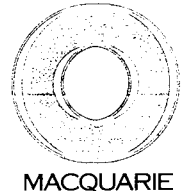


No 1. Martin Place
SYDNEY NSW 2000
GPO Box 4294
SYDNEY NSW 1164
AUSTRALIA

Telephone +612 8232 8507
Facsimile +612 8232 6013
Internet www.macquarie.com.au

9 May 2008

Manager, MCE Secretariat
Department of Industry, Tourism and Resources
GPO Box 9839
CANBERRA ACT 2601



Dear Sirs,

Re: Consultation Regulatory Impact Statement April 2008

Macquarie Capital Finance ("Macquarie") specialises in investing in and providing tailored financial solutions to industries where earnings flow from the use of assets and infrastructure.

Macquarie and Metering

In 2003, Macquarie established a joint venture company, Capital Meters Limited (CML), in the UK 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. To date CML has installed circa 1 million traditional gas and electricity meters.

In addition to this, Macquarie Leasing Limited (MLL) has been very active in the UK non-domestic smart metering market and has established working relationships with a number of leading UK service providers. MLL owns and rents almost 20,000 smart meters and anticipates rapid growth in its portfolio now that the UK Government has mandated Smart meters in medium and larger businesses.

UK Smart Metering Experience

Both MLL and CML have also been active in UK Smart metering debates including through consultation feedback and direct involvement with the UK energy markets regulator, Ofgem, and other UK Government departments and bodies such as BERR and Defra; and thereby helping to shape the future of metering services in the UK. The UK residential and small business sector is currently subject to a further 6 month period of review and consultation on the impact assessment outputs and further analysis of the market model for delivery. As yet, no decision has been reached on whether Smart meters in this sector are cost and environmentally effective.

The prime objectives of the UK Government intervention in the metering market is to provide consumers with better information on energy usage; to encourage energy efficiency; and to reduce carbon emissions. There is also a requirement to fulfil the UK Government's obligations under the EU Energy Services Directive, in particular Article 13, which requires the UK Government to ensure that customers have access to a range of improved energy consumption and billing information.

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We have read the Consultation Regulatory Impact Statement of April 2008 with interest and would like to share our UK experience and views on UK smart metering developments.

In the UK, one of the deployment options under consideration involves the roll out of Automated Meter Management (AMM) smart meters over a 10 year period under a Regional Franchise Model (RFM). This approach has been proposed by the Energy Retail Association (ERA) and would involve a competitive tendering process to select a regional franchisee to purchase, install and operate smart meters. It is anticipated that the franchisee would provide the communications and data infrastructure and associated support functions in a given region for a time-limited period. We believe that if this model is adopted that it is likely that the first franchise would last for a minimum of 5 years and perhaps for as long as the duration of the roll out period, being a maximum of 10 years. The impact assessment undertaken by BERR (the UK Government department responsible for the smart metering consultation and decision making process) suggests that this model is the most costly overall roll-out option when stranded assets are considered, but the overall benefits are not dissimilar to a managed roll-out using the existing competitive market structure, on a "new and replacement" basis.

Concerns raised with this RFM proposal have included the high specification of the proposed AMM smart meters (which thereby may not deliver as significant cost savings), the tying of regions to a single franchisee for an extended duration, and expectations that the Government would bear responsibility for asset stranding costs associated with this delivery option. There is also some debate as to whether additional high specification ERA smart meter functionality primarily delivers benefits to UK plc's or the shareholders of energy suppliers.

Ofgem remains a strong proponent of the current competitive market structure and we understand that it does not support the RFM option. Instead, we understand that Ofgem would prefer the current market model: where suppliers appoint their own agents following competitive tender. We believe the important point here is that the models being considered are all market competition based frameworks and are therefore quite different from what is being proposed in Australia with respect to re-regulating the market. Whilst it is difficult to say that any market is perfect and the competitive metering market in the UK continues to evolve, there seems little doubt that competitive metering in the UK has delivered and will continue to deliver major benefits. In our experience, there is little serious support to move back to a regulated meter market.

As an example of the dynamic meter market in the UK, competitive meter operators are now presenting numerous innovative solutions to the UK Government. One such model envisages a modem as being the smart hub/gateway into the home which itself contains all of the required smart functionality (including the ability to control and manage appliances such as thermostats, air conditioners etc.) with the meter simply being another "appliance" that is connected to this smart "home hub". This is a totally different paradigm and has even presented the possibility of upgrading existing meters that have optical ports and pulse outputs to smart capability. This should not only accelerate the pace of a smart roll out but would also significantly reduce the total cost. These are the types of options that the UK Government will be considering over the next 6 months in consultation with the energy industry. We believe that it is unlikely that a regulated distribution network would offer similar innovative solutions.

It is also apparent that even under an RFM approach, a competitively appointed franchisee does not need to deliver the full metering solution. We believe there are three distinct markets, that can operate independently but jointly (asset provision, data delivery / management and communications infrastructure) and, for example, it is our view that energy suppliers should be able to utilise their chosen data service provider, irrespective of the installed Smart asset. As such, inter-operability is key in that data service providers should be able to access and communicate with whatever asset is installed, preventing the costly and disruptive removal and exchange of metering assets where a supplier requires a different service provider to the incumbent.

The further options that we are aware of that are receiving consideration in the UK are:

- having a national data services provider (by supplier) and/or a national asset provider. Energy suppliers are considering the potential costs and benefits of such an approach;
- a single low cost national communication network acting as a "default network" allowing 'plug and play' capabilities for all energy suppliers. This may also be capable of delivery in Australia; and
- a hybrid deployment option where AMM Smart meters are installed on a 'new and replacement' basis, under the existing competitive market structure, but where the environmental benefits are accelerated by retro-fitting devices (that allow AMR services) to the younger metering stock. This approach minimises the cost of asset stranding, eliminates a 'boom and bust' installation programme, and maximises the environmental benefits through the accelerated roll out.

Summary

We believe that a competitive framework for the delivery of smart metering that encourages or permits separation of asset supply, data delivery and management, and communications infrastructure affords flexibility and transparency in smart meter deployment. Importantly, this transparency and competition between service providers and asset financiers (such as Macquarie) increase the likelihood of minimum cost deployment and maximum value to the consumer.

We further believe that the current options being considered by the UK Government and in consultation with the energy industry are all competitive models with varying points of distinction. While still an evolving model/structure, there seems little doubt that competitive metering has and will continue to deliver innovative and cost effective solutions in the UK.

Yours faithfully,



John Wilson
Division Director
Macquarie Capital Finance Limited