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22 February 2010

Mr Chris Pattas
General Manager Network Regulation South
Australian Energy Regulator
Level 35, 360 Elizabeth Street
MELBOURNE VIC 3000

Dear Mr Pattas

REGULATORY PROPOSAL SUPPORTING INFORMATION - THETA

I refer to CitiPower's and Powercor Australia's Regulatory Proposals submitted to the Australian Energy Regulator (**AER**) on 30 November 2009.

In those Regulatory Proposals CitiPower and Powercor Australia provided evidence that the value of theta, estimated using the dividend drop off method, is 0.23 based on the work of Strategic Finance Group (**SFG**). In the South Australian Draft Decision the AER expressed some reservations around the reliability of the data used in the SFG study. ETSA Utilities has provided CitiPower and Powercor Australia with the information it provided to the AER in response to the Draft Decision.

This information confirms that the concerns raised by the AER in relation to the SFG study are not material and do not have a significant impact on the results contained in the SFG analysis. Therefore the lower bound estimate of theta of 0.57 is inappropriate, and instead the correct lower bound estimate of theta is 0.23. Accordingly, taking the correct lower bound theta value of 0.23, and the upper bound theta value of 0.74 set out in the WACC Final Decision, and applying the methodology adopted by the WACC Final Decision to select a point estimate of theta from the reasonable range, the correct theta value is 0.5.

Attached is the information provided by ETSA Utilities which CitiPower and Powercor Australia provide as supporting evidence for their Regulatory Proposals.

If you have any further queries in the interim, please do not hesitate to contact me on 03 9683 4465.

Yours sincerely

[signed]

Brent Cleeve
MANAGER PRICE REVIEW