Hall, Damon

From: Hall, Damon
Sent: Tuesday, 2 December 2014 4:53 PM
To: Edghill, Duncan
Cc: Murray, PeterR; Burch, Brad
Subject: Re: Update - Contribution (Prepayment), Hedging

Hi Duncan

Look forward to seeing the paper.

I know when jurisdictions have considered this previously they have been keen to make sure the contribution is not seen as a 'prepayment'. ie that Government is not prepaying for service delivery and the performance, accounting and tax implications that may eventuate. Rather the payments are for capital/assets.

Regards
Damon

On 2 Dec 2014, at 3:32 pm, Edghill, Duncan <Duncan.Edghill@act.gov.au> wrote:

> Peter,
>
> A quick update – we seem to have landed on a preferred position here regarding a contribution (or 'prepayment' as we think it may be better characterised) and IR risk / hedging. Once we have a brief paper together, we'll get it to Treasury in the coming days for discussion.
>
> Thanks
> Duncan

Hall, Damon

From: Hall, Damon
Sent: Thursday, 8 January 2015 3:18 PM
To: Edghill, Duncan
Subject: RFP Volume 1 - Courts
Attachments: General Information & Instructions.docx; Proposal Requirements.docx

Hi Duncan

Now that the RFP for the ACT Law Courts project has been released to the two shortlisted proponents, please find attached Volume 1 Parts A & B for your information.

You and your advisors may find these of some assistance in development of the Capital Metro documents, noting Clayton Utz already have these through their involvement on the Courts.

Regards
Damon

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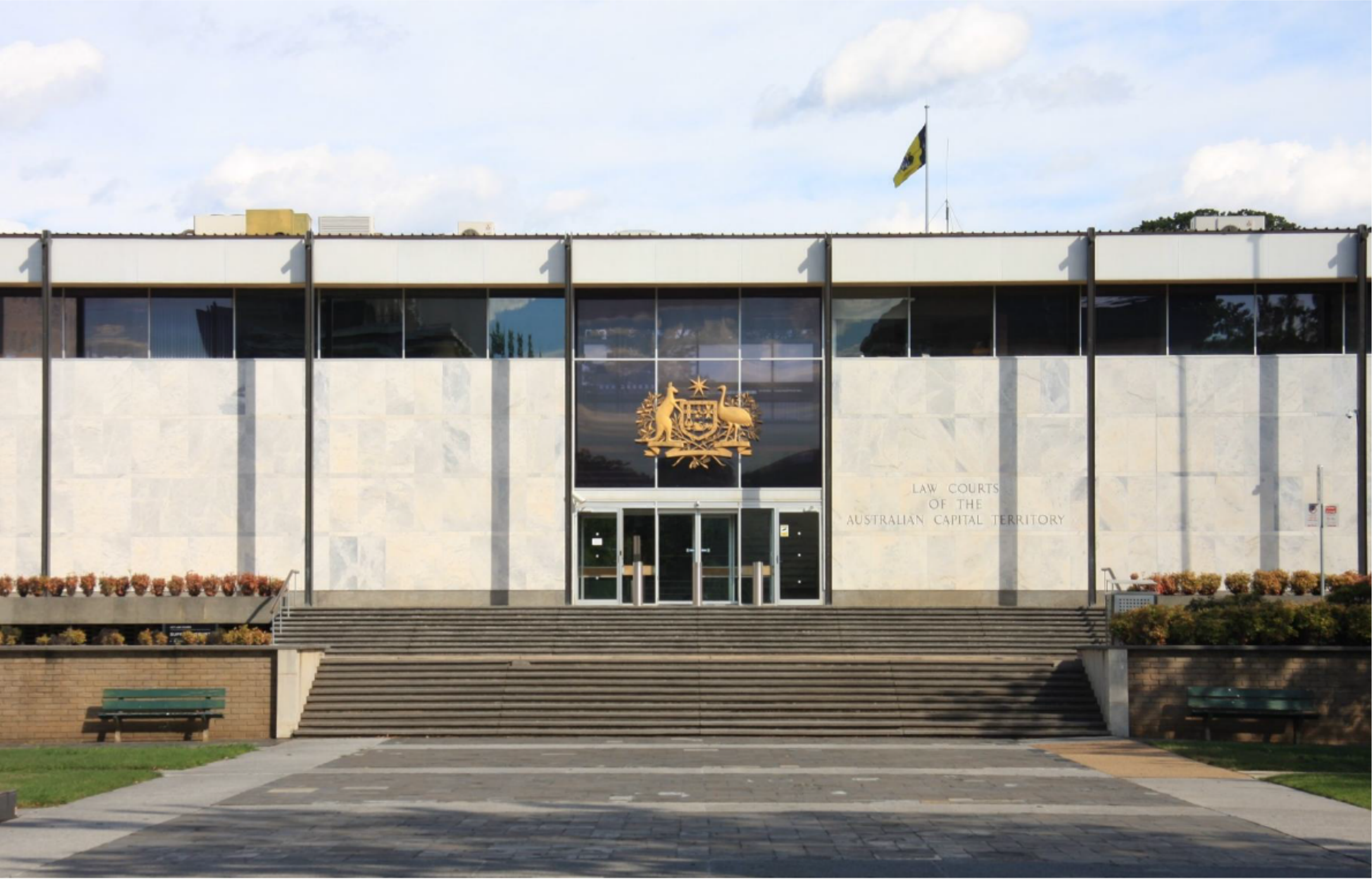
ACT Law Courts Project

Request for Proposals

ACT Government



Volume One

Project Overview and General Requirements

Part A

General Information and Instructions to Respondents

6.0 Financial and Commercial Considerations

6.1 Project Financing

6.1.1 Potential Territory Contribution

The Territory wishes to test the potential for any VFM benefits in making a Territory Contribution to the Project.

