**Statement of Andrew Noble**

**Senior Treasury Analyst – CitiPower and Powercor**

## 1 Position

1.1 I am currently a Senior Treasury Analyst at CitiPower and Powercor.

1.2 I report to the Manager Treasury, Taxation & Business Development Finance and on certain matters directly to the Chief Financial Officer. Including myself, there are four front office treasury professionals working for CitiPower and Powercor.

1.3 CitiPower and Powercor are Victorian electricity distribution businesses, and along with ETSA Utilities (the South Australian regulated electricity distributor) are owned by Hong Kong interests (Cheung Kong Infrastructure (**CKI**) and Hong Kong Electric Holdings (**HEH**)) and by Spark Infrastructure (which is listed on the Australian Stock Exchange).

## 2 Educational background and professional experience in the finance sector

2.1 In 1993 I completed a Bachelor of Commerce at Melbourne University with honours in economics. I also have a Certified Financial Analyst (**CFA**) qualification which is an equity analyst qualification. This was through the CFA Institute in the USA.

2.2 My first job was with CitiPower in 1994, where I was a dealer involved in managing the interest rate risk on the debt portfolio.

2.3 In 1997 I moved to London and worked in the market risk department of Rabobank International, a Dutch investment bank. In 2000 I began working for Australia and New Zealand Banking Group Limited (**ANZ**) in market risk. The market risk department quantifies the risk emanating from the bank's trading books.

2.4 I subsequently worked as a consultant in risk management in Zurich for Arthur Andersen, from 2001-2003. This role involved providing financial risk consulting services to large European financial institutions.

2.5 This was followed by 2 years working for National Australia Bank Group Limited (**NAB**), as a senior manager in their Group Treasury department, involved in asset liability management.

2.6 From NAB I moved to Westpac Banking Corporation (**Westpac**) as a Director in Group Treasury. There I was again involved in the bank's asset liability management function, which involves quantifying and managing the interest rate risk in the bank's balance sheet. This risk occurs due to the mismatch in the terms of the bank's assets and liabilities.

2.7 I have fifteen years experience in treasury and financial markets related roles in both banking and energy businesses.

## 3 My experience with the Capital Asset Pricing Model (CAPM)

3.1 I studied the CAPM in both my undergraduate degree and as part of my equity analyst qualification. Predominantly the CAPM is used for equity valuation because the cost of equity cannot be readily observed in the market. Banks and most corporate entities use the CAPM to define their hurdle rate i.e whether the rate of return on an investment is sufficient to warrant an investment relative to other opportunities. This is the key criterion used to decide whether to enter into a transaction.

3.2 To date I have primarily used the CAPM in banking operations but I understand that the CAPM is used for regulatory purposes in endeavouring to create a regulated environment that mirrors

the commercial reality of a competitive market. In my experience the term of the risk free rate is not driven by the debt portfolio of a relevant company.

## 4 Powercor and CitiPower

4.1 Powercor is a regulated electricity distributor. It owns the "poles and wires" business in Western Victoria and the western suburbs of Melbourne.

4.2 CitiPower is a regulated electricity distribution business operating in the Melbourne CBD and it's surrounding suburbs. It owns and manages the electricity distribution network that covers approximately 157 square kilometres.

## 5 Debt raising

5.1 About 95% of CitiPower's and Powercor's (the businesses) debt is raised in capital markets. Powercor is rated by Standard & Poor's and Moody's, and CitiPower is rated by Standard & Poor's. While the businesses are as two separate legal entities, we implement the same treasury management strategy for both and look at the businesses' refinancing and interest rate exposures in totality. In practice this results in a diversified debt maturity profile across the businesses with manageable sized refinancings.

5.2 We manage to a prudent liquidity policy that is contained within the Treasury Policy. The liquidity policy requires the businesses have refinancing arrangements in place at least six months prior to maturity. Six months is relatively prudent for a regulated business and is acceptable to the rating agencies. The policy also specifies the maximum amount of debt that we should have maturing in any one year.

Section 4.6 of the businesses' Treasury Policy states that long-term liquidity risk is managed by the following:

- ensuring undrawn committed facilities are available to cover debt maturing within the next 6-months
- restricting debt maturities to less than 25% of total outstanding debt within one 12 month period;
- diversify debt maturity dates with consideration of the ETSA, CitiPower and Powercor Group maturity profile;
- diversify the timing of break clauses (if any) in interest rate swaps;
- diversify the source of funding; and
- maintaining a minimum credit rating and ratios that allow access to long-term capital.

