Statement of Gregory Damien Meredith

Treasurer for Envestra

1 Position

1.1 Currently, I am the Treasurer for the Envestra Group. I report to Envestra's Chief Financial Officer and its Commercial Manager and they both report to Envestra's Managing Director. I have prepared this statement in the context of the Australian Energy Regulator's Weighted Average Cost of Capital (**WACC**) parameter review using the Capital Asset Pricing Model (**CAPM**).

1.2 As Treasurer, my primary role is to manage the $2 billion portfolio of debt that, together with shareholders' equity, funds the business. I monitor the debt portfolio identifying when new debt is required, make recommendations to the Board of Directors as to the approach to be taken with respect to debt raising and execute the Board's decisions by arranging the raising of debt for the company through negotiation of debt financing agreements with financiers. I also arrange interest rate hedging in connection with that debt and participate in the provision of data and analysis with respect to equity raising and dividend policies.

1.3 My role also involves, together with other senior executives, briefing credit ratings agencies who generate recommendations as to what credit rating the company should be given. In particular, I contribute to the debt financing parts of those briefings.

2 Educational background and professional experience in the energy and finance sectors

2.1 In 1992 I graduated with a Bachelors Degree with Honours in Economics from the Flinders University. In 1997 I completed a postgraduate diploma in Applied Finance and Investment through the Securities Institute of Australia. I also obtained an MBA through the University of South Australia in 2001.

2.2 After graduating, my first job was with the State Bank of South Australia where I worked in the commercial loans division. In 1995 I moved to Origin Energy (then Boral Energy) doing commercial and analytical work concerning their power stations, gas pipelines and wholesale gas procurement.

2.3 In 1999 I transferred into the regulatory area at Origin Energy and from there moved to the regulatory department at Envestra in 2000. In 2005 I shifted into my current role as Treasurer.

2.4 In addition to the above work experience, I have been a lecturer and assessor for the Financial Services Institute of Australia from 2003 to the present. I lecture in the areas of financial markets (debt and derivative), economics, macroeconomic policy and valuation, including the CAPM and the WACC.

2.5 I am a member of the Financial Services Institute of Australia (**FINSIA**) which is a professional association for finance professionals and the Finance and Treasury Association (**FTA**) which is a professional association of treasury and financial risk management specialists. Both bodies provide information and continuing awareness publications for treasury professionals such as the FTA's Journal of Treasury Management which I read on a regular basis.

3 My experience with the Capital Asset Pricing Model (CAPM)

3.1 As part of my tertiary course work, I studied the CAPM. I have also taught this model during my time as a FINSIA lecturer. The CAPM is not studied primarily for regulatory purposes, but rather for use in a commercial context. The cost of equity is unobservable and finance professionals need a framework, such as the CAPM, with which to assess whether an appropriate return on capital is being received. You can use the CAPM, for example, when

setting prices, discounting cash flows, assessing the economics of an dsv acquisition or the level of dividends required. So the CAPM is used for a full spectrum of purposes.

3.2 Since my studies, I have used the CAPM in evaluating investment opportunities. For instance, when I worked at Origin Energy I used the CAPM to consider investment returns for activities involving power stations and pipelines and for working out the net present value of contracts and exposures.

3.3 Economic regulation has adopted the use of the CAPM to work out a fair return on assets as part of the building block approach to calculating revenue. This is then used for establishing prices for the services provided by regulated energy network.

3.4 Incidentally, we also use the CAPM for setting prices in our unregulated energy network businesses by estimating the cost of equity and building that into those prices. The cost of equity for unregulated assets is usually higher than the regulator's cost of equity and reflects our assessment (with reference to risk and market conditions) of the returns required by shareholders. Basically we use the CAPM as a benchmark for the cost of equity, mindful of what the market requires as well.

4 Envestra

4.1 Envestra was formed in 1997 when the gas network infrastructure of Boral Energy (now Origin Energy) were put in a separate entity which was listed on the stock exchange. This was primarily comprised of the Brisbane and South Australian gas distribution networks. In April 1999 Envestra purchased a Victorian gas distribution businesses (Stratus Networks) and a small network in Albury in NSW.

4.2 All the above assets comprise about 95% of the Company's total assets. The other 5% comprises some gas transmission pipelines in the Northern Territory, Queensland, Riverland (SA) and Mildura (Vic) and other small gas distribution networks in Alice Springs (NT), Murray Valley (NSW), Wide Bay (QLD) and Cardinia (Vic).

4.3 Today Envestra's total assets are valued for accounting purposes at around $2.5 billion, with debt of around $2 billion.

5 Debt raising

5.1 In terms of managing Envestra's debt, there are two distinct debt portfolios, one for the Victoria/NSW assets and one for all the other assets. The acquisition of the Victorian business was project financed by a consortium of banks. That financing has subsequently been replaced, and the Company now has a diverse portfolio of debt providers that include domestic and international banks, insurance companies and superannuation funds. The tenor of the portfolio at 31 December 2008 was 9.4 years and reflects our objective to extend the duration of the debt portfolio thereby minimising refinancing risk.

5.2 The purpose and skill of the treasury function at Envestra, like at most companies, is to simultaneously seek a low cost of debt and extend the tenor of the portfolio. There are a number of types of risk we seek to manage (and I will discuss others such as currency and interest rate risks below) but a key risk that I seek to control is known as "refinancing risk".

5.3 By "refinancing risk" I mean the risk of not being able to obtain new debt when the current debt matures. Recent examples of the refinancing risk that we seek to avoid are those of Centro and OZ Minerals. Both of these companies appeared to have healthy underlying businesses but they were put into default or administration or the control of the financiers, because they were unable to raise replacement debt when their existing debt was due to be repaid. This situation usually arises when there is no market for the company's debt and/or a company fails to arrange refinancing arrangements early enough and/or isn't prepared to accept the market cost of debt at the time of refinancing.

5.4 Envestra directly experienced 'refinancing risk' in October 2007. We had $105 million of bonds maturing in February 2008 and had negotiated over August and September 2007 all of the terms and conditions of a 20-25 year $150 million capital indexed bond issue with the lead arranger (GoldmanSachs) and the monoline insurer. All of the documentation was executable and ready to go to market to obtain the funding. However, due to the sub-prime credit crisis the bond market closed and we were unable to issue the bonds (i.e. no buyers). The maturing bonds were subsequently refinanced with bank debt in December 2007. This highlights the existence of refinancing risk and how the AER's preconceived notion of refinancing all of the debt in the 10-40 day risk free rate averaging period is neither prudent nor workable.

5.5 At Envestra there is a Treasury Policy that was formally adopted by Envestra's Board of Directors in 2006 and reviewed each year subsequently. I was involved in the preparation of the policy when I first became Treasurer. The Policy sets out the risk management principles and limits for the Group treasury function. In relation to refinancing risk the Policy states that no more than 15% of the debt portfolio should mature in any one financial year. So when you work that back, it's essentially saying that as a *minimum*, on average debt must have a term of 7 years from when it is raised, but to keep ahead of the policy requirements ideally we'd like to put in place debt with a tenor longer than 7 years, which we have been able to do. In formulating the Policy we took account of the market's capacity to fund Envestra, our shareholders' expectations and how much (or little) refinancing risk the credit ratings agencies prefer to see each year. If, for example, credit ratings agencies were concerned about how much debt you had maturing in any given year they would notify you and put you on a "Negative Outlook" and if you didn't rectify the situation they would downgrade your rating. In turn, a lower rating means higher funding costs and reduced access to credit markets.

