



Wednesday, 10 June 2020

The Manager
Company Announcements
Australian Stock Exchange Limited
20 Bridge Street
SYDNEY NSW 2000

Dear Sir / Madam

SA Power Networks Final Determination (2020–25) – Investor Briefing

Please find attached the presentation for Spark Infrastructure's investor briefing to be held at 9.30am today with Mr Rob Stobbe, CEO of SA Power Networks in relation to the AER Final Decision on the Regulatory Determination for SA Power Networks for the 2020-2025 period.

Details for the investor briefing can be found on Spark Infrastructure's website at www.sparkinfrastructure.com.

Yours faithfully,

A handwritten signature in blue ink, appearing to read "Alex Finley".

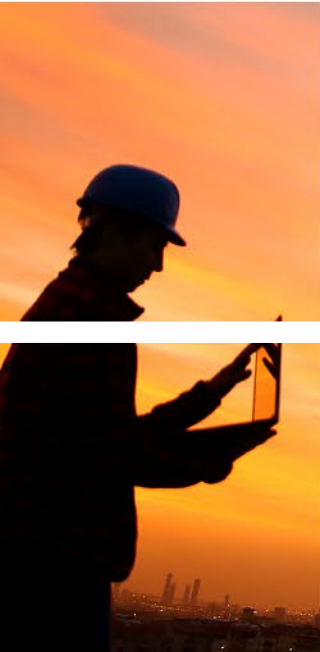
Alexandra Finley
Company Secretary

SA POWER NETWORKS DETERMINATION 2020-25

WEDNESDAY, 10 JUNE 2020



INFRASTRUCTURE FOR THE FUTURE



TODAY'S AGENDA

AGENDA

SA Power Networks background and introduction to speakers

Rick Francis, MD & CEO, Spark Infrastructure

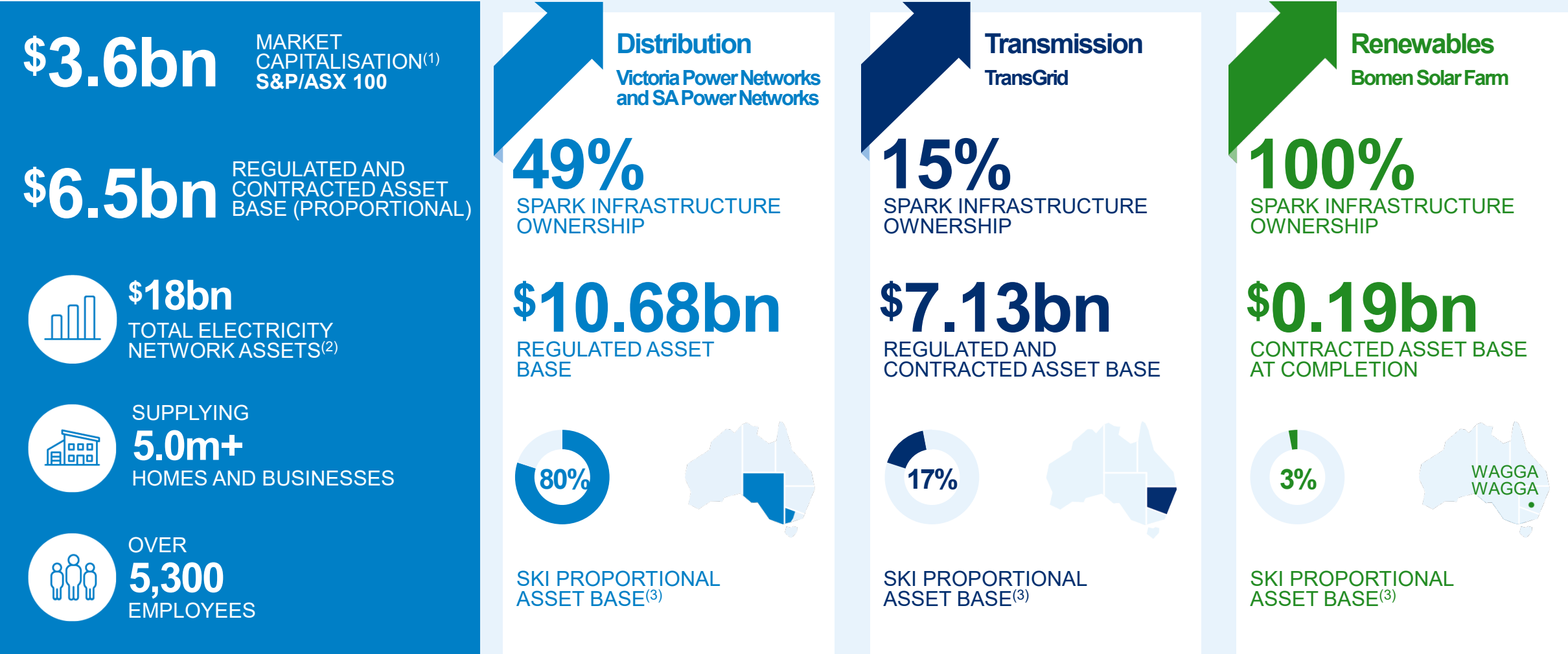
AER Final Decision – SA Power Networks Distribution Determination 2020 to 2025

