



Wednesday, 5 May 2021

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

Dear Sir / Madam

**INVESTOR BRIEFING AND PRESENTATION – FINAL REGULATORY DETERMINATIONS FOR VICTORIA POWER NETWORKS**

Please find attached our investor presentation in relation to the AER's Final Decisions on the Regulatory Determinations for CitiPower and Powercor (together, Victoria Power Networks) for the next 5-year regulatory period (2021-2026).

Spark Infrastructure will hold an investor briefing at 11.00am today (Wednesday, 5 May 2021) via webcast with Mr Rick Francis (Managing Director of Spark Infrastructure) and Mr Tim Rourke (CEO of Victoria Power Networks). The attached presentation will be presented to investors at the briefing.

Details for the briefing can be found on our website at [www.sparkinfrastructure.com](http://www.sparkinfrastructure.com).

Authorised by:

A handwritten signature in blue ink, appearing to read 'Jenny Faulkner', with a stylized flourish at the end.

**Jenny Faulkner**  
**Head of Legal and Company Secretary**

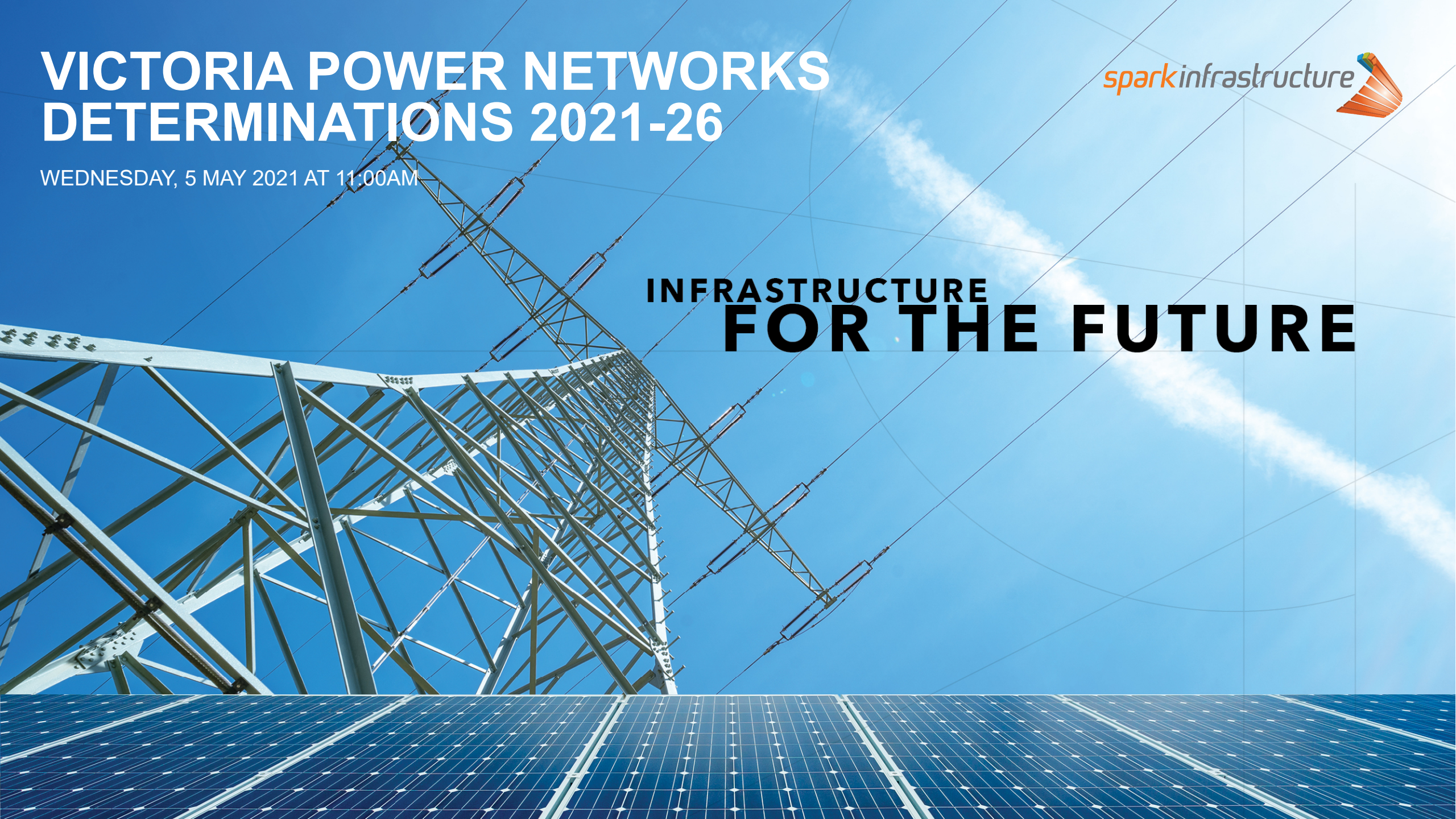


# VICTORIA POWER NETWORKS DETERMINATIONS 2021-26

WEDNESDAY, 5 MAY 2021 AT 11:00AM



INFRASTRUCTURE  
**FOR THE FUTURE**





# TODAY'S AGENDA

## AGENDA

### **Introduction and Overview**

*Rick Francis, MD & CEO, Spark Infrastructure*

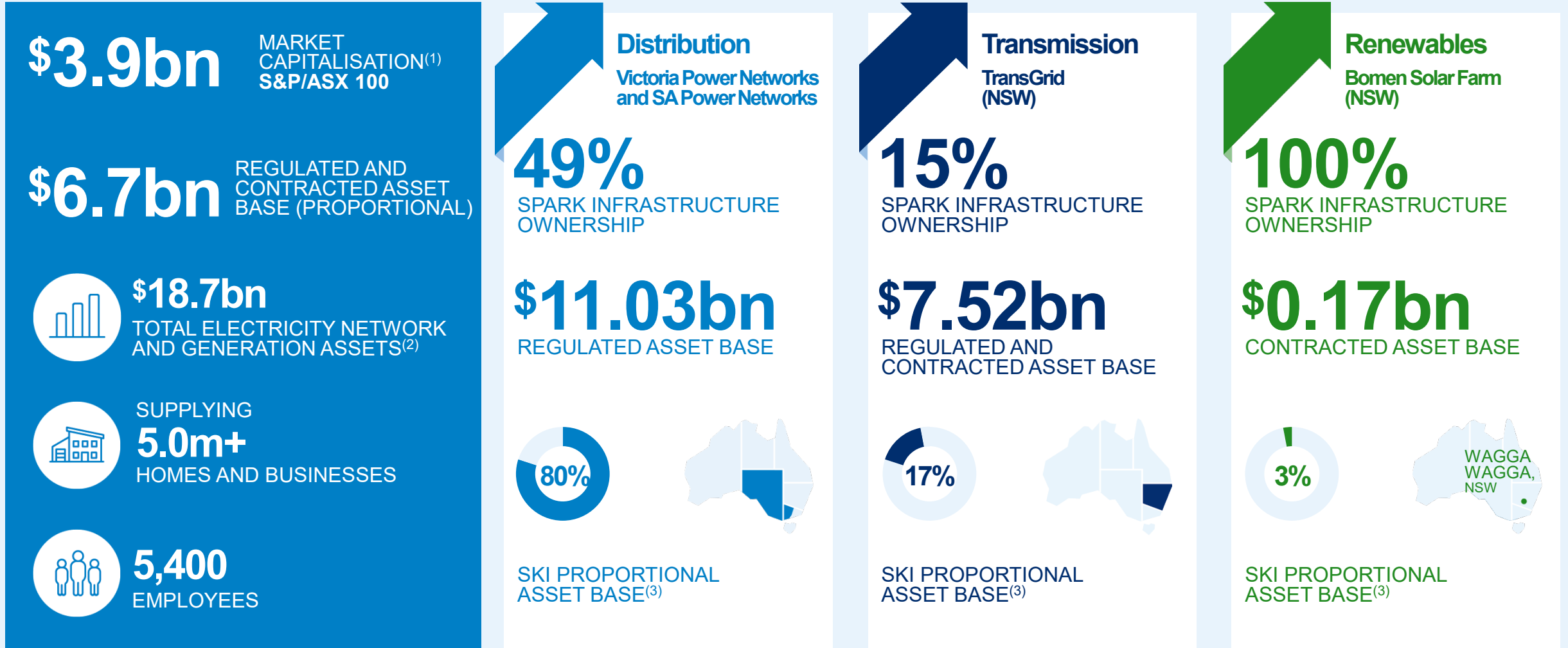
### **AER Final Decision – Victoria Power Networks Distribution Determinations 2021 to 2026**

*Tim Rourke, CEO, Victoria Power Networks*

### **Q&A**

# SPARK INFRASTRUCTURE – AT A GLANCE

ASX-listed owner of leading essential energy infrastructure



(1) As at 4 May 2021. Balance sheet and other information as at 31 December 2020 (2) Spark Infrastructure has proportional interests in \$18.7bn of total electricity network and contracted generation assets (3) Pro forma