5.6 In managing the debt portfolio, we generally focus on the period of up to 2 years forward to see what new debt is required based mainly on how much debt is reaching maturity and how much money we are going to spend on capital expenditure for the network. It is also affected by other cash flows such as the revenues we earn and the distributions we pay to our share holders. To do this I run a long term financial model which is basically a customised spreadsheet that takes into account all the nuances of the company, such as the proportion of debt and equity, hedging, distributions, time to maturity of the various instruments, term, tax, establishment fees, margins, inflation, revenue and expenditure.

5.7 The model basically gives you outputs: a profit and loss account, a cashflow statement, balance sheet and financial ratios. By ratios I mean those contained in the security documents for each debt instrument. They govern the debt arrangements and they are essentially the ratios that the credit ratings agencies use (e.g. interest coverage, funds from operations, gearing).

5.8 If our analysis using the model and the Policy indicate that we need to raise $200 million this year, we usually (at least before the Global Financial Crisis struck) had a number of choices. We could source debt from:

(a) Australian and foreign banks;

(b) Australian bond investors;

(c) US bond investors; or

(d) Non-US bond investors.

5.9 As well as the source of debt, there are other choices that can be made from each source. For example there is the term of debt. Banks tend to offer shorter term debt, Australian bond holders will purchase medium length debt (say 5 to 10 years) and US bond holders are willing to purchase medium or longer term bonds (up to 30 years).

5.10 Bonds could also be "wrapped" or "unwrapped". In the former case, a company with a relatively lower credit rating (such as Envestra with a BBB- credit rating) issues a bond with the repayments guaranteed by a AAA credit rated monoline credit insurer. The effect is that the

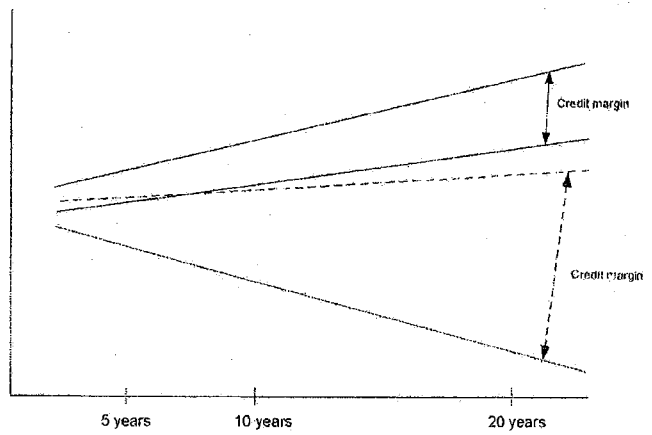
cost of debt is lower because the bondholders have the guarantee from a AAA rated "wrapper". Of course, the wrapper charges a fee for providing this guarantee. Usually the fee removes most of the price advantage offered by the wrapper's AAA credit rating but the real attraction of a wrapped bond was that there are more potential buyers of the bonds and hence the market is "deeper" and it is easier to access larger quantities of funds without exhausting the buyers' appetite for your company's credit risk.

5.11 Generally you want debt spread across different instruments to manage refinancing risk. If you had all bank debt you could come to refinance and the banks don't have limits available or they might not like your credit, they might not like the sector, then the task becomes difficult. By spreading the risk around the various debt investors and having multiple types of instruments you diversify your funding sources and get a track record in those markets, so if you need to access them again its easier because investors know you, they know your credit and they have got a record of your performance. It's all part of the overall risk management philosophy of spreading risk amongst various parties.

5.12 In choosing the term of maturity of the debt, we look to take the longest possible tenor (ie maturity date) at the time of refinancing at a price considered acceptable. As I noted above, a range of stakeholders including the ratings agencies like to see that we take an approach of long dating debt and it is also consistent with the nature of our assets. We have long term assets which, together with stable nature of the cash flows, mean that financiers are willing to lend for that tenor for those sort of assets. So basically we are trying to match the term of the debt with the assets.

5.13 However, we do not always implement the longest term debt available because sometimes long term debt is too expensive. The reason being is the longer you lend for, the more risk you are taking on that the company's fortunes will change for the worse and that it may not be repaid. In the following diagram the black curves represent that normal upward sloping yield curve with the lower curve representing the risk free interest rate for debt and the upper curve representing the cost of debt for companies with a particular level of risk – say companies with a BBB+ credit rating.

Figure 1: Upwards sloping and downwards sloping yield curves



X Upward sloping yield curve

X Downward sloping yield curve

5.14 Usually, therefore, there is a trade-off that must be made between a long term which reduces refinancing risk and the price of debt which, if the yield curve slopes steeply upward imposes a high cost on the company outstripping the regulatory allowances and appetite for shareholders to suffer reduced returns even when risk is reduced.

5.15 However, every so often the yield curve can invert (slope downwards) which usually means that the market is expecting either (i) shorter term interest rates to fall or (ii) longer term interest rates to increase. In 2005/06, for example, we issued some bonds that will mature in 2024 and

2026, at the time of issue the yield curve was inverted due to budget surpluses and excess demand for long term CGS. In this circumstance, the lower curve (the risk free curve) generally slopes more steeply downward than the upper curve providing a higher margin for the debt to carry a degree of credit risk than for government bonds.

5.16 Taking all the above into account, Envestra's treasury would generally have a portfolio of a range of instruments from different sources, credit wrapped and unwrapped, with different terms to maturity. However, as noted above we seek as long a term as possible to reduce refinancing risk at a reasonable price to satisfy credit ratings agencies, shareholders and to better match the useful lives of our assets.

5.17 We could not and would not structure our debt portfolio with maturities that matched the assets' revenue reset period. For the Queensland and South Australian distribution systems the dates would coincide, exposing the company to excessive and unnecessary refinancing risk. If we tried to structure our debt raising so that approximately one third was raised once every 5 years when the Victorian distribution businesses' reset occurred and the other two thirds once every 5 years when the other businesses' resets occurred, we would breach our Treasury Policy, credit ratings agencies would very likely put us on *Credit Watch* or significantly downgrade or remove our credit rating and management (discussed in more detail in section 7 of this Statement) and shareholders would be exposed to very high and unacceptable levels of refinancing risk. The markets at this time are not deep enough to absorb such a large debt raising at one time. For all these reasons, as a professional treasurer, I would regard that practice as contrary to that of a prudent operator of a network business.

5.18 That is not to say that the revenue reset is irrelevant to my role. Indeed quite the opposite because I am responsible for hedging other debt related business risks and it is these I will discuss next.

6 Hedging

6.1 I noted above that refinancing risk is not the only risk that the treasury is responsible for managing. When we issue a bond, the following factors may vary according to the market conditions over time and consequently give rise to risk:

(a) *currency risk* – when we issue bonds in currencies other than Australian dollars (as we have done) there is a risk that the exchange rate may move causing a significant change in the principal and interest obligations, both of which will need to be repaid in foreign currency.

