

Our Ref: 62671
Contact Officer: [REDACTED]
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19 September 2017

[REDACTED]
**Securities Markets Section
Domestic Markets Department
Reserve Bank of Australia**

By email [REDACTED]

Dear [REDACTED]

**Questions regarding the Reserve Bank of Australia (RBA) Corporate Bond Series
(Table F3 in the RBA statistical tables)**

I am writing to request your assistance with RBA data that is used by the Australian Energy Regulator in its determinations. This letter requests information and assistance with respect to three items:

- 1) Revisions to published F3 Table data made on or around 5 June 2017
- 2) Prior revisions made to F3 Table data
- 3) Copies of past published monthly F3 Table data

The requests are to assist the Australian Energy Regulator (AER) to perform its regulatory functions under the National Electricity and Gas Laws and Rules. Any assistance that can be provided is greatly appreciated.

Context

- a) *Remittal decisions for NSW electricity distribution businesses, Jemena Gas Networks and ActewAGL electricity distribution*

In accordance with decisions of the Australian Competition Tribunal¹ and the Federal Court², the AER is required to remake its 2015 regulatory determinations for the NSW electricity distribution businesses, Jemena Gas Networks and ActewAGL electricity distribution (The Service Providers).

¹ Australian Competition Tribunal, *Application by Public Interest Advocacy Centre Ltd and Ausgrid [2016] ACompT 1*, 28 February 2016

² Federal Court of Australia, *Australian Energy Regulator v Australian Competition Tribunal (No 2) [2017] FCAFC 78*, May 2017

In remaking these determinations the AER is required to estimate the Allowed Rate of Return for The Service Providers. One component of the Allowed Rate of Return is the estimated required return on debt.

To estimate the required return on debt for a given year the AER currently uses a simple average of the published 10 year BBB BVAL yield from Bloomberg and a 10 year BBB yield based on the published RBA F3 Table data. The methodology for these calculations is set out in our regulatory determinations along with a range of contingencies (such as what to do if one series is not published during all or part of a selected estimation period). Our 2015 determinations for The Service Providers used these data sources and the use of these data sources was upheld by the Australian Competition Tribunal and not subsequently challenged in the Federal Court.

In remaking the decisions for The Service Providers, we expect to need to use estimates of the yield on debt over estimation periods that run prior to 1 July 2014. Given recent RBA corrections to published F3 data were only made back to September 2014, we want to understand the reasons for the revisions and whether this might have implications for data before September 2014.

b) Review of the AER Rate of Return Guideline

In addition to the remittal work above, the AER is required to review its Rate of Return Guideline before the end of 2018. This guideline sets out publically how the AER proposes to determine the Allowed Rate of Return for electricity and gas transmission and distribution businesses in AER regulatory determinations.

In reviewing the Guideline it is likely we will review each of the debt series used by the AER to estimate the efficient required return on debt for regulated businesses. In this context, we would seek to better understand the RBA estimation procedures and models. Any explanation you could provide for the revisions would assist us in this task.

c) Creation of a historical data series to automate our processes and for our records

We have an extensive AER database for regulatory reporting purposes. We are currently setting up to automate our debt estimation processes using this database. To assist us with this task it would be useful to have a complete series of published RBA F3 data tables (as the published data has changed through time with series revisions). While we have perhaps half of the published months' F3 Tables we do not have the entire series of published F3 data tables.

Corrections to published F3 data made on or around 5 June 2017

On 5 June 2017 the RBA published revisions to its published yield curve data including historical data. This principally resulted in a fall in estimated corporate bond yields. However, the RBA did not make revisions to historical data published in the F3 table for the months before September 2014.

Consequently, we would welcome your advice on:

- The nature of the revisions and why they were required
- Why revisions to pre September 2014 data were not made
- Whether any revisions to pre September 2014 data would be expected to be material

Prior revisions to published F3 data

Prior to the revisions made in June 2017 the RBA made some earlier revisions to published F3 data. We believe any earlier revisions have been reflected in data back to the commencement of the series.

We would ask that the RBA confirm if they are still comfortable with these prior revisions and that these were fully reflected in the historical data back to the commencement of the published data post these revisions being made?

Access to published RBA F3 Table data

To assist us with our database project, we would request a complete series of published F3 RBA Microsoft Excel Tables for each month since the F3 series was first published. Going forward we are downloading the data on a monthly basis and therefore do not expect to request this again.

As noted earlier, we greatly appreciate your assistance with these requests. If you have any questions regarding these requests, please contact [REDACTED] on [REDACTED] or at [REDACTED]

Yours sincerely



AER Network Finance and Reporting

