



27 March 2024

To Whom It May Concern:

Re: Consultation on the form of regulation review of the South West Queensland Pipeline (SWQP)

About Yarra Capital Management

Yarra Capital Management (**YCM**) is a leading independent, privately owned active Australian fund manager, with approximately \$21bn of assets under management. YCM offers its clients access to style-neutral Australian equities solutions and fixed income capabilities including core fixed income, hybrids, credit, macro and RMBS. Through its partnership with the Nikko Asset Management Group, Yarra also provides access to a range of international equity products.

Yarra serves the Australian institutional and retail markets, and its Australian investment products are accessed from various international markets, including Japan and New Zealand

YCM's investment in APA Group

APA Group (**APA**) is an Australian energy infrastructure owner, owning and/or managing and operating a portfolio of energy assets worth approximately \$25 billion. APA currently transports more than half the natural gas used in Australia. The company owns and operates over 15,000 kilometres of pipelines and 27,000 kilometres of gas distribution mains and pipelines, alongside gas storage facilities, gas-fired power stations, and wind and solar farms.

The core of YCM's investment thesis in APA is based on the long-term sustainability of its cash flows, which is typically underpinned by regulatory certainty. Our investment in APA is premised on:

1. The clear role that gas will play in enabling Australia's energy transition (by firming intermittent renewables) for the medium to long term, meaning strong long-term cash flows from its gas transmission business; and
2. The potential for APA to become a leading player in enabling the energy transition through investing in new electricity transmission and remote renewable electricity solutions.

Our response to the SWQP consultation

As genuine, long-term investors in APA – and Australian listed infrastructure more broadly – we are dismayed that an asset such as the SWQP could be forced onto a regulated revenue framework. The SWQP is a well-established asset, underpinned by long-term commercial contractual relationships between sophisticated counterparties operating with a high level of regulatory oversight and existing transparency obligations.

This level of retrospective intervention represents a clear sovereign risk for APA and introduces a much higher than assumed risk profile for our investment in the company, specifically in relation to future cash flows. This risk profile and the propensity for ongoing government and regulatory interference can only be accompanied by a higher cost of capital. Further, it also calls into question the likelihood of any additional future investment into the sector, and any other areas that relate to energy generation or transmission in Australia.

To be clear, in the advent of adverse regulation, Yarra would reconsider its investment in APA.

Our strong advice to APA is to suspend any investment activity that relates to gas transmission until the current uncertainty presented by the Australian Energy Regulator's review into SWQP is resolved. We acknowledge that while this action is highly rational from a shareholder's perspective, it is unlikely to be in the best interests of gas market participants, energy market stability and, ultimately, Australian consumers.

The review underway into whether to regulate SWQP clearly raises the level of sovereign risk associated with investing in any Australian energy infrastructure . Capital is mobile and will gravitate towards the strongest available risk adjusted returns. Any retrospective intervention would undermine Australia's energy market and would encourage shareholders (including YCM) to shift their investments to other asset classes or offshore.

We would urge the AER to conclude the review as soon as practicable. We would also urge the AER to confirm whether changing regulatory settings for existing pipelines and the associated negative impact on investor confidence is consistent with the National Gas Obligation and in the best interests of the market and, ultimately, Australian consumers.

We would welcome the opportunity to discuss these matters in more detail.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Dion Hershman', followed by a period.

Dion Hershman
Head of Australian Equities