

7 March 2008

## Gas Access Arrangement Review Final Decision Released

SP AusNet welcomes the Essential Services Commission of Victoria's (ESC) Final Decision on the Gas Access Arrangement Review released today. The Final Decision represents a significant improvement on the Draft Decision and secures approximately 15% of SP AusNet's total revenue for a period of 5 years commencing 1 January 2008.

Managing Director, Mr Nino Ficca, said, "The release of the Final Decision on our gas distribution network means almost 90% of SP AusNet's total revenue is now locked in until 2011. This revenue certainty provides the business with stable and predictable cashflows which are linked to CPI."

"SP AusNet is committed to the continued delivery of reliable and efficient gas supply to customers and we are pleased the ESC has recognised this commitment by increasing allowable operating expenditure by over 7% and allowable capital expenditure by almost 20%, from the Draft Decision to the Final Decision," Mr Ficca said.

In relation to the Weighted Average Cost of Capital determination, the ESC has taken into account the recent movement in the debt markets, increasing the debt premium by 0.77% from the Draft Decision. However, SP AusNet is disappointed that the equity beta has remained at 0.7. This is inconsistent with the recent decision made by the Australian Energy Regulator for SP AusNet's transmission revenue and other regulatory precedents. It is also contrary to the conclusions and analysis that SP AusNet and the other distribution businesses provided to the ESC in response to the Draft Decision. SP AusNet will review the supporting rationale provided in the Final Decision prior to considering a response.

The Final Decision provides SP AusNet with average annual revenue of A\$165m (\$2006) across the 5 year period to 31 December 2012. Due to the delay in the release of the Final Decision, new distribution tariffs will apply from 1 July 2008, with CPI increases on an annual basis from 1 January 2009 onwards.

A summary of the Final Decision is provided as Attachment A. For a copy of the full Final Decision please refer to SP AusNet's website, [www.sp-ausnet.com.au](http://www.sp-ausnet.com.au).

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The Final Decision allows revenues for SP AusNet of \$826m representing average annual revenue of \$165m (\$2006). This is an increase of \$95m over the 5 year period from the Draft Decision.

### Total Revenue (\$2006)

Year ending 31 Dec	2008	2009	2010	2011	2012	Avg
Operating Costs	43	43	44	45	46	44
Return on Assets	64	66	67	68	69	67
Regulatory Depreciation	40	43	45	45	46	44
Cost of Tax	2	3	3	3	3	3
Efficiency Carryover	9	15	11	3	-	8
<b>Total Revenue</b>	<b>158</b>	<b>170</b>	<b>170</b>	<b>164</b>	<b>164</b>	<b>165</b>
<b>Revenue Allowance</b>	<b>157</b>	<b>163</b>	<b>166</b>	<b>169</b>	<b>172</b>	<b>165</b>

The ESC review proposes an initial real average price change on 1 July 2008 (known as  $P_0$ ), followed by annual price changes from 2009 – 2012. The  $P_0$  reflects the change in the underlying costs and gas sales, and a price increase to reflect the inclusion of Full Retail Contestability (FRC) costs which are being included in the tariffs for the first time from 2008. The 2008  $P_0$  is -2.3% (1.9% adjusted for FRC), which represents a positive price adjustment in the first year. Subsequent annual price changes will be to increase prices by CPI adjusted for an X-factor which has been determined to be 0.0%.

### Cost of Capital

The Final Decision provides for a Weighted Average Cost of Capital (WACC) of 6.20% (in real, after-tax terms). The ESC has taken into account the recent movement in the debt markets, increasing the debt premium by 0.77% from the Draft Decision.

Parameter	Draft Decision	Final Decision
Real risk free rate	3.12%	3.26%
Debt premium	1.38%	2.15%
Equity Premium	6.00%	6.00%
Equity Beta	0.7	0.7*
Gearing	60:40	60:40
Inflation	3.00%	2.70%
Real vanilla WACC	5.60%	6.20%

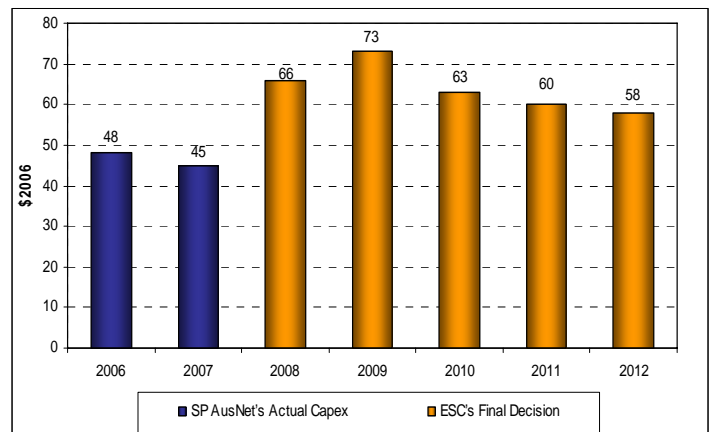
\* To reduce the impact of an equity beta of 0.7, the ESC has provided a specific allowance in Total Revenue to reflect an equity beta of 0.8.

### Regulated Asset Base (RAB) Roll Forward (\$2006)

The forecast RAB for each year of the regulatory period is shown below:

Year ending 31 Dec	2008	2009	2010	2011	2012
Opening RAB	967	993	1,023	1,041	1,055
Closing RAB	993	1,023	1,041	1,055	1,068
<b>Average RAB</b>	<b>980</b>	<b>1,008</b>	<b>1,032</b>	<b>1,048</b>	<b>1,061</b>

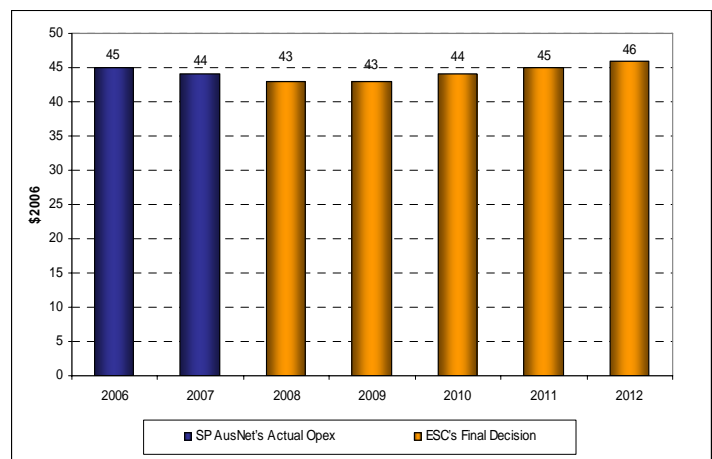
### Forecast Capital Expenditure



The ESC has approved a capex forecast of \$320m (\$2006). This is an increase of \$52m (19.4%) from the Draft Decision. Factors driving capital expenditure in the forthcoming regulatory period include:

- meeting the requirements of continued strong customer growth;
- moving to the Australian Standard on meter accuracy testing, and bringing the meter fleet into compliance with more stringent testing requirements; and
- increasing the low pressure mains renewal program from 75 to 90 kilometres per annum. This will achieve a system that is entirely high pressure within 17 years and deliver positive reliability, safety and environmental outcomes.

### Forecast Operating Expenditure



The ESC has approved an opex forecast of \$220m (\$2006). This is an increase of \$15m (7.3%) from the Draft Decision. Factors driving operating expenditure in the forthcoming regulatory period include expected labour and material cost increases above CPI.