

Our Ref: 58744
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26 June 2018

[REDACTED]
**Acting Manager
Securities Market—Domestic Markets Department
Reserve Bank of Australia**

By email [REDACTED]

Dear [REDACTED]

Updates to the RBA's historical estimates of the F3 data series—Aggregate Measures of Australian Corporate Bond Spreads and Yields

I am writing to request your assistance with RBA data that is used by the Australian Energy Regulator in its determinations.

To assist the AER and our stakeholders, we would welcome your advice on the specific nature and impact of some of the changes that were recently published by the RBA. Any assistance you can provide is greatly appreciated.

Context

We are currently reviewing of our rate of return guidelines. The guidelines set out the methodology we will use to estimate the rate of return for network revenue determinations. One of the issues under consideration is the choice of third party yield curves that we rely on to estimate the required return on debt.

Since 2014, we have relied on an average of estimates using a proprietary Bloomberg curve and on an extrapolated 10-year estimate using the RBA's F3 statistical table.


In June 2018 the RBA published changes to the historical F3 data series. As part of reviewing our current approach, we seek some further information on the specific nature of the changes that can be shared with our stakeholders for consultation.

Questions

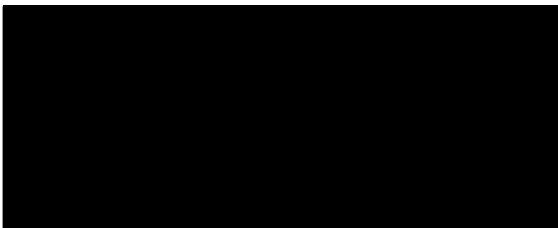
In relation to changes underpinning revisions in the June 2018 release, we seek your advice on:

1. Changes that have been made to the calculations underlying the F3 spreadsheet relative to the May 2018 release, including the rationale for and, where possible, the materiality of those changes.¹
2. Whether any of the changes are a departure from the methodology set out in the original 2013 bulletin article.²
3. We refer also to a letter provided by the RBA to the AER on 27 September 2017 (attached). In that letter, RBA staff identified that a series of revisions made in June 2017 had been undertaken to reflect improvements in the methodology used to convert bonds issued in US dollars into Australian dollar equivalent terms.

We request your advice on whether the June 2018 changes include a longer historical series of these same revisions and how material this is.

We greatly appreciate your assistance with these requests. If you have any questions regarding the requests, please contact 

Yours sincerely



AER Network Finance and Reporting

¹ For example, this may include changes to inputs such as bonds used or pricing data sources used, or changes to calculations undertaken in calculating estimates contained in the spreadsheet.

² Arsov I, M Brooks and M Kosev (2013), 'New Measures of Australian Corporate Credit Spreads', RBA Bulletin, December, available at <http://www.rba.gov.au/publications/bulletin/2013/dec/bu-1213-3a.html>.