

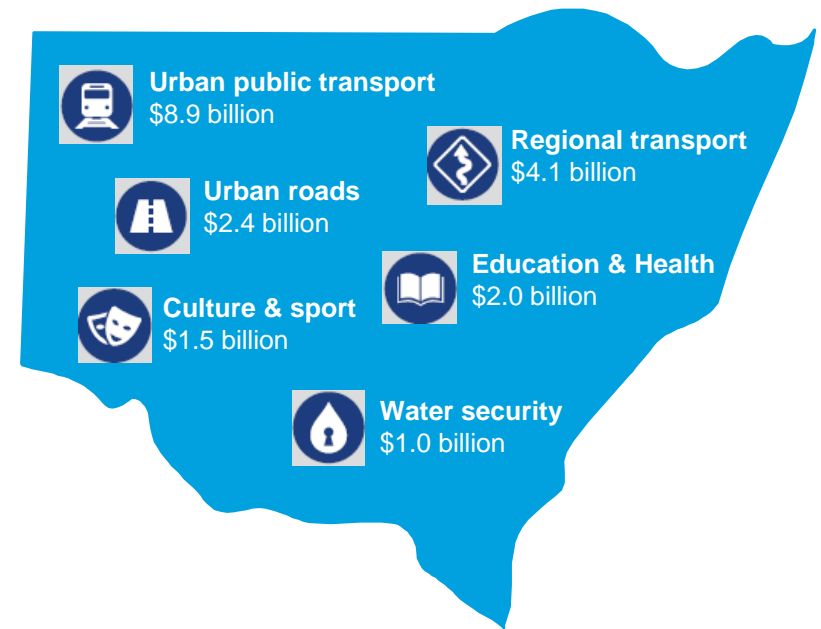
Rebuilding NSW

Long term lease of the NSW Electricity Networks

Rebuilding NSW

A plan to turbocharge NSW

- \$20 billion in new productive infrastructure
- More than 120,000 jobs and downward pressure on electricity prices for consumers
- Boost to the economy of almost \$300 billion in just over 20 years
- The Government has fully adopted the recommendations proposed by Infrastructure NSW to deliver the new State Infrastructure Strategy



\$20 billion of new investment for NSW

This investment is only possible by recycling capital from leasing electricity network businesses

Rebuilding NSW investment plan

Sydney metropolitan region

- \$8.9bn investment in urban public transport
- \$2.4bn investment in urban roads, including WestConnex northern and southern extensions, Western Harbour Tunnel
- \$700m investment in future-focused schools
- \$700m investment in Hospitals Growth Program and Care Co-location Program
- \$600m investment in culture and arts, and \$600m investment in sports stadia



Urban public transport

\$8.9 billion



Urban roads

\$2.4 billion



Education and Health

\$1.4 billion



Sport and Culture

\$1.2 billion



Parramatta Light Rail

\$600 million



Bus Rapid Transit

\$300 million

\$14 billion will be invested in metropolitan infrastructure

Rebuilding NSW investment plan

Regional NSW

- \$2bn investment in regional road freight corridor
- \$1bn investment in regional growth roads
- \$1.1bn investment in fixing country roads and rail, and bridges for the bush
- \$1bn investment in water security
- \$300m regional schools renewal program
- \$300m regional health facilities
- \$300m regional environment and tourism fund



Education & Health
\$600 million



Regional roads
\$3.7 billion



Fixing Country Rail
\$400 million



Water security
\$1 billion

\$6 billion will be invested in regional infrastructure

The economic benefits of the Rebuilding NSW plan are compelling...

“

The total increase in GSP over the period to 2035-36 is estimated to be almost **\$300 billion** (measured in 2013 prices), roughly equivalent to 60% of current GSP...

...Better infrastructure will also help attract more people and business to NSW by creating easier access to jobs and markets – boosting economic growth.

Deloitte Access Economics

Economic Impact of State Infrastructure Strategy
– Rebuilding NSW

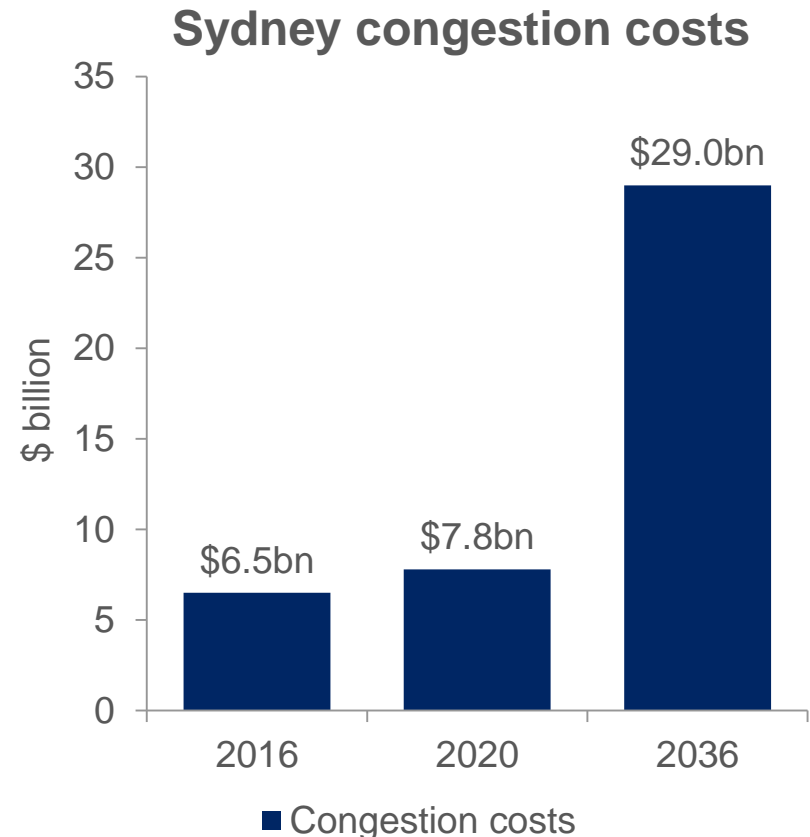
- Investment under the Rebuilding NSW plan will allow NSW to better manage the increase in population and economic activity that will occur over the coming decades
- Estimated to create an additional 122,500 full time jobs
- Expected to boost the economy by \$300 billion in just over 20 years
- Based on average State revenues equivalent to c.12.8% of GDP, State revenue will be \$4 billion larger in 2035-36⁽¹⁾