(b) *interest rate risk* – when we issue a bond,or draw down bank, debt we are entering into an arrangement to pay back both the principal and interest. The interest rate on the principal is usually floating rate consisting of a base rate, such as BBSW, plus a credit margin plus establishment fees; therefore, there is a risk that either the base rate (BBSW) and/or credit margin and/or fees will differ to that used by the regulator for regulatory WACC purposes. The credit margin and fees cannot be hedged with derivatives. In essence, the interest rate risk is that the base rate (BBSW) will diverge too far from the risk free rate (CGS) used in the regulatory WACC to generate the revenue.

6.2 The Treasury Policy requires that we hedge between 80% and 100% of the interest rate risk on the floating rate debt. We try and hedge around about 80%, maybe even 90% at the start of the regulatory period, because we don't know with absolute certainty what is actually going to happen in the next 5 years. This helps avoid being over-hedged because that merely exposes us to the reverse movement in currency and/or interest rates. So, if for whatever reason we spend more on capital or drawdown more debt during the regulatory period, then we need to top up the hedges.

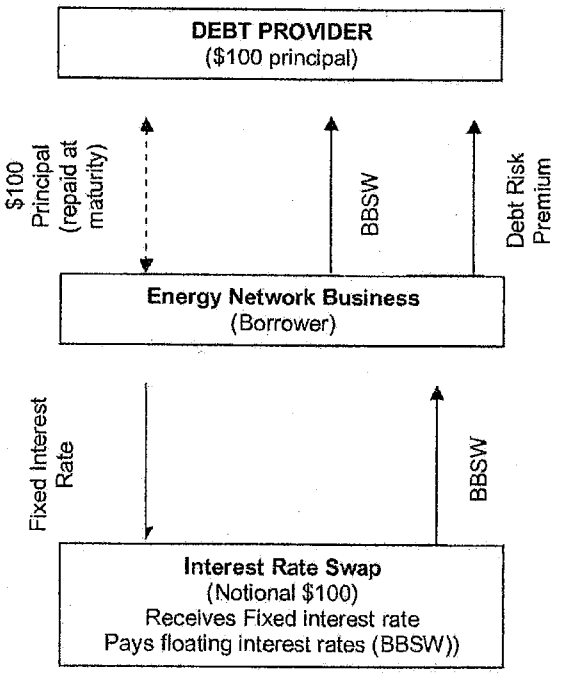
6.3 Each of the above hedging instruments is commonly executed with various swaps in ISDA[1] form with different counterparties.

6.4 When hedging, we consider the interest rate risk and the most appropriate way to manage that risk. We generally use interest rate swaps for the AUD denominated bank debt and bonds. These hedges only mitigate the risk associated with the base rate, or BBSW, not the credit margin payable. The credit margin can only be locked in at the time of physical debt issuance. The risk that the regulatory credit margin differs from the actual credit margin is effectively unhedged (see diagram below).

Figure 2: Hedging Interest Rate Risk

Assumptions:

- Energy Network Business borrows $100 at floating interest rates from Debt Provider. The Energy Network Business repays the principal at maturity and interest at designated periods over the term of the borrowing;
- The floating interest rate payable by the Energy Network Business to the Debt Provider is the Debt Risk Premium + BBSW;
- Energy Network Business fully hedges the interest rate risk associated with variations in BBSW. Enters $100 interest rate swap (notional value) with hedge counterparty, where the Energy Network Business pays the hedge counterparty a fixed rate and receives BBSW;



DEBT RISK PREMIA

1. Reflects conditions prevailing at time of issuance.
2. Cannot 'hedge' Debt Risk Premia with an Interest Rate Swap.
3. Debt Risk Premia is payable irrespective of whether or not base rate (i.e. BBSW) is hedged.

6.5 So to explain that in more detail, for each regulatory period we enter into hedges over the Regulators designated risk free rate averaging period, in order to match as closely as we can the base rate in our actual debt (i.e. BBSW) with the risk free rate used in the regulatory cost of debt and WACC. The hedges are for the term of the regulatory period. We pay the hedge counterparty the agreed fixed rate (determined at time of execution by the market) and receive

[1] An ISDA arrangement is a standard form contract used globally for hedge arrangements where a "Master Agreement" is entered into between counterparties and then simpler short form "Confirmations" incorporating the terms of the Master Agreement comprise each trade.

the floating rate (BBSW) from the counterparty periodically throughout the life of the hedge. The BBSW rate received matches, or corresponds very closely, with the base rate we must pay on the debt. As discussed previously the credit margin payable is determined at the time of physical issuance and is unhedged. Hedging itself involves costs and these are borne either as a price of purchasing the hedge and transactions costs and/or implicitly in the agreed strike price and these are operational expenditures of the Treasury function that the business incurs over-and-above the "physical" debt financing costs. They merely control the risks associated with the base rate for our long dated debt within a reset period.

7 Credit ratings agencies

7.1 As part of my role I, along with the Managing Director and CFO, manage our interactions with the credit rating agencies. This involves giving them quarterly briefings. I also provide them with the information necessary to assess our credit rating and act as general liaison with them. Occasionally we talk to them about their views on the possible impact on the credit rating of acquisitions or new debt issuance. Currently Envestra's credit rating is a BBB-.

7.2 In terms of briefing the ratings agencies, we discuss our business strategy, historical performance against budget refinancing plans and future expectations. We give them the financial forecasts, strategy, outlook for the next three to five years, updates on volumes and regulatory regime and discussion of the financial policies, like your accounting policies, treasury policy, internal audits etc. They like to know the liquidity profile and debt maturity profile. If the actual performance of the company diverges from forecast, then they will want to know why and factor this into their ratings assessment.

7.3 The primary focus of credit ratings agencies is on making sure that all entities with investment grade ratings pay interest and principal as per the agreements on time, now and into the future.

7.4 The less buffer or free cash flow available after you've paid distributions, expenses and interest the more riskier you are. So they want to know what the plans are to maintain this buffer at acceptable levels. They will cross check what you've said you will do with what you've actually done.

7.5 When credit was easy to obtain, equity didn't care about credit because you could always get it, but now they're focusing on it because basically if you don't repay it, the banks start running the business and the equity value goes to zero pretty quickly. Equity holders and prospective equity holders are now interested in the timing of the next refinancing and whether facilities are in place to do that refinancing. Six months in advance used to be the accepted term to arrange refinancings, but that's extended out to almost two years now, the equity market appears to now be wanting you to refinance maturity's 12 months to two years out.

7.6 Informally the credit rating agencies like you to have everything refinanced six months prior to maturity, to mitigate refinancing risk. They like to know why you've chosen to refinance using a particular instrument and the reason for the tenor or term to maturity of that instrument. An example of a media release is attached to this statement as **Exhibit A.** In addition, they like to know whether it's a committed facility in terms of whether there are any outs for the banks or the financers to withdraw that facility at short notice. Facilities that aren't 'committed' are risky as they may not be available when required. Committed facilities are not costless, with typical 'commitment fees' of 40-60% of the credit margin payable on the facility limit. These fees are payable quarterly and not captured in the regulatory cost of debt.

7.7 Similarly, I am also involved in putting similar information together for banks and financiers who act as intermediaries between ourselves and investors, whether they be debt or equity investors. In addition to myself, the Managing Director, Company Secretary and/or CFO or a combination of those three are also involved in putting together investor briefings.

7.8 Our debt profile now has a weighted average term to maturity of 9.4 years, this means that on average for each instrument there is 9.4 years on average left to run. Originally the securities actually taken out were longer. The weighted average term to maturity is increasingly being used as a indicator of refinancing risk as well.