5.3 To ensure the businesses adhere to the Treasury Policy longer term debt issuance is preferred. Given the large debt portfolio of each regulated entity longer term debt maturities ensure the businesses have manageable volume refinancings in any year and enable the businesses to reduce volatility in forecasted financing expenses.

5.4 We monitor the amount of debt we have due in any one year and factor this into the preferred term that we might issue to. It would not be prudent to have, say, half our debt or a large amount of debt maturing in any one year because this would give rise to significant and unacceptable "refinancing risk". The term "refinancing risk" refers to the risk around being able to fund the business and if funding isn't obtained of becoming insolvent.

5.5 The businesses take a very prudent approach to managing refinancing risk and ensure funding facilities are available 6 months in advance of maturing debt or the business requirement for new debt. This position is taken regardless of the fact that the businesses are not directly compensated for the cost of holding (and paying the interest rate (net of interest earned) and debt margin).

5.6 To manage to our preferred longer term debt profile it has been necessary for the businesses to rely on capital markets debt. In addition, to the benefit of providing long tenors, the capital markets available also enable us to diversify investors ensuring no significant reliance on any one group of investors. The domestic bank market has the capacity to provide only a small portion of our debt requirements and we tend to rely on the bank debt market for standby and working capital facilities. In addition, our treasury policy restricts any significant exposure to one class of investor in particular banks who are able to require a repayment of the debt in the circumstance that it is deemed not in the Bank's depositors best interest to continue to provide the loan.

5.7 A further disadvantage of issuing short term debt is that you have more regular debt issues requiring significant financial and non financial resources for contract negotiations, legal fees and other transaction costs. It is inefficient as compared to issuing longer term debt.

5.8 Our current bond portfolio has a weighted average maturity of 8.03 years from 31/12/08 to maturity and 11.2 years weighted average from the time of issuance. At the time they were issued the bonds had terms between 3 and 14 years, but most commonly are issued with a term to maturity of 10 years. Further details of CitiPower and Powercor's debt portfolio are set out in a confidential appendix, **Appendix A.**

## 6 Deloittes Report

6.1 I have reviewed a table in a Deloittes Report which is annexed to the AER's Explanatory Statement and on Page 27 certain figures are quoted for our business apparently sourced from our 2007 Annual Report. Deloittes did not contact the businesses to source the information included in their report.

6.2 For Powercor and CitiPower it states:

| Distribution | Amount ($M) | <1 Year | 1 to 5 Years | >5 Years |
|---|---|---|---|---|
| CitiPower and Powercor | 4,604 | 1,013 | 1,763 | 1,828 |

6.3 The table seems to include shareholder loans which do not reside at the CitiPower and Powercor regulated entities and regardless would be effectively treated as equity when considering the senior debt portfolio of the businesses. The table should read:

| Distribution | Amount ($M) | <1 Year | 1 to 5 Years | >5 Years |
|---|---|---|---|---|
| CitiPower and Powercor | 2,532 | 632 | 525 | 1375 |

6.4 More importantly, though, I would be concerned if this report was being used to suggest that we prefer to raise short term debt. We don't for the reasons set out in section 5 of this Statement.

## 7 Hedging

7.1 As discussed earlier, it is not prudent, and would be outside our shareholder approved treasury policy to refinance 100% of the debt portfolio every five years in line with the regulatory period. As such, the business accepts a level of basis risk arising from the fact that the credit margin is determined by the term of actual debt issuance and this varies from the credit margin set in the five year resets.

7.2 We do however manage the majority of our base interest rate risk on a 5 year cycle by executing interest rate swaps with terms that reflect the five year reset periods. The interest rate swaps hedge for changes in the underlying bank bill swap rate but not the premium we pay for debt issued at our own credit rating. Changes in that credit premium cannot be effectively hedged.

7.3 As such, while we manage our base interest rate exposure to the reset periods we do carry basis risk on the credit margin based on the actual term of debt issuance.