Notes

(1) Total NSW revenue (excluding SPPs through the state) has averaged 12.8 per cent of GDP between 2000-01 and 2013-14. Includes an increase in payroll tax of \$445 million (2013 prices)

...and the costs of doing nothing are unacceptable

- The NSW population is projected to reach 9.7 million by 2035-36, compared with the current population of Sydney at 6.3 million
 - This will drive significant increases in demand on existing NSW transport, education, health and other social infrastructure
- For NSW road transport infrastructure alone, projections from BITRE⁽¹⁾ indicate that congestion costs are expected to increase significantly over the next 20 years in Sydney



Notes

(1) Bureau of Infrastructure, Transport and Regional Economics

Source: BITRE, Deloitte Access Economics

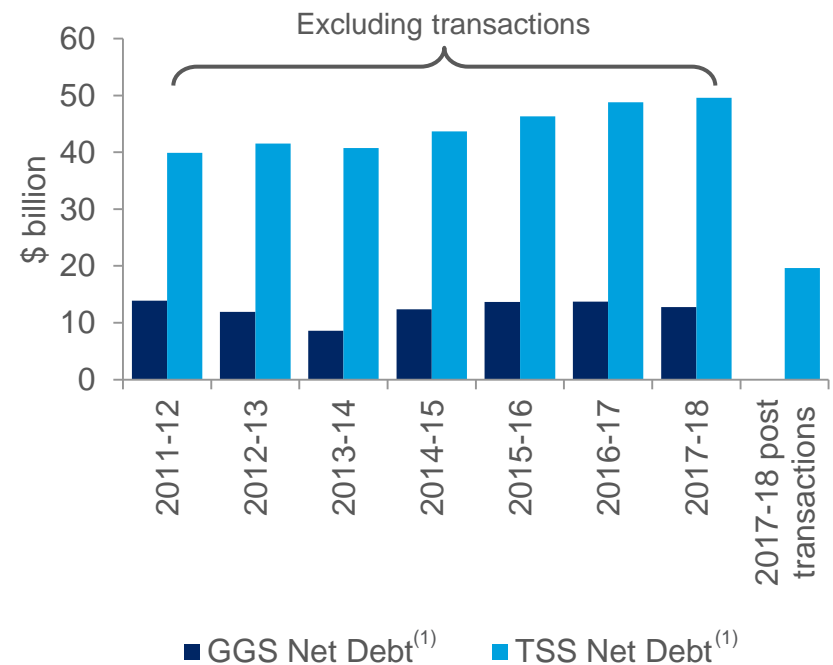
Benefits to the State Budget

The transaction is expected to lead to a significant improvement in the State's financial position

- State debt significantly reduced over the forward estimates
- Commonwealth incentive payments and earnings on the investment of the proceeds more than offset reduced distributions and the impact of the additional infrastructure investment

General Government Sector Net Debt: Eliminated

Total State Sector Net Debt: ↓ ~\$30 billion



Notes

(1) Source: Actual to 2012-13. Data for 2013-14 onwards based on Budget Statement 2014-15

The transaction

The long term lease of 49% of the NSW electricity networks

- The Government will undertake a 99-year lease of 49% of the NSW electricity networks
- The State will continue to hold at least a 51% interest in the NSW electricity networks⁽¹⁾
- Regional distribution business Essential Energy will remain 100% in State control



TransGrid

100%



Ausgrid

50.4%



**Endeavour
Energy**

50.4%



Remains 100%
in State control

Notes

(1) Calculated on the basis of the FY15 closing Regulatory Asset Base as forecast by the AER in its final determinations for the network businesses

How will the lease transactions work?

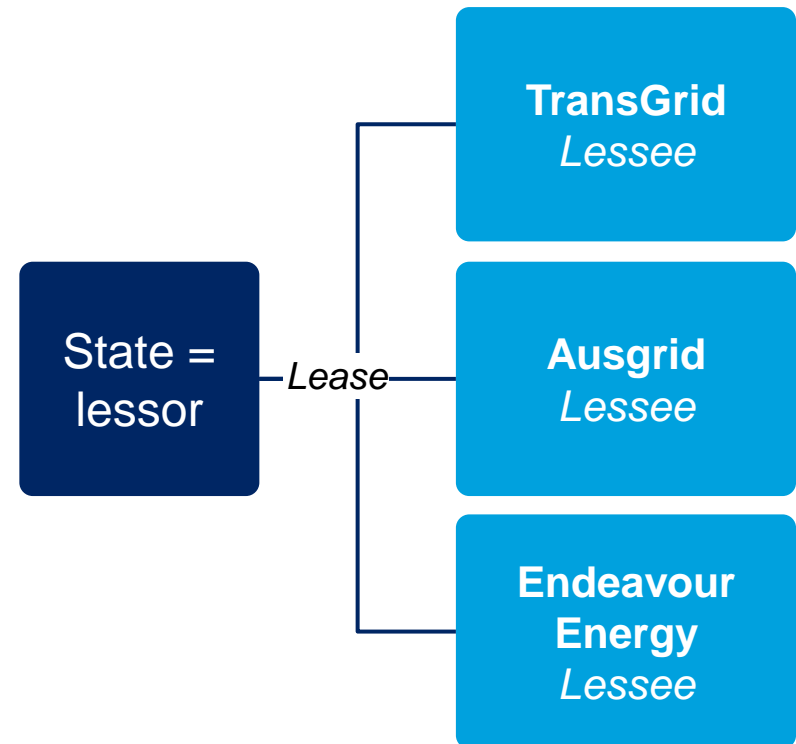
Transaction structure

- The Government is planning to undertake trade sales for each of the three businesses
 - However, retain flexibility to consider an IPO for Ausgrid or Endeavour Energy, depending on market conditions

Lease objectives

- The lease and associated licences will be structured to ensure lessees:
 - Maintain the assets in good order
 - Uphold safety, performance and reliability standards
 - Are incented to invest appropriately in the assets throughout the lease term

The State will remain as owner and lessor for the transacted entities



Potential bidders

Strong interest expected from significant domestic and international financial and strategic investors

“
There has already been significant interest shown by offshore investors, mostly from pension funds and sovereign wealth funds, while in Australia the appetite comes from super funds, along with specialist financial infrastructure investors, who are effectively pooling institutional money, and from strategic industry players looking to expand their existing businesses
”

