

File Ref: 1492032

22 June 2023

Mr Jon Windle
Network Regulation Manager
Aurizon Network Pty Ltd
GPO Box 456
Brisbane Qld 4001

Dear Mr Windle

Aurizon Network reset Schedule F values—Proposed alternate index for the calculation of the risk-free rate

On 19 May 2023, Aurizon Network requested that the QCA consider a proposal to use an alternative index for the calculation of the reset risk-free rate as an input into the determination of the forthcoming reset Schedule F values.¹

Aurizon Network proposed to use Bloomberg as the replacement data source for the relevant Australian Government Securities (AGS) used in the calculation of the reset risk-free rate² given data previously used, and as prescribed under UT5, is no longer published by the RBA.

The QCA considers that Aurizon Network's proposed approach is appropriate in these circumstances.

Relevantly, Aurizon Network has not sought to change the methodology prescribed in UT5 to calculate the reset risk-free rate, but rather to find a replacement source for the relevant data series. In considering the reasonableness of using Bloomberg as the replacement source for the relevant AGS data:

- There does not appear to be any material, directional bias in the variation between the daily yields obtained from historical Bloomberg market data to those published by the RBA.³ Furthermore, over a 20-day averaging period the impact of any daily variation is likely to be further reduced.

¹ UT5, cl. 6A.6(b). Aurizon Network and end users may propose an alternative index to the QCA if the index required by UT5 is no longer published. In this instance, the Chair of the Rail Industry Group has advised that end users were comfortable for Aurizon Network to provide this proposal to the QCA for consideration and determination, given end users do not consider that they are best placed, in terms of expertise, to assess this issue and that obtaining expert advice would risk unnecessarily delaying the process.

² The risk-free rate is to be estimated using the RBA indicative mid-rate for Commonwealth Government nominal bonds with a term of 4 years—linearly interpolating the 4-year yield to maturity using the highest maturity bond shorter than the maturity date and the lowest maturity bond longer than the maturity date. UT5, cl. 6A.2(b) and Part 12.

³ From January 2020 to August 2022, the average difference between the daily yields reported by the RBA and Bloomberg for Treasury bonds 136 and 148 were 0.263 and 0.259 basis points, respectively.

- Aurizon Network has nominated Bloomberg as a replacement data source in advance of the averaging period for calculating the reset risk-free rate, providing for a transparent and balanced regulatory process.
- The QCA has access to the relevant Bloomberg data so can assess the reset risk-free rate used to develop the reset Schedule F values, in accordance with the UT5 assessment framework.

On that basis, our expectation is that Aurizon Network will calculate the reset risk-free rate using Bloomberg as the replacement source for the relevant AGS data (see Table 1) when it submits, for our assessment, the reset Schedule F values. In accordance with UT5, as part of our assessment, we will publish Aurizon Network's proposal and invite written submission from interested parties.

Table 1: Aurizon Network's proposed replacement data source for the AGS data

	<i>AGS Bond 1</i>	<i>AGS Bond 2</i>
Bloomberg Ticker (CUSIP)	EI8492650 Corp	JV3198662 Corp
RBA Series ID	FCMYAPR27D	FCMYNOV27D
Bond maturity date	21 April 2027	21 November 2027

While the QCA considers it appropriate to use of the Bloomberg bond rates for the purpose of calculating the reset risk-free rate in our upcoming assessment of the reset Schedule F values, this should not be interpreted as precedent for future regulatory processes (where alternative data series are likely to be more appropriate). Relevantly:

- Publicly available data sources, where available, are generally preferred for transparency, noting that Bloomberg relies on proprietary information, with users requiring the relevant subscription to the service in order to access the data.
- The approach outlined in our rate of return review⁴ uses 10-year Australian Government nominal bond yields to calculate the risk-free rate. The RBA publishes an alternative interpolated data series, which can be directly used to obtain yields for 10-year Australian Government nominal bond yields.

We are considering such matters, including providing further guidance for stakeholders if necessary.

We will publish this letter and Aurizon Network's proposal on our website for stakeholders' information.

I am happy to discuss any question you may have on this or any other matters. Should you require more information please contact Richard Creagh on 3222 0555, or by email richard.creagh@qca.org.au.

Yours sincerely

Ann Jones
Acting Director Business Performance

⁴ QCA, *Rate of return review*, final report, November 2021.