## 8 Conclusions and observations

8.1 With respect to debt raising, our shareholder approved liquidity risk management policy supports long term debt issuance for the businesses. While we have some shorter term bank debt it is typically used to flexibility to fund capital expenditure in small volumes and once drawn to a reasonable volume is refinanced into longer term capital markets debt. Also, short term bank facilities are used to manage short term funding crisis events that may happen, such as a retailer not making payment on the due date, and for general working capital purposes. Funding for the long life assets of the regulated businesses is typically in long term capital markets debt

8.2 Management of the businesses refinancing risk and liquidity risks is of major concern and focus of the shareholders. The businesses ability to ensure adequate financing is available to fund capital expenditure and/or to ensure adequate funds are available to repay a maturing loan, is fundamental to the continuing solvency of the businesses and their shareholders. As such a very prudent policy is adopted that includes ensuring diversity of debt tenors and debt investors as well as ensuring a longer term average debt profile.

8.3 The current average term of issuance of the businesses is 11.2 years.

Andrew Noble

Senior Treasury Analyst, CitiPower and Powercor

**Appendix A: Citipower and Powercor - current bonds portfolio**

| Maturity Date | Term to maturity as at 31 December 2008 | Date issued | Term to maturity when bond was issued (years) | Amount (millions) | Percentage of Total |
|---|---|---|---|---|---|
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
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| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| [illegible] | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Weighted average | term to maturity from 31/12/08: 8.03 yrs | | Duration when issued: 11.2 yrs | $2,580 | 100.00% |

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October 21, 2008

# Powercor Australia, LLC

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## Table Of Contents

Major Rating Factors

Rationale

Outlook

Rating Methodology And Ratings Support

Business Description

Business Risk Profile

Financial Risk Profile

Peer Comparison



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# Powercor Australia, LLC

## Major Rating Factors

**Corporate Credit Rating**

A-/Stable/A-2

**Strengths:**

- Natural-monopoly position
- Reliable cash flow
- Supportive majority owners, with an undertaking from these shareholders to maintain minimum financial metrics consistent with the group profile

**Weaknesses:**

- Aggressive financial profile
- Complex legal and financial structure of the group

## Rationale

The corporate credit ratings on Powercor Australia, LLC (Powercor) incorporate support from the Australian power-distribution company's majority owner Cheung Kong Infrastructure Holdings Ltd. (CKI; A-/Stable/--) and CKI's affiliate Hongkong Electric Holdings Ltd. (HEH; A+/Stable/--), including an undertaking from them to maintain minimum financial metrics consistent with the current credit profile. The underlying credit quality of Powercor is considered to be about 'BBB+', reflecting the company's position as a natural-monopoly provider of electricity-distribution services to the central and western areas of the State of Victoria (AAA/Stable/A-1+) and the reliable cash flow earned under a favorable regulatory regime. These strengths are partly offset by Powercor's aggressive financial profile and the complex legal and financial structure.

The ability and willingness of Hong Kong-based CKI to maintain certain threshold finances at Powercor and its other Australian associated entities—CitiPower Trust (The) (A-Stable/--) in Victoria, and ETSA Utilities Finance Pty Ltd. (A-/Stable/--) in South Australia—are key drivers of these companies' credit quality. CKI and HEH collectively hold a 51% share of Powercor, while Spark Infrastructure Group (Spark; not rated) owns the remaining 49% of Powercor. These power-distribution companies are the sole source of cash flow to service Spark Infrastructure Group's (not rated) external debt and unitholder yield. Due to the part ownership by a yield-conscious listed fund, the pressure to make equity distributions could be higher than when Powercor was 100% owned by the CKI group. However, CKI has undertaken to manage this potential conflict by maintaining strong operational and financial control of Powercor, especially shareholder distributions in any form and financial policies, through its control of board decisions and the shareholder agreements.

Powercor's network operations are a natural monopoly and are protected from competition. This, combined with the essential nature of the services it provides, underpins the utility's revenue certainty. Also, the stable and transparent regulatory regime will continue to support Powercor's high level of cash flow predictability and stability.

We consider Powercor's financial profile to be aggressive. Its funds from operations (FFO) to senior interest cover and FFO to senior debt are expected to decline gradually to about 2.6x and 9.8%, respectively, to 2009. This is mainly driven by increasing debt to fund capital expenditure and high levels of annual equity returns. Nonetheless, the forecast metrics remain above the minimum stipulated in Powercor's debt documents, and—importantly—are


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consistent with the financial policies established by CKI/HEH as part of the change in shareholding. The proposed advanced metering infrastructure (AMI) rollout is likely to require a sizable capital investment for both CitiPower and Powercor. Nevertheless, funding for AMI is expected to be secured in line with the company's commitment to maintain its targeted financial metrics.

