The Financial Investor Group

Presentation to the AER Forum

Wednesday 17th December 2008

The Financial Investor Group

6 major investors in Australian energy transmission and distribution networks

- Singapore Power International
- Spark Infrastructure
- DUET Group
- Hastings Funds Management
- The APA Group
- Babcock and Brown Infrastructure

Interests in $30 Billion energy T&D assets

Significant other interests

- other sectors (non-regulated energy, transport, roads, water…)
- overseas investments (NZ, USA, UK, Europe, Asia)

Our purpose today

Provide initial views on the AER Statement

Focus on:

- availability and cost of capital
- market/investor issues and constraints

“Technical” issues will be addressed by our asset companies and their respective industry associations

We plan to make a more detailed submission in late January in accordance with the AER’s timetable

Three key points

The return to equity is inadequate to encourage the required investment

- at least $20 billion of new capex is required
- the proposed effective return is less than the observed cost of equity

The cost of debt is understated

- A- rating is above the stand-alone rating of any participant in the sector and inconsistent with 60:40 gearing
- use of 5 year CGS is inconsistent with asset lives and investment horizons

The proposed WACC parameters have eroded confidence in the regulatory process

- beta, gamma, A- rating and use of 5 year CGS represent a significant departure from well-established regulatory precedents
- the Statement, by itself, has increased the cost of equity
- investor confidence requires stability, consistency and predictability in regulatory decisions

The proposed return will not encourage investment

The AER Statement points to a very material reduction in the return to equity

The cost of equity has increased over the last few years, not fallen

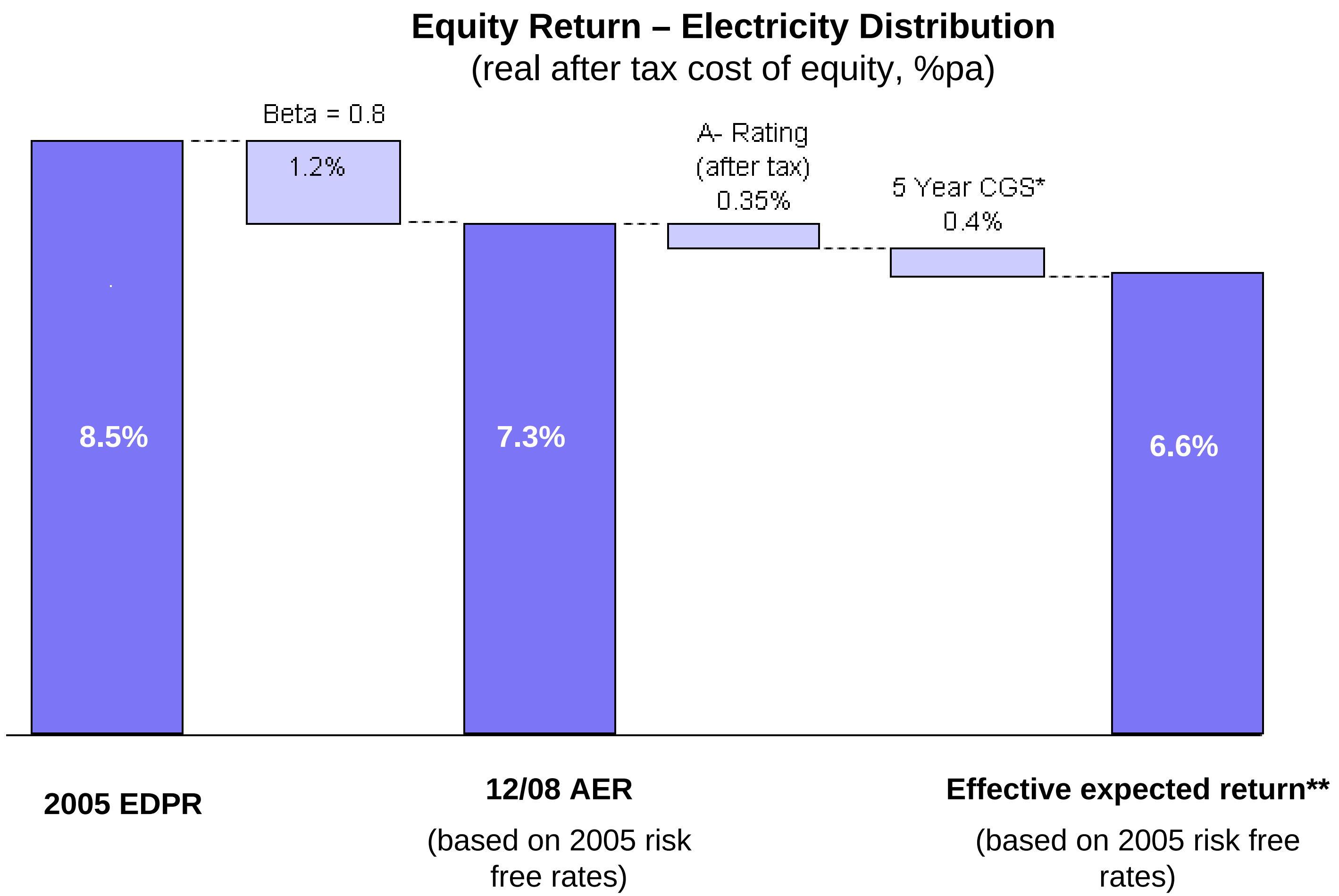
- historical trading yields of 8-9% pa
- current yields of 11.7 - 24.0% following share price reductions
- equity probably not available, even at these prices

