Brookfield Infrastructure Partners L.P.

2011 Second Quarter Call & Webcast

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Speakers:

Sam Pollock,
Chief Executive Officer

John Stinebaugh
Chief Financial Officer

Tracey Wise
Vice President Investor Relations and Communications

Operator:
At this time I would like to turn the conference over to Tracey Wise, Vice President, Investor Relations and Communications. Please go ahead, Ms.Wise.

Tracey Wise:
Thank you, Operator, and good morning. Thank you all for joining us for Brookfield Infrastructure Partners Second Quarter 2011 Earnings Conference Call.

On the call today is Chief Executive Officer Sam Pollock, who will discuss highlights for the quarter, provide comments on our strategy, and the outlook for our business. Also joining today is John Stinebaugh, our Chief Financial Officer, who will review our financial results. Following their remarks we look forward to taking your questions and comments.

At this time I would like to remind you that in responding to questions and in talking about our growth initiatives and our financial and operating performance we may make forward-looking statements. These statements are subject to known and unknown risks and future results may differ materially. For further information on known risk factors, I would encourage you to review our Annual Report on Form 20-F which is available on our website.

With that I would like to turn the call over to Sam Pollock.

Sam Pollock:
Thank you, Tracey. Good morning, everyone, and thank you for joining us for our second-quarter call. This quarter we sustained the momentum that we established in the beginning of the year, enabling us to post another strong quarterly performance. We generated funds from operation of $102 million, driven by strong performances from most of our businesses, especially our timber operations.

With the signing of the Karara Mining Limited commercial track access agreement we achieved a significant milestone as well. Our Australian railroad has now finalized three of the six expansion contracts that underpin our future growth. Of the remaining three customers, we reached agreement on all major terms with them and we expect to sign definitive agreements during the third or fourth quarters.

Once fully operational these contracts will pave the way for an increase in our EBITDA of approximately $150 million per year backed by take-or-pay provisions.

Two years ago we established a policy of annually reviewing our distribution level at the February meeting of our Board of Directors. With our strong performance during the first half of the year, our payout ratio currently stands at 49% of FFO compared to our targeted range of 60% to 70%. As a result, while we don't expect to do this regularly, we felt it was appropriate to review our distribution rate mid-year.

In that regard, we are pleased to announce that our Board of Directors has approved a 13% increase in our distribution to $0.35 per quarter, beginning with the distribution on September 30th. Based on our FFO for the first half of the year, this increases our payout ratio to 55%. We intend to review our distribution rate again in the first quarter of 2012 in the normal course and will continue to target distribution that will result in a payout ratio of 60% to 70%.

With that let me turn it over to John to review our results in more detail.

John Stinebaugh:
Thanks, Sam. Now I would like to spend a few minutes walking through our results. In my remarks I will focus on proportionate FFO. We highlight this metric because we believe it's a proxy for cash flow from our operations.

I will also focus on AFFO yield which is equal to FFO less maintenance capital expenditures divided by investment capital. This is a measure of how effectively we deploy our capital.

In the second quarter we posted FFO of $102 million or $0.65 per unit, compared with $52 million or $0.49 per unit in the second quarter 2010. This 33% increase in our FFO per unit was largely attributable to accretion from our merger with Prime.

Our results also reflected another strong performance from our Utilities and Timber segments, which offset some weakness in our Transport and Energy businesses. After deducting maintenance capital expenditures, our AFFO yield was 11% on invested capital of $2.9 billion.

In our Utility segment, we generated FFO of $66 million versus $32 million in the prior-year period. In addition to the benefit from the Prime merger, this segment's performance increased significantly due to the rate reset at our Australian coal terminal and strong results from our U.K. connections business.

During the quarter, the capacity factor of our Australian coal terminal increased to 65% as mines in the Bowen Basin continued to recover from floods in the beginning of the year. However, our performance was not affected due to take-or-pay provisions in our contracts.

While developer contributions in our U.K. connections business were higher than the prior year, contributions of $9 million in the quarter were lower than the exceptionally high level achieved in the first quarter. Once again, our Utilities segment generated strong returns with an AFFO yield of 15% for the quarter.

In our Transport and Energy segment, we recorded FFO of $39 million compared with $26 million in the second quarter of 2010. Aside from the favorable impact of the Prime merger, our results reflected a higher contribution from our U.K. port operations offset by weak results in our North American gas transmission business and our Australian railroad.

