Cheung Kong Infrastructure Holdings Limited
長江基建集團有限公司
(Incorporated in Bermuda with limited liability 於百慕達註冊成立之有限公司)

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26 September 2008

30/9/08

Mr Chris Pattas
General Manager
Network Regulation South Branch
Australian Energy Regulator
GPO Box 520
Melbourne Vic 3001

Dear Chris

AER Review of WACC parameters for Electricity Transmission and Distribution

Cheung Kong Infrastructure Holdings Limited (CKI) welcomes the opportunity to make this submission to the Australian Energy Regulator's (AER) review of the weighted average cost of capital (WACC).

CKI is a public company listed on the Hong Kong Stock Exchange and is the largest infrastructure company in Hong Kong. It provides transport, water and energy infrastructure services across Hong Kong, Australia, New Zealand, China, the United Kingdom, Canada and the Philippines. CKI is the largest private investor in electricity network businesses in Australia and has significant interests in three electricity distribution businesses: namely, ETSA (acquired in 2000) in South Australia, Powercor (acquired in 2000) and CitiPower (acquired in 2002) in Victoria, and a small interest in Envestra. CKI is one of the listed companies of the Cheung Kong Group, which has a total market capitalisation of approximately HK$717 billion (AU$111 billion).

CKI has been and will continue to be a long term, responsible investor in infrastructure assets. Our depth of infrastructure experience and the breadth of our investments means that the relative approach taken by regulators to allowed rates of return across our portfolio of regulated infrastructure assets is a very prominent factor in our investment decision making and so provides a unique perspective for the AER's review.

The AER Review

A critical priority for this review is to ensure that the arrangements for the determination of the WACC parameters are the outcome of measure and reason as to the approach to be used, thereby delivering regulatory certainty as to the rates of return to be applied over the medium to long term life of network assets.

CKI's focus on long term infrastructure asset investment means that it is well placed to provide a practical perspective to the AER on the factors that are taken into account by private investors when making network investment decisions. An appreciation of this perspective is important as the AER considers both its approach to the WACC parameter review, and whether changes to any of the parameters are justified.

In general, investors in electricity network businesses take account of:

- expectations of future cash flows and thereby the likelihood that a return to investments will be achieved that is commensurate with the risks involved;
- future risks and uncertainties that may affect the financial performance of the business, for example changes to government policy such as the introduction of the carbon pollution reduction scheme;
- the stability, predictability, certainty and transparency of the regulatory arrangements, particularly in relation to the approved rate of return; and
- the returns for alternative infrastructure investments, whether in Australia or elsewhere, particularly where these returns are higher or more predictable.

The regulatory framework for determining the WACC and its associated parameters are important considerations when assessing expected cash flows and the transparency of the regulatory arrangements. There are considerable benefits from having a stable and predictable framework. Stability of the WACC framework is now embodied in the rules by a requirement that the AER have persuasive evidence before adopting a parameter value that differs from previous values.

This effectively constrains the AER's discretion to vary WACC parameters to circumstances where there is significant and compelling evidence to support a change. This element of the regulatory framework for WACC is central to promoting efficient network investment.

The scope for government policy changes to affect the financial returns to network businesses adversely is also a particular concern for private network investors. The current proposals to introduce a carbon pollution reduction scheme (CPRS) and the expansion of the national renewable energy target (RET) are likely to have significant network investment implications. Both of these policies are designed to reduce the carbon emissions of generation, and will most likely lead to an increase in distributed generation, and the need for significant transmission network expansion.

It is important for the AER to acknowledge that rates of return that are not sufficient to compensate for all of the risks facing networks will result in lower than appropriate network investment, to the ultimate detriment of the Australian economy. In light of the considerable contribution electricity networks make by distributing electricity, which is a major input to business throughout Australia, the costs associated with inadequate investment leading to reduced network reliability are likely to be significant. The AER should therefore ensure that rates of return are sufficient to encourage ongoing private sector investment in the NEM, and are consistent with market conditions prevailing at the time the decisions are made.

Balance in the Regulatory Debate and the Current Market Environment

CKI acknowledges that there is considerable uncertainty surrounding the evidence for any particular WACC parameter. To combat the inherent uncertainty in the evidence, regulatory certainty as to the parameters to be used becomes extremely important. Investor confidence, and thereby network investment will be compromised by changes in WACC parameters that are not supported by changes in the fundamental market conditions. In previous jurisdictional regulatory assessments of the rate of return, concerns around consumer affordability have led to regulators systematically reducing rates of return so that they are now out of line with market conditions. It has been assumed that there is no cost to consumers from the continual reductions in allowed rates of return. This is of course incorrect.

The reduction in allowed returns has been in an environment of under rather than over private sector investment. It is likely that any further reductions will place at risk the necessary infrastructure investment that is required from the private sector over the next decade.

This review provides an opportunity to bring balance back into the regulatory debate by focusing on the evidence as it relates to each individual parameter, and the interactions between them.

The current market environment demands greater than usual caution. As the availability of finance tightens, the scope to access finance for relatively low performing investments will likely reduce.

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In the context of competing opportunity for capital in the international market place and having regard to the current market environment, business is looking at signals from the AER as to whether they are seeking private sector investment in Australian infrastructure.

The shift in the regulatory framework so that the AER now has sole responsibility for determining WACC parameters is a very positive step towards improving the certainty associated with allowed rate of return outcomes and thereby encouraging investment. The AER's current review will inevitably set the tone for future WACC parameter reviews, since it will establish a precedent as to the strength of the evidence for changing existing parameter values.

To promote private investment in network businesses, CKI supports the AER taking a measured and cautious approach to its examination of the evidence.

The enduring benefits to network investment and thereby the Australian economy from such an approach will be profound. The challenge for the AER will be whether it can be an effective guardian of a stable regulatory framework.

Should you have any questions arising from this submission, or would like to discuss a long term investors' perspective further, please do not hesitate to contact me.

Yours sincerely

Andrew Hunter
Executive Director and Chief Operating Officer

Market Capitalization of Cheung Kong Group
As at September 25, 2008

Company	Stock Code	Share Price	Issued Shares	Market Cap (HK$)	Ex-Rate	Market Cap (A$)
CKH	1	94.8500	2,316,164,338	219,688,187,459	6.47500	33,928,677,600
HWL	13	62.1500	4,263,370,780	264,968,493,977	6.47500	40,921,775,132
CKI	1038	34.9000	2,254,209,945	78,671,927,081	6.47500	12,150,104,568
HKE	6	47.7000	2,134,261,654	101,804,280,896	6.47500	15,722,668,864
CKLS	775	0.3100	9,611,072,400	2,979,432,444	6.47500	460,144,007
Harbour Ring	715	0.5900	8,949,856,707	5,280,415,457	6.47500	815,508,179
Tom Group	2383	0.4050	3,893,270,558	1,576,774,576	6.47500	243,517,309
Hutchison Telecom	2332	8.7500	4,786,246,209	41,879,654,329	6.47500	6,467,900,282
				716,849,166,218		110,710,295,941