**Liquidity**

The short-term credit rating on Powercor is 'A-2'. The company's liquidity position is adequate. At Aug. 30, 2008, it had A$42.5 million cash and A$313 million undrawn committed facilities, covering its capital-expenditure needs in the next 12 months. Powercor has no material amounts of capital market issuances to mature until 2011.

Under its bank facility documents, a review event is enacted if the Powercor credit rating drops below the 'A-' level as a result of a change in ownership, whereby the CKI group holds less than a 51% interest in Powercor. The company must also maintain its gearing (senior debt/total capital) ratio below 75% to comply with other financing documents. Powercor's gearing level of 41.3% at Dec. 31, 2007 provides it with sufficient headroom under this covenant.

## Outlook

The stable outlook on the rating reflects the stable outlook of the controlling shareholder, CKI. Any weakening in CKI's credit risk will have an impact on the Powercor rating. However, improvement in the CKI rating is less likely to improve the Powercor rating.

Downward rating movement can also be precipitated by:

- A reduction in the expected level of support from CKI;
- An inability of Spark to contribute its share of potential equity if required, which results in Powercor's credit metrics to be lower than its targeted level;
- A weakening of its credit metrics to levels outside its targeted range; and
- Any further change in ownership.

**Bank lines:**

(At June 30, 2008)

- A$38 million committed working-capital facility expiring August 2009;
- A$200 million in committed CP standby facilities expiring March 2010; and
- A$250 million revolver bank loan expiring in July 2011.

## Rating Methodology And Ratings Support

The Powercor ratings have been assigned in line with Standard & Poor's corporate rating methodology. Powercor Australia Holdings Pty. Ltd. and Powercor Australia Ltd. guarantee Powercor's debt, and the assigned corporate credit ratings reflect the business and financial risks of the consolidated Powercor and its subsidiaries. Although CKI's share in Powercor has been diluted following the listing of Spark, CKI continues to maintain control of Powercor through the appointment of five of the nine directors. The directors are appointed at the holding company, CHEDHA Holdings Pty. Ltd. (CHEDHA; not rated). CHEDHA is also the holding company for CitiPower.



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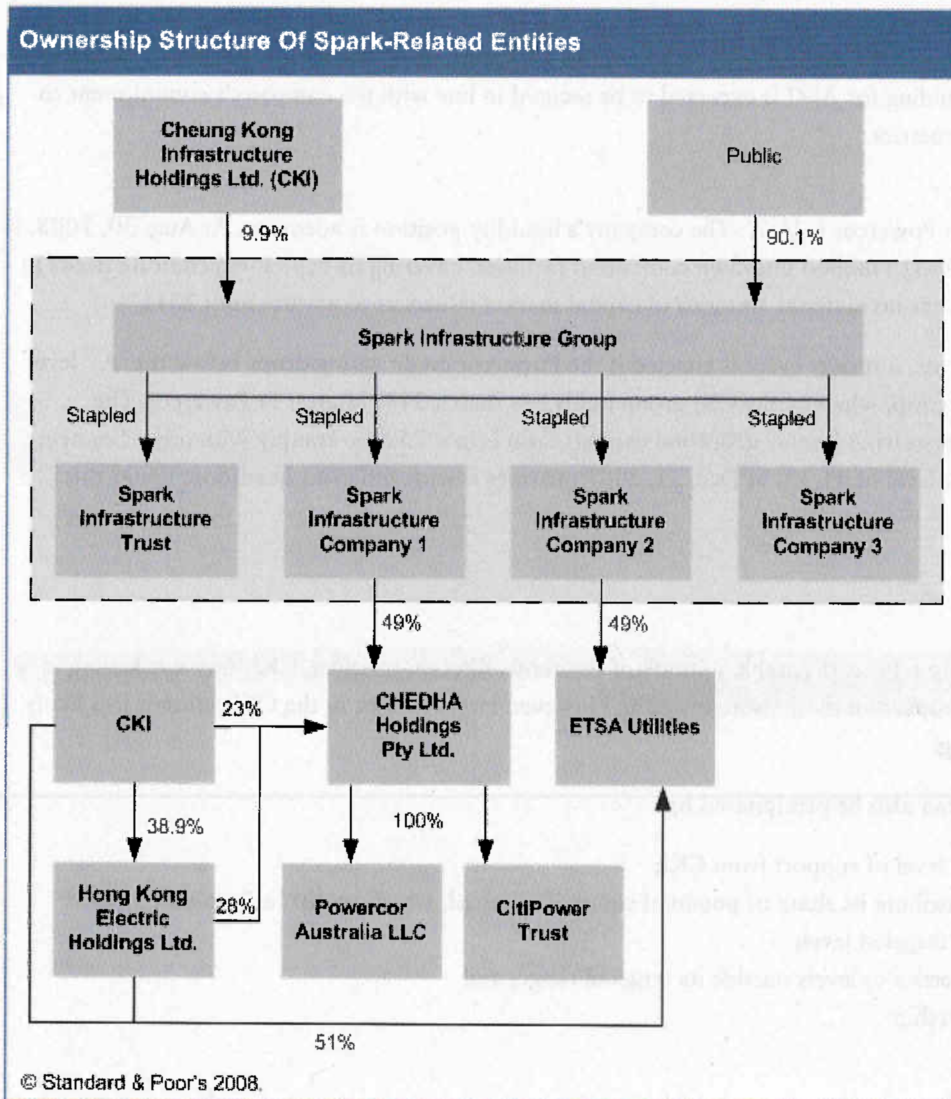