Australian Financial Review

8 April 2015

- Domestic investors, including domestic superannuation funds, will have ample opportunity to participate in the transaction process
 - Domestic superannuation funds will allow mums and dads to participate in this transaction
- We also welcome significant international interest in the businesses
- Any foreign investment will be subject to FIRB approval

The transaction will release \$20bn in capital

Transaction proceeds to be paid into Restart NSW fund

Transaction net proceeds

- Exact proceeds can only be determined by the transaction process
- Strong interest in the lease transactions from potential investors
- Cancellation of Queensland power transactions has dramatically increased competitive interest in NSW

Commonwealth incentive payments

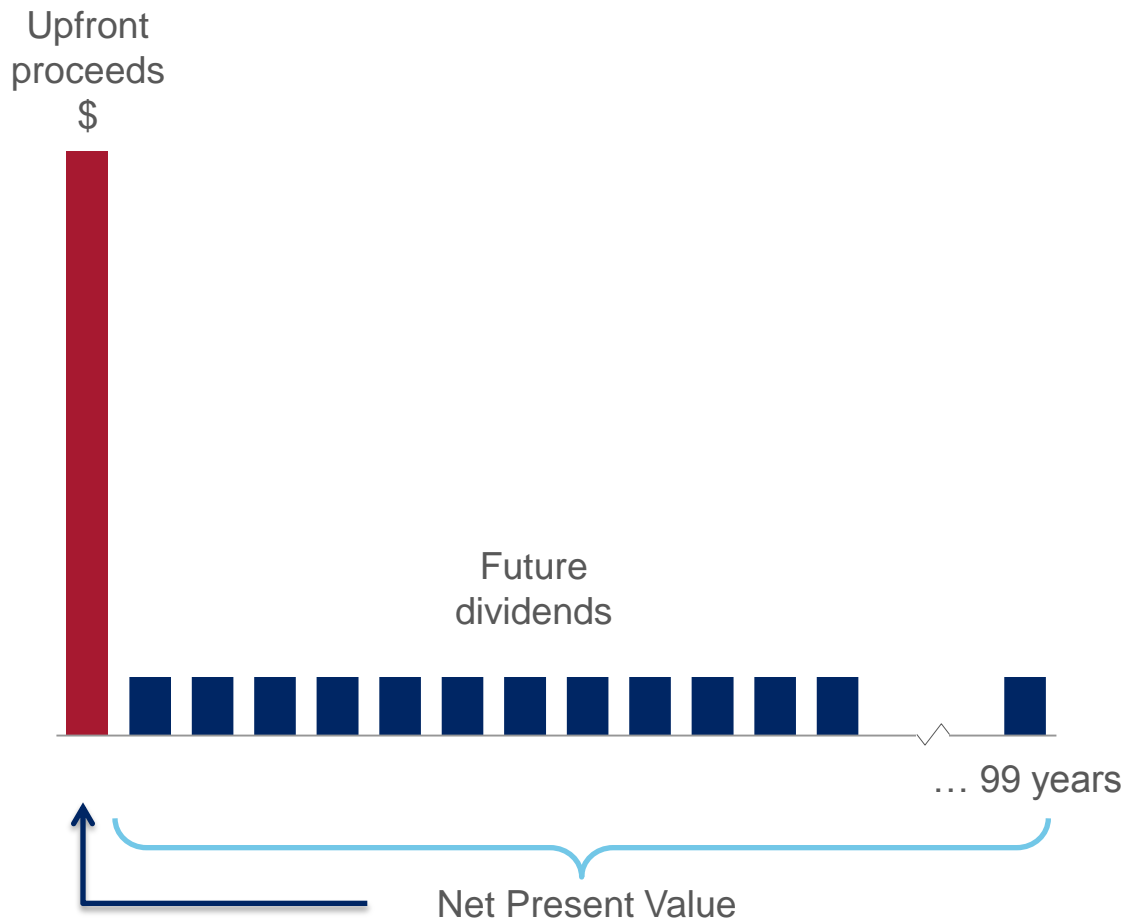
- NSW and Commonwealth have signed an agreement under the Commonwealth Government's asset recycling initiative
- NSW to receive \$2 billion in payments
- Full details of arrangements are available on the COAG website

Investment earnings on balances in Restart NSW

- Investment earnings in Restart NSW prior to funds being spent
- Reviewed by Parliamentary Budget Office and considered "reasonable and conservative"

\$2 billion already in Restart NSW fund, and reserved for Rebuilding NSW

The transaction proceeds represent the value of the estimated future dividend stream



