

Supplementary  
Submission  
No 12a

## INQUIRY INTO LEASING OF ELECTRICITY INFRASTRUCTURE

**Organisation:** On-Market BookBuilds

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The Director  
Select Committee on the leasing of electricity infrastructure  
Parliament House  
Macquarie Street  
Sydney NSW 2000

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Dear Committee Members

Thank you for your time and questions at the hearing. This letter sets out some additional information that we thought may be useful in light of the questions raised during the hearing.

A hybrid that obtains both the benefits of an IPO using the ASX BookBuild facility (ie public participation and increased price contestability) and the benefit of having a significant experienced operator(s) as an investor(s) (as is seen to be the case from a trade sale) is certainly feasible. One potential scenario is where cornerstone investors in the IPO could take a significant portion of the shares, with the balance to be issued to the public. Another is where investors take a stake in the assets directly, and a listed vehicle owns the balance of the asset. Two examples of such structures are currently listed on the ASX, which show the two potential approaches:

- Ausnet is an ASX listed company that owns distribution and transmission assets in Victoria and has a market cap of \$5 billion. It owns 100% of the assets. Singapore Power owns 31.1% and the State Grid Corporation of China owns 19.9% of the shares on issue. The balance of the shares are owned by retail and institutional investors.  
(i.e. ownership by experienced operator in the corporate vehicle)
- Spark Infrastructure is a listed vehicle with 49% interests in electricity distribution businesses in Victoria and South Australia and has a market cap of \$3 billion. The remaining 51% of each of the assets is owned by Cheung Kong Infrastructure and Power Assets Holdings from Hong Kong. The shares in Sparke Infrastructure are owned by retail and institutional investors (with some significant shareholders).  
(i.e. ownership by experienced operator at the asset level)

Each of these underlying transmission and distribution businesses have the joint benefit of a broad retail & institutional investor base, as well as a the involvement of an entity with a significant stake that has experience in owning and operating large scale utility businesses.

We understand that a key issue will be gaining comfort that the State doesn't wear any additional risk by using the ASX BookBuild facility. At the hearing, we focussed on the

platform scalability and reliability (being ASX infrastructure). In addition, the ASX BookBuild facility will not add any additional 'process risk', as the following examples demonstrate.

In the case of Royal Mail, the Myners' Review reported (p24) that it was 27.6x oversubscribed at the final price (i.e. bidders bid for 27.6x the number of shares to be offered). In the case of Medibank the broker allocation alone was, according to some media reports, 8x oversubscribed (i.e. brokers asked for \$12 billion of stock, and received \$1.5 billion).

If say, in the case of an IPO, 10% of the offer was reserved for people to bid through the ASX BookBuild facility, and:

- If there were zero bids through the facility, then the stock could be allocated through the other channels; and
- If there were bids for 10% of the offer, then everyone bidding could get what they bid for; and
- If there were bids for 100% of the offer (ie 10x the amount reserved for people that bid through ASX BookBuild) then the State could choose to either: a) leave it as it is (and those offers would be scaled back to one tenth of their bids) or; b) upsize the ASX BookBuild component to take advantage of that demand.

Alternatively, the facility is designed to accept institutional bids (via its priority allocation mechanism) as well as retail bids. This would allow 100% of the offer to be processed in the facility, ensuring that price contestability is immediately reflected and maximised throughout the process.

One significant advantage to the State will be that it has more information to form a better view on the potential price it should set for/during the offer. You can see that there isn't additional risk to the State by offering a percentage of the offer via the ASX BookBuild facility.

The reality is that, if the decision on whether to use the ASX BookBuild facility is left to Treasury, we anticipate that they will, perhaps understandably, respond that 'we must take the advice of our advisers'. The investment banks do not have an interest in promoting the benefits of the ASX BookBuild facility to the State. Given this backdrop, it is unlikely that these advisers will give a complete, fair and balanced account of the facility to Treasury, and unlikely that Treasury will be in a position to make an informed decision, without the benefit of instruction from the Parliamentary Inquiry.

We would be delighted to *show* any member of this Committee or Treasury how the facility works. We can also provide the data that indicates that Australian listed companies have the second highest weighted average cost of raising new capital among developed markets. This should not be the case, given the size of our superannuation pool, and funds under management. We believe that the ASX BookBuild facility can lower the cost of raising new capital – and, as I am sure that you know, lowering the cost of capital would have a significant positive impact on job creation.

Private companies that are looking to float don't have the power of the State to say "this is the way that it must be done". So, we are faced with a very 'chicken and egg' problem, with the state wanting to see a history of large private companies using it, and large private

companies reluctant to be first. But, unlike private companies, the State has the power, and the transaction, which can pave the way without additional risk.

It is our belief that, by making a recommendation that the ASX BookBuild facility be adopted for at least a portion of the offer, the Committee can have a significant and positive influence on the process employed.

We believe that a recommendation by the Committee will show to the people of NSW the value that the Inquiry, and its participants, have brought to the parliamentary process.

If there is any further information that we can provide, please let me know.

Regards

Ben Bucknell  
CEO  
On-Market Bookbuilds