

1 February 2008

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## Transmission Regulatory Reset Final Decision Released

SP AusNet welcomes the Australian Energy Regulator's (AER) Final Decision on the Transmission Regulatory Reset. The Final Decision secures over 40% of SP AusNet's total revenue for a period of 6 years commencing 1 April 2008.

Managing Director, Mr Nino Ficca, said, "SP AusNet's transmission network represents an essential part of Victorian infrastructure, providing electricity to over 2.2 million electricity consumers across the state of Victoria."

"SP AusNet is pleased that the AER has provided satisfactory operating and capital expenditure across the reset period to ensure the continued delivery of reliable and efficient transmission services to all Victorians now and into the future," Mr Ficca said.

The final decision provides SP AusNet with average annual nominal revenue of \$496.5m and allowable forecast capital expenditure of \$771.07m (\$2007/08) across the coming 6 year period. Regulated revenue on the transmission network is linked to CPI and not subject to volume risk, providing the SP AusNet transmission business with stable and predictable cashflows over the 6 year period.

SP AusNet is currently working through the final decision document to determine the impact on the 2008/09 forecasts provided in the Explanatory Memorandum released in November 2007. If considered material, further guidance will be provided to the market.

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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## SP AUSNET TRANSMISSION DETERMINATION 2008 – 2014

The Final Decision allows revenues for SP AusNet of \$2,979m increasing from \$453m in 2008-09 to \$542m in 2013-14. This is an increase of \$217m from the Draft Decision.

### Maximum Allowed Revenue (MAR) (\$ nominal)

Year ending 31 March	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Return on capital	214	221	227	235	243	250
Economic depreciation	52	59	65	70	76	70
Opex (incl. easement tax)	153	168	171	186	190	206
Glide-path	9	7	5	4	2	-
Tax liability	16	16	17	17	17	16
Building block requirement	444	471	485	512	528	542
<b>MAR</b>	<b>453</b>	<b>470</b>	<b>487</b>	<b>505</b>	<b>523</b>	<b>542</b>

As per general regulatory practice, the AER has determined a different X factor in the first year of the regulatory control period to account for the increase in SP AusNet's revenue requirements from 2007-08 to 2008-09. Using an X factor of -12.55% in 2008-09 and of -1.01% in subsequent years results in the expected MAR and building block requirement in the final year of the regulatory control period being equal.

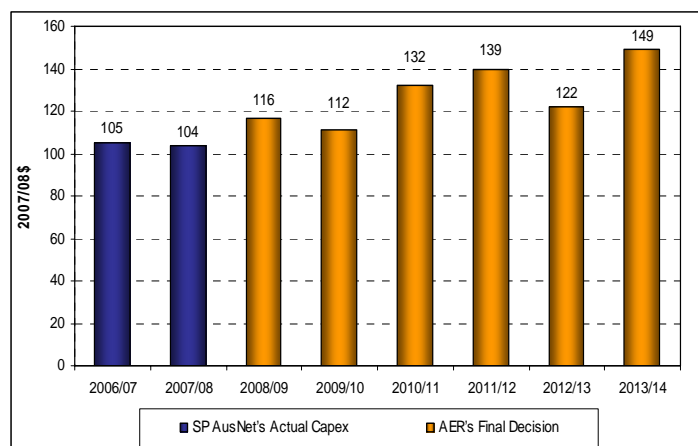
In terms of real end user prices, the average residential customer is expected to face an increase of around 0.88% in 2008-09, and increases of 0.07% per year thereafter as a result of this decision.

### Cost of Capital

The proposed Weighted Average Cost of Capital (WACC) is calculated according to the AER prescribed methodology and parameters. The nominal vanilla WACC used for the proposal is 9.76%. The equivalent real vanilla WACC is 6.99%.

Parameter	AER's final decision
Nominal risk free rate	6.09%
Equity beta	1.00
Market risk premium	6.00%
Equity funding	40.00%
Debt risk premium	2.11%
Debt funding (i.e. gearing)	60.00%
Nominal cost of equity	12.09%
Nominal cost of debt	8.20%
Nominal vanilla WACC	9.76%

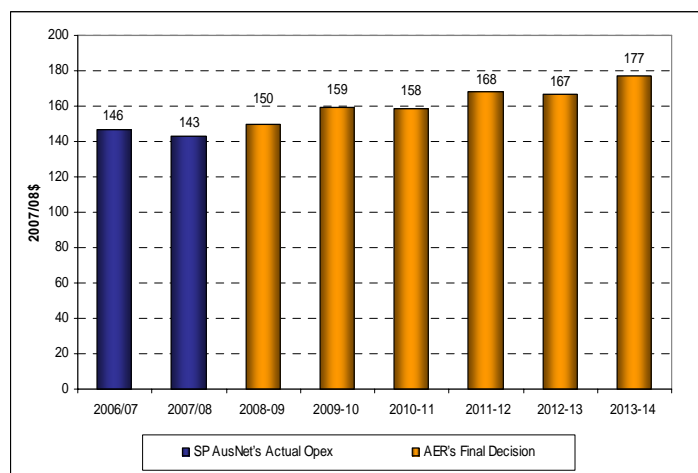
### Forecast Capital Expenditure



The AER has approved a capex forecast of \$771m (\$07/08). This is an increase of \$87m from the Draft Decision. Factors driving capital expenditure in the forthcoming regulatory period include:

- more difficult and complex rebuilding work at confined city sites;
- a substantial increase in the number of transformers being replaced over the period;
- more demanding safety, environmental and security requirements; and
- high material and equipment costs.

### Forecast Operating Expenditure



The AER has approved an opex forecast of \$979m (\$07/08). This is an increase of \$50m (5.36%) from the Draft Decision. Factors driving operating costs in the forthcoming regulatory period include:

- significant repair or refurbishment projects for switchgear, gas insulated switchgear refurbishment and repairs to power cables and instrumentation;
- reduction in occupational health and safety and environmental risk, through asbestos removal programs, switchyard resurfacing, removal of lead contamination and repair of transformer oil leaks; and
- infrastructure maintenance, advanced condition monitoring and miscellaneous works.