

<b>To</b>	Michael Black – Port of Melbourne
<b>From</b>	Brendan Quach, Johnathan Wongsosaputro
<b>Subject</b>	Port of Melbourne 2024/25 cost of debt update
<b>Date</b>	15 April 2025

## 1. Port of Melbourne 2025/26 cost of debt update

We have previously prepared a report for Herbert Smith Freehills dated 15 May 2023, which sets out our independent estimate of the 2023/24 weighted average cost of capital (**WACC**) for Port of Melbourne (**PoM**) using data up to 31 March 2023, consistent with clause 4.3 of the Pricing Order made under section 49A of the *Port Management Act 1995* (Vic).<sup>1</sup>

In its 2023/24 tariff compliance statement (**TCS**), PoM draws on the advice from our report to state that its approach for the next regulatory period will involve:<sup>2</sup>

- annually updating its estimate of the cost of debt and applying a true-up in the next regulatory period for annual differences in the cost of debt from the previous period; and
- continuing to use the current averaging period, ie, 20 trading days to 31 March of each year, consistent with clause 27(b)(iii) of its undertaking to the Essential Services Commission Minister (the Undertaking).<sup>3</sup>

We have also used methods consistent with the Pricing Order, the Undertaking, and our report dated 15 May 2023 to calculate an updated 2024/25 cost of debt estimate using data up to 31 March 2024,<sup>4</sup> which Port of Melbourne draws on for its 2024/25 TCS.<sup>5</sup>

In this memorandum we take the method that we have used to calculate the 2024/25 cost of debt estimate, and use it to calculate an updated 2025/26 cost of debt estimate using data up to 31 March 2025.

We calculate a benchmark BBB prevailing cost of debt of 5.73 per cent as at 31 March 2025, excluding 10 basis points of debt raising costs. This translates to a trailing average cost of debt of **4.97 per cent**, consisting of:<sup>6</sup>

- debt raising costs: 10 basis points; and
- trailing average cost of debt excluding debt raising costs: 4.87 per cent;
  - > 2017/18 prevailing cost of debt (20 per cent weight): 5.35 per cent;
  - > 2018/19 prevailing cost of debt (10 per cent weight): 4.48 per cent;
  - > 2019/20 prevailing cost of debt (10 per cent weight): 4.11 per cent;
  - > 2020/21 prevailing cost of debt (10 per cent weight): 3.32 per cent;
  - > 2021/22 prevailing cost of debt (10 per cent weight): 3.02 per cent;

<sup>1</sup> HoustonKemp, *Estimation of the weighted average cost of capital and forecast inflation for the Port of Melbourne*, 15 May 2023, p 1.

<sup>2</sup> Port of Melbourne, *2023-24 Tariff Compliance Statement*, General statement, 31 May 2023, pp 92-93.

<sup>3</sup> Port of Melbourne, *Undertaking to the Essential Services Commission Minister*, April 2022.

<sup>4</sup> HoustonKemp, *Port of Melbourne 2023/24 cost of debt update*, Memorandum, 30 April 2024.

<sup>5</sup> Port of Melbourne, *2024-25 Tariff Compliance Statement*, General statement, 31 May 2024, p 34.

<sup>6</sup> HoustonKemp, *Estimation of the weighted average cost of capital and forecast inflation for the Port of Melbourne*, 15 May 2023, p 30.

- > 2022/23 prevailing cost of debt (10 per cent weight): 5.08 per cent;
- > 2023/24 prevailing cost of debt (10 per cent weight): 6.43 per cent;
- > 2024/25 prevailing cost of debt (10 per cent weight): 5.82 per cent; and
- > 2025/26 prevailing cost of debt (10 per cent weight): 5.73 per cent.

This 4.97 per cent cost of debt estimate for 2024/25 is:

- nine basis points higher than our 4.88 per cent estimate for 2023/24; and
- four basis points higher than our 4.93 per cent estimate for 2024/25.

## A1. Cost of debt methodology

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We have used the same cost of debt methodology set out in our memorandum dated 30 April 2024.

Specifically, we calculate the BBB prevailing cost of debt estimate as at 31 March 2025 as the average of estimates from:<sup>7</sup>

- Bloomberg's AUD Australian corporate broad BBB yield curve (BVCSAB10 Index); and
- the RBA's yield curve for non-financial corporate BBB rated bonds.

We annualise the Bloomberg BBB yield series and the RBA BBB yield series before taking the average as our cost of debt estimate as at 31 March 2025.

Consistent with our memorandum dated 30 April 2024, we calculate the prevailing 10-year BBB RBA cost of debt yields as at 31 March 2024 by:<sup>8</sup>

1. calculating month-end seven- and 10-year RBA BBB spread to swap estimates by taking the seven- and 10-year BBB yields published in RBA table F3 and deducting the month-end seven- and 10-year swap rates from Bloomberg;<sup>9</sup>
2. linearly extrapolating the seven- and 10-year RBA BBB spread to swap estimates from step (1) to obtain month-end ten-year BBB yields with a ten-year effective tenor; and
3. linearly interpolating the month-end 10-year BBB spread to Commonwealth Government Securities (CGS) to obtain a daily BBB yield series.

This approach continues to be consistent with clause 27(b)(iv)(1)-(2) of the Undertaking, which requires PoM to calculate the on-the-day cost of debt as the average annualised yield on benchmark debt from:

- RBA published estimates of the Australian corporate debt yield; and
- Bloomberg AUD BVAL curve.

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<sup>7</sup> HoustonKemp, *Estimation of the weighted average cost of capital and forecast inflation for the Port of Melbourne*, 15 May 2023, pp 29-30. HoustonKemp, *Port of Melbourne 2023/24 cost of debt update*, Memorandum, 30 April 2024, p 2.

<sup>8</sup> HoustonKemp, *Port of Melbourne 2023/24 cost of debt update*, Memorandum, 30 April 2024, p 2.

<sup>9</sup> Our previous memorandum dated 30 April 2024 erroneously cited RBA table F16. The RBA's BBB cost of debt yields is published by RBA in statistical table F3. See: RBA, *Aggregate measures of Australian corporate bond yields – F3*, Spreadsheet.