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Via email: [REDACTED]

Dear Clare,

CEPA Regulatory Asset Base (RAB) Multiples – Report for the AER

I am writing to express strong concerns about the recent CEPA report on RAB multiples that the AER has published as part of its 2022 Rate of Return Instrument (RORI) process. This report seeks to estimate Enterprise Value/ RAB multiples for the recent Spark and AusNet transactions and provide inferences for the RORI process.

We recognise that understanding the drivers of transaction purchase prices has been a focus of consumer advocates and other stakeholders during this review. However, due to the commercial nature of these transactions the true value drivers cannot be published and will remain unknown. To estimate value drivers many assumptions must be made. In our view, the Independent Expert Reports (IER) prepared for the transactions provide the most reliable source of information given they have access to company-specific data and are prepared under strict financial regulations to assure their independence and robustness. In contrast, CEPA's report was prepared with no input from the businesses that are the subject of these transactions.

While we have numerous concerns with the CEPA report the most material is the value CEPA ascribes to AusNet's Development and Future Networks (DFN) division. The mid-point of its valuation is \$370m, whereas the IER values DFN at \$3 billion to \$3.5 billion. While CEPA notes this material difference, it does not explain why its assumption is more valid, and it applies its own, lower value in its core analysis.

CEPA's valuation of DFN is not credible for the following reasons:

- The DFN business currently has a Contracted Asset Base of \$0.9 billion (almost twice CEPA's 'high end' valuation), and a target of \$2.5 billion by FY26¹.
- CEPA applies a valuation methodology of 1 to 3 times current annual revenue. The mid-point valuation effectively assumes the division operates for 2 more years and ceases to trade. However:
 - the core business of DFN is owning and operating long lived unregulated infrastructure, including tendering for mega projects; and
 - there is significant growth in infrastructure required to support the energy transition, with the pipeline of required contestable network infrastructure in Victoria alone is expected to be \$6 billion to \$11 billion.

There is no reason to assume that current revenues are representative of the future, and there CEPA's valuation methodology is highly inappropriate for the nature of the DFN business.

This assumption is material to the report's conclusions. A difference of \$2bn accounts for more than 50% of the \$3.8 billion of value CEPA deems a 'gap' which may be explained by cost of equity outperformance at various levels of RAB growth. The memo recently submitted by Energy Networks Australia has identified additional assumptions which are not explained or justified and are also material to the conclusions.

We would be happy to engage with CEPA on how its analysis could be refined. However, given the materiality of the issues raised, the report in its current form does not have sufficient credibility to enable it to play a role in the RORI process.

¹ See Grant Samuel, *Australian Energy Holdings Proposal*, 16 Dec 2021, p. 23

Please contact Charlotte Eddy on [REDACTED] with any questions about this letter.

Sincerely,



Tony Narvaez
Chief Executive Officer
AusNet Services