In addition to upfront proceeds,

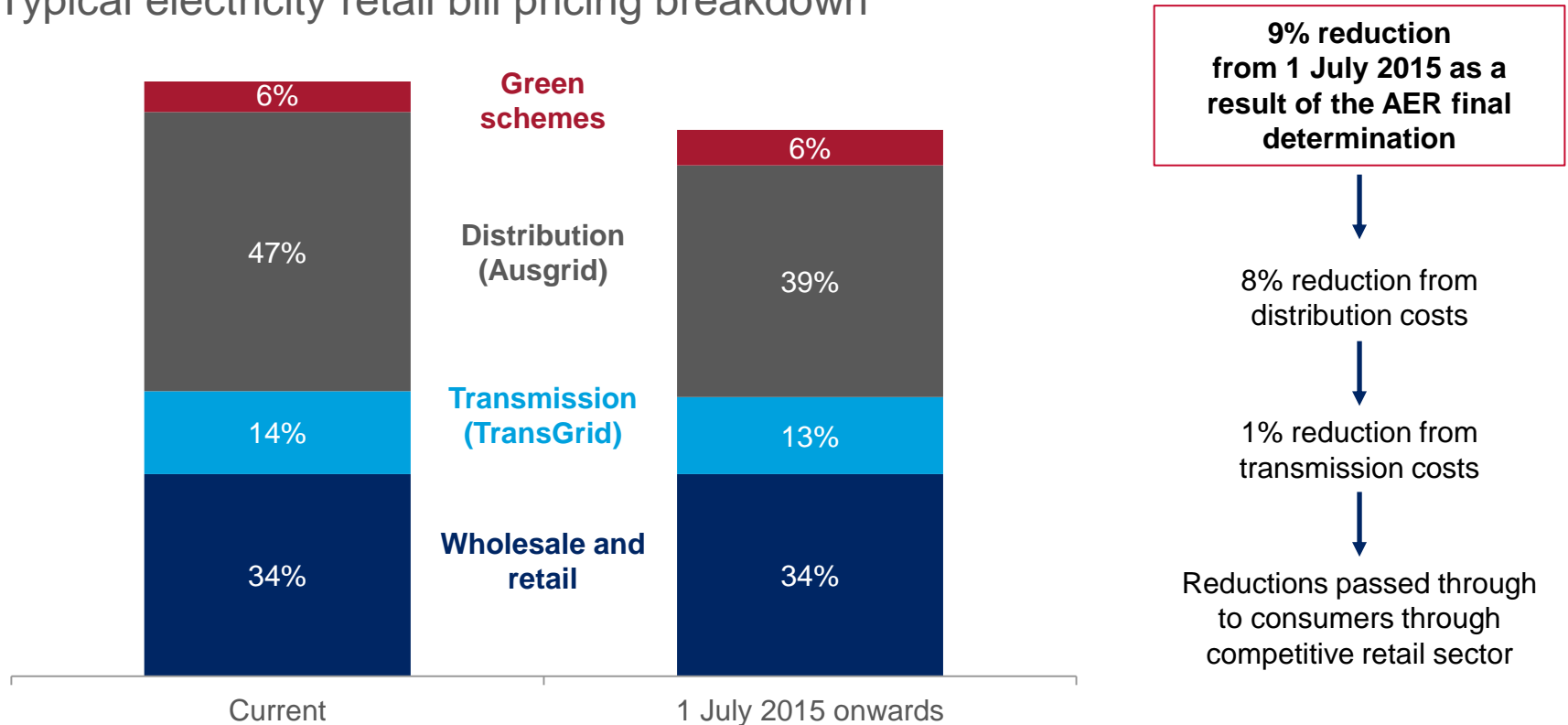
- The State will continue to receive tax equivalent payments and distributions on the retained interests (49.6% Ausgrid, 49.6% Endeavour Energy, 100% Essential Energy)
- The distributions from Ausgrid and Endeavour Energy will be increased by the efficiency benefits achieved by the private sector

Electricity pricing

Electricity pricing explained

Network costs represent a material component of the typical electricity retail bill – the AER final determination will have a significant impact on prices

Typical electricity retail bill pricing breakdown



Source: AEMC Price Trends Report 2014 and AER estimated bill impact from final determination for TransGrid and Ausgrid 2015

Notes:

- (1) Reduction in network costs are AER final determination's reduction in allowed revenues applied to network cost component in AEMC's Price Trends Report
- (2) Green schemes are costs associated with the Commonwealth Government's Renewable Energy Target (RET) and NSW Government's Climate Change Fund
- (3) Ausgrid distribution area retail customer bill shown for illustrative purposes. Endeavour Energy area customers have a similar breakdown

Prices will come down

Privately operated networks are more efficient than State owned networks

“

... network prices for typical residential customers have fallen in real terms since privatisation. By contrast, network prices in NSW and Queensland have increased in real terms by over 100 per cent in the same period

Ernst & Young, 2014, *Electricity network services. Long-term trends in prices and costs*
Page 3

”

“

Whilst privatisation has not always been politically popular, the evidence of relative price stability and supply reliability in the privatised sectors suggest it has worked” and “other factors also suggest that government-owned companies are less efficient in their operational spending than are private companies

Grattan Institute, 2012, *Putting the customer back in front*
Pages 9, 40

”

Prices will come down

Other experts have also reached similar conclusions

“

If the private sector owns them, they will run them more efficiently and therefore, given a constant regulatory regime, prices in NSW will be lower in future if they are privately owned. You've only got to look at the performance of the publicly owned networks against the private ones – it's chalk and cheese...

ABC News 2014, “ACCC Chairman Sims argues the benefits of privatisation”,
Online”

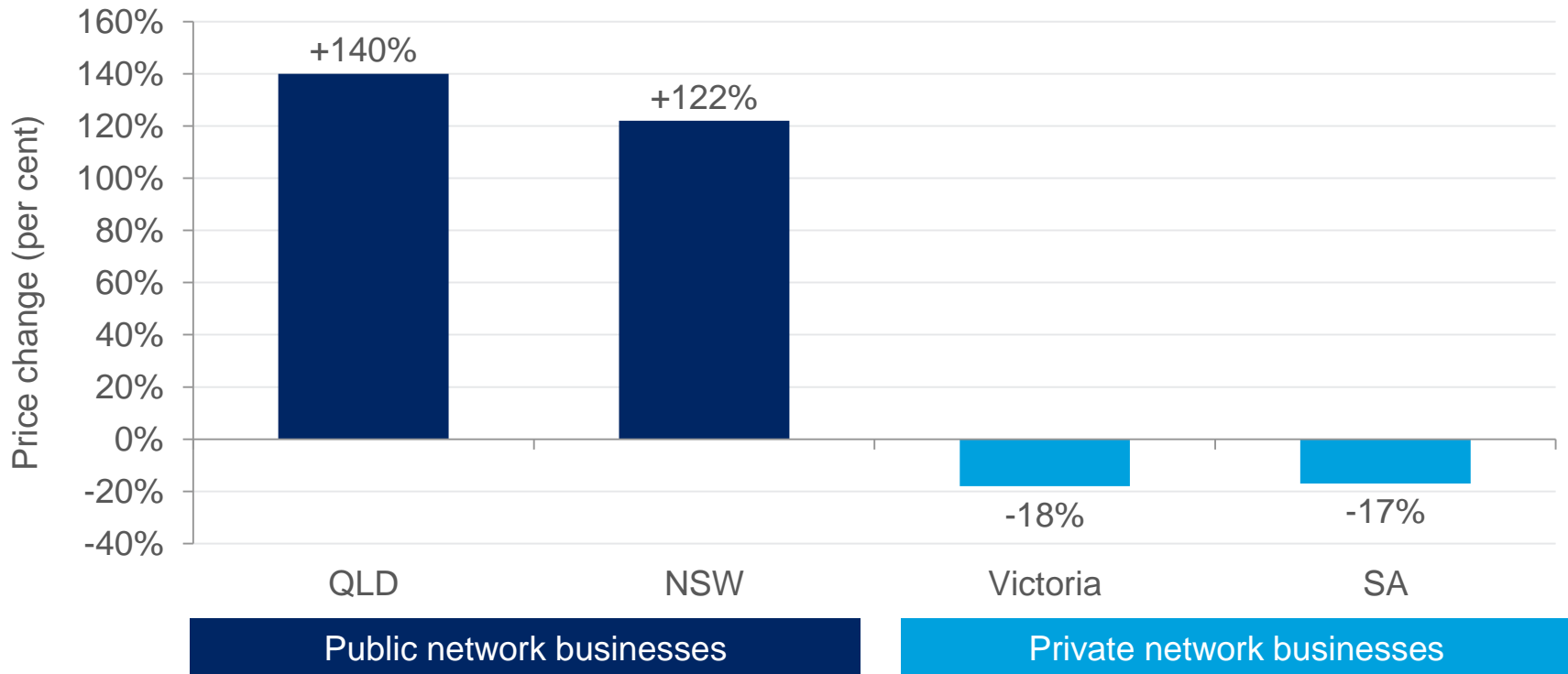
“

The evidence appears to suggest that state-owned enterprises are less efficient than their private sector peers. The best remedy is privatisation.