8 Deloittes Report

8.1 I have read the Deloittes Report which is annexed to the AER's Explanatory Statement and on Page 42-43 of our 2008 Annual Report. For Envestra it states:

			Average Term		
Distribution	Ownership	Amount ($M)	<1 Year	1 to 5 Years	>5 Years
Envestra	Non Gov't	3,661	406	967	2,288

8.2 Deloittes did not contact me in putting together that report. Having reviewed the report I have problems with the presentation of our data because I cannot reconcile the Deloittes numbers with the numbers of our actual debt portfolio. The Deloittes numbers are not correct. The data presented in Table 8 of the Deloittes report is not a debt maturity profile, but rather the contractual undiscounted principal and interest cash flows. This is clearly disclosed in the relevant Annual reports. For example, in the Envestra 2008 Annual Report Note 2(c)(ii) (page 42) for the year ending 30 June 2007 the less than 1 year amount of $16.4m attributed to Capital Indexed Bonds is the interest amount payable over the next financial year and does not include any repayment of principal upon maturity. Similarly, the less than 1 year amount of -$4.7m attributed to Swaps is the net amount paid to swap counterparties over 2007/08 and does not reflect any external debt balances.

8.3 The consequence of the misinterpretation of the data is that as the term increases (i.e. greater than 1 year to less than 5 years, greater than 5 years to less than 10 years and greater than 15 years) the interest amount increases exponentially, and the principal balances stay constant, which distorts the results. This is a fundamental error.

8.4 Envestra's debt portfolio as at 30 June 2007 is set out in a confidential **Appendix A.** The weighted average of the portfolio is 10.9 years to maturity. When the bonds were originally issued they had an average term to maturity of 14.4 years.

8.5 The Deloittes data seems to be seeking to present information of the sort I show in the column in Appendix A headed "Period to maturity at the date of our 2007 annual report". That is similar to the weighted average maturity that we present to credit rating agencies to show the degree to which we are or are not exposed to refinancing risk in the near term.

8.6 However, in my view that term to maturity data is not a useful statistic in establishing a representative picture of the characteristics of the debt we raise. Rather what is relevant is to look at the term of the instruments we raise at the time they are in fact issued which I show in the last column of the table above.

9 Summary observations with respect to debt raising

9.1 I have read the AER's Explanatory Statement in as much as it applies to the issue of whether the risk free rate should be a 5 year or 10 year rate and I am concerned that it rests on assumptions concerning how treasury departments raise debt and manage risk that do not reflect the approach of Envestra or the approach that I am aware from my professional readings and interactions with credit ratings agencies and is applied generally in the energy industry.

9.2 As you can see from the two central discussions above (one with respect to debt financing and the other concerning hedging), our funding decisions and hedging decisions are separate. Physical debt is made up of a base rate plus the credit margin:

(a) our debt is raised on a predominantly long term basis that is unrelated to the time of our regulatory resets and which are instead dictated by the requirements of shareholders

and credit ratings agencies as reflected in our Treasury Policy's maximum of 15% of the portfolio that can be up for refinancing that year; and

(b) our extensive hedging activities are designed in a large part to remove the effects of interest rate movements between the time we actually raise debt and when the regulatory reset falls such that we match the risk free rate used to derive revenue and the base interest rate (BBSW) we pay on the physical debt.

9.3 While the treasury activities are much more complex than a single 5 year or 10 year benchmark might suggest, I am aware from my regulatory experience that the regulatory environment is already complex and the approach is to identify a single benchmark that best reflects the over-all practices with respect to the term of the business's debt. On that basis, I consider a 5 year benchmark to be considerably too short and unrepresentative of Envestra's practices. Rather, a 10 year benchmark is considerably closer to Envestra's predominant practices and that generally applied commercially.

10 The effect of the Global Financial Crisis

10.1 The feeling at the time the Global Financial Crisis commenced (when we referred to it as the US Sub-prime Issue), was that it would be over relatively quickly. Initially people were thinking, once all the banks write down there sub prime loan books, over December 2007 to June 2008, then it will all be out there and we can move on. However, the problems have carried on past those dates with the failure of massive corporations, such AIG and Lehmans'. These were unprecedented events and they've had the effect of closing credit markets, by which I mean banks haven't lent to each other and it has been impossible for a time for even highly rated borrowers to issue new corporate bonds. Market confidence has been shocked and no-one knows when the crisis is going to finish. I am routinely in discussions with bankers and advisers. Different people have got different views on when it might end, but no-one knows for certain.

10.2 We are still trying to get the longest debt we can, matching it in with our Treasury Policy constraints.

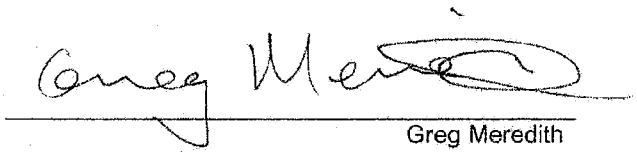
11 The current returns on equity

11.1 Finally, I wish to provide my perspectives on the current costs of raising equity. In the AER's Explanatory Statement, it states that the proposed WACC parameters would currently deliver a return on equity of 4.8% above the 5 year CGS (3.3%), which is currently around 8.1% per annum. I have some direct experience with equity raising costs since the commencement of the Global Financial Crisis which suggests that the costs of equity are significantly higher.

11.2 [redacted]

11.3 [redacted]

11.4 Since then, the share price has progressively declined down to about 30 cents by October the decision was made in December that we would issue $100 million worth of equity at 30 cents per share because this would help reduce the gearing and fund capital expenditure. We are in the process of an equity issue at 30 cents a share with a 5.5 cents per share dividend expected, which equates to a cost of equity around 18% just based on yield. If you factor in capital growth requirements then the cost of equity is considerably higher.



Greg Meredith

Treasurer, Envestra Limited

31 January 2009

Commercial-in-confidence

Appendix A: Envestra's debt portfolio as at 30 June 2007

As at 30 June 2007	Quantum (A$m)	Period to maturity at date of 2007 annual report (years)	Original term when it was issued (years)
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]
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[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	Portfolio Weighted Average	[redacted]	[redacted]

Investing in energy infrastructure

MEDIA RELEASE

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4 September 2008

Envestra

$100 million Westpac facility to re-finance bonds maturing in 2009

Envestra Victoria Pty Ltd (EnVic), a wholly owned subsidiary of Envestra Ltd and Westpac Banking Corporation have agreed a $100 million, three-year bank facility.

The facility will replace EnVic's $85 million Medium Term Notes (MTNs) that mature in May 2009. The balance of the funds will be used for the Company's capital expenditure program.

Envestra's Chief Financial Officer, Peter Ryan, said, "The new facility has an interest rate margin slightly above the maturing MTNs. Given the recent bond market volatility, and increased funding margins generally, this is an excellent result".

"Envestra's financing strategy is to arrange replacement facilities at least six months prior to maturity, and limit annual refinancing to 15% of the Group's debt portfolio".

"In line with this policy, the Envestra Group has no further debt to refinance during the 2008–09 year other than a small amount of Commercial Paper (around $40 million) which is typically rolled over or replaced on a monthly basis".

