SUPPORTING DOCUMENTATION

Powerlink Debt and Equity Raising Cost Methodology

May 2011

Powerlink Queensland 2013–2017 Revenue Proposal

Powerlink Debt and Equity Raising Cost Methodology

Powerlink's Revenue Proposal for the 2013-17 regulatory period seeks to recover the costs associated with debt-raising and equity-raising. The proposed allowances for these costs incorporated into the PTRM are based upon expert analysis provided in the PwC Report on Debt and Equity Raising Costs (April 2011). This report has been included as Appendix K to Powerlink's Revenue Proposal.

Debt Raising Costs

PwC assumed that Powerlink's opening RAB for the 2013-17 regulatory period would be $6,537 million, which would require a bond program of $4,000 million consistent with a benchmark debt component of 60%. Based on Australian bond issues made by infrastructure businesses over the last 5 years, PwC assumed that the average (or standard) size bond issue is $250 million. Consequently, to achieve its bond program, Powerlink would be required to undertake 16 issues.

To establish its proposed debt raising cost allowance, Powerlink input PwC's recommended benchmark allowance for debt raising of 9.1 basis points into the PTRM *input* sheet for the transactions cost of financing. This cost comprised:

- 7.2 basis points per annum for bond arrangement/placement fees; and
- 1.9 basis points per annum for other bond raising transaction fees.

Powerlink input PwC's recommended debt raising transaction cost allowance of 9.1 basis points per annum into the PTRM *input* sheet. Powerlink's proposed debt raising cost allowances in the Revenue Proposal are therefore the automatic out workings of the PTRM.

Equity Raising Costs

2013-17 Regulatory Period

PwC considers that a dividend yield approach remains an appropriate means by which to estimate equity raising costs. While PwC's report discusses its methodology in detail, the outputs of its analysis for the purposes of Powerlink's Revenue Proposal are as follows:

- that a benchmark dividend yield for infrastructure businesses of 8.4% should be applied;
- a 3% allowance for seasoned equity offerings (SEO) costs should be maintained; and
- a benchmark assumption that 18% of dividends paid will be returned through a dividend reinvestment plan at a cost of 1% of the amount raised is appropriate.

PwC applied its methodology to draft PTRM information from Powerlink to determine the equity raisings required. Assuming a generic WACC of 10%, PwC then calculated an up-front allowance of $24.7 million to compensate Powerlink for the transaction costs of new equity funding over the 2013-17 regulatory period (or $24.437 million if discounted back a further six months at CPI to 31 December 2011).

Powerlink has inserted PwC's recommended allowance of $24.437 million into the PTRM as a separate equity raising line item in the *assets* worksheet.

A copy of the spreadsheet used by PwC to develop Powerlink's proposed equity raising costs is attached to this methodology. These figures are also disclosed in PwC's report.

South Pine to Sandgate Undergrounding Contingent Project

As discussed in section 8.6.10 of the Revenue Proposal, Powerlink seeks recovery of the additional equity raising costs associated with the contingent project approved by the AER in July 2008, ie. South Pine to Sandgate undergrounding costs.

Using the AER's revised PTRM provided to Powerlink at that time, Powerlink has calculated the additional equity raising cost of $363,000 on the same basis as that approved by the AER. For simplicity, Powerlink has adjusted the capex and RAB for the additional capex approved by the AER in the equity raising cost sheet included in the PTRM, and calculated the difference in required equity raising costs with and without the contingent project.

The difference of approximately $240,000 in $2006/07 real was escalated by the regulated WACC of 8.76% per annum for five years to $2011/12, giving a total of $363,000.

Total Equity Raising Costs

Taking into account the two items above, Powerlink's total proposed equity raising costs for the 2013-17 regulatory period equate to $24.800 million.

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