Going forward, we believe the impact of the drought in Western Australia on our railroad is largely behind us. As of the second quarter, the rate settlement with FERC and the softness in the natural gas market were largely factored into the results of our North American gas transmission business. Over time we expect the profitability of this business to recover as industry fundamentals improve.

Despite lower maintenance capital expenditures, the AFFO yield for our transport and energy segment was 8% for the quarter. Our AFFO yield was also impacted by investments in growth projects in our Australian railroad and our U.K. port operation, which have yet to generate cash flow.
Following its acquisition of the Corus steel slab facility at Teesside we anticipate that the new owner, Thai steel producer SSI, will commence steel slab production in the first quarter of 2012. To accommodate this schedule, SSI will need to begin importing raw materials towards the end of 2011. Our U.K. port will generate conservancy and bulk handling revenue from both the import of raw materials and the export of steel slab.

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In order to increase handling capacity for SSI, we are exploring dredging the berths at our port to accommodate larger vessels. Our U.K port is also evaluating several more projects with customers which could lead to further accretive capital investments to add to our backlog.

Our Timber business posted another strong quarter with FFO of $13 million compared with $6 million in the prior year. Performance was driven by continued strength in the export market, which forced the domestic market to compete on price. During the quarter, exports accounted for 53% of our sales volume and the Chinese market was responsible for 48% of export volume.

On average, realized log prices increased by 19% compared with the second quarter of 2010 and we increased our harvest by 32%. For the quarter, our Timber business generated an AFFO yield of 10%.

On the Treasury front, following the successful refinancing of our Australian coal terminal in the U.S. private placement market. We tapped into this market again to refinance NZD245 million of debt at our New Zealand utility. The offering of nine-year, 12-year, and 15-year bonds was substantially over subscribed enabling us to negotiate favorable terms.

We concurrently swapped the bonds into New Zealand dollars on a matched maturity basis resulting in local market interest rates from 8.7% to 8.8% for the three tranches. Furthermore, we continued to take advantage of low interest rate environment by entering into forward contracts to lock in interest rates for approximately 40% of our proportionate share of U.S. dollar debt maturing over the next 18 months.

After quarter end we launched a program to hedge FFO exposed to foreign currency fluctuations. Under this program we entered into a series of forward currency contracts that mature over the next four quarters with a notional amount equal to approximately 70% of the FFO from our operations outside of the United States.

Our objective is to roll over these contracts so that we will always have 12 months of FFO hedged from a currency perspective. This strategy will reduce the near-term volatility of our results and should provide even greater assurance as to our ability to pay our distribution.

Now I will turn the call back over to Sam to walk through our growth initiatives and outlook.

Sam Pollock:
Thank you, John. Now I would like to provide an update on the growth initiatives and in particular provide more details on the developments at our Australian rail operations where we have made significant progress advancing the growth initiatives this quarter.

As we stated previously, the growth plans comprise of six customer-initiated projects, which we anticipate will account for 24 million tons per annum of additional volume on our railroad by the end of 2014. We expect to generate very attractive returns on this incremental capital, reflecting the significant historical investment that has been made on our system.

Prior to this quarter we signed long-term commercial track access agreements with two of our customers. Our main focus for this past quarter was to advance negotiations with the remaining four customers. In that regard, we recently signed a third commercial track access agreement with our

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largest customer, KML. This 15-year contract is subject to a financing addition in our favor, which we expect to satisfy within 60 days.

We have also agreed to all major commercial terms with our other customers for the remaining three projects, and we expect to finalize documentation of these commercial track access agreements during the third or fourth quarters.

Once all the commercial track access agreements have been executed, the cash flow profile of our railroad will be fundamentally transformed. Approximately 90% of new volumes under the commercial track access agreements are subject to take-or-pay provisions and revenues are indexed to inflation.

Looking at our railroad business as a whole, we will then have approximately 60% of our revenue covered by minimum take-or-pay arrangements versus 0% when we acquired the business back in 2009. The next three years, as these projects achieve commercial operation, our minimum take-or-pay revenues will total approximately $65 million in 2012 increasing to approximately $160 million in 2013 and a further $10 million to $170 million in 2014.

