



DUET Regulation

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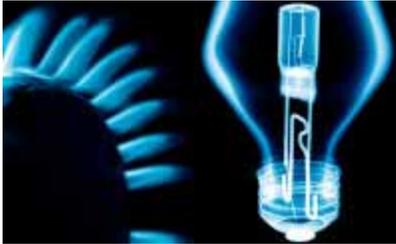
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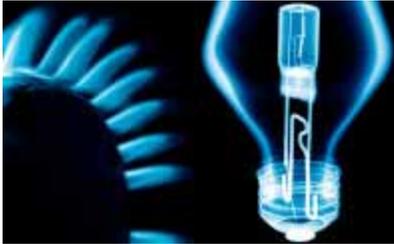
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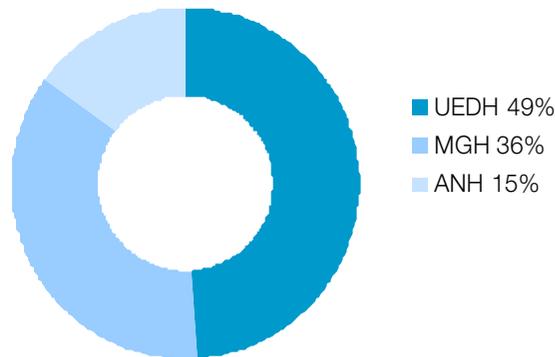
Appendix - UED Cost of Capital



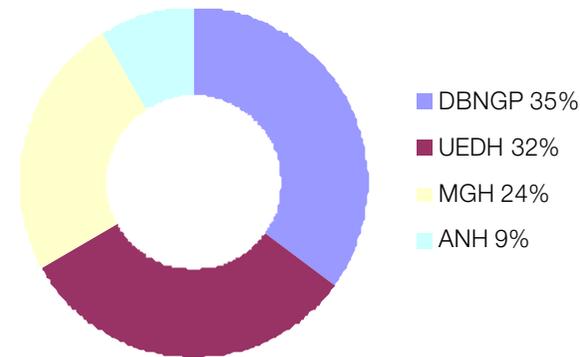
DUET Overview

- ❖ Post DUET's 60%¹ acquisition of the Dampier to Bunbury Natural Gas Pipeline and associated assets (DBNGP) it has diversified its regulatory exposure
- ❖ The DBNGP Group has entered long term gas transportation agreements with the major shippers. The tariffs agreed under these contracts apply until 2016 when they revert to the Regulated Tariff
- ❖ DUET's other assets have the following regulatory resets—AlintaGas Networks 1 Jan 2005²; UED 1 Jan 2006; Multinet 1 Jan 2008