Robert Stobbe – CEO, SA Power Networks

Q&A

SPARK INFRASTRUCTURE – AT A GLANCE

ASX-listed owner of leading essential services infrastructure



(1) As at 29 May 2020. Balance sheet and other information as at 31 December 2019 (2) Spark Infrastructure has proportional interests in \$18bn of total electricity network and contracted generation assets (3) Pro forma

KEY TAKEAWAYS

Our businesses perform well through regulatory processes

Our network businesses, including SA Power Networks, are market leaders in productivity, safety and system reliability, delivering consistently strong performance and sustained efficiency over time

- Final determination broadly in line with expectations with positive statements from the AER in relation to supporting material, consumer engagement and productivity
 - AER satisfied that SA Power Networks' forecast operating expenditures are efficient
 - Additional capital expenditure and an uplift for inflation
 - Accepted investment in the network of the future with increased spending to support solar PV and new technologies
 - Delivers price reductions to customers and provides support for changes to tariff structures
- Provides revenue certainty for the next five years
- Outcomes driven by high-quality SA Power Networks team led by Rob Stobbe
- We expect Victoria Power Networks to also do well through its ongoing regulatory process - leader in efficiency and service performance, significant consultation and well supported proposal
- Outcome supports Spark Infrastructure as a safe haven, an investment with resilience offering a reliable and attractive distribution in this challenging environment

The benefits of outperformance are being passed through to consumers and security holders – expected to continue in the future

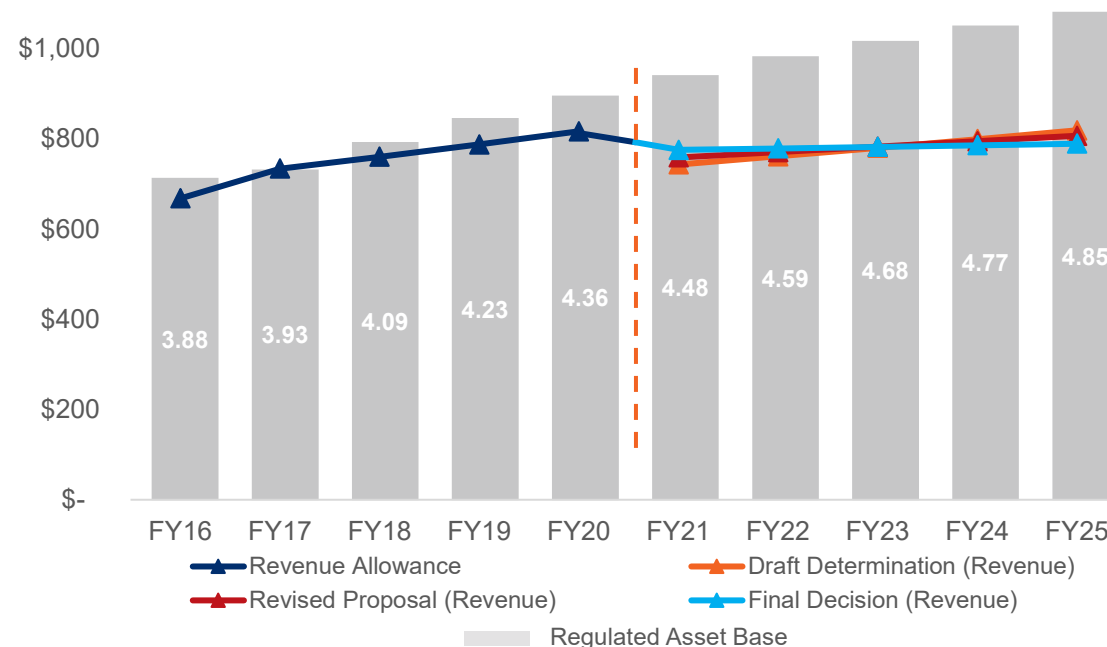
SAPN 2020-25 FINAL REGULATORY DETERMINATION