The Productivity Commission, *Electricity Network Regulatory Frameworks*
Inquiry Report No. 62, 9 April 2013, page 263”

Privately owned networks have delivered lower network prices

Change in long term average annual electricity network prices⁽¹⁾



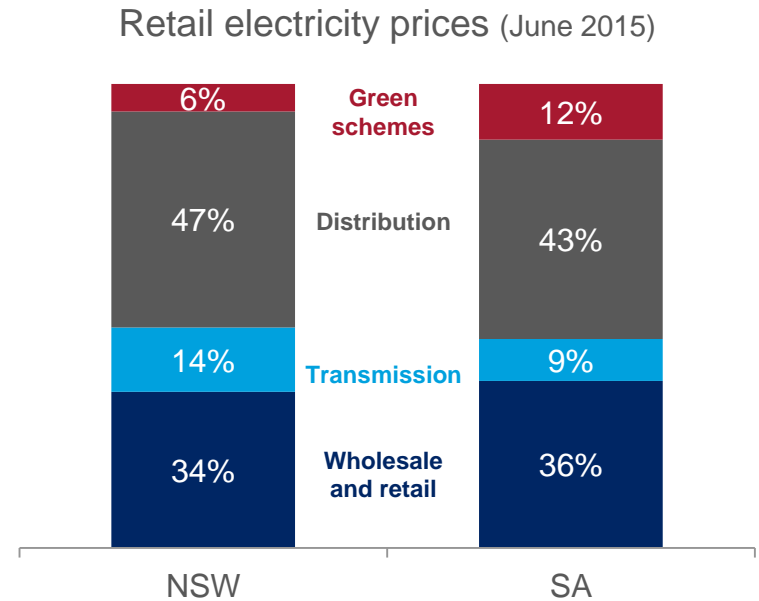
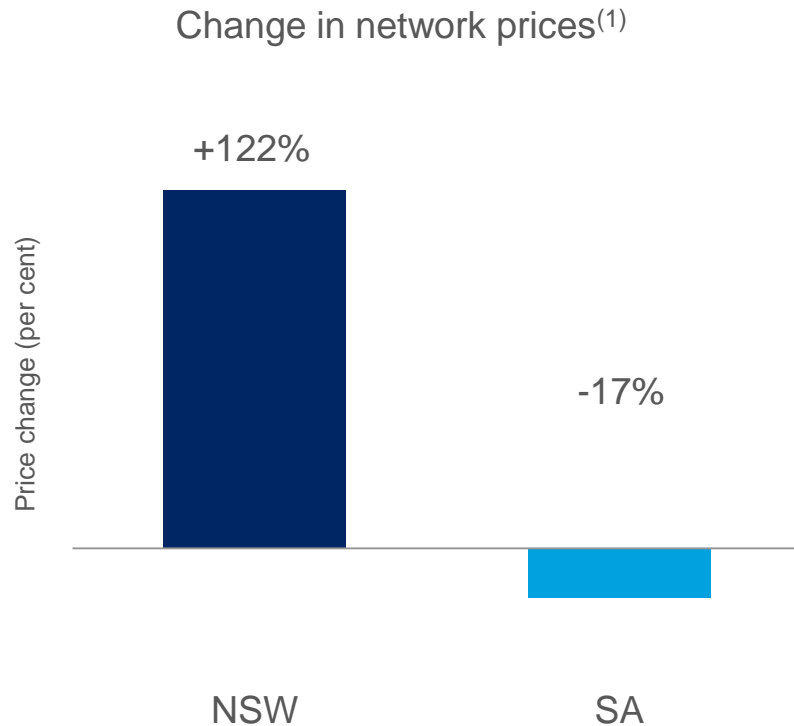
Source: Ernst & Young, Electricity Network Services: Long-Term Trends in Prices and Costs, 2014, page 6

Note:

(1) Over period 1996-97 to 2012-2013 for QLD, NSW; 1996 to 2013 for VIC; and 1998/99 to 2010/11 for SA

SA network charges

Network charges in SA have barely changed since privatisation



Source: Houston Kemp analysis based on AER, AEMC and Ernst & Young (Electricity Network Services: Long-Term Trends in Prices and Costs, 2014)

(1) Over period 1996-97 to 2012-2013 for NSW and 1998/99 to 2010/11 for SA

Role of the Price Commissioner

The Government has appointed Professor Allan Fels as Price Commissioner

- The Price Commissioner must sign off that each transaction will not put upward pressure on prices in the short, medium and long term
- If these guarantees are not met, then a transaction will not proceed
- Advice will be publicly disclosed



