Dampier Bunbury Pipeline
Part of Australian Gas Infrastructure Group

[redacted]

21 September 2020

Mr Jason Dignard
Principal Regulatory Advisor
Economic Regulation Authority
Level 4, 469 Wellington Street
PERTH WA 6000

Dear Jason

ERA - Update of Debt Risk Premium Process

I refer to the above review you are currently undertaking and your request for views from stakeholders on your proposal to cease using the Bloomberg Swap Module Toolkit and revert to the standard Bloomberg product. We understand that this is being done as part of a cost-saving measure.

We appreciate the ERA may be concerned about costs, but the additional $50,000 spread over several users, does not seem excessive. Further, whilst we can see no major issues in principle with the changes the ERA has proposed, we do see some issues which that should be balanced against the increased cost. These issues include:

- The current rate of return guideline, published in December 2018, is binding on both energy companies and the ERA. We assume in proposing this change that the ERA has sought relevant legal advice to ensure that it is not breaching its own binding guidelines by making this change.
- The table published with the notice shows some small discrepancies between the existing and proposed approaches. If the ERA's proposed approach is correct, the results should be identical. It would be useful to understand why these discrepancies have arisen to assist in ensuring that they will remain small.
- The ERA will need to check (if it hasn't already), whether the new approach will pick up all of the same bonds which were available under the old approach; particularly the foreign bonds. That is, if the tests between models were done with a set of bonds which is known, this is different from using each process to discover bonds that have been issued. If the new approach misses bonds which the Toolkit would have picked up, this may lead to errors in future as new bond issuances arise.
- Under normal market circumstances, when sufficient trades are occurring so that robust market data are available, we can see no significant issue in using the standard Bloomberg product. However, in times of market stress, when trading is thin, it is likely that the Toolkit product would use Bloomberg algorithms to derive prices, which cannot be replicated under the ERA's new approach. Has the ERA developed a plan of action if such situations arise?

We appreciate that the timing is tight for the ERA as some businesses may have averaging periods commencing soon, and thus there may be insufficient time to address these issues now. If this is the case, we would suggest that the ERA considers this matter as part of the 2022 rate of return guideline process.

Please feel free to contact Nick Wills-Johnson on 9223 4902 if you would like to discuss this letter further.

Yours sincerely

[redacted]

Craig de Laine
General Manager – People and Strategy