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Economic Regulation Authority
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Submitted via: www.erawa.com.au/current-consultations

**Proposed revisions to the access arrangement for the GGP – Issues Paper**

Alinta Energy appreciates the opportunity to provide feedback on the issues paper outlining proposed revisions to the access arrangement for the GGP.

GGP has proposed a substantial, $123m increase (54%) to its revenue compared to the level approved for the AA5 period. The primary drivers of this are the proposed rate of return (RoR) and inflation parameters.[1]

We acknowledge that the ERA is required to calculate the regulatory RoR as set out in the ERA's gas rate of return instrument and that ERA has noted that GGP's RoR and inflation estimates are consistent with the methods detailed in this instrument.

However, per our recent submission on proposed revisions to ATCO's access arrangement, we consider that this instrument may overstate the efficient RoR for networks.

We recommend that actual financing costs (as documented in AER's EICSI) and practices used by networks should be incorporated in ERA's RoR determinations to:

- avoid overstating GGP's financing costs as an efficient, profit-maximising entity;
- avoid increasing costs above efficient levels for customers; and
- improve consistency with the NGO.

The detailed rationale for our position is provided in our submission on the ATCO access arrangement. To avoid duplication, we summarise this reasoning below:

- A regulatory RoR should reflect the cost of capital of a network that is financing itself efficiently. This interpretation is consistent with the NGO and the revenue and pricing principles which the ERA must have regard to in making the Instrument and therefore in

[1] GGP has proposed an average nominal post-tax WACC of 7.41 per cent for the AA5 period, compared with 4.09 per cent approved in AA4. GGP has estimated inflation of 2.58 per cent for the AA5 period, compared with 1.14 per cent that was approved in AA4.

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estimating regulated RoRs. Overstating the RoR would substantially impact customers and undermine efficiency.

- The AER's EICSI shows that networks' actual costs of debt have been persistently below regulatory returns on debt for the period for which data has been collected (2013 – 2021).[2]

- The reason why networks' actual costs of debt are lower are due to actual financing practices of a profit-maximising network differing from assumptions made in ERA's instrument. For example, it has been suggested that businesses defer debt issuance when credit spreads are very high and reciprocally concentrate their debt issuance during periods when spreads are low.

- Benchmarks are important in sense-checking regulatory determinations and AER noted that using the EISCSI would be consistent with a 'benchmark approach' "because the EICSI reflects costs across all networks rather than any network individually" and that "the desirable properties of the incentive regime are preserved", noting that "networks have an incentive to pursue efficiency gains across time, and consumers benefit in the long term when these efficient costs are revealed."

- Adopting the EICSI as a reference point for evaluating or setting the regulatory return on debt is more consistent with good corporate finance and valuation practice than the current estimation method. For example, in determining the market values of financial instruments held on their books, financial institutions apply a hierarchy of estimation methods which preferences values observed directly in the market (where available) over modelled or estimated values.

Thank you for your consideration of our submission. If you would like to discuss further, please contact Oscar Carlberg at [redacted] or on [redacted].

Yours sincerely

**Richard Beverley**
Commercial Manager

[2] *Overall rate of return, equity and debt omnibus – Final working paper*, Australian Energy Regulator, December 2021, pp. 69-70