The AER Final Decision establishes revenue certainty until 2025

Regulatory proposal metric	2015-20 Allowance ⁽¹⁾	2020-25 Draft Decision ⁽²⁾	2020-25 Revised Proposal ⁽²⁾	2020-25 Final Decision ⁽²⁾
Capex (\$2019-20)	\$2,011m	\$1,247m	\$1,693m	\$1,596m
Opex (\$2019-20)	\$1,375m	\$1,473m ⁽³⁾	\$1,470m	\$1,470m
WACC	6.17%	4.95%	4.79%	4.75%
Risk-free Rate	2.96%	1.32%	0.96%	0.90%
Inflation	2.50%	2.45%	2.36%	2.27%
Gamma	0.4	0.585	0.585	0.585
Revenue (Nominal)	\$3,769m	\$3,905m	\$3,933m	\$3,914m

The final decision is in line with expectations with improved capex and inflation outcomes

Standard Control Services Revenue (\$m) and RAB (\$bn)⁽¹⁾⁽²⁾



The majority of SAPN's Revised Proposal was accepted by the AER in the Final Decision released on 5 June 2020

(1) AER Final Decision 2015-2020, October 2015 updated to \$2020 (2) AER Final Decision Overview, June 2020.(3) AER Draft Decision Overview, October 2019.

