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Dr John Tamblyn
Australian Energy Market Commission

Via email.

Dear Dr Tamblyn



DEROGATION SUBMISSION

Macquarie Capital Finance specialises in investing in and providing tailored financial solutions to industries where earnings flow from the use of assets and infrastructure. In the UK, Macquarie Capital Finance is currently providing financing for thousands of Smart electricity meters in the industrial and commercial market and around 1 million 'dumb' meters in the residential market.

Utility meters are essential assets, with a relatively long life, low failure rates, low levels of redundancy and acceptable levels of 'churn' in a fully de-regulated and competitive market. As an investment in a properly deregulated market, they offer appropriate returns for the risks and rewards involved.

The deregulated metering market in the UK is attracting increasing interest from pension funds and other institutional investors seeking appropriate long-term returns that match the potential long life asset profiles. Due to the growth nature of this market, and its association with reducing global greenhouse gases, very competitive and attractive financing solutions have been and will continue to be developed.

The UK Energy Regulator, Ofgem, is a champion of the competitive metering market and, open competition for the provision of both traditional and smart metering assets. This has created asset financing and equity investment opportunities in which Macquarie Capital Finance has had extensive input and involvement.

The UK Government recently issued a White Paper on Smart metering and it is anticipated that there will be a mandate for a wholesale roll-out of residential Smart meters announced shortly. While the exact framework of the smart meter roll out in the UK is yet to be finalised, there seems little doubt that it will be a competitive commercial market that will deliver the roll-out through competitively appointed commercial Meter Operators. Macquarie Capital Finance will be seeking to finance a significant proportion of this developing market.

In 2003, Macquarie established Capital Meters Limited with Siemens Energy Services Limited to procure, own and operate residential gas and electricity meters for the residential and small business customers of energy retailer British Gas in East Anglia and North London; a geographic area covering in excess of 2 million domestic customers

British Gas opened meter provisioning services to competitive tender in August 2001 in order to improve services for consumers and reduce costs. The tender was divided into seven

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geographical zones, covering approximately 15.5m domestic customers. Capital Meters Limited (CML), which is 80% owned by Macquarie, was awarded the seventh and final region by British Gas in December 2003 for a 5 year term and this contract has recently been extended by a further 1.5 years at British Gas' request. At the end of this contract, CML will have installed around 1.5 million meters.

The benefit of the competitive metering market, in both meter operation and reading, has been a dramatic decrease in traditional meter provisioning and reading charges (where even the regulated asset providers reduced their costs to remain 'competitive'), lower costs for new meter installations, faster and more flexible service order response times, and improved levels of service quality and reliability.

British Gas was able to specify the service levels they required, rather than having to accept what the regulated provider was prepared to offer. In fact, competition among metering services providers has reduced costs to the point where it is now difficult to economically justify the wide scale rollout of smart meters to residential consumers, as many cost savings have already been realised. This is in contrast to Australia where jurisdictional derogations for meter provisioning and meter reading services were introduced at the outset of full retail contestability resulting in our view higher, regulated service charges.

Competition in the United Kingdom has seen the development of specialist and independent metering services businesses. Siemens plc, who services the CML contract with British Gas, is a UK leading independent provider of utility metering services. Other such companies operating in the United Kingdom include Meterfit Ltd (jointly owned by United Utilities plc and Prudential), Utility Metering Services, trading as Onstream (a commercial Meter Operator owned by National Grid plc, the regulated gas meter provider) and B-Global plc, now very active in the non domestic Smart metering market. These companies operate in much the same way as NEMMCO accredited Metering Providers do in Australia.

In the case of Capital Meters Limited, although it is rolling out meters only on behalf of British Gas, it has entered into meter provisioning contracts with seventeen energy retailers throughout the United Kingdom, to cover those meters at premises that have changed supplier from British Gas. Customer transfers freely occur between those energy suppliers without delay and with little risk that a meter will be removed.

We understand that the more progressive Metering Providers operating in Australia are now applying similar contractual provisions, and electricity retailers are seeing a significant drop in competitive service charges as a result. We also believe that a large amount of the contractual framework to handle churned meters that has been developed by Macquarie in concert with meter service providers and energy suppliers in the UK is directly applicable and transferable to the Australian market. On its website NEMMCO lists eighteen accredited metering providers capable of owning and operating residential smart meters.

We are therefore surprised that the State Government of Victoria is considering limiting the number of available offers to 'one' (per Distribution area) rather than encouraging offers from as many competent and capable metering providers as possible.

It would appear that, under the Victorian proposal, electricity distributors will not appoint competitive Metering Providers but will themselves take ownership of all metering assets deployed. Cost recovery provisions will then lock the market into those assets and Macquarie, and other organisations with the requisite capital, expertise and competitive financing solutions, will be denied the opportunity to invest in the Australian market for many years to come.

Our experience of the UK market is that a process seeking multiple offers from commercial meter operators elicits more competitive pricing and improved service propositions and technologies than an incumbent provider is able or prepared to offer.

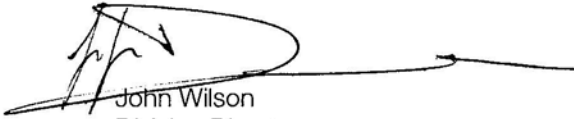
Macquarie Capital Finance has a keen interest in expanding its operations into other competitive markets and the opportunity to fund the rollout of a share of the Victorian smart meter population, on the basis of competitively priced service offers, is of great appeal to us.

In May 2007, a Macquarie Capital Finance "meter team" travelled to Australia from the UK, and met with leading Victorian retailers to discuss competitive opportunities under the National Electricity Rules.

We believe that if the derogation is accepted this will prevent Macquarie Capital Finance from proceeding with such proposals in the Australian market place, and ultimately we believe this may be to the detriment of Australian electricity consumers with respect to price, and innovative service and technology solutions.

Yours faithfully

Macquarie Capital Finance Ltd

A handwritten signature in black ink, appearing to read 'John Wilson', with a long horizontal line extending to the right.

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