

11 October 2013

Mr Warwick Anderson
General Manager—Network Regulation
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601
Via email: rateofreturn@aer.gov.au

Dear Mr Anderson

DRAFT RATE OF RETURN GUIDELINE

The Australian Pipeline Industry Association (APIA) welcomes the opportunity to comment on the Australian Energy Regulator's draft Rate of Return Guideline. APIA's members welcome some aspects of the draft Guideline, such as remaining at ten years for the term used for the cost of equity, allowing a trailing average approach that better captures the structure of actual, efficient debt portfolios and, most importantly, the first steps away from the mechanical application of the CAPM that the Australian Energy Market Commission rightly concluded was not able to meet the requirements of the Revenue and Pricing Principles or the National Gas Objective.

APIA's submission focusses on the areas of the draft Guideline we have particular concerns about, including:

- the manner in which criteria are being used to assess methods, methodologies and evidence;
- the lack of a proper framework for assessing risk (and comparable risk);
- the practical problems in implementing the foundation model approach;
- the proposal to shift the term of debt to seven years; and
- the proposed approach for gamma estimation.

APIA's submission also sets out key changes that would assist the final Guideline to address these areas.

APIA welcomes further discussion on these matters. Please contact me on (02) 6273 0577 or sdavies@apia.asn.au to discuss any aspects of our submission.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Steve Davies', with a stylized flourish at the end.

STEVE DAVIES
Policy Adviser