AER Final Decision SA Power Networks Distribution Determination 2020 to 2025

Robert Stobbe

Chief Executive Officer

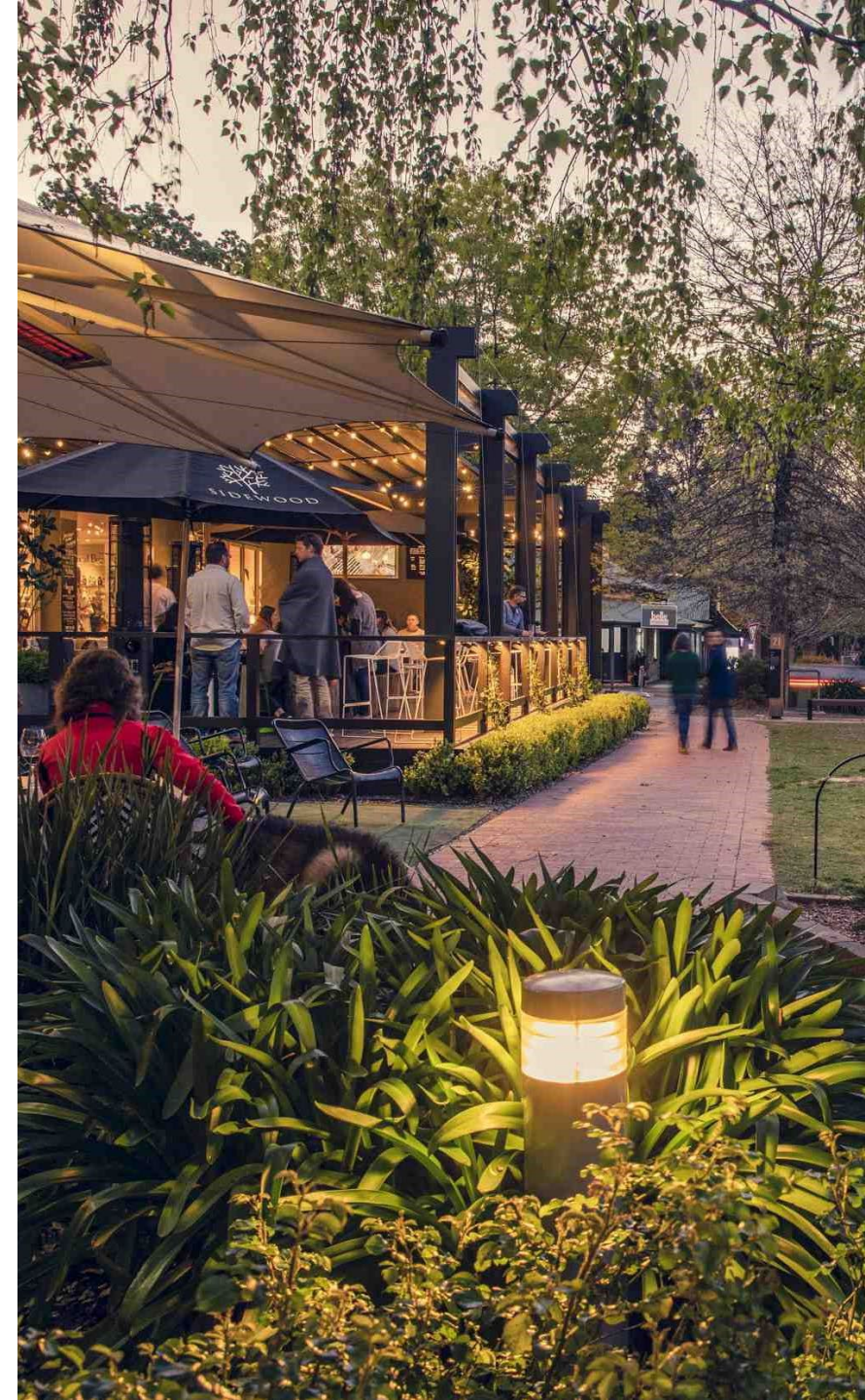
10 June 2020



Empowering South Australia

Outline

- AER Final Decision Delay
- AER Final Decision
 - Key Outcomes
 - Customer Price impacts
- Next Steps



AER Final Decision Delay



AER Final Decision Delay

- Following consultation with stakeholders, the Australian Energy Regulator (AER) delayed its final 2020-25 revenue determinations originally due 30 April 2020
- The AER released its final decisions on 5 June 2020 for the following businesses:
 - SA Power Networks
 - Energex
 - Ergon Energy
 - Directlink
 - Jemena Gas Networks



AER Final Decision Delay

- The delay enabled the AER to include the short-term forecasts of inflation (two years) from the Reserve Bank (RBA) released on 8 May 2020 into its 2020-25 CPI forecast
- The inflation forecast is an important assumption in the regulatory model. Incorporating the 8 May 2020 RBA forecasts marginally improved (reduced) the 2020-25 CPI forecast, increasing SA Power Networks' allowed revenue by \$18m over the 2020-25 period