The AER changes come at a time when these businesses need significant increases in capital expenditure

There are more attractive opportunities to deploy equity capital

- in other sectors
- in other regulatory jurisdictions

Impact of the decision



*Based on long term average differential between 5 and 10 year CGS
**Reduction excludes effect of increase in gamma – company specific, but also material

The cost of equity has increased, not fallen

Prospective Trading Yields

(%pa based on dividend guidance/forecasts)

SECTOR	Oct-06 FY07 Forecast Yield	Dec-08 FY09 Forecast Yield	% Var
S&P/ASX200 Industrials	**8.2%**	**9.0%**	**0.8%**
S&P/ASX200	**6.7%**	**7.6%**	**0.9%**
AVERAGE	7.4%	8.3%	0.9%

INVESTMENT VEHICLE	Oct-06 FY07 Forecast Yield	Dec-08 FY09 Forecast Yield	% Var
Envestra	**8.2%**	**24.1%**	**15.9%**
APA	**6.4%**	**11.7%**	**5.3%**
HDF	**8.7%**	**13.2%**	**4.5%**
DUET	**8.9%**	**16.6%**	**7.7%**
SPAusNet	**8.7%**	**13.2%**	**4.5%**
Spark Infrastructure	**9.7%**	**16.6%**	**6.9%**
AVERAGE	8.4%	15.9%	7.5%

At least $20 billion of capex is required, but investors have large scale investment opportunities in other sectors

Type and location of infrastructure	Required investment ($AUD)
Australian energy network infrastructure	$40 billion by 2030 $23 billion already "approved" by AER (mostly NSW) Plus capex for emission reductions and smart meters
Australian infrastructure (includes economic and social infrastructure sectors)	$455-770 billion over the next 10 years
Global energy infrastructure	$40 trillion by 2030 25% (c. $10 trillion) by 2030 in energy networks
Global infrastructure (road, rail telecoms, electricity generation, water)	$107 trillion by 2030

Returns in other jurisdictions can be significantly more attractive

BABCOCK & BROWN INFRASTRUCTURE

SINGAPORE POWER

Hastings Funds Management

Spark Infrastructure

APA Group

AMP capital INVESTORS

MACQUARIE

Example: US Electricity Transmission

The US federal regulator (FERC) has recognised the need to provide positive incentives to deploy new capital in the sector

Base Return on equity of 10.9% pa post tax nominal

Incentives provide up to a further 200 bps to 12.9% pa

- RTO membership 50 bps
- ‘standard’ 100 bps incentive on selected projects
- higher incentives of up to 150 bps have been granted for high priority projects

These rates of return are available for some very large projects;

- National Grid $1 billion project approved in November 2008
- large number of projects worth hundreds of millions underway in most state/city networks

A- is above the stand-alone rating of any participant in the sector

Asset Company	Current Credit Rating
Alinta Network Holdings	BBB-/Stable
DUET Group	BBB-/Stable
ElectraNet Pty Ltd	BBB+/Stable
Energy Partnership (Gas) Pty Ltd	BBB-/Stable
Envestra Ltd	BBB-/Negative
GasNet Australia (Operations) Pty Ltd	BBB/Stable
United Energy Distribution Pty Ltd	BBB/Negative
Those with parent company support	
Spark asset companies (CitiPower, Powercor, ETSA Utilities)	A- /Stable
SP AusNet Group	A-/Negative

Source: Standard & Poors, Ratings Direct 27 October, 2008: As Risks Heat Up, Can Australian Utilities Strengthen Their Balance Sheets?