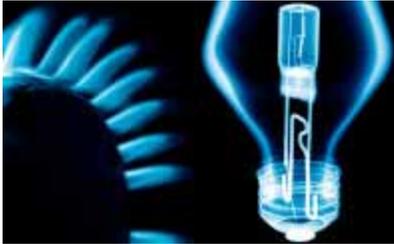
DUET ASSET MIX—PRE DBNGP ACQUISITION



DUET ASSET MIX—POST DBNGP ACQUISITION



1. On a fully diluted basis, initially 89%
2. Extended to 31 January 2005



DUET Overview

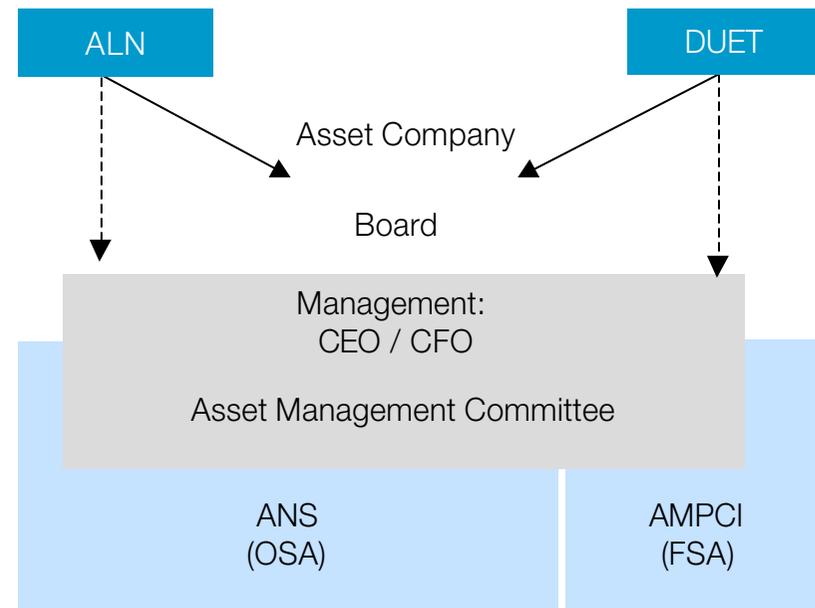
Management Structure

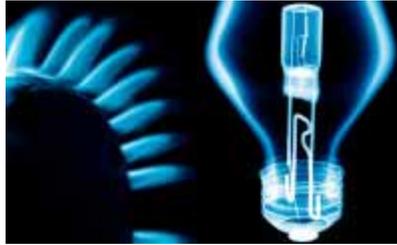
DUET's operational management structure incorporates the use of a central Management Committee which brings together the considerable experience of the respective service providers and shareholders to our principal assets.

ASSETCO MANAGEMENT COMMITTEE BENEFITS

- ❖ Pulls together key resources
- ❖ Integrated management structure
- ❖ Dedicated regulatory oversight

UED & MULTINET MANAGEMENT STRUCTURE





DUET

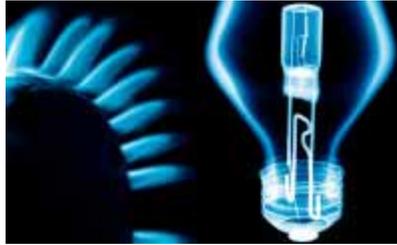
Regulatory Objectives

AMP capital
INVESTORS



DUET has five high level objectives for managing regulatory affairs in its assets

1. Ensure we earn a good corporate reputation—good customer service and management of regulatory relationships
2. Maximise value/revenue within the current regulatory framework
3. Actively participate in the development of the regulatory framework
4. Minimise the risks and cost impost associated with technical regulatory changes
5. Diligently manage regulatory compliance



Price Regulation

Development in Australia

Price regulation has not evolved as many expected however the Productivity Commission presents an opportunity for review

- ❖ Pre 1994 AGL (NSW gas) was the only regulated energy utility
- ❖ 1993 Hilmer report
- ❖ 1994/95 Establishment of Victorian regulatory model
- ❖ 1997 National Gas Code
- ❖ 1998 National Electricity Code
- ❖ 2003 & 04 Productivity Commission review of national access regime and gas code
- ❖ 2004 & 05 COAG reform arrangements



Price Regulation

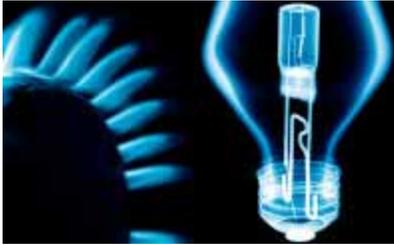
Development in Australia

- ❖ Price regulation in its current form commenced around 1995
 - “First generation” price regulation for Australian utilities
- ❖ Regulation is more “intensive” than it was expected to be
- ❖ We are now in the “post implementation review” phase



The current reforms present an opportunity to continue the evolution to true price regulation