AER Final Decision – Key Outcomes

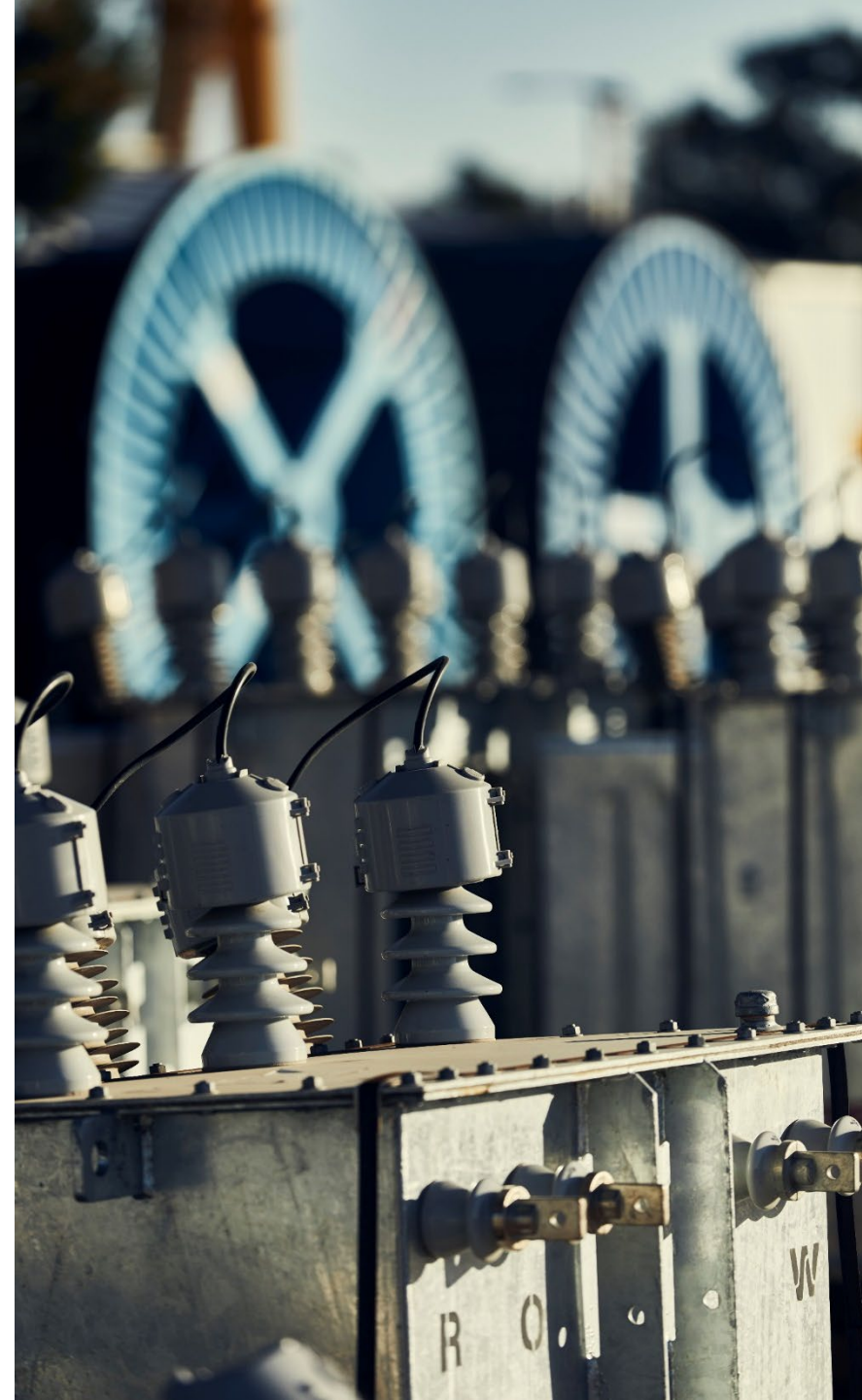


Key Outcomes

The AER accepted large elements of our Revised Proposal with some very positive outcomes:

Operating Expenditure Allowance

- The AER accepted our 2018/19 expenditure as an efficient base for 2020-25 together with several step change increases;
- The AER accepted our operating expenditure forecast in total as it was not materially different to the AER's alternative estimate; and
- The AER reversed its approach to forecasting labour cost increases, and adopting our approach, increasing our operating expenditure allowance, and therefore total revenue, by \$10m.



Key Outcomes (cont.)

Capital Expenditure Allowance

- Increase of \$350m (+28%) relative to the AER's Draft Decision. This increase is across the board including: IT, property, fleet, repex and customer connections;
- The acceptance of the two contingent capital projects:
 - the SA Power System Security Project, which is subject to direction from AEMO; and
 - any additional bushfire mitigation obligations which may result from the South Australian Government's independent review into the 2019/20 bushfires in South Australia. This again was the subject of a late submission we lodged in January following discussions with the South Australian Government

Other

- No adjustment to our proposed carry-over benefits arising from the capital (CESS) and operating (EBSS) incentive schemes, adding \$84m to 2020-25 revenue



Key Outcomes (cont.)