## Business Description

Powercor is the holding company that indirectly owns 100% of Powercor Australia Ltd., the largest of Victoria's five electricity-distribution businesses, whose network broadly covers the central and western parts of Victoria, making up about 65% of the total area of the state. Powercor and CitiPower share a common senior management team, as well as the majority of back-office functions through their sister services company, CHED Services Pty Ltd. (CHED Services; not rated).

## Business Risk Profile



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### Regulation: Transparent, predictable, and supportive

The transparent, predictable, and supportive nature of the regulatory environment governing Powercor's network revenue provides predictability to future revenue. From Jan. 1, 2008, the economic regulation of gas and electricity distribution networks is governed by the newly formed Australian Energy Regulator (AER). The AER is expected to bring some consistency in the regulatory parameters that apply to distribution companies across the country's various states and jurisdictions. However, the changes, if any, are not expected to undermine distribution companies' earnings certainty.

Regulatory revenues are calculated using a "building-block" approach, which includes a return on capital as well as a recovery of efficient operating costs, depreciation, and an efficiency-sharing mechanism. A price cap is applied and adjusted each year on a "CPI-X" basis to pass efficiency gains on to customers. Given that a price cap regulates prices rather than a revenue cap, Powercor is exposed to gains and losses associated with variations in sales volumes. Although volumes are likely to show year-on-year variability, the long-term positive trend in electricity usage is well-established.

### Markets: Diverse service territory, mostly regional

Powercor's credit quality is enhanced by the reasonably diversified nature of its network service territory. Despite the predominantly rural service area, most of Powercor's customers are based in outer metropolitan areas and seven of Victoria's eight-largest provincial centers. Moreover, as a result of its large service area, Powercor benefits from a mixture of climatic conditions, which is a primary short-term determinant of electricity demand.

The company's diverse customer base limits volatility in network connections and revenue (see table 1). The significant proportion of residential customers, whose demand for connections to the network is less sensitive to economic activity, assists revenue stability. However, Powercor also derives a significant proportion of sales revenue from the small commercial and industrial (large, low voltage) sectors. The industrial customers span a number of industries, including steel, chemicals, petroleum, automotive, and food and beverage. This diversity of industries in the company's customer base lessens the impact of the high concentration of industrial sales on revenue. Furthermore, Powercor's top-10 network customers contribute less than 5% of network revenue.

**Table 1**

**Powercor Network Customer Profile**

**At Dec. 31, 2007**

| | Customers | | Energy distributed | | Total distribution revenue | |
|---|---|---|---|---|---|---|
| Segment | (000s) | (%) | (GWh) | (%) | (mil A$) | (%) |
| Residential | 570.4 | 85 | 3,400.60 | 33 | 175.9 | 44 |
| Small commercial | 96.4 | 14 | 1,955.70 | 19 | 115 | 29 |
| Unmetered supplies | 6.2 | 1 | 92.1 | 1 | 3.8 | 1 |
| Large low voltage | 1.8 | 0 | 1900.4 | 18 | 69.3 | 17 |
| High voltage | 0.2 | 0 | 1,851.10 | 18 | 32.9 | 8 |
| Subtransmission | 0 | 0 | 1,099.20 | 11 | 4.5 | 1 |
| Total | 675 | 100 | 10,299.20 | 100 | 401.4 | 100 |

GWh—Gigawatt hours.