Due to the operating leverage of our business, we expect that the minimum take-or-pay revenues will generate approximately AUD150 million of incremental EBITDA by 2014. To the extent that volumes exceed minimum take-or-pay levels, we will generate incremental EBITDA above that.

Furthermore, with the signing of the KML contract, we have now fully contracted approximately 75% of our projected incremental revenues. The remaining capital costs for this expansion and network upgrade program is forecast to be approximately AUD500 million over the next two years. To finance this program we are in the process of increasing the size of the capital expenditure debt facility in our railroad operation to approximately AUD430 million, providing a further AUD400 million of nonrecourse debt capacity.

The balance of the capital required for expansion of projects will be funded from our corporate line of credit. In order to mitigate our capital risk, we have also obtained security from our customers in the form of letters of credit for early termination of our contracts. Of our total capital commitments, we expect to receive letters of credit supporting approximately 50%.

While we are excited that all these growth initiatives are nearing the commercial stage, we remain focused on ensuring that we deliver the associated upgrades to our system on time and on budget. We are confident that we will be able to do so as these projects are very similar in scope to upgrades we have successfully executed many times in the past, albeit on a larger scale and in a tighter time frame.

Now, I would like to briefly review some of the other growth initiatives we have going on at Brookfield Infrastructure.

In our Utilities segment our capital backlog as of quarter end stands at $366 million, split relatively evenly between our transmission business and our other businesses. During the quarter, we signed the EPC contract to build our Texas transmission project and after quarter end we have closed the construction financing for this project with a syndicate of lenders.

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We are now actively acquiring the rights of way for the land to build the transmission towers and we anticipate commercial operation of the project in the beginning of 2013. Our share of this investment is approximately $80 million.

In our U.K. port operations, phase one of our continued terminal expansion is progressing on time and on budget. We anticipate the $27 million project will be completed by the fourth quarter, at which point the container terminal capacity will increase from about 235,000 TEUs to 360,000 TEUs.

In conclusion, we believe our diversified operations are well positioned to navigate through the current uncertainties in the global economy. In the third quarter we do expect some softening in our results, primarily related to the modest decline in log prices.

Demand for logs in the export market, including China, should ease due to high levels of inventories at ports as well as normal seasonal factors. However, we believe that this is a temporary dynamic and prices should firm up in the fourth quarter.

As we look forward, we are continuing to work hard to develop opportunities to invest capital in our existing businesses. In addition to the six projects that comprise our Australian railroad's growth program, two of our customers are already examining significant expansions totaling approximately 12 million tons. And there are a number of other adjacent mining projects in the prefeasibility stages that could drive additional volumes if commodity prices remain favorable in the medium term.

Furthermore, we continue to advance the commercial frameworks for the expansion of our Australian coal facility at Dungeon Point and to progress several initiatives at our UK and European ports.

During the first six months of the year we saw a significant increase in transaction activity, driven in part by substantial excess liquidity in the financial systems. As a result of historically low interest rates and highly leveraged structures, valuations for contracted and utility type assets were aggressive.

Recently, the European debt crisis and the deadlock in the US regarding a deficit reduction package have dampened global credit markets somewhat. In this environment we have been exploring opportunities to invest in assets on a value basis and remain optimistic that we can progress several of the initiatives we are working on to completion over the next several quarters. Our focus remains on pursuing transactions with sellers on negotiated deals, particularly sellers in countries with access to capital that is limited.

With that, operator, we had finished our prepared remarks and I would like to turn the call back over to you to open the line for questions.

Operator:
The first question comes from Linda Ezergailis with TD Securities. Please proceed.

Linda Ezergailis:
Thank you. Congratulations on a strong quarter. I have a question with respect to your U.K. distribution business.

I am wondering what the size of developer contributions was in the second quarter and what a run rate might be going forward. I was a little bit more under the impression previously that some of the contributions in Q1 were somewhat one-time in nature.

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John Stinebaugh:
Linda; it's John. Regarding the U.K. connections business, for the second quarter the developer contributions were $9 million. That is down versus the first quarter which, if I remember, was probably about $14 million. We think the level in the second quarter is a pretty good run rate on a going-forward basis, given the size of the business at this point in time.

Linda Ezergailis:
Okay. Any seasonality?

John Stinebaugh:
It will fluctuate a bit depending on construction of housing, so we don't have perfect visibility in terms of the level. So there might be some seasonality, but we think that the level this quarter is a pretty good run rate.