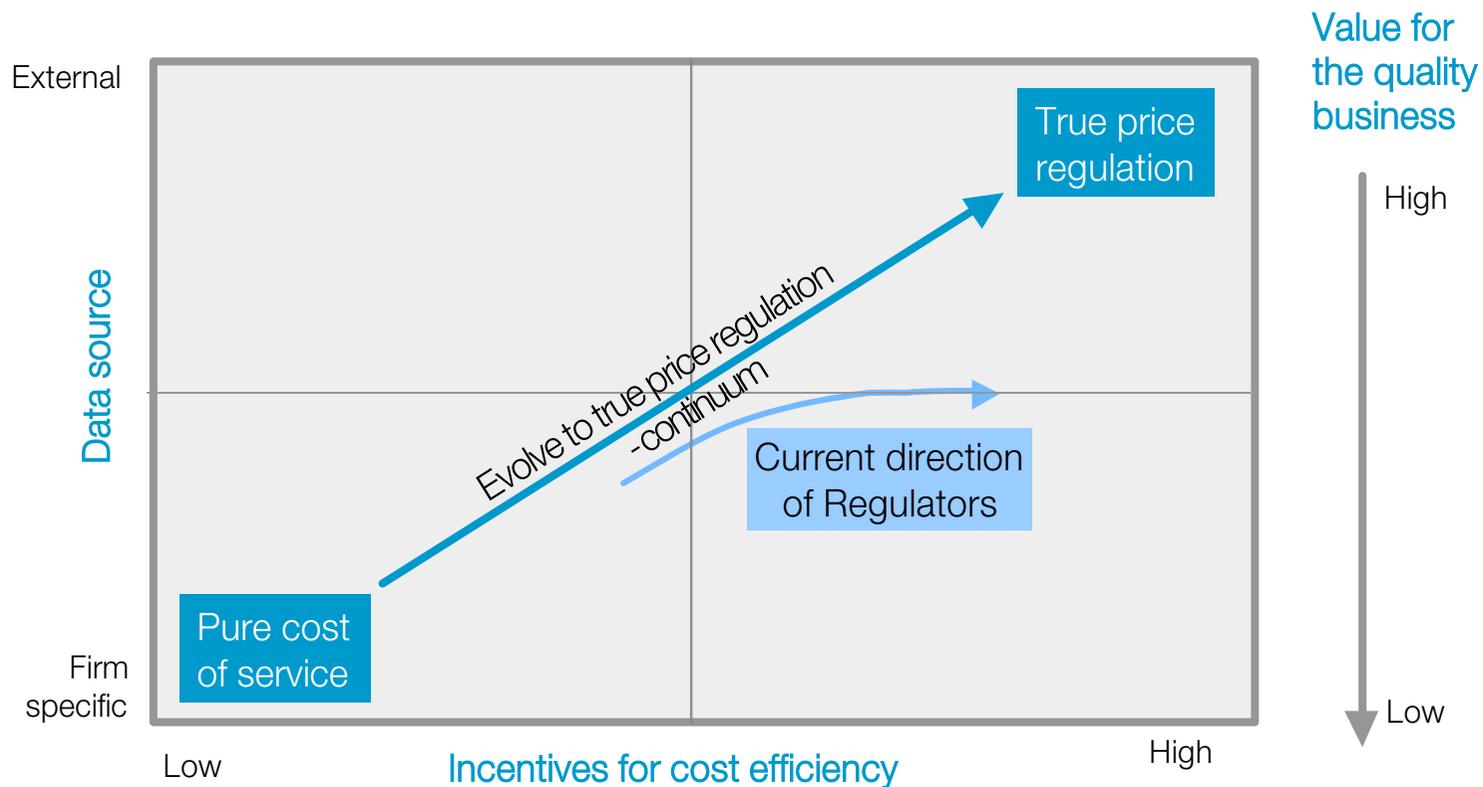
- ❖ ESC considering Total Factor Productivity (TFP) approach
- ❖ Productivity Commission review of gas code/price monitoring
- ❖ National Regulator to apply from 2005 – electricity distribution from 2006/07
- ❖ Epic and GasNet appeals

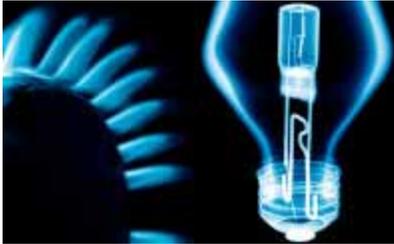


Price Regulation

The Challenge

- ❖ Economic theory says good price regulation sets prices externally to the firm
- ❖ Current model is a hybrid which uses synthetic efficiency drivers



