

The cost of arranging debt issues

A report for Jemena Electricity Network

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1 Introduction

1. We have been asked by Jemena to provide advice and describe our methodology in estimating the debt raising costs for JEN for the determination period 2026-31. This report describes our method in arriving to a total debt raising cost of 8.84 bppa based on an arrangement fee that is updated using the AER's stated methodology using Bloomberg.

2 AER's current methodology for estimating debt raising cost

2. In recent decisions, including the draft decision for JGN, the AER has maintained its previous approach in estimating debt raising cost for DNSPs.¹ In summary, the AER stated that:²

In arriving at this decision, we [The AER] we applied the approach from our 2020 final decision for SA Power Networks. That is, we use updated Bloomberg data to inform the 'arrangement fee' component of debt raising costs and Chairmont's updated estimates [in 2019] for the remaining components.

3. Based on the stated methodology, we estimate that the debt raising cost to be 8.84 bppa, with total arrangement fee of 51.4 bp estimated by updating the Bloomberg data based on AER's stated methodology.
4. This section below provides breakdown of the debt raising cost using RAB and WACC figures provided by JEN.
 - a. JEN's opening nominal RAB in 2025-26: \$2,132.3 million;
 - b. JEN's nominal vanilla WACC in 2025-26: 5.83%.
5. Other assumptions that are consistent with AER's stated methodology:³
 - a. Gearing: 60%;
 - b. \$250 million per instrument;
 - i. Hence, a total of 6 instruments are needed ($\$2,132.3 \text{ m} \times 60\% / \250m).
 - c. Upfront costs amortised over 10 years.

2.1 Direct non-arrangement fee costs

6. The table below summarises the direct non-arrangement fee costs for JEN in bppa using the mid-point of Chairmont's estimated range⁴, consistent with AER's stated methodology.

¹ For example, AER, Draft Decision JGN Jemena Gas Networks (NSW) access arrangement 2025 to 2030– Attachment 3 Rate of return, November 2023, the 2024–29 determinations for Ausgrid, Endeavour Energy, Evoenergy and Essential Energy, in April 2024 and the draft decision for the 2025–30 determinations for SAPN, Energex and Ergon Energy in September 2024, <https://www.aer.gov.au/industry/registers/determinations> (The recent decisions).

² AER, Draft Decision JGN Jemena Gas Networks (NSW) access arrangement 2025 to 2030– Attachment 3 Rate of return, November 2023.

³ We follow the steps described in the PwC 2013 report. PricewaterhouseCoopers, Energy Networks Association: Debt financing costs, June 2013 (PwC 2013 report).

⁴ Chairmont, Debt raising costs, 29 June 2019 (The Chairmont report).

Table 2-1: Direct non-arrangement fee costs in bppa for JEN

	Chairmont's estimated range	Chairmont's mid-point	In bppa for JEN
Legal Counsel - Master Program	\$70-\$150k	\$110,000	0.10
Legal Counsel - Fees for the Issuer (Dealer Counsel)	\$10-\$50k	\$30,000	0.16
Credit Rating - Initial Credit Rating	\$70-\$100k	\$85,000	0.08
Credit Rating - Annual Surveillance	\$10-\$20k	\$15,000	0.10
Credit Rating - Up front bond issue fee	5-10 bp	7.5 bp	1.01
Registrar - Upfront fees	\$6-\$20k	\$13,000	0.01
Registrar - Annual fee	\$6-\$7k	\$6,500	0.26
Agents' Out-of-pocket fees	\$20-\$50k	\$35,000	0.19
Total direct non-arrangement fee costs			1.91

Source: The Chairmont report, CEG analysis.

7. The total direct non-arrangement fee cost for JEN is 1.91 bppa.

2.2 Arrangement fee estimates

8. In all of its recent decisions, the AER stated that:⁵

We [The AER] have updated the 'arrangement fee' using Bloomberg data and the selection criteria consistent with the PwC report.

9. However, the AER has never published any exact numbers or analysis on the arrangement fees they used. Therefore, we have updated the arrangement fees based on the PwC 2013 report methodology.

2.2.1 Updating the arrangement fees based on AER's stated methodology

10. The table below shows the summary of the eligible instruments obtained from Bloomberg between 2019 and 2024, based on the criteria listed in the PwC 2013 report, we are to exclude bonds that were:⁶

- Issued by financial institutions because they operate in a specific market separate to the corporate bond market;
- Not investment grade;
- Not identified by a credit rating from Standard & Poor's;
- Convertible bonds, because they have equity-like characteristics, and therefore have an issuance cost structure that closely resembles equity issuance; and
- Did not make issuance cost data publicly available.

⁵ The recent decisions.

⁶ PwC 2013 report, pp.14-15.

Table 2-2: Summary of bonds issued between 2019 and 2024

Summary by company	No. of instruments	Average tenor	Average amount issued (AUD\$M)	Average upfront fee (bp)	Average bppa
Optus Finance Pty Ltd	1	10.0	\$921	35	4.63
Wesfarmers Ltd	1	12.0	\$1,087	38	4.32
Rio Tinto Finance USA Ltd	1	30.0	\$1,683	88	5.95
BHP Billiton Finance USA Ltd	8	9.1	\$1,442	42	7.46
Average	2.8	11.4	\$1,384	45	6.78

Source: Bloomberg, CEG analysis. Note that the averages are simple average of all instruments, hence, weighted average by number of instruments for each company in this table.

11. The average unamortised arrangement fee is 45 bp. However, each instrument should be adjusted for its tenor to obtain their respective bppa. After adjusting for the tenor, the average amortised arrangement fee is 6.78 bppa, which is equivalent to an unamortised arrangement fee of 51.4 bp at a 10 year tenor.
12. Together with a direct non-arrangement fee cost of 1.91 bppa, the total debt raising cost for JEN is 8.84 bppa.