

4 May 2011

Mr Warwick Anderson
General Manager
Network Regulation North
Australian Energy Regulator
Level 35, The Tower
360 Elizabeth Street
Melbourne Vic 3000



Warwick

Dear Mr Anderson

Value of Imputation Credits – Recent Australian Competition Tribunal’s Decision

I refer to my letter dated 14 April 2011, in which we advised the AER that in making the final decision, Envestra expected consideration to be given to a recent SFG report lodged with the Australian Competition Tribunal in respect of the Energex Limited, ETSA Utilities and Ergon Energy proceedings.

Envestra has now been provided with a copy of the SFG report which is attached to this letter. The attached SFG report concludes that the appropriate estimate of theta from the dividend drop-off analysis performed is 0.35.

Envestra understands that on Friday, 29 April 2011 the Tribunal in the *Energex/ETSA Utilities and Ergon Energy* proceedings¹ decided that the appropriate value for theta is 0.35.

Envestra notes that in the Draft Decision the AER indicated it would take account of any decisions made by the Tribunal in respect of the value of imputation credits in making its Final Decision.² The Tribunal has previously determined that in estimating gamma the appropriate payout ratio is 0.7.³ The Tribunal has now determined the appropriate estimate of theta, which when combined with the payout ratio gives an estimate for gamma of 0.245.

¹ File Nos 2, 3 and 4 of 2010

² Draft Decision (SA) page 106.

³ *Re Application by Energex Limited (Distribution Ratio (Gamma)) (No 3) [2010] ACompT9 24* December 2010

Envestra proposes that the AER apply the Tribunal's findings in Envestra's Final Decisions and use a value for imputation credits of 0.245. Envestra submits that this is the only approach open to the AER and is the correct estimate for gamma in accordance with the National Gas Rules and the Law.

Envestra understands that the Tribunal's reasons in the Energex/ETSA Utilities/Ergon Energy matters have not yet been published. Once those reasons have become available we will forward them to you for completeness.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'a st' followed by a long horizontal flourish.

Andrew Staniford
Group Manager - Commercial