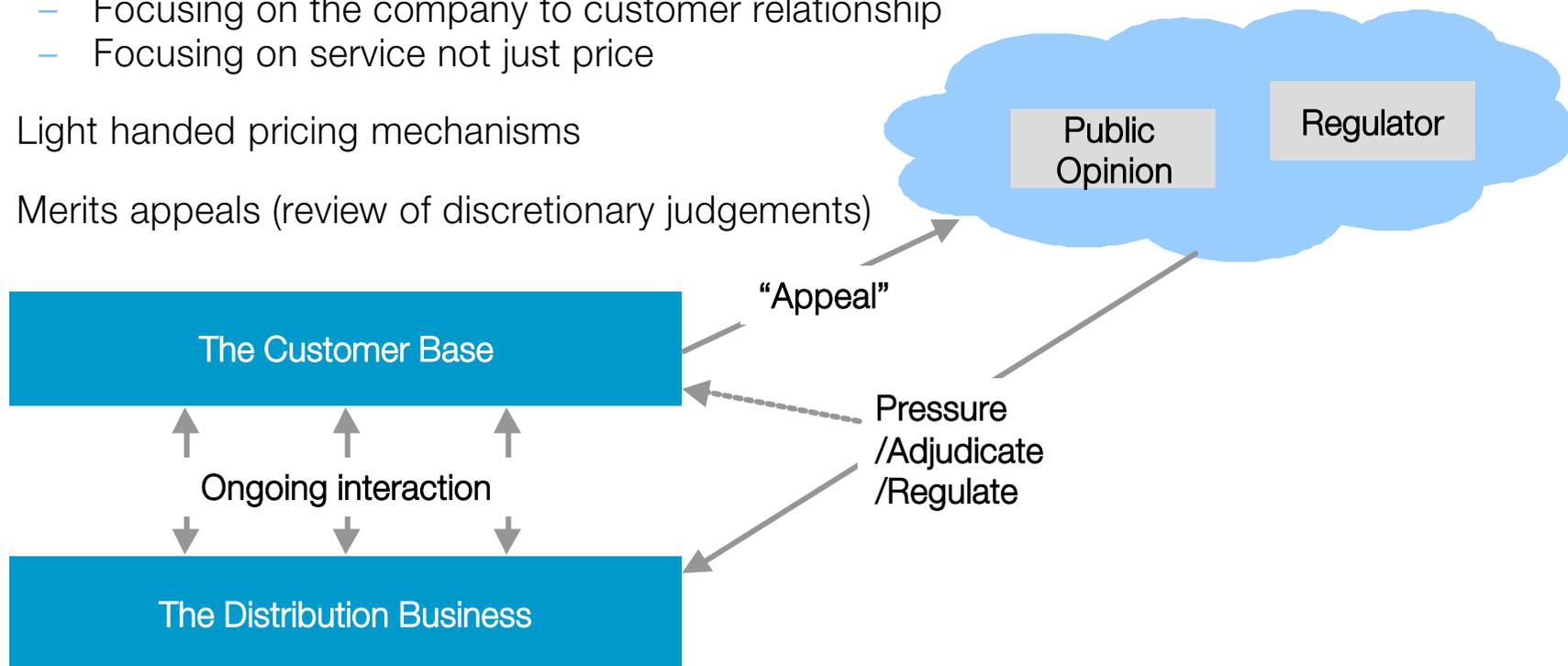


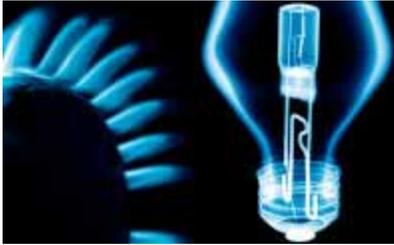
Price Regulation

How it can Evolve

Best practice regulation includes:

- ❖ Clear objectives in legislation
- ❖ Clear administrative process in legislation
- ❖ “Propose/respond” model
 - Focusing on the company to customer relationship
 - Focusing on service not just price
- ❖ Light handed pricing mechanisms
- ❖ Merits appeals (review of discretionary judgements)

