



Economic Regulation Authority

2022 Gas Rate of Return Instrument update

**Consultation on cessation of RBA bond data and proposed
alternative risk free rate and inflation approach for WACC
processes**

June 2023

Executive summary

Australian government bond yields are no longer available from the RBA (F16 Table no longer produced).

- Unexpectedly discontinued on 30 March 2023.
- This RBA published data had been a staple for financial markets.

ERA relied upon this data (nominal and indexed bonds) to estimate risk free rates and inflation.

- Absence of the F16 Table requires an alternative approach.

ERA currently consulting on how to address these change in circumstances, but is currently proposing to amend the Gas Instrument and use Bloomberg pricing data instead.



The 2022 gas instrument refers to some financial market data that is no longer available

The gas instrument sets out the ERA's process to determine an allowed rate of return for Western Australian regulated gas network service providers.

- The rate of return provides an allowance to pay interest on loans and provide a return on equity.

The gas instrument refers to different financial market data sources for the calculation of the rate of return.

- The equity risk free rate and expected inflation rate utilised data from the RBA's F16 Table.
- The RBA F16 data is no longer available due to commercial reasons.

As there are no contingencies in the gas instrument that can accommodate these change in circumstances, the ERA proposes that the gas instrument be amended in consultation with service providers.



Proposed approach

Amend the 2022 Gas Instrument

Change the gas instrument due to cessation of the RBA F16 Table in a robust manner

- Insert new clause and amend footnotes

Create list of preferred data sources for market rates

Design a list of data sources that is robust to shocks

- List of authoritative financial market data providers
- Ordered from most preferred to least preferred in case of unavailability

Determine preferred order of data sources

Evaluating data sources against criteria

- 1) minimal change of approach, 2) consistent application across ERA WACC streams, 3) accuracy and 4) minimal impost on stakeholders



Amending the 2022 Gas Instrument

The ERA will propose an amendment to the 2022 Gas Rate of Return Instrument with the following changes:

Insert a new paragraph 26:

[26] Market rates and returns are to be sourced from a list maintained by the ERA and according to the described procedure for choosing amongst data providers if applicable.

Amend footnotes 3 and 4:

Trading days are defined as days that Australian Commonwealth Government Security ~~mid-rate~~ data is available in the RBA's ~~F16~~ statistical table for capital market yields, or from a source in the list referred to in paragraph 26.



Amending the 2022 Gas Instrument cont

Additionally, the ERA will maintain a list of acceptable data sources:

List of allowable data sources for the 2022 Gas Instrument

The following is the list, in order of preference, of data sources for determining market rates and returns for the purposes of the 2022 Gas Instrument.

1. The Reserve Bank of Australia.
2. Bloomberg.
3. Yieldbroker.
4. Any Australian federal, state, or territorial government department, agency, instrumentality, public body, or any entity established by a written law for a public purpose without limitation.
5. Any other data source reached in consultation with covered gas pipelines.



ERA Secretariat evaluated 3 plausible options

- Evaluated options to ensure 1) minimal change of approach, 2) consistent application across ERA WACC streams, 3) accuracy and 4) minimal impost on stakeholders.

1

Subscribe to Yieldbroker

Same method, based on new Yieldbroker subscription

- Purchase data used by RBA and market participants

2

Use RBA F02 tables instead

Same method, similar data but with limitations

- Use freely available, though less precise estimates provided by the RBA
- However, issues remain with 5 year inflation estimates

3

Use Bloomberg pricing

Same method, different data source

- Use Bloomberg pricing services instead



Evaluation of all options supports the use of Bloomberg data

Criteria	Subscribe to Yieldbroker	Use RBA F02 tables instead	Use Bloomberg pricing
Maintain consistency across regulatory regimes			
Data transparency			
Based on actual bond data			
Longevity and stability of process/methodology			
Cost to stakeholders and participants			

Comparing Bloomberg with Yieldbroker

Methodology

- Analysed the closeness of Bloomberg pricing to Yieldbroker estimates by comparing against *known* Yieldbroker estimates.
- Focused the analysis on bonds required to replicate an estimate of 10 year risk free rate and 5 year inflation as of 31 March 2023.
 - 2 Treasury Bonds (TBs, TB_A and TB_B).
 - 2 Treasury Indexed Bonds (TIBs, TIB_A and TIB_B).