Linda Ezergailis:
Okay, thank you. And just a follow-up question on your Australian rail. My sense is -- is it correct to assume that you have enough contractual support now to proceed with your expansion, even if for some unforeseen reason you didn't finalize the balance of the customer contracts by the end of the year?

Sam Pollock:
Hi, Linda, it's Sam. I guess the short answer is yes. A number of these projects are not interrelated; they are expansions that are positioned at various points within our network.

A large part of the capital, and obviously the associated revenues, are with the first three projects and so they will proceed. The balance of the projects, I think given that we have essentially signed term sheets with them and they are very advanced in their own expansion plans, they are highly confident that they will proceed as well.

Linda Ezergailis:
Okay, that is helpful context. Now in terms of your financing, when might you put in permanent financing for that expansion? I appreciate that you have got a debt facility increase, but when might you put in the actual permanent financing and what might the structure be in terms of the debt or equity?

Sam Pollock:
Maybe I will start on that and John can add to it as well just in relation to our broader financing strategy.

At this stage what we are looking to do is to upsize, for all intents and purposes, our existing CapEx facility that matures along with the term debt at WestNet Rail, or what we are going to call Brookfield Rail in 2014. So, in essence, it will be a three-year facility. I think our strategy at this stage will probably be to refinance that facility, quite possibly in a U.S. private placement market, once at least one or two of the major projects have come online.

Then we may do a phase-in program as far as refinancing that facility. So it may not be done all in one shot, but it may be done in two or three tranches.

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Linda Ezergailis:
So, it would be 100% permanently debt financed?

Sam Pollock:
When you say 100%, do you mean taking out all the capital we put in or are you -- I didn't quite understand the context.

Linda Ezergailis:
Well, your debt facility, when you term that out will it be termed out 100% with debt or will there be an equity infusion?

Sam Pollock:
Well, as part of this process we will be drawing on our corporate line of credit to make up the difference between the capital needs spend versus the amount that we are obtaining on a non-recourse basis. We will obviously fully refinance the debt at the project level when it comes due in 2014.

At this stage, my expectation is that we will probably be able to up-finance that facility at that time and probably take out the capital that we inserted as equity that we drew from our corporate line.

Linda Ezergailis:
Okay. Maybe John can comment, can you comment on your overall consolidated financing plans now then?

John Stinebaugh:
Well, in terms of our financing plan, Linda, how we have looked at our expansion programs is to basically finance with non-recourse debt at the asset level. As you know, we target investment-grade metrics for those financings.

Then for the remainder we will invest either cash flow that we are generating in our business, or alternatively we are looking at sales of non-core assets for issuing new units to finance the equity contribution to the projects that we have to make. So that is generally what our plan is.

With respect to the rail expansion program, as Sam mentioned, we have got the construction facility in place that is roughly $400 million. The remainder of that we will finance through a combination of cash flow generated by our other operations, sales of non-core assets, or issuance of units.

Linda Ezergailis:
Great. Thank you very much.

Operator:
The next question comes from Brendan Maiorana with Wells Fargo. Please proceed

Brendan Maiorana:
Thanks, good morning. Just to follow up; kind of last quarter, maybe the last couple of quarters you guys have talked about potentially selling some non-core assets. Maybe you would fund your growth expectations with issuance of equity.

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Can you just kind of provide an update and a bigger picture how you are thinking about either disposing of some non-core assets or issuing equity? What your kind of bias would be today as you look out at the investment landscape?

Sam Pollock:
Maybe I will start with that and, again, John might add a few more comments. I think that the main point that we would like to pass along to you and our other investors is that we look at our portfolio on a regular basis for opportunities to recycle capital. In particular, I think as we mentioned in the past, there are businesses that we have and we probably see less growth potential with them versus other business we have within the portfolio and ones where we have minority investments.

Having said that, we think all our businesses are attractive. We are only prepared to sell assets if we think we can get the appropriate returns and values above what we think they are worth. And so, while we examine and look at our portfolio, we can't really provide guidance as to when or if we might dispose of any assets, but suffice it to say, we are always looking and considering those options.

