2026 Draft Gas Rate of Return Instrument Review

Submission to the Economic Regulation Authority | Perth Energy Pty Ltd | 14 October 2026

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Perth Energy

Perth Energy Pty Ltd

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14 October 2026

Executive Director

Economic Regulation Authority

Level 4, Albert Facey House

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Perth WA 6000

Submission to the 2026 Draft Gas Rate of Return Instrument Review

Dear Executive Director,

Perth Energy welcomes the opportunity to comment on the Economic Regulation Authority's Draft 2026 Gas Rate of Return Instrument and supporting explanatory statements.

As a participant in the Western Australian gas market and a significant user of regulated gas transportation infrastructure, Perth Energy has a strong interest in ensuring that regulated charges reflect efficient financing costs while supporting safe and reliable gas infrastructure. The Instrument directly affects costs borne by gas retailers, industrial users and end consumers.

Perth Energy generally supports the draft instrument as a measured evolution of the current framework. We support the transition to a full trailing average debt methodology, the reduction in the market risk premium from 6.1 per cent to 5.8 per cent, removal of conditioning variables, and continued use of transparent and replicable methodologies.

These reforms should improve predictability and regulatory stability while providing service providers with a reasonable opportunity to recover efficient financing costs.

Perth Energy considers that further justification would be beneficial for the equity beta of 0.7, the 10-year equity term and the proposed 10-year debt transition. Further assessment would help ensure the final instrument supports consumers' long-term interests and reflects efficient financing costs.

Perth Energy appreciates the work undertaken by the ERA and stakeholders throughout this review and looks forward to continued engagement as the Instrument is finalised.

Yours sincerely,

[redacted]

Jayesh Halai

Manager WA Gas Portfolio

Perth Energy Pty Ltd

1. Executive Summary

Perth Energy supports the ERA's objective of establishing a transparent, evidence-based and stable framework for determining the allowed rate of return applicable to regulated gas infrastructure in Western Australia. The rate of return directly influences regulated revenues and transportation charges and therefore has significant implications for the delivered cost of gas to Western Australian consumers.

Perth Energy considers that the long-term interests of consumers are best served by a rate of return framework that compensates service providers for efficient financing costs while avoiding outcomes that result in consumers paying transportation charges above those necessary to support efficient investment and operation of regulated infrastructure.

Small changes in rate of return parameters can have a material impact on allowable revenues over the life of regulated pipeline assets and therefore warrant careful scrutiny.

Perth Energy supports:

- Retention of the nominal vanilla WACC framework.
- Transition to a full trailing average debt methodology.
- Reduction in the market risk premium from 6.1 per cent to 5.8 per cent.
- Removal of conditioning variables from the market risk premium framework.
- Retention of stable, transparent and replicable regulatory processes.

Perth Energy seeks further justification for:

- Retention of an equity beta of 0.7.
- Continued use of a 10-year term for equity.
- The proposed 10-year debt transition period.

2. Perth Energy Position Summary

ERA proposal	Draft position	Perth Energy position	Commentary
Overall WACC framework	Retain nominal vanilla WACC	**Support**	Mature framework providing regulatory certainty, transparency and consistency.
Gearing	55%	**Support**	No compelling evidence supporting a change.
Credit rating	BBB+	**Support**	Consistent with efficient financing assumptions and regulatory precedent.
Debt term	10 years	**Support**	Reflects long-term infrastructure financing practices.
Debt methodology	Full trailing average debt	**Support**	Expected to reduce volatility and improve predictability of transportation charges.
Debt transition	10-year transition period	**Support in principle; seek further justification**	ERA should demonstrate why 10 years provides the appropriate balance between stability and timely pass-through of efficient financing costs.
CAPM	Sharpe-Lintner CAPM	**Support**	Widely accepted regulatory methodology.
Equity term	10 years	**Seek further justification**	The selected term should continue to be tested against consumer outcomes and prevailing evidence.
Equity risk-free rate	10-year CGS	**Support**	Appropriate market-based benchmark.
Market risk premium	5.8%	**Support**	Reflects the ERA evidence and places downward pressure on allowed equity returns relative to the 2022 Instrument.
Conditioning variables	Remove	**Strongly support**	Improves transparency, predictability and replicability.
Equity beta	0.7	**Seek further justification**	Much of the empirical evidence presented appears centred below 0.7.
Gamma	0.5	**Support**	The methodology is mature and the ERA identifies no new evidence justifying a departure.
Inflation methodology	Treasury bond implied inflation	**Support**	Market-based, transparent and consistent with the broader framework.
Averaging period	20 consecutive trading days	**Support**	Retains consistency while improving certainty and administrative clarity.

2.1. General Comments

Perth Energy supports the ERA's continued application of a rate of return framework that provides regulated service providers with a reasonable opportunity to recover efficient financing costs while promoting the long-term interests of consumers and supporting the National Gas Objective.

As a user of regulated gas transportation infrastructure, Perth Energy's primary interest is ensuring that transportation charges reflect efficient financing costs and do not materially exceed the level required to attract capital to a benchmark efficient regulated business.

2.2. Customer Impact Considerations

Perth Energy encourages the ERA to continue assessing proposed rate of return parameters through the lens of customer outcomes.

While the Rate of Return Instrument must provide regulated service providers with a reasonable opportunity to recover efficient financing costs, transportation charges remain a material component of delivered gas costs for many commercial and industrial customers in Western Australia.

