Australian Gas Infrastructure Group

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Jason Dignard
Principal Regulatory Advisor
Economic Regulation Authority

Level 4, Albert Facey House
469 Wellington Street
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Dear Jason,

Thank you for the opportunity to comment on the recent report on debt raising and hedging costs from Chairmont Consulting. Broadly speaking, the increase of debt raising costs from 10 to 15.5 bps and of debt hedging costs from 11.4 to 12.3 bps appears reasonable. That said, we make the following points for your consideration:

- Excluding the liquidity, commitment and 3 month facility fee omits an important cost that is part of an efficient debt raising process; no efficient company would leave the rollover of debt to the day prior to the expiry of existing debt but would instead prudently maintain liquidity through the use of these instruments. This is an efficient cost which should be considered. Based on a benchmark issuance of $250m and a minimum 30 day bridge facility term, we estimate the cost to be $33,000.
- We agree with Chairmont that ISDAs should be considered as an efficient cost. Whilst banks may provide them as part of their service, any prudent service provider would undertake its own legal review of these agreements. Moreover, whilst they may be a one-off cost in respect of our relationship to a given bank, an efficient entity will have agreements with many banks, and thus many ISDAs.
- The size of the debt raising in Tables 1 to 3 of the Chairmont report is AUD 250 million and USD 100 million per annum, which equates to roughly AUD 384 million at current exchange rates. Under a ten year trailing average with ten equal annual tranches, tranches of AUD 384 million per annum equate, with a gearing of 55%, to a RAB of around $7 billion. That is a little over twice the RAB of the DBNGP, which is the largest (by far) of the three gas networks the ERA regulates. Many of the fees, such as legal fees for example, are likely to be invariant to the size of the transaction. It would be useful to understand how Chairmont's conclusions might change if the tranches of debt being considered were scaled to more closely represent the size of the RABs in the gas sector in WA.

- We agree with Chairmont that ESG reporting is something that should be monitored by the ERA. This is particularly the case for gas companies which are (at present) associated with fossil fuel and thus more affected by ESG concerns in the marketplace than electricity utilities are. There does not appear to be a compelling case for change yet, but this is likely to change.
- Global geopolitical conditions have changed markedly from the time Chairmont wrote its report. We do not suggest this requires a complete re-analysis, but it may be requesting that Chairmont consider whether recent events in Ukraine, and the political and market reactions to them, have created cost changes which are likely to be more than transitory in nature.

If you would like to discuss any of the above points with us, please contact Nick Wills-Johnson in our Perth office or myself. We look forward to the opportunity to engage further with you as the RoRI process continues.

Yours sincerely,

[redacted]

Roxanne Smith
Executive General Manager Corporate and Regulation