



29 June 2023

Mr Warwick Anderson
General Manager
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601
By email: RateofReturn@aer.gov.au

Dear Mr Anderson

Proposed amendments to the 2022 Rate of Return Instrument (the Instrument)

Thank you for the opportunity to provide a submission on the proposed amendments to the 2022 Rate of Return Instrument (the Instrument).

Queensland Cane Growers Organisation Ltd (CANEGROWERS) is a not-for-profit public company with the sole purpose of promoting and protecting the interests of sugarcane growers since inception in 1925.

Representing over 70per cent of Australia's sugarcane growers, CANEGROWERS is the peak body for the sugarcane industry. With 13 district offices in Queensland, our strong regional presence ensures that services and advocacy are provided in local communities as well as at the highest levels of industry and government decision-making.

CANEGROWERS understands from the consultation paper that the Australian Energy Regulator (AER) is faced with an unanticipated change to the available data that is required for computation of the return on equity component within the Rate of Return Instrument (RORI). It is understood that the Reserve Bank of Australia ceased publishing the F16 data series¹ due to what is stated as "commercial reasons". While the RORI does currently provide contingencies, these are reliant on the F16 data series itself being available. The lack of availability of the data series is not contemplated by the methodology and hence requires an amendment to the RORI. As such, the AER will amend the RORI through use of the "revisiting position" under the National Electricity Legislation within the context that a part of the instrument has become unworkable.

CANEGROWERS accepts that this is an unavoidable interim action, and we support an amendment that remains closely aligned to the current methodology and outcome, and most importantly, should not negatively affect consumers.

The consultation paper explains four alternative data series that the AER can make use of (as well as a scenario where the F16 data series is republished) to perform the prescribed calculations, and that the calculation methodology itself is unchanged. Our understanding is that the current F16 data has been used as raw data against which to apply a methodology to interpolate the F16 data into a dataset/time-series that is representative of a range of Government bonds that have a 10-year maturity. The alternative data series proposed include 1) a scenario where the same F16 data is

¹ Prescribed as the "Indicative Mid Rates of Australian Government Securities – F16"



republished, 2) the RBA F2 series, 3) purchased Yieldbroker data equivalent to the F16 series, 4) Bloomberg capital market data, or 5) the RBA F17 series (zero-coupon interest rates).

Our reading of the consultation paper leads us to conclude that the first three proposed alternatives are, in effect, direct matches to the F16 data because they use the same raw data, although there are negligible differences for technical reasons explained within each. The following is a summary of our understanding of the information provided relating to the alternative data considered:

- 1) F16 data republished, is the original prescribed source so it would be used if it became available again and there would be no difference.
- 2) The F2 data series makes use of the same data as compiled within the F16 data series but has applied the RBA's own interpolation approach to create representative series, and the 10-year bond series is near identical to the resulting data series that is produced by the prescribed interpolation method (differences due to ignoring leap-days and level of decimal rounding).
- 3) Yieldbroker data would provide the same raw data as the F16 data series but would carry a cost to obtaining the data which limits the general public's ability to apply their own calculations.
- 4) Bloomberg data would provide similar raw data to the F16 data series, however it is different since it is not from the same source, and hence less desirable than the other alternatives.
- 5) The RBA F17 series held significant differences to the F16 data series and hence considered less desirable (the yield curves are continuously compounded with no adjustment for risk premia such as term risk premia and hence are considered to be not equivalent).

Based on our reading, we support the AER's recommendation that the first three options are provided as contingency, that is, that the F16 data series should be used if available (requires linear interpolation), if that is not available, then to make use of the F2 data series (already interpolated), and if both F16 and F2 are not available, then to make use of the F16-equivalent raw data from the Yieldbroker service. If our analysis and interpretation of this amendment as expressed above is inaccurate, kindly provide a response to this letter with further advice.

Regards



Dan Gálligan
Chief Executive Officer