Perth Energy considers that the assessment should continue to have regard to:

- Affordability of transportation services.
- Competitiveness of Western Australian industry.
- Efficient utilisation of existing gas infrastructure.
- Predictability of transportation charges.
- The long-term interests of consumers.

2.3. Full Trailing Average Debt Methodology

Perth Energy supports the ERA's proposal to transition from the hybrid trailing average debt methodology to a full trailing average debt methodology. The ERA's analysis indicates that the proposed approach should reduce financing cost volatility, smooth regulatory outcomes between access arrangement periods, reduce market timing risk and better align debt allowances with long-term infrastructure financing practices.

From the perspective of transportation customers, these outcomes should contribute to more predictable transportation pricing and greater long-term cost certainty.

Debt Transition Period

Perth Energy supports the ERA's objective of avoiding material discontinuities in regulated revenues during the transition.

Given the length of the proposed transition period, Perth Energy encourages the ERA to further demonstrate why a 10-year transition represents the most appropriate balance between revenue stability and the timely pass-through of efficient financing costs to consumers.

Perth Energy would welcome additional analysis demonstrating why the proposed 10-year transition period provides superior outcomes relative to alternative transition periods.

2.4. Market Risk Premium

Perth Energy supports the proposed reduction in the market risk premium from 6.1 per cent to 5.8 per cent.

The ERA reports historical evidence of approximately 5.9 per cent and a Dividend Growth Model estimate of approximately 3.8 per cent. Perth Energy considers that the proposed estimate of 5.8 per cent represents a reasonable and balanced outcome having regard to both historical and forward-looking evidence.

The proposed reduction should place downward pressure on allowed equity returns relative to the current 2022 Instrument, while continuing to provide service providers with a reasonable opportunity to recover efficient financing costs. Given the divergence between historical and forward-looking estimates, Perth Energy encourages the ERA to further explain how the final estimate best reflects expected investor requirements.

2.5. Removal of Conditioning Variables

Perth Energy strongly supports the ERA's proposal to discontinue the use of conditioning variables in estimating the market risk premium. The proposal improves transparency, replicability and predictability while reducing reliance on indicators that may be difficult for stakeholders to independently assess or replicate.

This reform should strengthen confidence in regulatory determinations and improve stakeholder understanding of future rate of return outcomes.

2.6. Equity Beta

The retention of an equity beta of 0.7 is the area where Perth Energy considers further justification would be most valuable.

The analysis presented by the ERA indicates that observed equity beta estimates from domestic and international comparator sets appear to be centered below 0.7. The draft explanatory statement also notes that evidence supporting an equity beta of 0.7 has weakened relative to the previous review.

Perth Energy acknowledges the ERA's objective of maintaining regulatory stability and recognises that equity beta estimation involves judgement as well as empirical evidence.

However, Perth Energy notes that the empirical evidence presented in the draft explanatory statement appears to support an equity beta lower than 0.7. Perth Energy therefore encourages the ERA to provide further explanation as to why a value of 0.7 remains the most appropriate estimate of systematic risk for a benchmark efficient gas network business.

A clearer explanation would assist stakeholders in understanding how the final estimate promotes the National Gas Objective while remaining consistent with the evidence considered by the ERA.

2.7. Ten-Year Term for Equity

Perth Energy notes the ERA's decision to retain a 10-year term for equity. The ERA's rationale is that infrastructure investors assess returns over long periods and therefore require return measures that reflect long-duration investments.

Perth Energy acknowledges this reasoning. However, access arrangements are typically reviewed every five years, longer-term assumptions can increase allowed return estimates, and customers ultimately fund those return allowances through transportation charges.

Perth Energy encourages the ERA to continue testing whether the 10-year term remains the most appropriate balance between investor requirements and consumer outcomes.

2.8. Other Parameters

Perth Energy supports the retention of gamma at 0.5, the Treasury bond implied inflation methodology, benchmark gearing of 55 per cent and the BBB+ benchmark credit rating.

The ERA has retained the existing approach to estimating gamma on the basis that the methodology is mature and that no new evidence has emerged that would justify departure from the existing framework. Perth Energy considers that maintaining stability in the remaining parameters is appropriate given the absence of compelling evidence supporting material change.

2.9. Overall Recommendations

1. Proceed with the transition to a full trailing average debt methodology.
2. Proceed with the proposed reduction in the market risk premium to 5.8 per cent.
3. Confirm the removal of conditioning variables from the market risk premium framework.
4. Provide additional justification for the proposed equity beta of 0.7.
5. Further evaluate whether the proposed 10-year debt transition period and 10-year equity term remain the most appropriate mechanisms for achieving efficient financing outcomes in the long-term interests of consumers.

3. Conclusion

Perth Energy supports the overall direction of the Draft 2026 Gas Rate of Return Instrument, particularly the proposed debt methodology reforms, reduction in the market risk premium and removal of conditioning variables.

Perth Energy considers that these reforms should improve transparency, predictability and regulatory stability. Subject to the matters identified in this submission regarding equity beta, equity term and debt transition arrangements, Perth Energy considers that the draft instrument provides a sound basis for establishing efficient financing costs for regulated gas pipeline service providers in Western Australia.

Perth Energy appreciates the opportunity to participate in the review and looks forward to continued engagement as the 2026 Gas Rate of Return Instrument is finalised.