

15 March 2013

Victorian Gas Access Arrangement Review (2013-17) AER Final Decision

SP AusNet welcomes the certainty provided by the Australian Energy Regulator's (AER) final decision regarding the Victorian Gas Access Arrangement Review (GAAR) for 2013 to 2017 released today.

Under the final decision, the AER has approved higher levels of capital and operating expenditure for SP AusNet, compared to its draft decision issued in September 2012.

SP AusNet's Managing Director, Nino Ficca, said: "The AER's final decision provides the business with stable and predictable cash flows, which are linked to CPI. Importantly, it's pleasing that the AER has provided funding for key expenditure programs that further improve network safety and consumer access to the gas network".

"While the short term cost of equity provided in the decision is disappointing, the AER has recognised there are longer term issues that will need to be resolved in its current consultation process on future approaches to estimating the cost of capital," he said.

Overview of outcomes

The final decision allows for the following revenues under the building block approach:

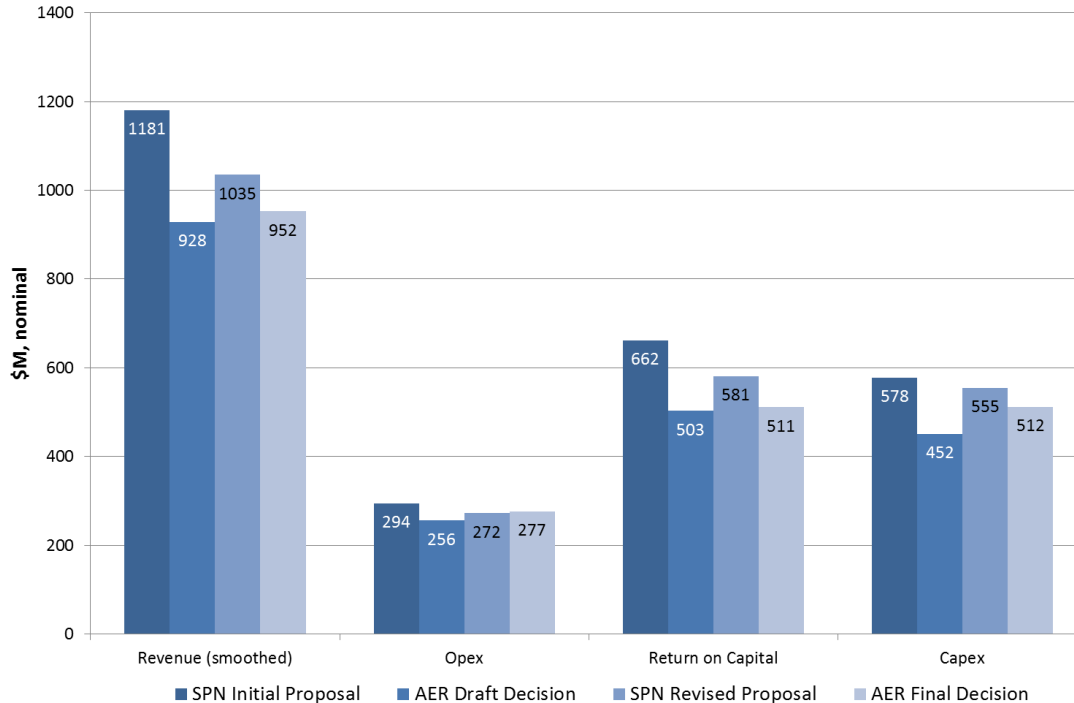
Year ending 31 Dec (\$M)	2013	2014	2015	2016	2017	Total	Average
Operating Costs	50	53	55	58	61	277	55
Return on Assets	90	96	103	108	113	511	102
Regulatory Depreciation	17	21	26	29	33	126	25
Cost of Tax	2	4	5	6	7	24	5
Efficiency Carryover	13	3	6	-2	0	20	4
Total Revenue (unsmoothed)	172	178	195	200	214	957	191
X factor	17.4%	6.0%	-1.0%	-2.0%	-3.0%	n/a	n/a
Total Revenue (smoothed)	194	176	183	194	206	952	190

The decision provides for a total energy consumption increase of 2.9% from 2012 to 2017.

SP AusNet's distribution guidance of 8.20 cents per security for the 2013 financial year, expected to increase by around 2% for the 2014 financial year, remains unchanged as a result of the GAAR final decision.

The following graph provides a comparison of SP AusNet's initial proposal, the AER's draft decision, SP AusNet's revised proposal and the AER's final decision released today.

Gas Access Arrangement Review 2013-2017



WACC parameters

The final decision provides for a Weighted Average Cost of Capital (WACC) of 7.07% (in nominal, after-tax terms).

Parameter	2008-12 Period	Draft Decision	Final Decision
Risk Free Rate	6.05%	2.98%	3.14%
Debt Risk Premium	2.15%	3.76%	3.35%
Beta	0.8	0.8	0.8
Gamma	0.50	0.25	0.25
Market Risk Premium	6%	6%	6%
Nominal Vanilla WACC	9.10%	7.16%	7.07%
Return on Equity	10.36%	7.78%	7.94%
Net Capex (\$M 2012)	\$414M	\$411M	\$466M
Opex (\$M 2012)	\$218M	\$238M	\$256M
Revenue (\$M, Nominal)	\$952M	\$928M	\$952M

For a full copy of the Final Decision please refer to the AER website, www.aer.gov.au

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