Powercor's revenue growth has been underpinned by the continuing economic expansion in its service area in recent years. Electricity sales growth in Powercor's region is forecast to average about 1.8% per year in the medium term.



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### Operations: Stable and mature

Powercor's stable network activities support the company's credit profile. The company's network is mostly mature and well-maintained, although network reliability indicators are modest, reflecting the comparative disadvantage of servicing a predominantly rural and regional territory. This is further reinforced by the fact that Powercor's network has the longest line length and lowest customer density among Victorian networks (see table 2). These reliability metrics are consistent with those of most other predominantly regional networks in Australia and New Zealand.

**Table 2**

**Powercor Operating Statistics**

| | Year ended Dec. 31 | | | | |
|---|---|---|---|---|---|
| | **2007** | **2006** | **2005** | **2004** | **2003** |
| Units distributed (GWh) | 10,299 | 10,148 | 9,736 | 9,651 | 9,503 |
| Residential (%) | 33 | 34 | 33 | 33 | 33 |
| Small commercial (%) | 19 | 20 | 19 | 19 | 19 |
| Unmetered supplies (%) | 1 | 1 | 1 | 1 | 1 |
| Large low voltage (%) | 18 | 18 | 17 | 17 | 17 |
| High voltage (%) | 18 | 17 | 19 | 19 | 19 |
| Subtransmission (%) | 11 | 10 | 11 | 11 | 11 |
| Customers ('000s) | 675 | 662 | 650 | 635 | 620 |
| Service area peak demand (MW) | 2,066 | 1,925 | 1,871 | 1,757 | 1,735 |
| Total distribution lines (km) | 82,459 | 81,613 | 81,614 | 81,270 | 83,283 |
| Underground (%) | 8 | 7 | 7 | 7 | 6 |
| Distribution energy losses (%) | 6.62 | 6.78 | 6.9 | 6.8 | 7 |
| SAIFI (interruptions per customer) | 1.7 | 2.03 | 1.7 | 1.6 | 2.2 |
| SAIDI (minutes) | 160 | 160.5 | 145 | 141 | 169 |
| CAIDI (minutes) | 80.7 | 69.8 | 75 | 78 | 73 |

GWh—Gigawatt hours. MW—Megawatt. Km—Kilometers. SAIFI—System average outage frequency. SAIDI—System average outage duration. CAIDI—Average customer outage time.

### Competitive position: Monopoly status remains

Given its franchise area and economic barriers to duplicate the network, Powercor's business is secure. The cost-reflective pricing reduces the risk of bypass. Irrespective of which retailer uses Powercor's network to deliver electricity, the company receives access charges. Furthermore, the Victorian distribution networks are not required to act as a retailer of last resort under their distribution license.

## Financial Risk Profile

### Financial and accounting policy

The ability and willingness of Powercor and its shareholders to maintain minimum credit metrics are a key driver of the company's credit quality. The financial policies—including maintaining funds from operations (FFO) to senior debt above 9.0% and FFO interest cover greater than or equal to 2.5x—were established following the change in shareholding in December 2005.

To analyze the company's cash flow and debt-service capacity more accurately from year-to-year, Standard &



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Poor's has eliminated capital contributions (monies received from customers for the augmentation of the network, and donated assets) from the company's profit and loss statement. Given this amount is a direct contribution to capital work expenses, it has been offset against Powercor's capital expenditure.

### Stable profitability and cash-flow-protection metrics

The quality of Powercor's earnings is considered high, driven by the company's regulated network revenue. Powercor's credit metrics, however, are considered aggressive, with forecast FFO to senior interest coverage and FFO to senior debt falling gradually to 2.6x and 9.8%, respectively, for the two years to 2009. This is expected to be mainly driven by increasing debt to fund capital expenditure and high levels of annual equity returns. Nonetheless, the forecast metrics remain above the minimum policy levels established by the shareholders.

In the next 12 months, a final decision on Victoria's AMI and its rollout will be a major development. The AMI rollout is likely to require a sizable capital investment for both CitiPower and Powercor. Nevertheless, debt and equity funding for AMI is expected to be secured in line with the company's commitment to maintain its target financial metrics. The share of contribution from shareholders will have to be ascertained when there is more clarity on the size and timing of the AMI.

Powercor's internal financing ratio is expected to weaken to a negative position in the next two years. Capital expenditure (net off customer contribution) is expected to increase moderately to about A$250 million in 2009, mainly driven by investment in growth projects. The growth projects account for about 60%-65% of total capital expenditure, with the rest from replacement expenditure.