Professor Allan Fels AO

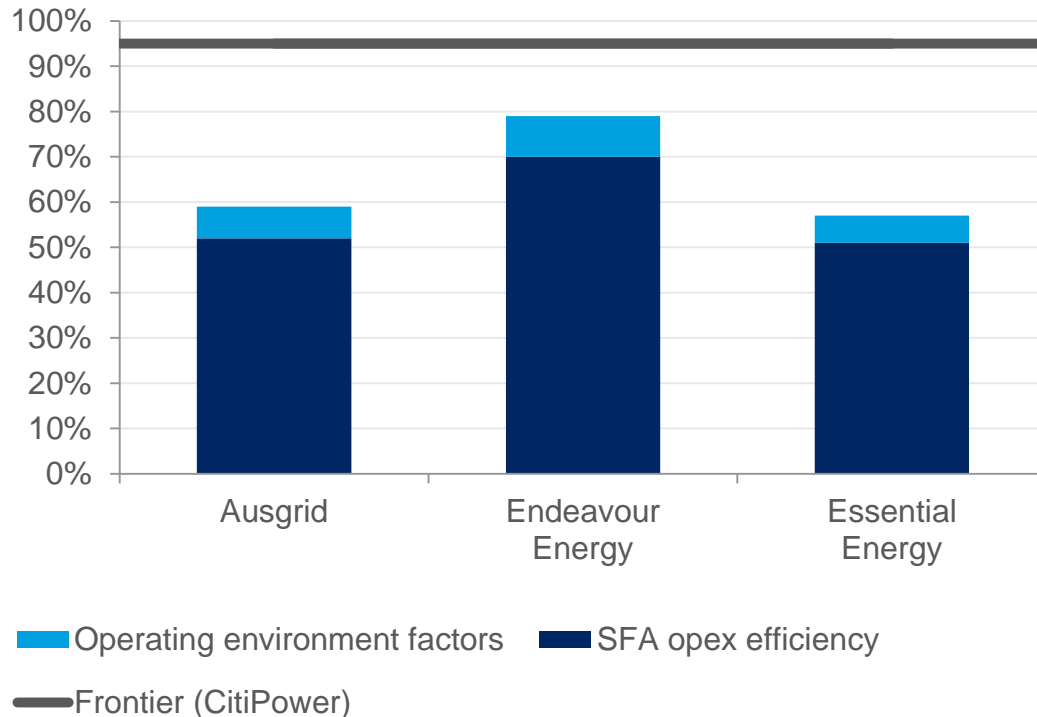
- *Former Chair of the Australian Competition and Consumer Commission*
- *PhD in Economics from Duke University*

The 2015 AER determination

The 2015 AER ruling

NSW distribution networks are inefficient: this costs consumers money

Comparison of raw SFA efficiency scores to the Frontier, adjusted for operating environment factors
(100% = most efficient)



“

... Ausgrid and Essential Energy have efficiency scores well below the frontier efficiency score of 95% using our SFA benchmark model. Endeavour Energy, even with its comparatively high score of 78%, remains almost 20% below the frontier.

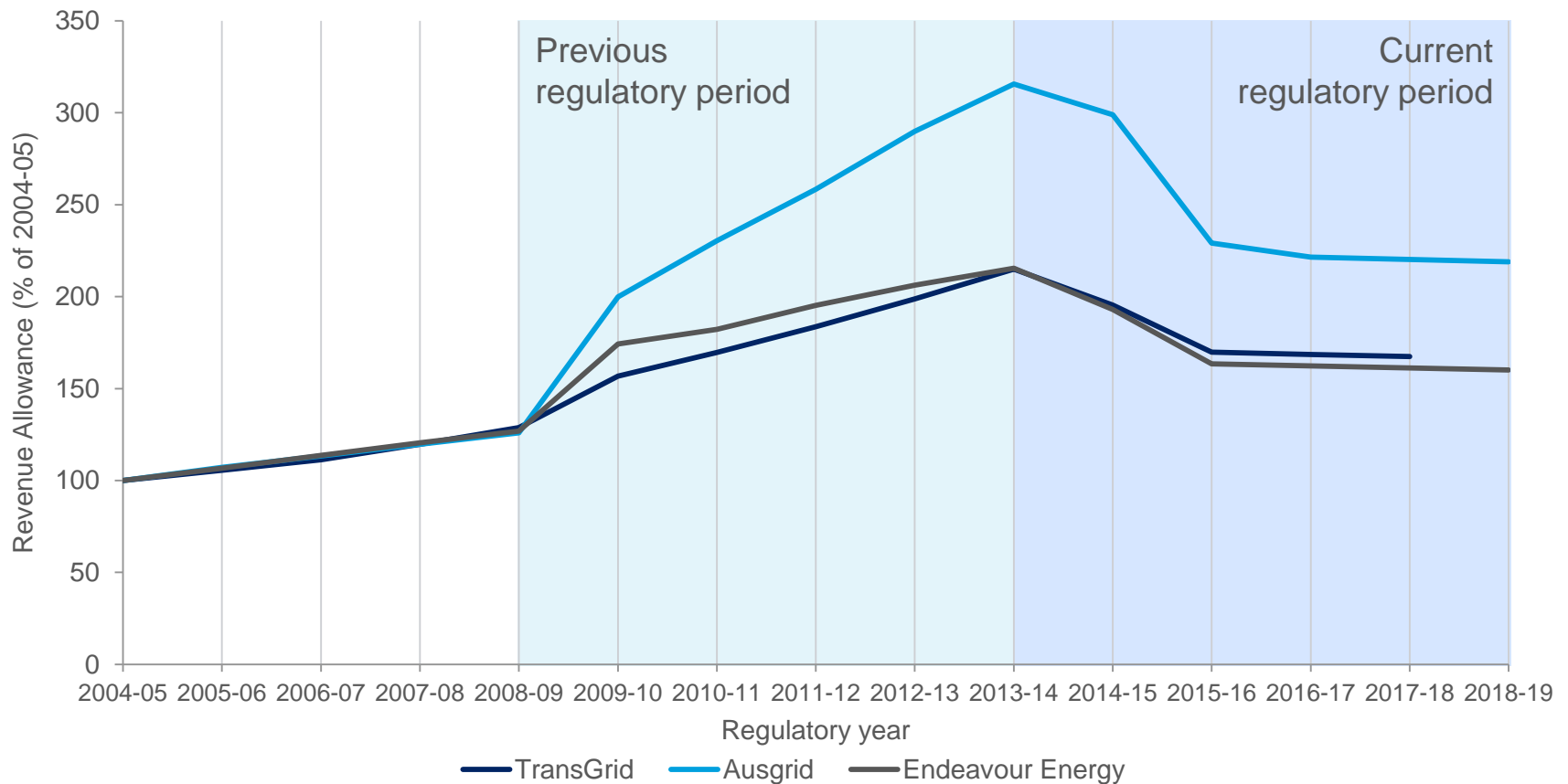
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AER final determination,
Attachment 7
April 2015

Source: AER final determination, Attachment 7 Operating expenditure

AER has reduced network revenue allowances

The AER reversed the recent trend of rising network revenue allowances in its 30 April 2015 final determination