In this regard, Respondents are required to provide information relating to the option of including a Territory Contribution as detailed in Volume 1, Part B (Proposal Requirements).

If adopted, the Territory Contribution would be:

- paid to Project Co no earlier than the final Date of Commercial Acceptance; and
- no greater than 50% of the debt forecast to be outstanding at the final Date of Commercial Acceptance, as set out in the Financial Close Financial Model.

In considering the Territory Contribution option, Respondents should have regard to the following principles that will apply.

- the Territory Contribution will be provided on a non-recourse and no-responsibility basis, i.e. the Territory does not expect the Territory Contribution to be repaid but will not accept any additional risk as a result of the Territory Contribution;
- the Territory is not seeking to enforce any additional requirements for the drawdown of the Territory Contribution other than the achievement of Commercial Acceptance in accordance with the Project Agreement; and
- all of Project Co's costs during the D&C Phase (i.e. prior to the Capital Contribution) will be privately financed.

6.1.2 [redacted]

6.2.4 Other Payment Profile Considerations

No Capital Contribution

The Territory expects the capital component of the MSP to be 'flat' (potentially subject only to indexation in accordance with the requirements outlined above). For example, the Territory does not anticipate Respondents to propose 'downward sloping' MSP capital components, which facilitate the accelerated repayment of private sector capital during the Services Phase.

With Capital Contribution

The Territory's preference remains for a flat capital payment profile as outlined above. However, the Territory is willing to consider accelerated capital payment arrangements, subject to any such proposal providing a rationale of the benefits to the Territory, including quantification and evidence of financier commitment.

6.3 [redacted]

6.3.1 [redacted]

6.3.2 [redacted]

7.0 Value for Money (VFM)

7.1 [redacted]

7.2 [redacted]

7.3 Discount Rates

The National PPP Guidelines - Volume 5: Discount Rate Methodology Guidance - sets out an approach using the Capital Asset Pricing Model (CAPM) to determine the amount of the systematic risk in respect of a project.

It then uses a modification in the application of CAPM to determine an appropriate discount rate to reflect the value to the public sector of the systematic risk transferred under each

Proposal. In short, where systematic risk is transferred under a Proposal, the discount rate used for the PSC and to evaluate each competing Proposal will differ according to the systematic risk borne by each party.

The discount rates set out in Table 6 will apply to the PSC and Proposals respectively (note these rates are current as at RFP release).

Table 6: Discount Rates

Payment Stream	Discount Rate	
PSC	Risk free rate	5.50%
Proposals:		
Monthly Services Payment	Proposal Evaluation Discount Rates: 1) Nominal financing structure[7] 2) CPI-linked financing structure	 7.30 % 7.00%
Territory Contribution	Proposal Evaluation Discount Rate	7.25%

The discount rates to be used for the purposes of evaluating Proposals (Proposal Evaluation Discount Rate) as indicated in the table above are indicative and may not be applicable to each Proposal. These may need to be adjusted for individual Proposals to the extent they propose different financial solutions and commercial positions/risks to those assumed by the Territory.

In addition to the assessment of systematic risk to be borne by each party, adjustments to the rates may be required depending on the level of inflation risk transferred under a Proposal.

The Territory reserves the right to make an adjustment to this rate at the time Proposals are submitted if it deems that a significant movement in the risk free rate has occurred since RFP release. Adjustments, if any, to the risk free rate at such time will be undertaken by the Territory and will be fully disclosed to Respondents.

The national Discount Rate Methodology Guidance is available at: www.infrastructureaustralia.gov.au.