### Financial flexibility

Powercor has some financial flexibility. Despite the sale to Spark in 2005, Standard & Poor's believes that CKI/HEH is committed and able to continue to support Powercor. If unexpected financial pressures arise, Standard & Poor's expects Powercor to defer distributions, including those relating to its dividend payable, in order to maintain its stated minimum credit metrics. There are some portions of its planned capital expenditure that are considered deferrable, which provides an additional flexibility option for Powercor.

## Peer Comparison

Standard & Poor's generally considers electricity transmission and gas and electricity distribution companies to have excellent business profiles due to the regulated monopoly position of each network within its jurisdiction. As the financial metrics of the peers listed below are broadly similar, the differences in their ratings are driven primarily by their ownership structure. The ratings on Powercor, together with CitiPower and ETSA, benefit from the support of their majority shareholders, CKI. Likewise, SP AusNet Group (A-/Negative/--) benefits from the support of its majority shareholder, Singapore Power Ltd. (AA-/Negative/--). The ratings on Vector Ltd. (BBB+/Stable/--) do not factor in any ownership support, as Vector is a publicly listed New Zealand company; however, Vector's moderate financial policies add support to the ratings.



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**Table 3**

## Peer Comparison

| | Powercor Australia, LLC | CitiPower I Pty Ltd. | ETSA Utilities Finance Pty Ltd. | SP AusNet Group | Vector Ltd.¶ |
|---|---|---|---|---|---|
| Rating | A-/Stable/A-2 | A-/Stable/--** | A-/Stable/NR | A-/Negative/-- | BBB+/Stable/NR |
| Fiscal year ended | Dec. 31, 2007 | Dec. 31, 2007 | Dec. 31, 2007 | March 31, 2008 | June 30, 2008 |
| (Mil. mixed currency) | A$ | A$ | A$ | A$ | NZ$ |
| Revenues | 711.3 | 306.2 | 671.4 | 1,029.8 | 1,153.4 |
| Net income from cont. oper. | 190.2 | 69.3 | 153.3 | 151.0 | 141.8 |
| Funds from operations (FFO) | 316.8 | 128.0 | 274.0 | 357.7 | 282.3 |
| Capital expenditures | 184.8 | 80.7 | 102.8 | 349.0 | 200.6 |
| Cash and short-term investments | 45.6 | 30.0 | 168.1 | 12.0 | 53.6 |
| Debt | 1,352.9 | 1,060.4 | 2,307.6 | 3,736.6 | 3,108.7 |
| Preferred stock | - | - | 647.7 | - | 152.4 |
| Equity | 1,921.8 | 991.3 | 1,903.9 | 2,610.6 | 2,053.7 |
| Debt and equity | 3,274.7 | 2,051.7 | 4,211.5 | 6,347.2 | 5,162.4 |
| **Adjusted ratios** | | | | | |
| EBIT interest coverage (x) | 3.2 | 2.2 | 1.9 | 1.7 | 1.8 |
| FFO int. cov. (X) | 4.4 | 2.9 | 2.8 | 2.3 | 2.2 |
| FFO/debt (%) | 23.4 | 12.1 | 11.9 | 9.6 | 9.1 |
| Discretionary cash flow/debt (%) | (15.2) | 0.3 | (0.2) | (5.7) | (2.7) |
| Net cash flow / capex (%) | 34.0 | 121.7 | 128.3 | 34.1 | 72.5 |
| Total debt/debt plus equity (%) | 41.3 | 51.7 | 54.8 | 58.9 | 60.2 |
| Return on common equity (%) | 10.2 | 6.2 | 6.8 | 6.1 | 7.2 |
| Common dividend payout ratio (un-adj.) (%) | 133.7 | 32.9 | 86.5 | 158.1 | 96.5 |

*Fully adjusted (including postretirement obligations). ¶Fully adjusted. **Rating is on CitiPower Trust.