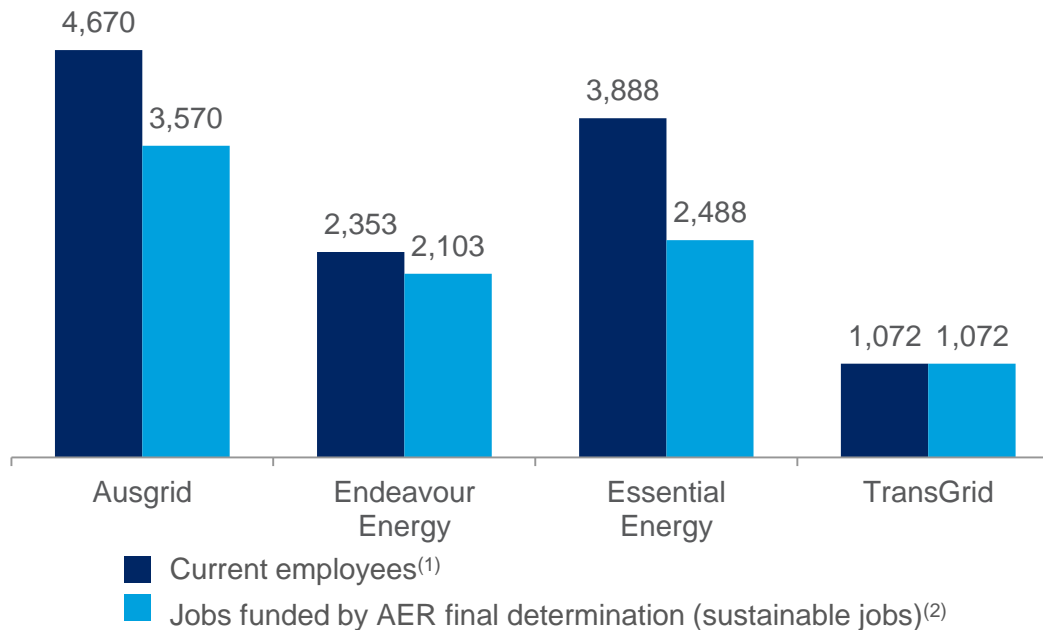
Source: AER and IPART Revenue Determinations for TransGrid, Ausgrid and Endeavour Energy 2004, 2009 and 2015 (nominal values)

Impact of AER on jobs

The AER final determination has significantly decreased funding for jobs

Networks NSW Total

Total employees 30 June 2015	10,911
Jobs funded by AER final determination	8,161
Unfunded jobs for 2015/16	2,750



“ the current high number of employees is likely being sustained by restrictive EBA provisions relating to no forced redundancies and a relatively high proportion of employees employed under EBA. ”

Deloitte Access Economics report to AER
 April 2015

(1) Ausgrid/Endeavour Energy forecast employees at 30 June 2015. TransGrid actual as at 31 March 2015
 (2) Ausgrid, Endeavour Energy and Essential Energy impact : Networks NSW press release (8 May 2015)

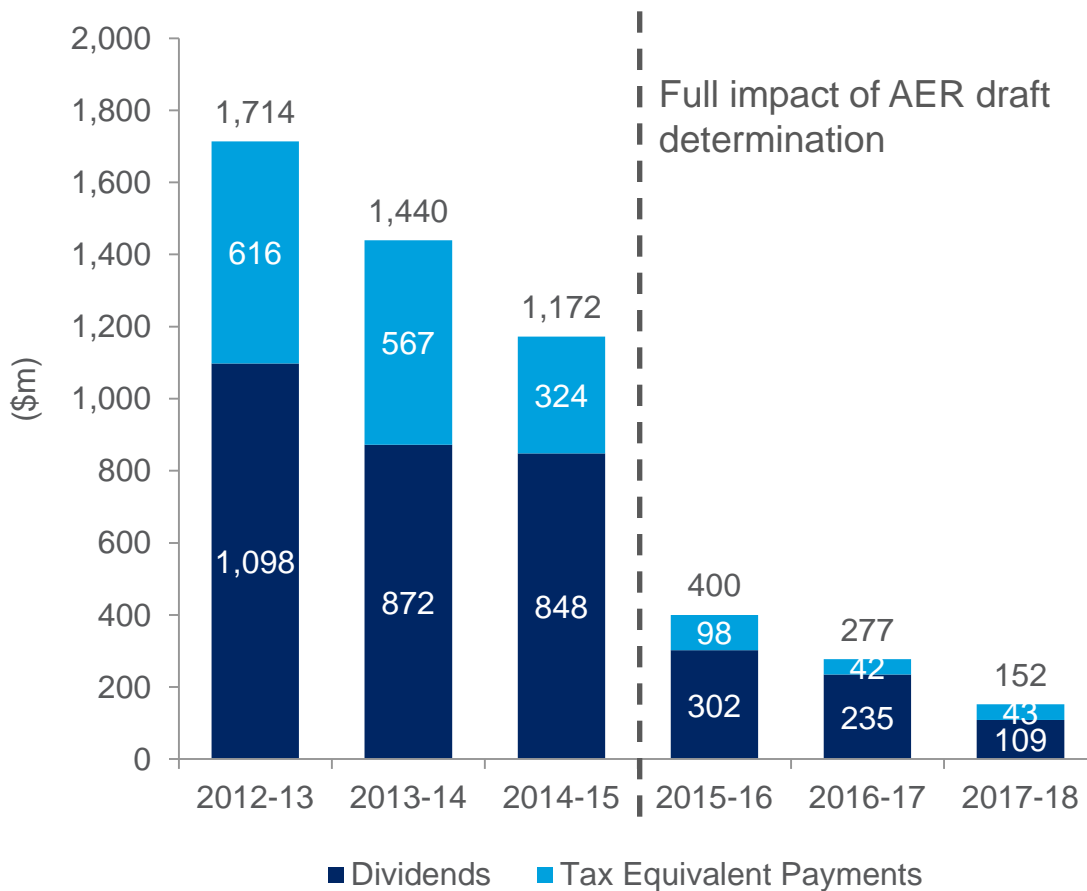
Keeping unfunded jobs would cost NSW over \$350m per annum

	Essential Energy	Endeavour Energy	Ausgrid	Networks NSW Total
Unfunded jobs	1,400	250	1,100	2,750
Networks NSW per job cost estimate (\$000)	\$130.0	\$130.0	\$130.0	\$130.0
Total per annum cost (\$ million)	\$182.0	\$32.5	\$143.0	\$357.5

Source: Networks NSW and NSW Treasury estimates

Impact of AER on distributions to the State

Distributions to the State will decrease under the AER final determination (includes Essential Energy)



