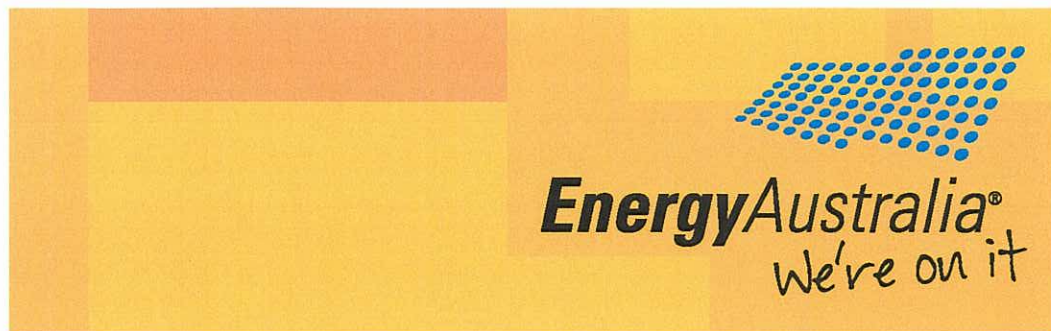


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17 December 2008

Mr Chris Pattas
General Manager
Network Regulation South Branch
Australian Energy Regulator
GPO Box 520
MELBOURNE VIC 3001

By email to: AERInquiry@aer.gov.au

Dear Mr Pattas,

On 11 December 2008, the AER published an explanatory statement on its review of the weighted average cost of capital parameters. In its statement, the AER referred to comments in EnergyAustralia submission of 24 September 2008 regarding the value of the market risk premium. We wish to make clear that the AER misinterpreted our position on this issue because of two drafting errors in our submission. The intent of our submission was to refer the AER to persuasive evidence from the Joint Industry Association (JIA) which demonstrates that the value of the market risk premium (MRP) should be 7.0 if the AER adopts a positive value (greater than zero) for gamma.

The AER's explanatory statement (p142) noted that:

"The JIA's combined recommendation on the MRP and gamma is not supported by EnergyAustralia who consider that if a 0.2 gamma is adopted, then there is no persuasive evidence to move away from a MRP of 6 per cent."

The AER has misinterpreted our position on this issue because of two unintentional drafting errors in our submission.¹ The errors did not reflect the substance of our comments on the MRP, which were consistent with the position of the JIA. In our submission we referred the AER to expert evidence commissioned by the JIA, which demonstrated that the value of MRP should be 7.0 if the value of gamma is above zero. We also noted Officer and Bishop's study which showed the MRP would be 7.0 if gamma was positive.

¹ The drafting errors were in Attachment A of our submission (row 2 of Chapter 5). The drafting error was to include "no" in front of persuasive evidence, when the intent was to state that there "is" persuasive evidence.

Due to the apparent misunderstanding caused by these errors, we wish to withdraw our comments regarding the value of the market risk premium. We fully support the JIA's position on this issue and refer the AER to the evidence in JIA's submission. Please do not hesitate to contact Ms Catherine O'Neill on 02 9269 4171 if you require further clarification on this issue.

Yours sincerely



Trevor Armstrong
Executive General Manager (Acting)
System Planning and Regulation