Conclusions

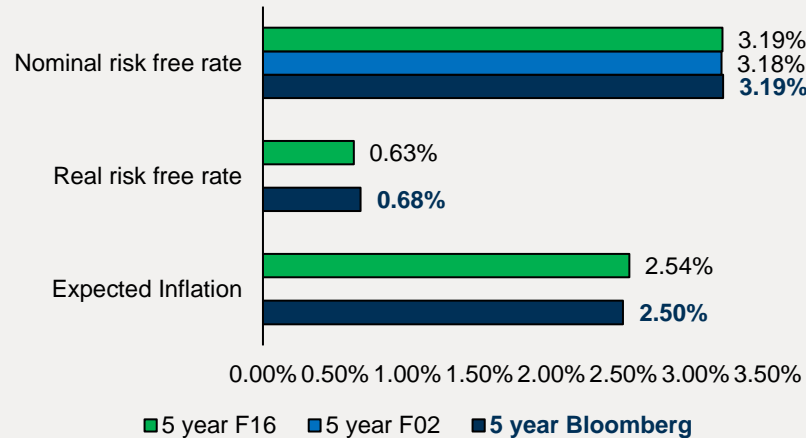
- Bloomberg pricing appears suitably close to Yieldbroker estimates.
- Bloomberg pricing is a credible alternative to Yieldbroker data.



Risk free rate and inflation estimates using different data sources from the options analysis

5 year Bloomberg estimates are nearly identical to Yieldbroker and the RBA F02 table

- Risk free rate estimates vary ~ 1 basis point
- Inflation estimates vary ~ 4 basis points



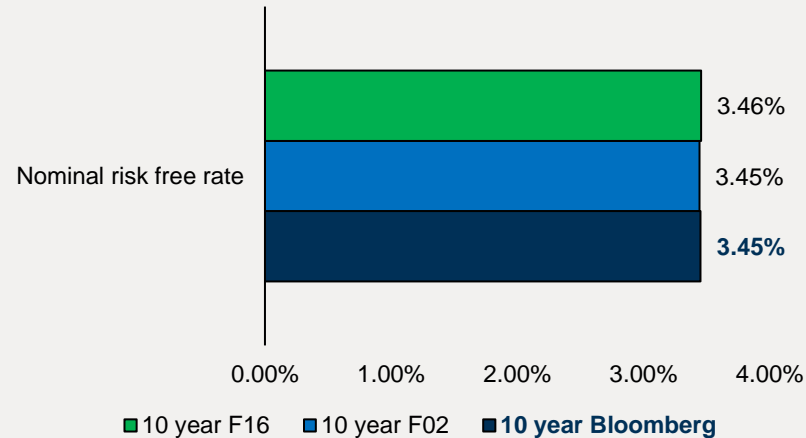
There is no 5 year indexed bond from the RBA F02 table, so a real risk free rate and inflation estimate is not possible



Risk free rate using different data sources from the options analysis

10 year Bloomberg estimates are nearly identical to Yieldbroker and the RBA F02 table

- Risk free rate estimates vary ~ 1 basis point



Next steps

July 2023



Consultation

Consultation underway

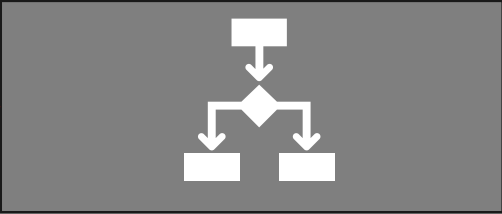
July 2023



Submissions

Submissions due 24 July 2023

TBC



Amendments

Amending the 2022 gas instrument



thank you

Ask any questions



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Economic Regulation Authority