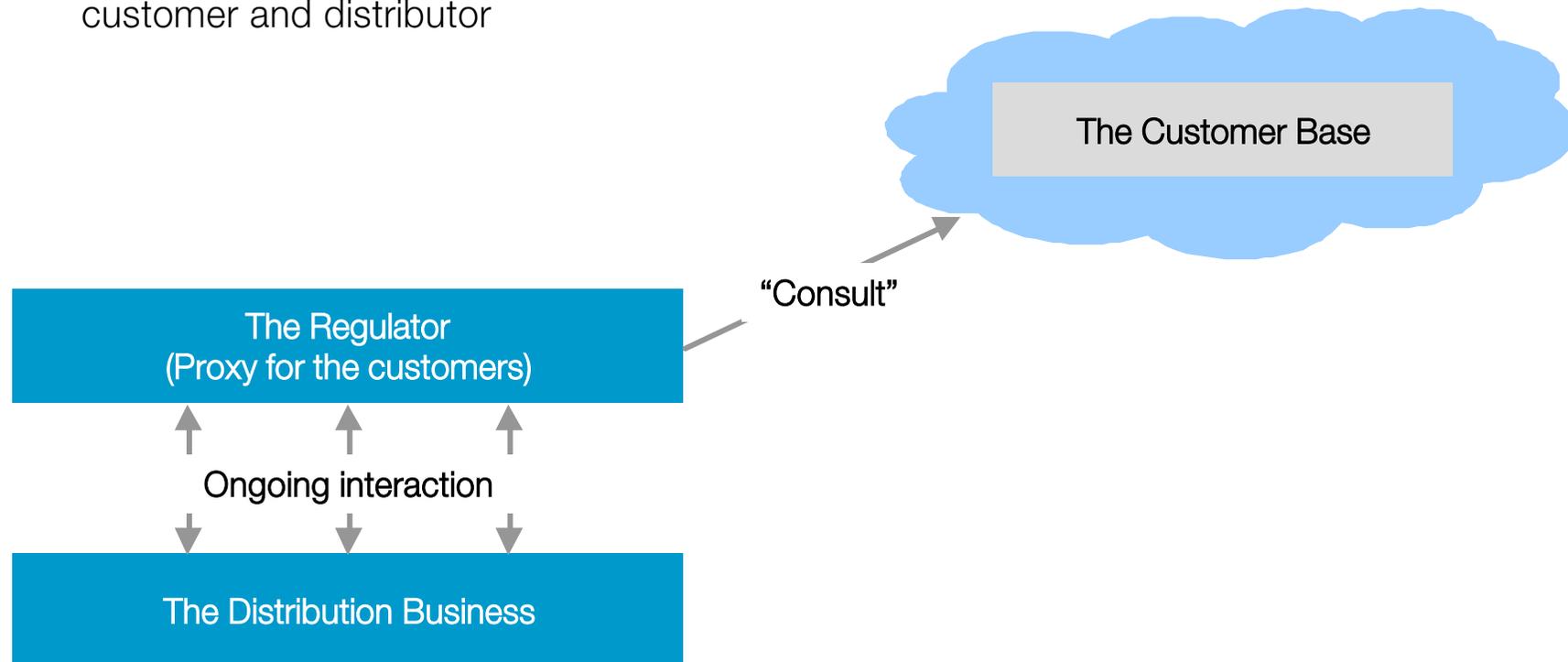




Price Regulation

How it is working

- ❖ Current electricity framework sees regulator setting service standards and price
- ❖ This framework puts the regulator between the customer and distributor





DUET Assets

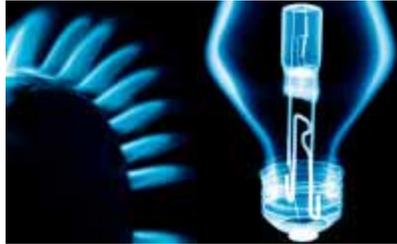
UED Electricity Distribution Price Review (EDPR)



Current arrangement expires 31 December 2005

Regulator Essential Services Commission

Process	❖ UED— Price service proposal to ESC	21 October 2004
	❖ ESC EDPR—issues paper	December 2004
	❖ Draft decision expected	Early June 2005
	❖ Submissions in response to draft decision	Mid July 2005
	❖ Final decision expected	Late August 2005
	❖ Commencement of new price controls	1 January 2006



DUET Assets

UED EDPR

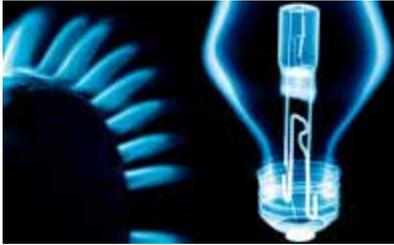
UED's price service offering seeks to align interests of shareholders and customers, building on quality service to customers and the community

UED KEY PRINCIPLES

- ❖ Culture of customer service and reliability
- ❖ Proven reliability improvements
- ❖ Strong asset management principles
- ❖ Co-operative relationship with the ESC
- ❖ Committed to best practice regulatory environment