**Table 4**

## Powercor Australia, LLC -- Financial Summary*

**Industry Sector: Electric Utility**

| | --Fiscal year ended Dec. 31-- | | |
|---|---|---|---|
| | **2007** | **2006** | **2005** |
| Rating history | A-/Stable/A-2 | A-/Negative/A-2 | A-/Negative/A-2 |
| **(Mil. A$)** | | | |
| Revenues | 711.3 | 672.3 | 706.0 |
| Net income from continuing operations | 190.2 | 188.3 | 454.5 |
| Funds from operations (FFO) | 316.8 | 306.0 | 252.5 |
| Capital expenditures | 184.8 | 187.4 | 153.0 |
| Cash and short-term investments | 45.6 | 20.6 | 206.7 |
| Debt | 1,352.9 | 1,186.0 | 1,280.3 |
| Equity | 1,921.8 | 1,779.0 | 1,638.3 |
| Debt and equity | 3,274.7 | 2,965.0 | 2,918.7 |



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Table 4

**Powercor Australia, LLC -- Financial Summary*(cont.)**

| Adjusted ratios | | | |
|---|---|---|---|
| EBIT interest coverage (x) | 3.2 | 3.3 | 2.6 |
| FFO int. cov. (x) | 4.4 | 4.6 | 3.9 |
| FFO/debt (%) | 23.4 | 25.8 | 19.7 |
| Discretionary cash flow/debt (%) | (15.2) | (10.7) | 0.2 |
| Net Cash Flow / Capex (%) | 34.0 | 85.7 | 106.1 |
| Debt/debt and equity (%) | 41.3 | 40.0 | 43.9 |
| Return on common equity (%) | 10.2 | 11.0 | 22.3 |
| Common dividend payout ratio (un-adj.) (%) | 133.7 | 77.2 | - |

*Fully adjusted (including postretirement obligations).

Table 5

**Reconciliation Of Powercor Australia, LLC Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. A$)***

**Year ended Dec. 31, 2007**

| | Debt | Shareholders' equity | Revenue | Operating income (before D&A) | Operating income (after D&A) | Interest expense | Cash flow from operations | Dividends paid | Capex |
|---|---|---|---|---|---|---|---|---|---|
| **Reported** | 1,303.0 | 1,916.5 | 882.0 | 469.9 | 360.0 | 91.8 | 230.6 | 252.5 | 222.6 |
| **Standard & Poor's adjustments** | | | | | | | | | |
| Operating leases | 31.0 | -- | -- | 2.4 | 2.4 | 2.4 | 1.2 | -- | -- |
| Equity-like hybrids | -- | -- | -- | -- | -- | (1.4) | 1.4 | 1.4 | -- |
| Postretirement benefit obligations | -- | 5.4 | -- | (4.0) | (4.0) | -- | 0.3 | -- | -- |
| Reclassification of working-capital cash flow changes | -- | -- | -- | -- | -- | -- | 83.4 | -- | -- |
| Other | 18.8 | -- | (170.7) | (167.8) | (65.8) | -- | -- | -- | (37.9) |
| Total adjustments | 49.8 | 5.4 | (170.7) | (169.4) | (67.4) | 1.0 | 86.2 | 1.4 | (37.9) |

**Standard & Poor's adjusted amounts**

| | Debt | Equity | Revenue | EBITDA | EBIT | Interest expense | Funds from operations | Dividends paid | Capex |
|---|---|---|---|---|---|---|---|---|---|
| **Adjusted** | 1,352.9 | 1,921.8 | 711.3 | 300.6 | 292.6 | 92.8 | 316.8 | 253.9 | 184.8 |

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**Ratings Detail** (As Of October 21, 2008)*

| **Powercor Australia, LLC** | |
|---|---|
| Corporate Credit Rating | A-/Stable/A-2 |
| Commercial Paper | |
| *Local Currency* | A-2 |
| Senior Unsecured (1 Issue) | A- |



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| **Ratings Detail** (As Of October 21, 2008)***(cont.)** | |
|---|---|
| Senior Unsecured (4 Issues) | AA/Negative |
| **Corporate Credit Ratings History** | |
| 10-Oct-2007 | A-/Stable/A-2 |
| 12-Jul-2007 | A-/Watch Neg/A-2 |
| 12-Jun-2003 | A-/Negative/A-2 |
| **Business Risk Profile** | Excellent |
| **Financial Risk Profile** | Aggressive |
| **Debt Maturities**<br>(Capital market and syndicated bank debt maturities at June 30, 2008)<br>2011: A$350 million and A$250 million syndicated bank loan (undrawn)<br>2015: A$200 million<br>2021: A$300 million<br>2022: A$630 million | |
| **Related Entities** | |
| **Powercor Australia Holdings Pty. Ltd.** | |
| Senior Unsecured (1 Issue) | A- |
| **Powercor Australia Ltd.** | |
| Senior Unsecured (1 Issue) | A- |

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.



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