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3 October 2012

Australian Energy Market Commission
PO Box A2449
Sydney South, NSW, 1235

Re: RARE Infrastructure Limited's ("RARE") submission to the AEMC review of energy rules

RARE is a 100% Australian owned fund manager, with \$5.2 billion in FUM and \$326 million invested in Australian regulated energy networks on behalf of our clients.

RARE has complete discretion as to where geographically it invests client funds and move capital between regions, from less attractive regulatory regimes to those that are more attractive. RARE currently holds 4 Australian regulated listed securities governed by the AEMC in our portfolios including Spark Infrastructure, DUET Group, APA Group and SP AusNet. Individual stocks are selected based on the prospective risks and returns for the underlying assets. Higher allowed returns and lower variability of those returns will encourage us to direct more money into Australian regulated assets. Our company has a preference for investing into energy networks with stable regulation and predictable cash flows.

With reference to the AEMC review of energy rules, we have concerns relating to the allowed Return of Equity being below the market Cost of Equity and even below subordinated debt pricing. To illustrate, APA Group's Subordinated Notes were issued with a yield of 8.2% compared to the recent draft decision on Victorian gas networks with an allowed Return on Equity of 7.8%.

As a fund manager investing globally, we have a choice to invest in Australian regulated networks or in other securities. Our investment universe includes over 200 listed securities with assets and operations in many developed and developing countries around the world.

Reductions in the allowed returns for Australian electricity networks make us less likely to put our client funds to work in Australian Energy Regulator (AER) regulated assets.

In RARE's view, the regulator's approach should employ multiple models and financial analysis with a primary focus on market data and real-world market conditions. We strongly support continued access to the merits review which provides an important discipline on regulators.

In formulating the final AEMC parameters please keep in mind the need to provide attractive returns so that regulated networks can finance their investments in the debt and equity markets, which have become increasingly competitive.

Yours faithfully

A handwritten signature in black ink, appearing to read "Richard Elmslie".

Richard Elmslie
Investment Director &
Senior Portfolio Manager

A handwritten signature in black ink, appearing to read "Nick Langley".

Nick Langley
Investment Director &
Senior Portfolio Manager