"The addition of Westpac to the Group's debt providers further diversifies the funding sources available to Envestra, and will be of benefit when undertaking capital markets initiatives in the future".

The Company's exposure to interest rate risk is minimal with over 90% of floating rate debt hedged to match the regulatory reset periods through to 2012.

After completion of the above transactions, the average debt maturity is 10 years. The maturity profile for the Group is outlined below.

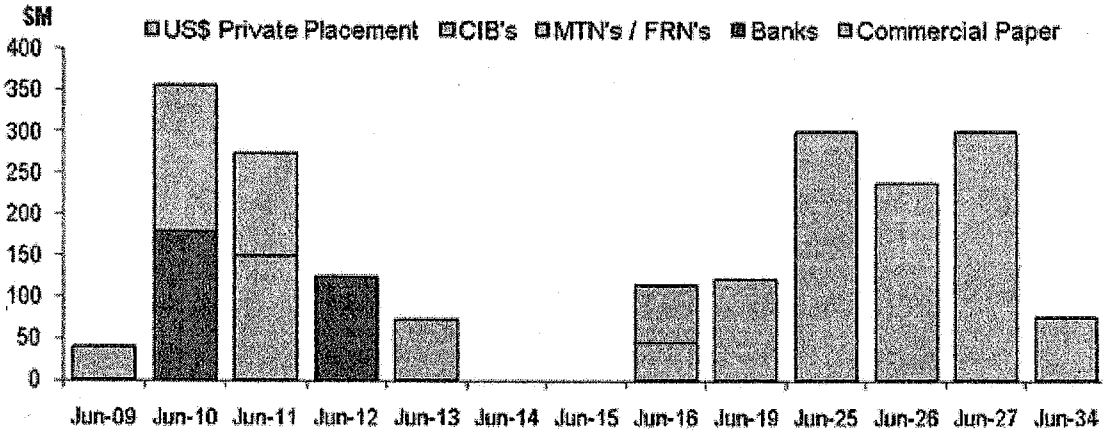
For further information contact:

Envestra Limited

Peter Ryan, Chief Financial Officer
Des Petherick, Company Secretary

Telephone: (08) 8227 1500

Envestra Group
Debt Maturity Profile
After refinancing of $85 million MTNs maturing in May 2009



Statement of Sim Buck Khim

Head of Treasury - Jemena

1 Position

1.1 In August 2008 I moved to Melbourne from Singapore to head the Treasury department at Jemena.

1.2 One of my roles includes the management of Jemena's debt portfolio. I have three people working for me in the Treasury Department, one each in the front office, middle and back office. I report to the company's Chief Financial Officer.

2 Educational background and professional experience in the finance sector

2.1 In 1989 I completed my Bachelor of Business Administration with honours from Acadia University in Canada and have been working in banking and debt markets for the last 18 to 19 years. My first job was as a dealer in the Securities Trading and Distribution Unit of Citicorp Investment Bank in Singapore.

2.2 In 1993 I became the manager of Global Derivatives at the Standard Chartered Bank in Singapore, where I was responsible for structuring and marketing financial risk management products to corporates and financial institutions in South East Asia.

2.3 After completing my Masters in Finance at Macquarie University in 1994, I became a teaching fellow at Macquarie University, where I instructed Master of Applied Finance students in conjunction with the Institute of Banking and Finance and served as an advisory member of the Applied Finance Program in Singapore.

2.4 From 1995, I was the Vice President of Derivative Marketing South East Asia, a division within ABN AMRO Bank, Singapore, where I was responsible for generating revenue through the delivery of derivative based risk management solutions and capital advisory services to the bank's corporate and financial client base. I started the unit in 1995, developing the middle and the front office policies and procedures.

2.5 In 2000, I became the Head of Debt Capital Markets at Deutsche Bank, Singapore. Here I had responsibility for Deutsche Bank's Debt Capital Markets (DCM) product line. My responsibilities expanded in 2007 to include the Financial Institutions Group (FIG) . In this expanded role I was also responsible for bank and insurance capital issuance by FIG entities in Asia. The DCM group focuses on providing tailor made funding and risk management solutions to its top tier clients through the packaging of capital market solutions with derivative products including interests rate, foreign exchange and credit derivatives. I was also involved in assisting clients with capital structuring and ratings advisory, which focused on optimising a company's long term debt/equity mix, short vs. long term debt mix, dividend payout policy and optimal ratings levels.

2.6 Whilst at Deutsche Bank in Singapore, I was the Vice-Chairman and Treasurer for the Singapore Investment Bankers Association ("SIBA"), which was a collection of all investment banks in Singapore, representing the industry in its consultation with the regulators and other government bodies.

2.7 I have been on the Debt Capital Market Committee of SIBA since 2004. This Committee is concerned with promoting Singapore as a leader in capital raising for issuers in the debt market, and working closely with other relevant associations to promote the bond markets. I keep up to date with financial publications such as the UK Financial Times, the Wall Street Journal, Bloomberg and in the domestic environment through the Australian Financial Review.

2.8 Attached at **Attachment A** is my full CV which outlines the key debt deals including energy and non-energy sectors that I have worked on when in my previous roles.

3 My experience with the Capital Asset Pricing Model (CAPM)

3.1 During the course of my studies I learnt about the CAPM. I'm very familiar with the Sharpe model.

3.2 My view is that when you are talking about finance, a key requirement is the understanding of the concept of the time value of money and the valuation of cash flow streams. Finance in my world means the economic side of finance, understanding the net present value of an asset more so than the accounting and reporting aspects of finance which is equally important. I focus on interest rates in different markets across different countries over time in order to analyse cashflows from both an asset and a liability perspective and then discount them back to work out its net present value. In this context, CAPM provides the basis for determining the discount rate used in all these analyses.

3.3 We use the CAPM as a valuation tool to value cashflows and to make informed investment decisions. Since my studies I have used the CAPM model to help structure capital issuances, to work out what return insurance businesses and banks should get on their investments.

3.4 To date my roles have mostly allowed me to use the CAPM in a corporate context; however, I understand that the reason the CAPM is used in a regulatory context is to estimate the rate of return that should accrue to an asset if it was otherwise in a competitive market because that rate of return is similarly unobservable.

4 Jemena

4.1 Jemena's key assets were purchased from Alinta in 2007. Jemena owns the Eastern Gas Pipeline, VicHub, the Queensland Gas Pipeline, Jemena Gas Networks (NSW) and Jemena Electricity Networks (Vic) which are either regulated or unregulated energy network businesses.

4.2 In addition to these assets, Jemena also has an interest in:

- the ActewAGL distribution partnership (50%) which operates the regulated gas and electricity distribution networks in the ACT;
- AquaNet (100%), a recycled water joint venture;
- United Energy Distribution Electricity Network (34%) which is another regulated Victorian distribution business; and
- the TransACT telecommunications company (6.8%) which is an unregulated telecommunications and cable television business.

4.3 Jemena is wholly owned by SPI Australia Assets Pty Ltd which is in turn wholly owned by Singapore Power International Pte Limited ("SPI"). SPI, in turn, is a wholly owned subsidiary of Singapore Power Ltd ("SP").

5 Debt raising

Controls and reporting

5.1 We try not to have too much debt maturing in any one year because that would increase our "refinancing risk", meaning the risk that we couldn't obtain sufficient financing and run the risk of going into default.