The AER Statement has created a high level of uncertainty

The market did not anticipate the outcome

Key parameters are without recent precedent for electricity T&D

- beta = 0.8
- gamma = 0.65
- credit rating A-
- use of 5 year CGS

The outcome appears inconsistent with the observed cost of equity

Confidence in the long term stability of the sector has been eroded

- 40 year assets/investment decisions
- is this Statement indicative of future volatility/unpredictability of sector returns?

The market was disappointed with the AER Statement

Macquarie Equities

"This is a negative surprise to us and the market…and…runs counter with recent commentary by the AER"

"…a reduction to 0.8 (beta) will be viewed as aggressive"

"The decision to move away from a BBB+ metric… is confusing. We struggle to understand why the AER has chosen to move this parameter in possibly one of the most skittish markets in history"

ComSec

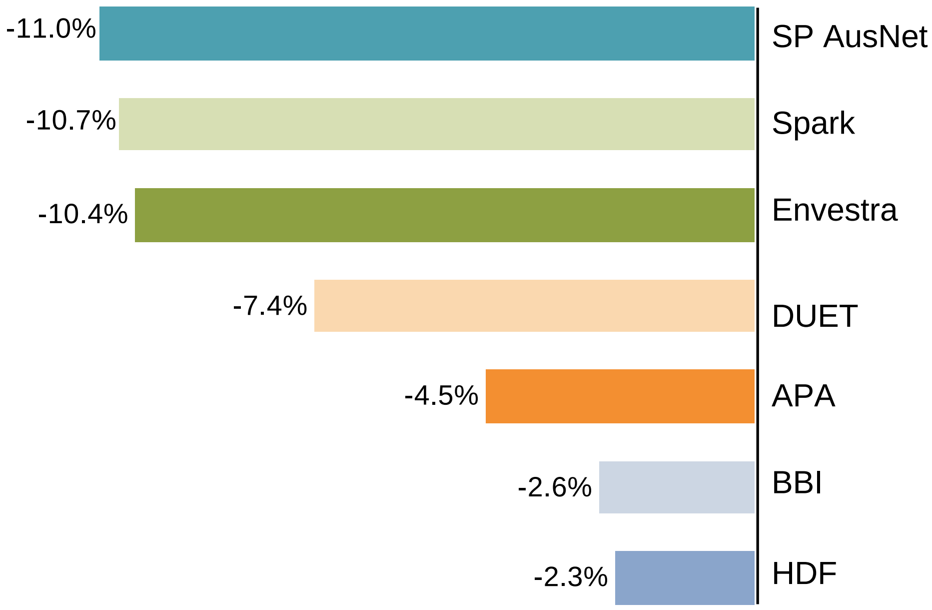
"…the decision was worse then expected"

"…the decision…to change the assumed credit rating…is strange and at odds with current conditions in capital markets."

"while a decision like this could be warranted…where utilities continually accessed cheaper debt than assumed by the regulator, why change the assumption NOW?"

The market has signalled that it does not want us to invest at the proposed rates of return

Share price movement following AER Statement
(11 December to 12 December 2008,%)



ABN AMRO

"There is a massive amount of capex to be spent and now there is a greater risk that the sector participants wont be able to attract sufficient capital"

UBS

"We cannot see equity investors investing for such a paltry return and therefore expect a sharp fall in capital expenditure"

"…the cost of equity has to be way higher than the 8.5% implied by the regulator and the text book"

Concluding comments

The FIG comprises 6 significant investors with financial interests in $30 billion of Australia's T&D assets

The AER's proposed return to equity is a disincentive for investment with potential consequences for network growth, network performance and sector employment

The proposed A- rating is above the stand-alone rating of any participant in the sector

The proposed WACC parameters have eroded confidence in a sector which requires stability and consistency

A question posed by our investors:

Is this statement indicative of future volatility and unpredictability of sector returns?