Brendan Maiorana:
I understand that you guys can't provide -- you are not going to tell us what you are going to sell and timing, but just as you look out at what investor appetite is today there is a lot of infrastructure funds that have been raised. There is a lot of demand for investments of stabilized assets and I think you probably have some of that in your portfolio.

You have also got a lot of new investment opportunity and you look at that in the context of where your shares trade today. Is the bias more towards funding some of the growth with harvesting gains in the existing portfolio, or do you think it would be more a bias towards issuance of equity to help fund the equity portion of the growth of the Company as you look out?

John Stinebaugh:
Brendan, it's John. As Sam said, we are evaluating selling non-core assets and if we can sell those at a good price, which would imply very cost-efficient financing for us, we are definitely looking to do that. But with minority interests there are complexities associated with shareholder arrangements and things of that nature.

So we do have to work through those issues in addition to the typical other issues associated with sales processes, but we are looking at that. We compare that to what we think the cost of financing would be to the extent we issue new equity and try to optimize that from a shareholder value perspective.

Brendan Maiorana:
Okay, that is helpful. Then in terms of WestNet, some of the costs of the expansion of the network that sounds like you are probably not going to get an immediate return on, can you just give us a sense of the order of magnitude of that? And maybe put that in context of the $600 million of additional CapEx on the projects where you are going to get the $150 million of incremental EBITDA.

Like how much in addition to that $600 million was kind of spent to drive the total $150 million just to get more of a lifecycle return as opposed to the 25% incremental EBITDA return on the immediate capital that was put out for those projects?

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Sam Pollock:
I would say the order of magnitude is about $100 million that was spent on upgrades and modernization to the track that is facilitating growth, albeit not necessarily linked to these particular expansion projects.

Brendan Maiorana:
Okay. And that would be probably roughly comparable in terms of, percentage terms of the amount of improvement of the network that you are likely to do that you are not going to get immediate return on?

Sam Pollock:
Sorry, I didn't quite understand the question. I think -- what I was indicating is that $100 million is approximately the number over the last couple of years and for the next little while that we have estimated is the portion that isn't directly linked to the six projects.

Brendan Maiorana:
I am sorry, you said that there is $100 million of expansion CapEx or additional CapEx not linked to those direct projects that will be spent over the next few years or that is what had been spent over the past few years that is not included in the $600 million?

Sam Pollock:
It's a bit of both. We have spent some and there is still some left to be spent.

Brendan Maiorana:
Okay. All right, fair enough. And then just last one for me. As you look out at the dividend policy, you are now -- the dividend you are fully in kind of the promote split to BAM of the 25% to the full split.

So as you guys look at the 3% to 7% targeted increase per year, you look at all the growth projects that are in there, you look at your strategy to fund it all, do you think that 3% to 7% net to unit holders per share increase is achievable with the 25% split that will go to the manager?

John Stinebaugh:
Brendan, it's John. When we gave that guidance we appreciated that as we grew the dividend we would get into the splits and those were levels that we were comfortable putting out there, bearing in mind the splits.

Brendan Maiorana:
Okay, great. Thank you.

Operator:
The next question comes from Andrew Kuske with Credit Suisse. Please proceed.

Andrew Kuske:
Thank you, good morning. I guess a question to Sam. Just on the commentary in the letter and also in the supplemental around log volumes off the West Coast. Could you just give a bit more color on -- are you seeing a bit of a backlog in the ports on the West Coast and then also a bit of a backlog from a buying standpoint in Asia?

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Sam Pollock:
What I was referring to, Andrew, was that we are starting to see a bit of a backlog at the ports in China. I don't think we are having -- there has been, as you are probably aware, some congestion at the West Coast ports, but generally what I was referring to was, given some of the congestion we are seeing in the Chinese ports and the inventories there, that we expected probably a little bit of reduced demand in the third quarter and the corresponding reduction in log prices.

Andrew Kuske:
Okay. So it's just a little bit of a soft spot that you foresee and that is really about it just in the quarter?

Sam Pollock:
Yes, that is correct.

John Stinebaugh:
We, at this stage, feel that it should clear up and resume to normal activity in the fourth quarter.

Andrew Kuske:
And then just a bit of a bigger, broader question. The 10 years right now is at 2.6%, your stock is still yielding in the upper 4%s, you have been trying to term out some debt, and then we have also seen the U.S. dollar devalue versus a lot of other currencies around the world.
I guess sort of that is the prelude to the question, which is basically where do you foresee allocating capital? From a financing -- obviously you want to tap the private placement market in the U.S. that looks very attractive for you, but how do you think about allocating capital on a global basis when you think about potential currency devaluation and just financeability?

