the cost of swaps should be the same under the two approaches over the long term. However, it would be useful for ERA to agree that this is the case.

[50] This is based on total regulated WA gas assets of nearly $5.5 billion (ERA)

[51] The Independent Panel also highlighted the risks of the need for material evidence to depart from previous decisions may result in status quo bias, undermining the objective of the instrument best promoting the National Gas Objective (ibid, p.9)

In the near term, the ERA estimates that the hybrid approach would result in a higher cost of debt than the trailing average, and their medium term range for the hybrid approach has a midpoint above the trailing average as per the below chart:

Figure 1: Form of debt and stability of debt costs over time – scenario analysis



Source: Draft Explanatory statement, Attachment 4, p26

The main risk is that when the trailing average is lower than the current cost of debt, this could present as a disincentive to invest. But as discussed in section 2.4, net financing requirements are declining, and it's reasonable to expect falling real RABs in the next set of access arrangements, so new debt requirements will be will likely be modest (though refinancing maturing existing debt will still be required). For this reason, a weighted trailing average (as being considered in the AER RoRI process)[52] should not be considered, as it adds an unnecessary layer of complexity.

However, once committed to this change, then there will be an expectation that the change is maintained through the interest rate cycle. Maintaining the new approach will also be important if a long transition is implemented, as proposed. Otherwise, the ERA risks layering transition on transition which will increase complexity. Accordingly, the ERA must satisfy itself that it can robustly resist future calls by the regulated gas network businesses for changing the trailing average if it is lower than the prevailing cost of debt.

4.2 Transition

The proposed lengthy transition will erode many of the nearer term benefits of the trailing average for customers. Accordingly, we consider that the ERA should consider its options in this order:

1. Can a transition be avoided?
2. If not, can it be made as short as possible, and specifically shorter than ten years, which has the disadvantage of running across multiple access arrangements and also multiple RORIs, as noted above?

[52] AER Draft 2026 RoRI Explanatory Statement, p.51 (29 May 2026)

3. If not, which is the better of the ten year options presented in the Draft Explanatory statement?

We consider each of these options in turn. We consider that it is important that the ERA model the costs to consumers of each legitimate option to inform its decision, with significant weight being given to the lowest cost approach.

4.2.1 No transition

The Independent Panel recommends that the ERA "consider a zero-transition option within the RORI but enable affected service providers to seek compensation for transition costs through the AA within clearly defined circumstances"[53]. The CRG supports this recommendation on the strict proviso that it is likely to be the lowest cost option and the one that maximises the benefits to customers of implementation of the trailing average methodology.

4.2.2 Shorter transition

If a transition is considered necessary, the ERA should investigate whether a shorter transition can be implemented. Given that the hybrid approach assumes the underlying debt is raised at ten-year fixed rates, the key goals of a transition is to:

a. Cease entering into new hedges where avoidable

b. Entering into shorter hedges where practical to match the current approach

c. Considering unwinding of existing hedges to achieve the trailing average

Allowing for the fact that the benchmark entity will know once the final instrument is determined what the benchmark approach will be in their next access arrangement, then on the face of it, this could be achieved by:

- For annual debt issued after the new gas instrument comes into place (post new GI but pre-new access arrangement), a shorter floating swap is issued with a tenor up to the next access arrangement.
- These shorter swaps would then expire at the next access arrangement, and those post-new gas instrument debt tranches would be converted into the full trailing cost of debt.
- Annual debt issued *before* the new gas instrument comes into place will be subject to a floating swap for its full maturity. However, this could be swapped back into fixed for the outstanding maturity at the beginning of the next access arrangement.
- Annual debt issued in the new access arrangement does not need to be hedged.

Accordingly, the transition could be completed in the next access arrangement after the new gas instrument is in place. This would have the advantage of giving the ERA more latitude at the next gas instrument to make changes if there was any reason to do so. Under a ten-year transition there is a risk it would be inhibited from doing so if it had to layer transition upon transition.

The other advantage is of course that given the ERA has determined that the training average is more in the long term interest of consumers, then consumers get the full benefit of the trailing average sooner.

We recognise that the ERA will have to satisfy itself that current access arrangements allow adequate hedge costs for the shorter swaps discussed above. In general, a shorter swap should be cheaper than a longer swap. It will also need to consider the costs of unwinding the floating hedge at the start of the next access arrangement. This should be compared to the costs of the two longer transition options set out in the Draft explanatory statement.

There is a possibility that the shorter transition might result in more volatility in debt costs between access arrangements. Since one of the merits of the trailing average is that it should result in lower volatility between

[53] Independent Panel Report on the ERA's 2026 Draft Gas Rate of Return Instrument, September 2026, p5

access arrangements, we do not think the volatility argument is a material reason not to implement a shorter transition.

We also recognise that in examining this shorter transition option, the ERA would need to satisfy itself that this is legally possible, such as being able to make changes to current access arrangements and related annual tariff requirements.