- Too early to assess full impact of AER final determination
 - Final estimate to be provided in upcoming State Budget
- Distributions from DNSPs may fall to zero over the forward estimates

Source: NSW Treasury estimates prepared in conjunction with Half Yearly Review 2014-15

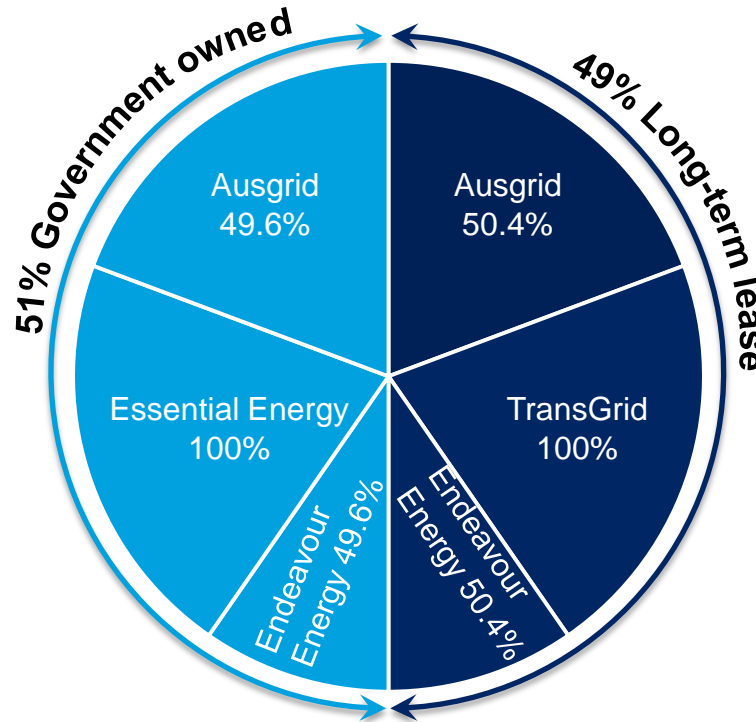
Protections under the transaction

Protections

NSW remains the owner of all assets and will only lease 49% of the network businesses

Electricity Network Lease

Retained interest in Ausgrid and Endeavour Energy held in an independent statutory corporation



State has the right to terminate the lease in defined circumstances (includes failure to operate or maintain the network)

Protections

Consumer protections for reliability and safety will be strengthened

Range of consumer protections continue to apply with some expanded

- State retains **ownership** of assets
- State's retained interests in Ausgrid and Endeavour Energy held in an **independent statutory corporation**
- Businesses required to provide **price guarantee** – total network prices will be lower in 2019 than 2014
- Remain subject to continued **price regulation by the AER**
- **Reliability standards** – legislated obligations regarding safety and reliability
- **Licence requirements** – include substantial operational presence in Australia and conditions to manage business continuity, reliability, network performance and safety
- **NEM requirements** – registered with AEMO and comply with National Law and Regulation
- Improved **planning and environment** regulation
- **National Energy Customer Framework** (administered by AER) continues to apply: includes guaranteed access to electricity

Enforced by

- Electricity Price Commissioner – confirm no upward pressure on prices
- Independent Safety and Reliability Regulator (IPART) – will ensure compliance with licence conditions and safety and reliability standards
- “Step in rights” for Energy Minister
- Stronger enforcement powers for Energy Minister
- Tougher penalties
- Lease terms provide certain rights to the State

Safety and reliability

Reliability performance at privately owned businesses is comparable to publicly owned businesses, and the NSW transaction will not weaken any regulatory requirements

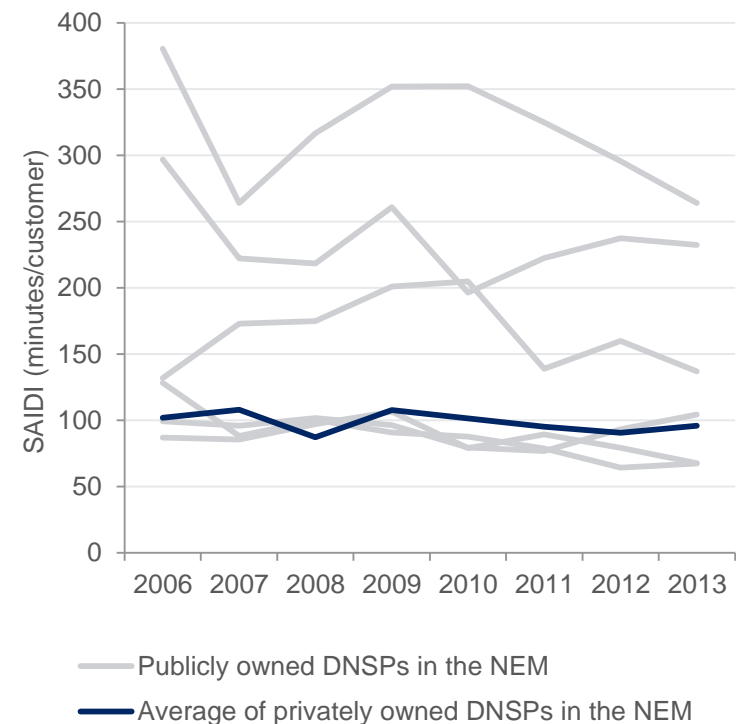
Under public ownership

- Legislated obligations regarding the safety and reliability of the networks
- Regulatory framework includes incentives to improve their level of service over time, as well as penalties if service deteriorates

Under the proposed lease

- No change
- No change

Performance of distribution businesses in the NEM



Source: Houston Kemp 2014, *Electricity Network Services: long term trends in prices and costs* (Figure 7)

How we protect employees

Employee terms and conditions are not affected by the proposed leases

Under public ownership

Enterprise Agreements

- Provide the terms and conditions for employees
- Overseen by Fair Work Australia
- Pre-existing EA rolls forward until re-negotiated:
 - Ausgrid and Endeavour Energy expired – December 2014
 - TransGrid expires in December 2016

Superannuation entitlements

Other entitlements

Under the proposed lease

- No change
- No change
- No change

Summary

- Only Rebuilding NSW can release \$20 billion for crucial infrastructure
- Rebuilding NSW will grow the economy, increase jobs and state revenues
- Privately operated networks have meant lower prices for consumers
- The Government will put in comprehensive protections for consumers, safety and reliability under this transaction