5.2 Theoretically, there is a vast array of sources of funding alternatives outside of shareholder equity for a business like Jemena. One option is "perpetuals" or preference shares that can be either structured either with a call (meaning that the issuer is empowered to call and investors are returned their funds) or as a non-call (meaning that they cannot). For instance, a non-call 10 means that that the preference share will not mature within 10 years i.e. it cannot be called until at least 10 years after issuing and may even remain outstanding for a longer period of time. If no calls are made, the instrument stays on foot indefinitely and this is why these instruments are called "perpetuals".

5.3 Another instrument available is a "hybrid" meaning that it has a mixture of characteristics of both debt and equity. Debt because of a maturity date, but rather than paying interest it pays a dividend. A hybrid also ranks behind debt and before equity in terms of priority in a foreclosure or liquidation.

5.4 Then there is a wide array of bonds available. When issuing bonds you have a number of different options but basically you consider who you want to sell the bonds to, i.e. in which market or investor base. The nomenclature refers to which regulatory or documentary disclosure the bonds will be issued under. For instance bonds issued in the 144A market are subjected to US regulations applying to "Qualified Institutional Buyers", not individuals. These bonds are issued in US Dollars.

5.5 The Reg S market is used to sell bonds to investors residing or domiciled outside the US, predominantly in the Euro zone, Asia and the Middle East. The next most significant for issuers is the Sterling market. Then you can also target more specific markets such as the Japanese Yen market (which we call the "Samurai market"), the Singapore Dollar market and the Australian Dollar market (which, when you are sitting in a treasury outside Australia, are often called "Kangaroo Bonds" or in Australia "Aussie domestic bonds"). By going to markets that are in different jurisdictions simultaneously, you create cross market pricing tension amongst the various investors.

5.6 Take for instance, the Kangaroo market or Aussie domestic market. There are a number of variations including different terms and whether the bond is issued by a local issuer or a foreign issuer. Jemena is a local issuer, but if someone like General Electric from the US wants to tap into the Kangaroo market they would likely pay a small premium.

5.7 In choosing between the various markets, price would be one dimension that you would have to consider; another would be the size of the debt raising; and "tenor" which means the term to maturity of the bond. A bond's tenor can range from 2 years to 30 years; however, different markets are likely to be 'deep' in different tenors. By 'deep' I mean that there will be a larger number of investors that want to buy bonds at that particular tenor. This is also called a 'sweet spot'. The 'sweet spot' is where you'll find substantial pools of investors in a particular maturity who can absorb larger quantities of debt issued before the appetite becomes exhausted and the cost rises for the issuer. Any market will have a range of investors each of whom has a particular preference for a bond with a particular tenor.

5.8 Looking first at the US market, banks dominate the shorter end of the debt markets and they are willing to lend from an over-night term up to about 5 years. 5 years is a "sweet spot" because that is also where US asset managers who invest in bonds are willing to begin to participate in a substantial way so at 5 years you have access to both banks and asset managers as buyers of your bonds. Asset managers manage substantial funds for superannuation funds and other parties and they prefer to purchase bonds with a tenor of 5 to 10 years. At about 10 years and

longer you will likely find insurance companies, pension funds, and super funds with very long-term liabilities which will prefer bonds with a longer tenor that matches their liabilities. So 10 years is another "sweet spot". They typically receive funds from young employees who will not access the money again until they reach retirement. There are also further "sweet spots" at 20 and 30 years.

5.9 Now looking more broadly at other countries outside of the US that remains the largest, deepest and most developed market is UK (or "Sterling" market). Although it is not as deep as the US, it is a market that offers issuers the ability to issuer longer dated bonds. The Singapore market has a sweet spot of around 10 years although you can issue 15 year bonds as well. Investors in the Aussie market do not buy longer dated bonds beyond 10 year bonds being the longest dated in the past. In the current market which is affected by the Global Financial Crisis, the tenor is probably more like 3-5 years.

Factors that determine how much to issue in any given market

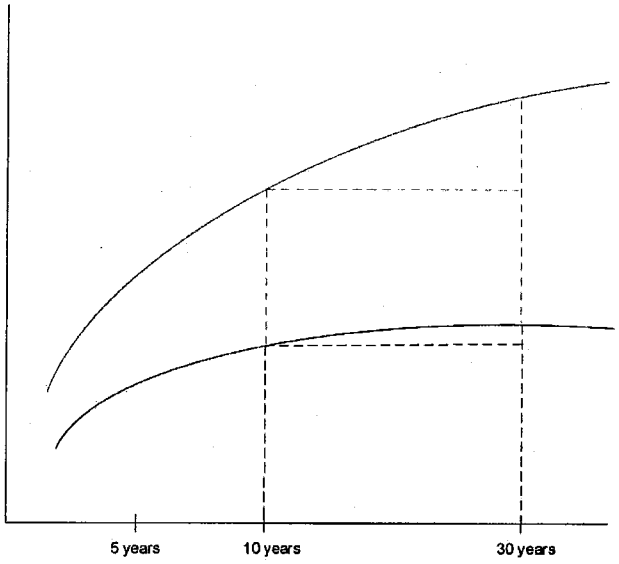
5.10 I have discussed the range of tenor and "sweet spots" above. Also, the size of the bond issue is important. If you were looking to refinance a large amount in the next 6 months or a year, and there is no credit available then you've got a big problem. So your strategy would be to break up the amount to be refinanced into benchmark sizes and spread them out over time. Each market will have a different propensity to purchase different benchmark sizes. The Australian market is an example of a market that very quickly exhausts its appetite for large bond issues so there is a limit of only about 200 million -300 million at any one point in time. Other markets are deeper but if you were not careful and locked yourself into having to raise substantial debt in the US market, even though it is the deepest market in the world, an issuer may still be subjecting itself to market risk. So, if you had $1 billion to refinance you might want to break it up and issue $500 million in one market and $500 million in another market, or you could got to the US market where you could refinance the whole lot all in one go. There is also a minimum efficient scale for a debt offering which varies from market to market. For instance, you wouldn't go to a market that has a benchmark size expectation of a minimum of $500 million if you are only looking to refinance $100 million.

5.11 In order to work out what markets you are going to go to, you will need to talk to the "book runner" at the bank(s) arranging the sale of your company's bonds. "Book running" was one of my previous roles at Deutsche Bank.

5.12 As a book runner, I was also often asked what is the appropriate timing to issue bonds which is the next important consideration when raising debt. Wherever possible, you don't want to be issuing a bond into a market at the same time as what other similar business with a similar rating are doing their issue. Seasonality also effects the demand for bonds. For instance you don't want to issue a bond in the US during their summer holidays, or on a day when the US Federal Reserve Bank is about to make a release because investors will be focused on what the Fed says and not on your bond issue. Similarly you would not want to issue a large quantity of Kangaroo bonds during the Christmas to Australia Day period when some investors are typically away.

5.13 Generally speaking in normal market conditions, the longer the term of the bond the higher the interest rate, so for a 30 year bond you would usually have to pay additional cost over the 10 year bond. This can be graphed for all maturities in a given market as a "yield curve" (see Figure 1 below). Over time, though, how much more you have to pay for additional tenor will vary. In some circumstances for limited periods of time the relativities reverse and a long dated bond can actually be cheaper than a short dated bond. This may occur when, say, a country's central bank is seeking to dampen an over-heated economy by raising short term interest rates.