UED PRICE SERVICE OFFERING

- ❖ Reliability and service levels—demand management
- ❖ Community focused initiatives—undergrounding/technology fund
- ❖ Skilling for the future
- ❖ Pricing—P0 of 9.5%

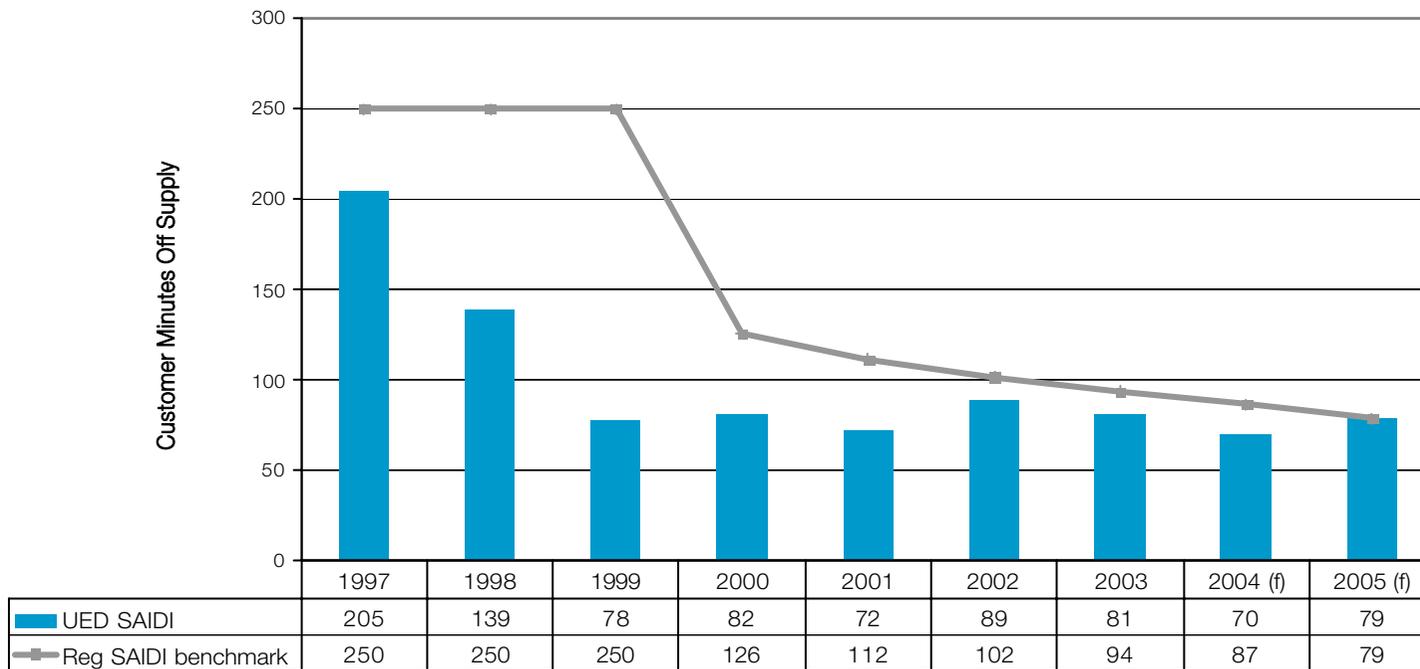


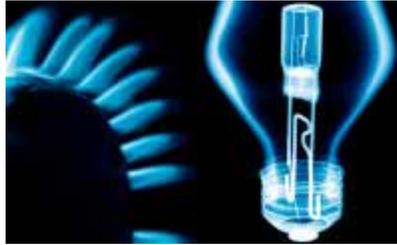
DUET Assets

UED Reliability and Service Levels

- ❖ \$36m of improvements already returned to customers for 2001 – 2003 period

Customer Minutes Off Supply (SAIDI)





DUET Assets

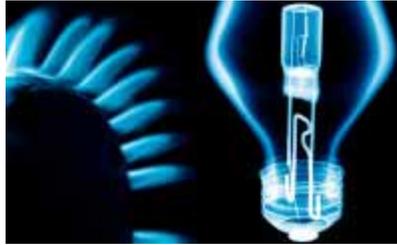
UED Community Focused Initiatives

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- ❖ Black spots
 - Pilot scheme in conjunction with Victorian Roads to reduce the number of injuries in road crashes
 - Empirical data available highlighting areas with multiple accidents
 - State-wide community cost of \$160m pa for collisions involving poles