The acceptance of our late submissions lodged as new information became available (following the Dec 2019 bushfires and lodgement of our Revised Proposal on 10 Dec 2019), together with the extensive work to support our revised capex submission has been positively acknowledged by the AER



Key Financial Outcomes

Revenue and expenditure

Revenue

Our proposed revenue allowance is in line with our Revised Proposal

	Original Proposal	AER Draft Decision	Revised Proposal	AER Final Decision
Revenue Our proposed revenue allowance is in line with our Revised Proposal <small>Revenues shown in \$ nominal</small>	\$4,214m	\$3,905m	\$3,916m	\$3,914m
OPEX The AER accepted our revised operating expenditure proposal in full <small>Opex shown in real \$2020 and excludes debt raising costs</small>	\$1,530m	\$1,466m	\$1,442m	\$1,458m
CAPEX The final capital expenditure allowance is just 6% below our Revised Proposal <small>Capex shown in real \$2020 and before disposals</small>	\$1,741m	\$1,263m	\$1,712m	\$1,615m

The nominal smoothed revenue allowance of \$3,914m is only \$2m lower than we proposed in our Revised Proposal. The AER's smoothing results in a 9.4% revenue reduction (P_0) in Year 1, with nominal revenue changes of CPI minus 1.79% in the subsequent four years

The final revenue allowance is \$300m lower than we originally proposed in January 2019 with \$217m of this reduction due to the decline in financial markets lowering the risk-free rate and regulated Return on Equity

Key Financial Outcomes (cont.)

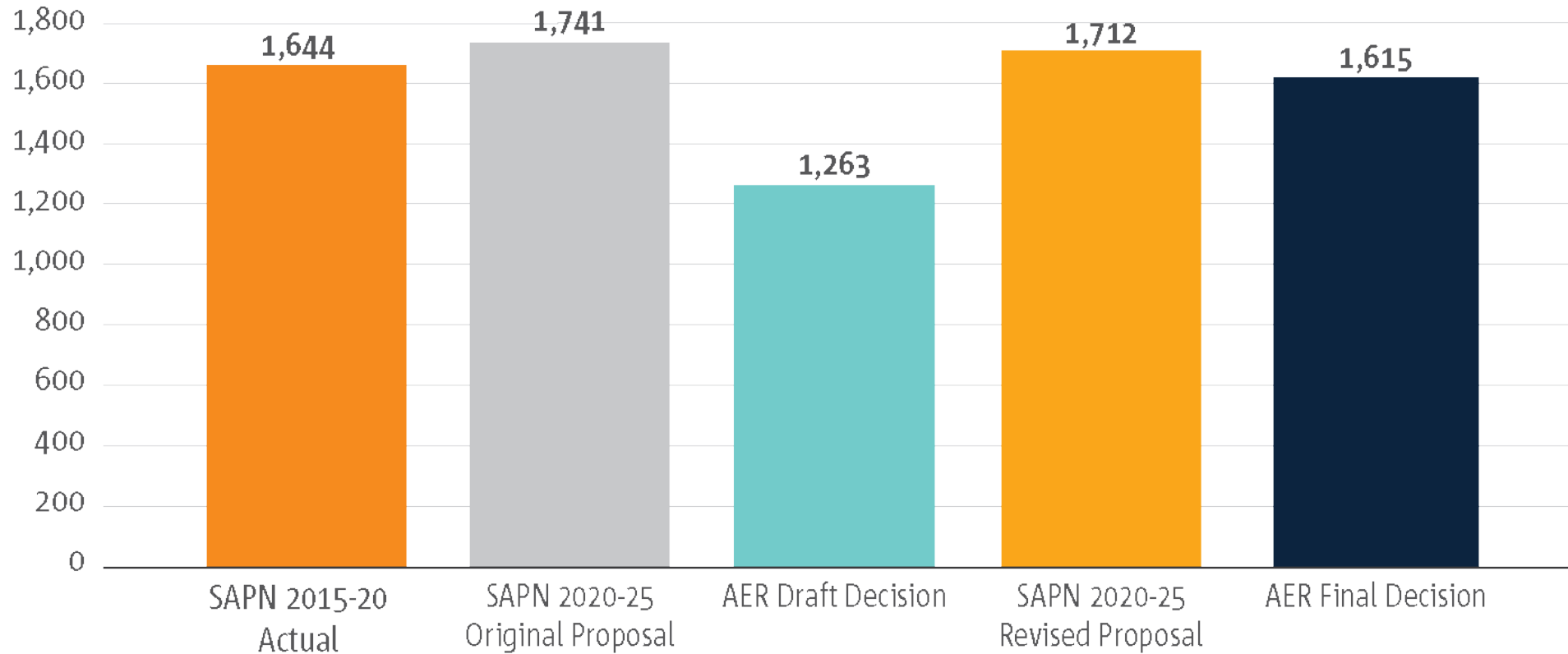


* Pre-tax real vanilla WACC for 2020/21 is 2.42%

The 4.75% RoR (Year 1) WACC is lower than we proposed due to the subsequent deterioration in financial markets lowering the risk-free rate and regulated Return on Equity (RoE)