In the event that the ERA decides that it is not possible to apply a shorter transition approach and can only consider between its two existing transition options, we have set out our preference between the two below.

4.2.3 Evaluation of the two transition options presented in the Draft explanatory statement

- If the ERA considers a ten-year transition to be necessary, then the CRG considers that consumer interests would be best served by a transition that results in lower volatility and a smoother debt profile, making it relatively more predictable for consumers.
- The complexity of the transition is of relatively little importance although other things being equal, simplicity is preferred. Consumers are likely to attach little weight to alignment with the hybrid debt approach for five-year resets to match the access arrangement period.
- We are not convinced that the five-year reset better serves intergenerational equity, as we don't consider this demands that consumers "face" market interest rates at a given point in time. In any case if this was an important consideration, it would support retention of the hybrid methodology over the trailing average.
- While we consider consumer interests are generally best served by minimising the scope for windfall gains and losses by the regulated gas network businesses, the fact is that the ERA has a clearly defined preference for a benchmark cost of debt approach means that it cannot also account for the implications of the regulated gas network businesses' decisions not to implement the benchmark. We do think that it is valuable to monitor the regulated gas network businesses' actual debt costs for evidence that they are systematically outperforming the benchmark, but this is with a view to adjusting the benchmark accordingly.

On balance this leads the CRG to favour the ten-year reset over the ERA's preferred five-year reset.

4.3 Debt raising costs

We note that the ERA has a higher allowance for debt raising costs in basis costs per $ of debt raised than other Australian infrastructure regulators.

We understand that the allowance is based on work by Chairmont for the ERA in 2021. The factors in this higher cost allowance compared to previous allowances by the ERA include a 2nd credit rating and a higher allowance for offshore raising costs, to which Chairmont assigned a 35 per cent weighting. It appears no specific rationale or evidence was provided for the 2nd credit rating, which we consider to be unusual in a regulatory context – costs typically need to be justified. We also consider it's unclear whether it remains necessary or efficient for a regulated entity to raise a third of its debt offshore when the Australian debt markets have continued to develop. The higher allowance for offshore raising costs appears to be in part a function of the assumed bond size (US$100m vs AU$250m).

ERA also claims that "as the regulatory gas pipelines in Western Australia are relatively smaller than the AER's regulated electricity and gas networks, the relative size of debt issuance would also be lower", but the regulated gas network businesses are very diverse in size, with DBP being equivalent in size to the largest gas network regulated by the AER (Jemena). Accordingly, this is not a compelling reason for a higher cost allowance.

While the debt raising costs have relatively low materiality, we consider it is important that consumers pay no more than absolutely necessary. The ERA should review its debt raising cost allowance to ensure that this does not represent an upward bias in the rate of return.

5 Value of imputation credits (gamma)

The ERA has rounded its estimate of the underlying distribution and utilisation rates to one decimal place. It then, in turn rounds the estimate of gamma to one decimal place. The parameter values are such that while the distribution rate is rounded up very slightly, both the utilisation rate and gamma are rounded down significantly. As a result, the gamma value is lower than if no rounding had occurred at the first step or rounding had been to two decimal places.

A lower gamma value will, all else being equal, result in gas consumers paying higher prices, and so we consider this approach to be biased in favour of the regulated gas network businesses. While we recognise that there is uncertainty around the estimates this is no different from the other parameters in the RORI and so we consider that uncertainty does not warrant this unnecessary double rounding approach. Accordingly, we consider rounding should only occur at the final step of determining gamma, which should therefore be set at 0.6 (rounded to one decimal place) or 0.58 (rounded to two decimal places). We note the Independent Panel has also raised this issue[54].

We appreciate that the draft decision on gamma is consistent with previous RORIs, but we do not consider this to be a material barrier to making a change for the 2026 RoRI.

[54] Ibid, p. 34

Appendix

About the Consumer Reference Group (CRG)

The National Gas Law (NGL)[55] under which this review is being conducted, requires the ERA to establish and use the CRG as part of its consultation process for the 2026 gas instrument review. The CRG is to provide direct and ongoing feedback to the ERA that represents broad consumer perspectives, which is intended to balance what may otherwise be seen as a process in which only or predominantly gas pipelines or other large corporate entities have influence or sway in the ERA's determination.

That said, the CRG is only an advisory body. It can only make recommendations or suggestions. It does not negotiate on behalf of consumers or industry. While the ERA is not required to adopt or agree with the CRG's views, it must consider them in making its gas instrument.

The Customer Reference Group comprises of:

- Chris Pattas (Chair), experienced economic regulator
- Kieran Donoghue, energy industry consumer advocate
- Bobby Ditric, energy industry professional
- Sarah Holman, consumer policy advocate.

The CRG's focus is to advocate for all consumers, including future consumers. As part of this we engaged more directly with consumer views throughout this process.

In particular, we have had the benefit, of the views of our CRG colleagues, Sarah Holman and Bobby Ditric, who have specific experience in WA consumer and large customer energy issues.

[55] Sections 30H and 30I of the NGL.