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20 January 2016

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

By email: chris.pattas@aer.gov.au

Dear Chris

IMPACT OF RATE OF RETURN ASSUMPTIONS ON REVENUE REQUIREMENT

In light of the temporal constraints, as mentioned in our revised regulatory proposal, we used the Australian Energy Regulator's (AER) preliminary determination allowed rate of return estimates as a placeholder in the models submitted with our revised regulatory proposal. While we used these estimates for convenience, we proposed that, for the purpose of making the new distribution determination in substitution for the preliminary determination, the allowed rate of return for 2016-2020 be estimated in accordance with the methodology outlined in our revised regulatory proposal.

The AER has subsequently requested we provide the impact on our revenue requirement if our proposed methodology and estimates are to be used instead of the AER's preliminary determination allowed rate of return estimates. The table below provides this impact on our revenue requirement .

Description	2016	2017	2018	2019	2020
Unsmoothed revenue requirement (\$million, nominal)	697.6	710.0	759.2	809.5	831.5
Smoothed revenue requirement (\$million, nominal)	621.8	760.9	785.8	811.5	838.0
X factors (%)	8.0	-19.4	-0.8	-0.8	-0.8
WACC (%)	8.6	8.5	8.4	8.1	7.8
Return on equity (%)	9.9	9.9	9.9	9.9	9.9
Return on debt (%)	7.8	7.6	7.4	6.9	6.5

The return on equity and return on debt estimates were also provided to the AER in attachment 'PAL PUBLIC RRP MOD 1.43 PAL Rate of Return Illustration.xlsx' along with our revised regulatory proposal.

As mentioned in our revised regulatory proposal, after the Tribunal decision in the New South Wales and Australian Capital Territory reviews is published, and our actual averaging period has passed, we will submit to the AER a model that sets out the rate of return estimates determined by reference to our actual equity averaging period and 2016 debt averaging period to assist the AER in making a new distribution determination in substitution for its preliminary determination.

If you require any further information, please do not hesitate to contact on 03 9683 4465 or bcleeve@powercor.com.au.

Yours sincerely



Brent Cleeve
GENERAL MANAGER REGULATION