7.4

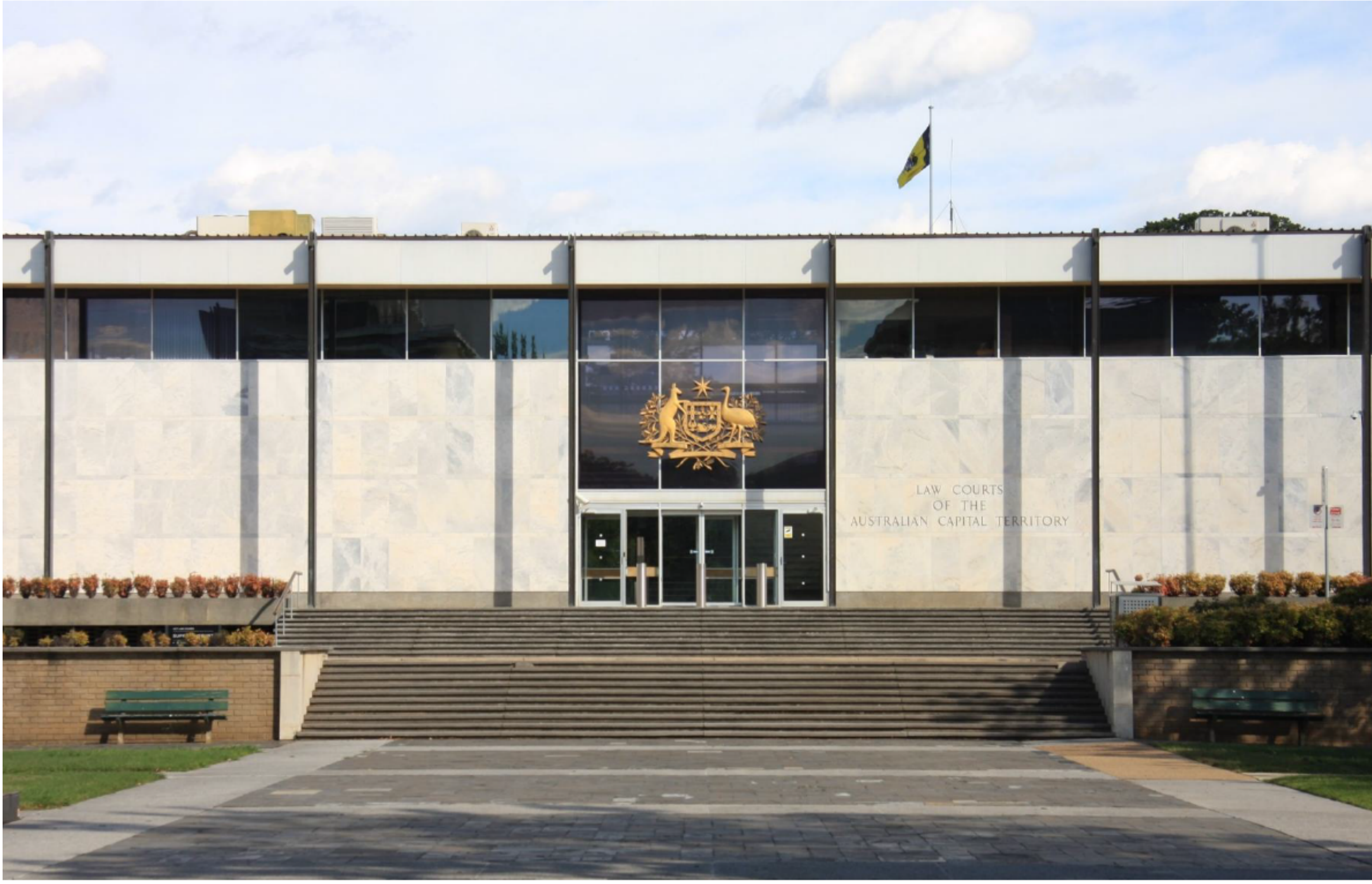
7.4.1

[redacted]

[7] This discount rate assumes that the FM and lifecycle components of the MSP will be index-linked.

ACT Law Courts Project

Request for Proposals



Volume One

Project Overview and General Requirements

Part B

Proposal Requirements

Criterion D Risk adjusted cost proposal requirements

Criterion D1 Risk-adjusted cost

The Territory will evaluate the whole-of-life, risk-adjusted cost of each Proposal by taking into account the financial and risk consequences of each Proposal in respect of the design, construction, financing, refurbishment and renovation of the Early Works (including the Temporary Facility), New Facility and Existing Facility, as applicable, and delivery of the Services.

In evaluating this criterion, the whole-of-life, risk-adjusted cost of the Proposals will be considered. In order to provide some degree of comparability between the Public Sector Comparator and Proposals from competing Respondents, a number of adjustments may be made to the Proposal.

[redacted]

Requirement D1.2 Territory contribution option

Respondents are requested to provide details outlining the estimated value for money impact on their Proposal if a Territory Contribution is included in the transaction in accordance with the parameters set out at Section 6.1.1 of *Volume 1 Part A (General Information and Instructions to Respondents)*.

This should include:

- an alternative Financial Model (either as a separate model or as a scenario switch (or equivalent) in the base case Financial Model submitted under Proposal Requirement B3.1) that demonstrates (at a minimum):
  - the estimated NPC of Monthly Service Payments; and

- details of any assumed changes in debt / equity pricing, gearing and refinancing assumptions and any other potential pricing impacts;

- a description of the proposed arrangements with respect to the Territory Contribution (e.g. how this is to be structured, expecting timing, quantum, etc.), including details of any consequential implications for the Respondent's funding structure (e.g. gearing) and an explanation as to how this provides value for money to the Territory;
- the gearing ratio and IRR to date immediately following payment of the Territory Contribution and any associated refinancing / regearing or release of reserves or contingencies or other support;
- the financial robustness of the capital structure and performance incentives particularly after the payment of the Territory Contribution; and
- the tax treatment of the Territory Contribution.

[redacted]