The application of the AER's 2018 Rate of Return binding instrument together with record low Commonwealth Government bond yields (0.9%) locks in a very low RoE of 4.56% for five years

Capex Summary (before disposals)



The 2020-25 capital allowance provides for \$50m less minor cable /conductor repair work which has been re-categorised to operating expenditure

The 2020-25 allowance therefore equates to an effective modest increase (\$21m) on current period spend

Capex Summary

June 2020 \$ m	Proposal	Draft Decision	Revised Proposal	Final Decision	Change From DD	% Change From DD
Repex	670	539	682	611	72	13%
Augex	391	277	332	315	38	14%
Connections (Net)	213	102	262	262	160	157%
Non-network	506	270	470	460	190	70%
Superannuation	(38)	(37)	(34)	(33)	(4)	10%
TOTAL SCS (Net)	1,741	1,263	1,712	1,615	352	28%

Key outcomes:

- Increased Repex to replace more of our ageing network assets
- Key Augex programs approved to support more distributed energy resources on the grid and continue the energy transformation underway in South Australia
- New Augex funding to improve supply reliability for our rural and remote customers
- Proposed new customer Connections expenditure accepted in full
- Proposed IT and Fleet expenditure accepted in full and significant uplift in approved Property expenditure

Other Outcomes

The opening nominal RAB on 1 July 2020 will be \$4,361m and the closing nominal RAB on 30 June 2025 is forecast to increase to \$4,855m (this assumes the capital allowance is spent in full)

The AER accepted, with minor modification, the 'alternative control services' charges we proposed for public lighting services, legacy metering services and a wide range of customer-specific 'ancillary network services'

The AER accepted our revised Tariff Structure Statement with minor adjustments

From 1 July 2020 we will introduce more cost-reflective tariffs, particularly for small customers



Customer Price Impacts

Key outcomes for customers

Residential bills
Lower annual residential customer bills (based on annual consumption of 4,000kWh)

Small business bills
Lower small business customer bills (based on annual consumption of 20,000kWh)

	Original Proposal	AER Draft Decision	Revised Proposal	AER Final Decision
Residential bills	<div>  <div>\$40</div> </div>	<div>  <div>\$63</div> </div>	<div>  <div>\$62</div> </div>	<div>  <div>\$40</div> </div>
Small business bills	<div>  <div>\$111</div> </div>	<div>  <div>\$283</div> </div>	<div>  <div>\$276</div> </div>	<div>  <div>\$166</div> </div>

- While the five-year revenue allowance is very similar to our Revised Proposal, the headline customer price reduction in Year 1 is materially lower due to the AER’s revenue smoothing
- Actual distribution price reductions from 1 July 2020 will be less due to 2020/21 revenue also incorporating prior year Service Target Performance Incentive Scheme outcomes



Next Steps



Key dates and next steps

- ✓ • 5 June – AER published 2020-25 Final Decisions for SA Power Networks and others
- ✓ • 10 June – SA Power Networks submits full 2020/21 Pricing Proposal to AER
 - 24 June – AER publishes approved 2020/21 prices
 - 2015-20 Reset Post Implementation Review
 - Staged implementation of PIR findings in preparation for the 2025-30 Regulatory Reset



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Investment company financial reporting - Adjustments are made to distribution and transmission revenues to defer/accrue for amounts in excess of/under the regulated revenue cap to reflect that these amounts will be returned to/recovered from electricity consumers in future periods via adjustments to tariffs.

The financial reporting is based on TransGrid's special purpose financial statements for the year ended 30 June 2019 and half year ended 31 December 2019. Results have been adjusted by Spark Infrastructure to reflect the 12month period to 31 December 2019.

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