John Stinebaugh:
Andrew, it's John. In terms of allocation of capital, we will look at the best risk-adjusted returns irrespective of jurisdictions. In terms of how we think about the exchange rates, the dollar clearly is at the very low level to other currencies.

So, as we underwrite returns that we are looking to get we will factor in some sort of normalization of the U.S. dollar over time into our underwriting and the expected returns we are looking to get.

Andrew Kuske:
So would that imply that you would actually want to look to allocate capital in the U.S. at this point in time? Just because, if the dollar is going to be structurally low and you foresee a normalization of the dollar, that would be an embedded return just with a currency normalization.

Sam Pollock:
We would factor that in, but we would also look at valuations we have to pay for assets in the U.S. versus other jurisdictions, and factor both of those in and try to figure out where we are going to get the best risk-adjusted returns.

Andrew Kuske:
Okay, that is helpful. Thank you.

Operator:
Robert Kwan, RBC Capital Markets.

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Robert Kwan:
Good morning. Just a few questions; first on WestNet, the $150 million of the minimum EBITDA, how do you frame that versus the original $150 million to $200 million guidance? You have talked about the potential upside. Is it really that volume upside that could push you to the $200 million or is it potentially even higher than that?

Sam Pollock:
I guess at this stage what we wanted to provide some guidance on was the fact that at the minimum take-or-pay levels, given the revenues that we can generate and our expected views of margins, that we could drive that minimum $150 million of EBITDA.

And that while it would be a bit beyond our control, given the stated production levels that our customers are aiming for and in fact they are trying to push for levels even above those that we have indicated, that the opportunity to earn above $150 million, close to $200 million, and possibly above is there. It's just at this stage we can't provide much certainty around that as we can in relation to the take-or-pay volumes.

Robert Kwan:
Fair enough, okay. Then you referenced two other, let's call it, medium-term prospects, the 12 million tons in annum. How would you think about that?

And I know obviously you are probably not in financial discussions, but would you be looking at it in terms of proportionate upside based on the guidance you have given and the projected volumes that you have stated? Or would these be with potentially lower returns given they might just be expansions of existing projects on the system?

John Stinebaugh:
I would say that from a capital perspective, the ones I was referring to would require very little capital, in fact, and would be, from a capital perspective, highly accretive. I think from a timing perspective those are probably in the 2014 - 2015 range as opposed to the 2012 or 2013.

Robert Kwan:
But just in terms of the types of, for lack of a better way of looking at it, EBITDA returns on capital would it be fairly similar to what you are doing here? Would it be less given there is less capital going out the door in terms of a percentage return?

John Stinebaugh:
Well, a percentage return would be higher. I think there would be very modest levels of capital so I think they would largely float to the bottom line. You have to look at them in relation to the tons moved versus the similar number of tons and the revenue you generate and not on the capital basis.

Robert Kwan:
Okay.

Sam Pollock:
And, Robert, these are leveraging off of basically the excess capacity that we have got on various segments of our system. So it's basically investments that we have made historically in the system that enable us to execute those tasks.

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Robert Kwan:
Would it be proportionate then to the projected volumes that you stated on the six projects versus that $150 million EBITDA marker? Or would it be something materially different then?

John Stinebaugh:
Look, it's still early days so it's hard to give you much certainty around that, but that is a probably reasonable rule of thumb.

Robert Kwan:
Okay. Just on the Timber side, I think in previous quarters you had talked about being cautious just on the second half outlook. It sounds like you have got the seasonal weakness in Q3, but firming up your outlook for Q4. Just kind of wondering what has changed in your mind this quarter versus the commentary from last quarter.

John Stinebaugh:
I think it's just the fact that we have progressed during the year. Again, we do have some sense of an order book for the latter half of the year, albeit it we don't get orders for too far in advance. But we do have a sense of where demand lies and what our customers are doing, and that has given us a better sense of comfort in relation to the second half.

Robert Kwan:
Okay, great. Just the last question I have got is on the acquisition initiatives that you talked about.