Figure 1 – Yield curves



5.14 As noted above, the longer the term the better for a company like Jemena because it reduces refinancing or roll-over risk. However, because long dated bonds are more expensive than short dated bonds, I will always compare the pricing for different durations against my sense of the value over time and decide if locking in a longer term offers Jemena 'relative value for money' in extending the term to maturity.

5.15 In practice we take readings of price indications from several sources. We look at published prices for recent issues as well as secondary trading levels of our outstanding bonds or bonds of other issuers in the same industry to get a feel of what our issuance cost will be.

Jemena's current position and an optimal debt portfolio

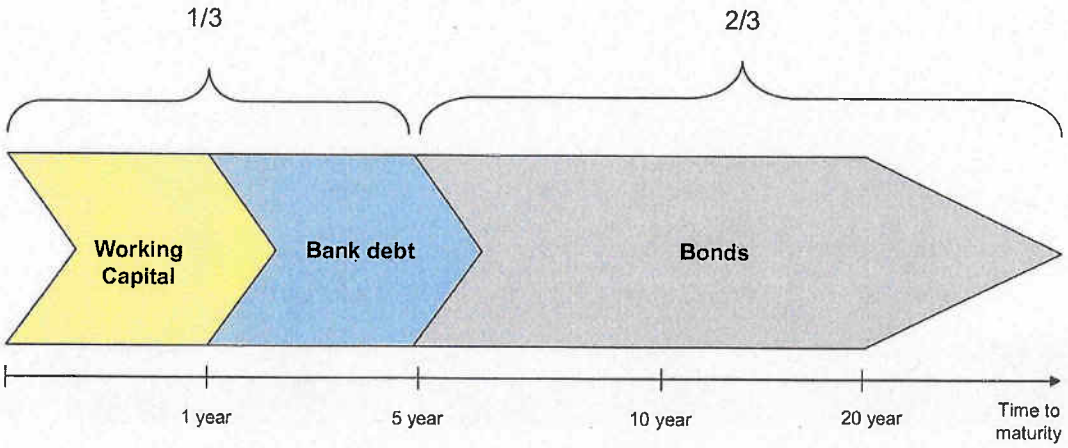
5.16 When a company undertakes a significant acquisition it is usually funded initially by bridge financing. Bridge finance is short term finance – typically up to 1 year. This provides an important degree of flexibility: if the business succeeds in obtaining the asset then it can enter into more permanent funding arrangements once the acquisition is complete. If, however, the deal is unsuccessful (as may be the case) then the company does not draw down the funding and the costs are much less than would be the case if it had raised long term debt by issuing bonds that was then not needed.

5.17 The portfolio of assets owned by Jemena has only recently been acquired and our current debt portfolio has not yet been finally structured post the acquisition.

5.18 I will describe the ideal portfolio of debt for this business that I would seek to enter if I had a "clean slate" with respect to the debt funding of this business.

5.19 If I was to create an "ideal" debt portfolio for Jemena, I would stretch out the average length of maturity of the debt as long as I could (subject to price) by refinancing using longer term bonds because this gives me certainty of funding and reduces my refinancing risk. Ideally I would have about a third of my portfolio financed through short term loans such as working capital bank loans. This provides me with both working capital and a buffer around my larger, long term bond issues so that I can look for a suitable time to issue long dated bonds rather than being locked in to issuing a new long term bond exactly when the previous one had to be re-paid. The remainder of my portfolio would be financed through instruments with longer terms to maturity. This is set out in the diagram below.

Figure 2: Ideal debt portfolio



5.20 Of my total debt, a relatively small portion would be facilities with a maturity of up to 1 year.

5.21 In terms of allocating the longer term portion of my debt, say I was looking at $2 billion, well I know the Aussie market wouldn't be able to digest an issue greater than $200-$300 million at one go and at the moment it would be difficult to get a term to maturity of greater than 5 years. So I might only put up to a maximum of $300 million with a 5 year maturity into the Aussie market.

5.22 The longer term debt could usually be sourced from the US Dollar, Euro or Sterling markets in lots of say US$500 million equivalent. I could try to issue the entire remaining amount in one particular market but I keep the price down by reducing the size in any one market. In other words, in order to minimize the cost of the issue I'll issue bonds where investors are hungry by maintaining cross jurisdiction pricing tension. When I am issuing bonds, meeting the regulatory re-set period is not a key issuance objective. The key objectives will be certainty of execution, size of issue, timing, tenor and price.

5.23 In summary, an ideal portfolio (not the only possible ideal portfolio) would, say, be comprised of the following instruments:

Instrument	**$A equivalent**	**%**
364 Day Working Capital	$100m	2.8
Bank debt ($400m: 3 yrs $400m: 5 yrs)	$1000m	28.75%
Australian bond (5 year)	$300m	8.5%
US bond (10 year)* EUR bond (10 year)* * *These would ideally be maturing at different times, say 5 years apart from each*	$1,000m	28.5%

Instrument	$A equivalent	%
other		
UK bond (20 year)	$500m	14.0%
US bond (30 year)	$600m	17.0%
Total	*$3,500m*	*100.0%*

5.24 On that basis the weighted average of the value of debt in each maturity bracket is greater than 12 years.

Hedging

5.25 We also undertake hedging. Hedging is like an insurance policy against certain risks. For example we have currency hedges when we issue bonds in currencies other than Australian dollars. Similarly we also hedge against interest rates moving away from that forecast. In hedging interest rates one of the factors that we consider for that part of our asset base that is regulated is when the AER sets our revenue reset because our regulated revenue cashflows are derived from the interest rate used for the regulatory reset.

5.26 One point to note with interest rate hedging, we can hedge the risk that the Australian Bank Bill Swap Rate moves up or down but Jemena does not borrow at that rate and there is an additional premium that we pay above the bank bill rate which is linked to our credit rating (discussed at paragraphs 5.13 to 5.15 above). Although we can hedge movements in the bank bill rate, we cannot effectively hedge changes in the premium payable above the bank bill rate as this is driven by market forces such as investor demand.

Deloittes Report

5.27 I am aware that the Australian Energy Regulatory (**AER**) commissioned Deloittes to produce a report which is annexed to the AER's Explanatory Statement that I understand makes some observations on debt raising for energy network companies. I understand that Deloittes spoke to a number of "market makers" in putting the report together but Deloittes did not contact me either about Jemena specifically or about debt markets generally in connection with their report.

6 Credit ratings

6.1 I am involved in briefing credit ratings agencies because the ratings agencies are interested in our treasury operations and in particular, ratings agencies are interested in understanding our financing strategies. Jemena has an A- credit rating with Standard & Poors and an A3 rating with Moody's.

