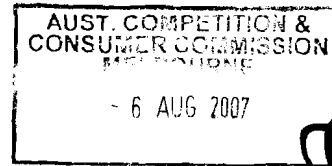


2 August 2007



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

FILE No	
	D07/1782
REVISION:	

Dear Mr Pattas

Bias in the Risk Free Rate

Thank you for providing ENERGEX Limited (ENERGEX) with the opportunity to make comment on NERA Economic Consulting's (NERA) Reports in relation to the relative and absolute bias associated with the use of raw yields on Commonwealth Government Securities in estimating the risk-free rate.

ENERGEX notes the compelling case that NERA has put forward, in support of its argument for the need to apply corrective adjustments in order to remedy the bias. In this context, ENERGEX is of the view that Australian Energy Regulator should consider this matter in the course of its regulatory decision-making given there is:

- a strong theoretical basis for the trend, supported by empirical studies in academic journals ;
- a general recognition and acceptance of this bias on the part of financial market participants and institutions such as the Reserve Bank of Australia; and
- regulatory precedent in other international jurisdictions.

Should you have any further questions in relation to this matter, please refer them to Steve Williams, Regulatory Affairs Manager – Operations on (07) 3407 4354.

Yours sincerely

Kevin Kehl
Director Revenue Strategy

Enquiries
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