Can you give a bit of a range of sizes that you are looking at in terms of what is available? Looks like there is -- you have done a few things on the private/public partnership side and you had some smaller asset sales so obviously it seems like there is some activity in the lower end of the market. Are there larger acquisitions that you think might come to fruition or is it more kind of medium-size stuff?

John Stinebaugh:
I think where we have been spending our attention in the mid-market as opposed to any major transactions. I obviously can't provide guidance on timing or specifics, but we are trying to do transactions that will set a base for us to grow the business down the road. So mid-market transactions, I think, for the size of company we have are appropriate.

Robert Kwan:
That is great. Thanks, Sam. Thanks, John.

Operator:
Your next question comes from Michael Goldberg with Desjardins Securities. Please proceed.

Michael Goldberg:
Thanks, good morning. I know it depends on financing, but can you give us some idea how much $150 million increase in Australian rail EBITDA could translate into in FFO terms?

John Stinebaugh:
Michael, it's John. We have given guidance that would be financed with roughly $400 million of incremental debt. I think a rule of thumb in terms of what the interest rate costs on that is in the range of 8%. So maybe a little bit higher than that just given the profile of the asset.

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But that will give you a sense in terms of what is going to fall down to the pretax line. We have got a pretty good tax position right now, so I think that, certainly in the near term, would equate to our FFO. So I think that gives you a little bit of guidance.

Michael Goldberg:
So I should be thinking in terms of around $120 million?

John Stinebaugh:
Yes, $110 million to $120 million is probably not a bad number.

Michael Goldberg:
Thank you.

Operator:
We have a follow-up question from Andrew Kuske of Credit Suisse. Please proceed.

Andrew Kuske:
Just a quick view from you guys on FERC Order 1000 and what implications that may have for your transmission business in the U.S. Not really I guess the existing assets, but the prospects for growing that business.

John Stinebaugh:
Andrew, it's John. I am embarrassed to say I am not quite recalling what FERC Order 1000 is.

Andrew Kuske:
Literally it just came out about a week or so ago, so it is relatively new. I just wanted to gauge your pulse on it; if you thought it had any implications for incumbents versus players like yourself. I think that is up in the air for pretty much everybody at this stage.

John Stinebaugh:
And this is on the electricity transmission side of things?

Andrew Kuske:
Yes, exactly.

John Stinebaugh:
Well, I can maybe generally give you my view, which is not going to be fully informed because I haven't studied FERC Order 1000. But the difficulty with transmission has been that incumbent utilities typically have had an advantage in being able to secure right of way for transmission development projects.

So if you look across North America, the incumbent utilities have had the lion's share of transmission expansions. FERC has historically tried to balance the playing field by looking at the need for a line beyond just the local service territory and trying to think inter-regionally. And to the extent that they are able to do that and put in place policies that have a greater chance of affecting that I think it will enable developers, such as ourselves, to be more competitive.

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Then the final piece of it is processes like CREZ in Texas or some of the things going on in Canada where regional regulators are basically instituting processes and enabling people to compete on a level playing field obviously are favorable for ourselves. So hopefully that gives you a little bit of color.

Andrew Kuske:
No, that is helpful. And I guess just on that latter portion, do you see opportunities in Ontario? In particular there is a need to bulk up the grid. Hydro One doesn't necessarily have the money than it needs to do that.

And then, secondly, given the fact you are an incumbent transmission operator in Chile, do you see further opportunities there?

John Stinebaugh:
We see opportunities in both markets, Andrew. In Ontario the regulator is going to look to expand the grid and they appreciate, as you pointed out, Hydro One can't invest it all. And we think we are very well-positioned in order to win expansion projects. They have also talked about an incentive rate regime similar to FERC.

In Chile, obviously the position that we have got, owning the backbone grid gives us a significant advantage. There are a number of generation projects that we are looking to build unregulated feeder lines for as well as projects that serve copper mines and other types of mines. So we see that as an area where there is very strong growth prospects.

Andrew Kuske:
That is very helpful, thank you.

Operator:
There are no more questions at this time. I will turn the conference back to Mr. Pollock.

Sam Pollock:
Thank you, operator, and thank you, everyone, again for joining us on the call today. We look forward to updating you again on our progress next quarter. Thank you.

Operator:
Ladies and gentlemen, this concludes today's conference call. You may disconnect your lines. Thank you for participating and have a pleasant day.

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