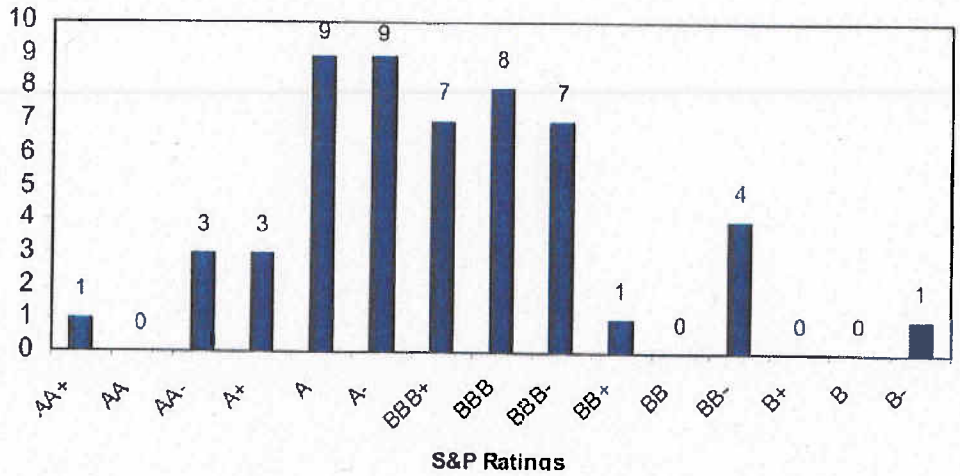
6.2 I have read what they have written about us. I also read their reports that summarise credit ratings in particular sectors such as the RatingsDirect document **Attached**. Our credit rating is based on the business that we are in (the regulated energy network industry) and an assessment of whether we are managing our exposures as well as others in that industry. However, the rating is also partly a result of the ownership structure. As set out above, Singapore Power (AA-/Aa3) ultimately has a 100% holding in Jemena. I understand from their ratings reports that we have the benefit of a ratings uplift that takes into account our ownership by a more highly rated parent.

6.3 Below is a list of companies in the utilities sector in Asia Pacific and their credit ratings and is also reproduced in Graph 1.

Electric Utilities Names	Country	S&P
AGL Energy	Australia	BBB / Stable
Cheung Kong Infrastructure Holdings Ltd.	HK	A- / Stable
CitiPower Trust (The)	Australia	A- / Stable
CLP Holdings Ltd.	HK	A- / Stable
CLP Power Hong Kong Ltd.	HK	A / Stable
Contact Energy Ltd.	NZ	BBB / Stable
DUET Group	Australia	BBB- / Stable
ElectraNet Pty. Ltd.	Australia	BBB+ / Neg
Electricity Generating Authority of Thailand (EGAT)	Thailand	BBB+ / Neg
Energy Partnership (Gas) Pty. Ltd.	Australia	BBB- / Stable
Envestra Ltd.	Australia	BBB- / Negative
Envestra Victoria Pty. Ltd.	Australia	BBB- / Negative
Ergon Energy Corp. Ltd.	Australia	AA+ / Stable
ETSA Utilities Finance Pty. Ltd.	Australia	A- / Stable
GasNet Australia (Operations) Pty. Ltd.	Australia	BBB / Stable
Genesis Power Ltd.	NZ	BBB+ / Stable
Hong Kong Electric Finance Ltd.	HK	A+ / Stable
Hongkong Electric Co. Ltd.	HK	A+ / Stable
Hongkong Electric Holdings Ltd.	HK	A+ / Stable
Korea Electric Power Corp.	Korea	A / Stable
Korea Gas Corp.	Korea	A / Stable
Korea East-West Power Co. Ltd.	Korea	A / Stable
Korea Hydro & Nuclear Power Co. Ltd.	Korea	A / Stable
Korea Midland Power Co. Ltd.	Korea	A / Stable
Korea South East Power Co. Ltd.	Korea	A / Stable
Korea Southern Power Co. Ltd.	Korea	A / Stable
Korea Western Power Co. Ltd.	Korea	A / Stable
Manila Electric Co. (Meralco)	Philippines	B- / Stable
Meridian Energy Ltd.	NZ	BBB+ / Stable
Mighty River Power Ltd.	NZ	BBB+ / Stable
National Hydroelectric Power Corp. Ltd. (NHPC)	India	BBB- / Stable
National Power Corp. (Napocor)	Philippines	BB- / Stable
National Thermal Power Corp. (NTPC)	India	BBB- / Stable

Powerco Ltd.	NZ	BBB / Stable
Powercor Australia LLC	Australia	A- / Stable
Powerdirect Australia Pty. Ltd.	Australia	BBB / Stable
PT Perusahaan Listrik Negara (Persero)	Indonesia	BB- / Stable
PT Perusahaan Gas Negara (Persero) Tbk.	Indonesia	BB- / Stable
Samchully Co. Ltd.	South Korea	A- / Stable
Singapore Power Ltd. (SingPower)	Singapore	AA- / Negative
SPI Australia Holdings (Partnership) L.P.	Australia	A- / Negative
Snowy Hydro Ltd.	Australia	BBB+ / Stable
SP PowerAssets Ltd. (SPPA)	Singapore	AA- / Negative
SPI Electricity & Gas Australia Holdings Pty. Ltd.	Australia	A- / Negative
SPI PowerNet Pty. Ltd.	Australia	A- / Negative
Tata Power Co. Ltd.	India	BB- / Stable
Tenaga Nasional Berhad (Tenaga)	Malaysia	BBB / Stable
Towngas China Co. Ltd.	China	BBB- / Stable
Transpower Finance Ltd.	NZ	AA- / Stable
TRUenergy Holdings Pty. Ltd.	Australia	BBB / Negative
United Energy Distribution Pty. Ltd.	Australia	BBB / Stable
Vector Ltd.	NZ	BBB+ / Stable
XinAo Gas Holdings Ltd.	China	BB+ / Stable

Graph 1: Asia Pacific Utilities Ratings Distribution



7 The effect of the Global Financial Crisis

7.1 Above I outlined my ideal debt structure in a perfect world, however, this is not the economic environment that we are currently operating in.

7.2 The credit crisis started in late 2007 but the height of the crisis came in the last quarter of 2008 when businesses like AIG and Merrill Lynch and a host of other banks got into difficulties. At the height of the crisis the debt market in Australia was shut. Other markets were shut by varying degrees.

7.3 This has changed since the government guarantees have propped up the banking system. There was a little trickle of life where the banks started getting the guarantees from the central banks but this started to take effect in Australia only in December. Most of the banks were AA or AA- rated but with the government backing their bond issues are AAA rated.

7.4 The credit markets started easing up as a result of the government intervention. In the UK they reopened in November – December because the banks started getting funds and were able to lend those funds out. The Aussie banks were a little later in easing up. This was the result of uncertainty surrounding how the federal guarantee structure would work. Once that was resolved, Aussie banks started issuing both domestically and internationally. At the moment it is only the five year bond market that is open but this will become longer as asset managers and insurance companies start coming back into the market. Prices are likely to remain high for some time because there is a lot of pent up supply and this will take a while to dissipate.

8 Conclusion and observations

8.1 I understand that regulators choose a single benchmark tenor when considering our cost of debt. I have explained that we have a portfolio of different debt instruments with some being shorter and some being longer so what the regulator does if they chose a single number is a gross over simplification that does not take into account the dynamics and characteristics of the markets that are providing us with the capital. If I was to choose a single number:

(a) I would start by considering what are the "sweet spots" in the capital markets. As noted above, the sweet spots are: 5 years; 10 years; 20 years or 30 years (depending on the particular market).

(b) I would be most comfortable using the 10 year benchmark because it is a reasonably long tenor to fund our long term assets and is also the part of the market with the deepest pool of investors in most of the major debt markets – US$, EURO, Sterling etc.

Sim Buck Khim

Head of Treasury, Jemena