

4 May 2009

## AER Final Decision on WACC Parameters Released

SP AusNet notes the Australian Energy Regulator's ('AER') Final Decision on the "Review of the weighted average cost of capital (WACC) parameters" ('Final Decision'), released after market close on Friday, 1 May 2009.

The Final Decision applies to electricity businesses where a regulatory proposal is submitted between 1 May 2009 and 1 May 2014. It is also expected to influence the outcome of future regulatory determinations applicable to gas businesses.

Unless there is persuasive evidence to depart from the outcomes yielded by the Final Decision, it will first apply to SP AusNet's electricity distribution network regulatory determination, which is set to commence on 1 January 2011. The outcomes of the Final Decision will also apply to the next regulatory determination for the electricity transmission network, which is set to commence on 1 April 2014.

The Final Decision provides regulatory certainty for the next five years and represents an improvement on the proposed position released by the AER in December 2008. However, SP AusNet notes the AER has not fully recognised the need to provide adequate returns that are consistent with market expectations, to encourage continued efficient investment in network businesses over the long term. This investment is essential to deliver the level of service expected by customers.

The AER has in part acknowledged the current uncertainty regarding the long term impact of the global financial crisis on current market conditions, increasing the market risk premium from 6.0% in the proposed position to 6.5% in the Final Decision. However, SP AusNet is disappointed that the equity beta (a measure of the specific risk of the company, compared to market risk) and the gamma (a measure of the value of imputation credits to a company's investors) have remained unchanged at 0.8 and 0.65, respectively. This is contrary to the conclusions and analysis included in the Network Industry Submission, submitted on behalf of SP AusNet and the other transmission and distribution businesses in response to the proposed position.

SP AusNet is currently working through the Final Decision document in full and will review the supporting rationale provided by the AER prior to considering a response.

SP AusNet's full year results for the year ended 31 March 2009 will be released on 12 May 2009.

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