- ❖ Community undergrounding
 - Strong community acceptance
 - Long term program - small first step
 - Work with community groups



DUET Assets

UED Community Focused Initiatives (Cont'd)

AMP capital
INVESTORS



- ❖ Technology Development Fund
 - Demand side management initiatives
 - Reliability and quality of supply
 - Environmental management
 - Work with industry and appropriate institutes
- ❖ Work with ESC to formalise principles and rules
- ❖ UED prepared to guarantee commitment to total program



DUET Assets

UED Other Issues

Each price review highlights a number of key industry wide issues - below are the issues in play during the current EDPR process

- ❖ Capital expenditure
 - Asset management
- ❖ Operating expenditure
 - Related party transactions
- ❖ Electrical safety
- ❖ Interval meters
- ❖ WACC



DUET Assets

UED Key Takeaways

KEY TAKEAWAYS

- ❖ This is a long process
- ❖ The regulator's draft decision will likely set a lower bound
- ❖ WACC is not the only parameter in the process
- ❖ There is the possibility the EDPR will end in an appeal



UED has modelled a range of outcomes for the EDPR and while there are many uncertainties in the future (not just this EDPR) our modelling shows that DUET can maintain distributions through a range of expected EDPR outcomes



DUET Assets

AGN & Multinet & DBNGP

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INVESTORS



- ❖ AlintaGas Networks
 - Currently in access arrangement process
 - Date for final decision formally extended to 31 January 2005
 - Further extension expected
 - Waiting on draft decision

- ❖ Multinet
 - Next access arrangement takes effect 2008
 - Last review saw price increases (CPI + 0.9%)
 - Mature regulatory asset—2008 will be 3rd access arrangement

- ❖ DBNGP
 - Access arrangement lodgment 21 January 2005
 - ERA to assess by 1 July 2005
 - Impact of proposed access arrangement on revenue low
 - » 95% of revenue secured by long term take or pay contracts to 2016



Conclusion

DUET is characterised by:

- ❖ A stable, predictable and sustainable distribution profile
- ❖ The potential for income growth through existing and additional assets
- ❖ Well positioned to participate in further sector rationalisation
- ❖ Supported by the reach and resources of AMP/Macquarie joint venture

KEY DATES 2005

Half Year results	28 February
Interim Distribution paid (13.5¢ per stapled unit)	2 March
Full Year results	30 August*
Final Distribution paid	2 September*
AGM	November*
* TBC	

Appendix

UED Cost of Capital

UED has submitted a real vanilla WACC of 6.7%

PARAMETER	VALUE	BASIS
Real risk-free rate	2.8%	This estimate is based on the average rate in recent times. UED understands that the Commission will apply the 20 day average of the implied yield on a notional ten year indexed linked bond at the time of its decision.
Market Risk Premium (MRP)	6% - 8%	UED has used the long term historical average for Australia as the basis for estimating the MRP because it is demonstrably more statistically robust than the other approaches available.
Equity Beta	1.0	<p>The choice of an equity beta of 1.0 reflects consideration of the following factors:</p> <ul style="list-style-type: none"> • The challenges of beta estimation in general and the guidance from a theory that is not strongly supported by empirical evidence; • The challenges of beta estimation derived from 'empirical' analysis, given the limited information available and the high measurement errors associated with these estimates; • The high degree of volatility observed in current empirical estimates; • The collective outcomes of recent regulatory decisions in Australia in relations to gas and electricity distribution' and • The fact that the equity beta is used to set a rate of return that will apply to UED for a period of five years.
Gearing	60% debt to Total Assets	This estimate is consistent with available market evidence and regulatory precedents in Australia
Debt Margin	151 – 171 basis points	These values represents a range of the costs that would currently be incurred by an efficiently-financed BBB to BBB= rated, 60% geared electricity distribution business. It includes an allowance for (non-margin) debt-raising costs and the costs of expanded credit spreads that would be incurred in issuing index-linked debt.
The value of imputation credits	30%	This is based on independent empirical evidence of the value of imputation tax credits to the marginal investor in large companies in Australia with substantial foreign investment.
Treatment of diversifiable risks	Expected value cash flows	UED has accounted for diversifiable risks in the cash flows, where possible, in accordance with the method now preferred by the Commission.