# VICTORIA POWER NETWORKS PERFORMANCE OVERVIEW



QUICK FACTS

**331,912**  
Customers

**7,693KM**  
Network lines

**1,237MW**  
Peak demand



QUICK FACTS

**843,525**  
Customers

**89,921KM**  
Network lines

**2,201MW**  
Peak demand



**CitiPower, Powercor and SA Power Networks have remained in top 4 DNSPs since the AER's Benchmark reporting began in 2006**

## AER Benchmarking Report 2020 – MTFP<sup>1</sup> Rankings

Distribution Network Service Providers		2019	Δ	2018
SA Power Networks	South Australia	1	-	1
CitiPower	Victoria	2	-	2
Powercor	Victoria	3	↑	4
United Energy	Victoria	4	↑	5
Ergon Energy	Queensland	5	↓	3
Energex	Queensland	6	↑	7
Endeavour Energy	NSW	7	↑	8
Essential Energy	NSW	8	↓	6
TasNetworks	Tasmania	9	↑	10
Jemena	Victoria	10	↓	9
AusNet	Victoria	11	-	11
Evo Energy	ACT	12	-	12
Ausgrid	NSW	13	-	13

(1) The multilateral total factor productivity is a productivity index numbers (PIN) technique that measures the relationship between total output and total input. It allows both total productivity levels and growth rates to be compared between entities (networks). In the 2020 annual benchmarking report, the AER also apply the method to time-series TFP analysis at the industry level and for individual TNSP to better capture large Energy Not Supplied (ENS) changes.

# KEY TAKEAWAYS

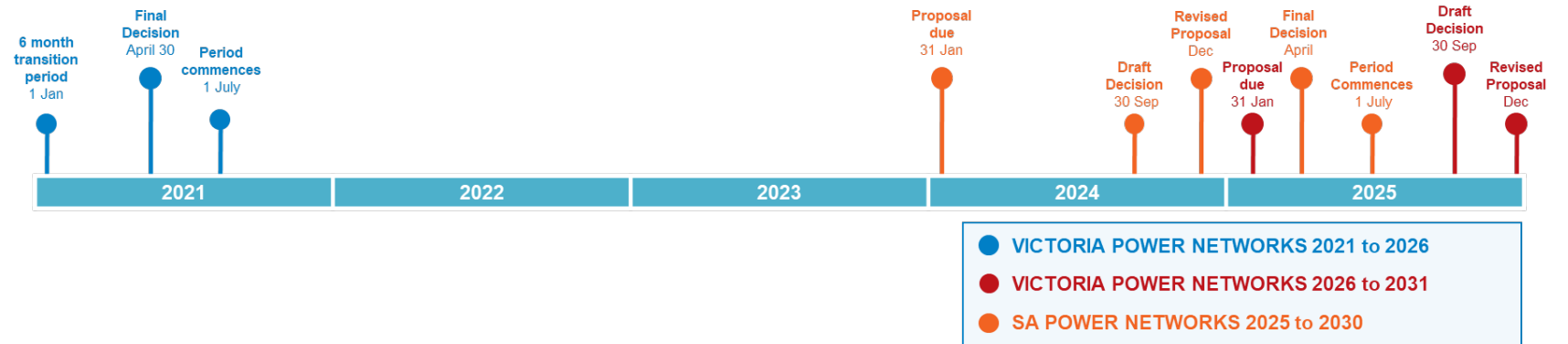
## Regulatory certainty for Spark Infrastructure’s Distribution Networks out to mid-2025

**Victoria Power Networks (‘VPN’), are market leaders in productivity, safety and system reliability, delivering consistently strong performance and sustained efficiency over time**

- Final Decisions reflect positive engagement between VPN, consumers and AER
- Improved outcomes in revenue, operating expenditure and capex compared to Draft Decisions
  - Additional capex reflects pole replacements, and distributed energy resources (DER) integration capex in response to the continuing changes in the electricity market and consumer interaction with electricity networks
  - AER’s improved approach to forecasting inflation better reflects current economic forecasts; final average inflation rate of 2.00%
- Outcomes driven by high-quality VPN team led by Tim Rourke and extensive customer engagement
- Outcome supports Spark Infrastructure as an investment with resilience offering a reliable and attractive distribution, complemented by solid growth

**Final Determinations for SAPN in 2020 and VPN provides revenue certainty for the five-year regulatory periods out to mid-2025 and mid-2026 respectively**

Regulatory Timelines – VPN & SAPN

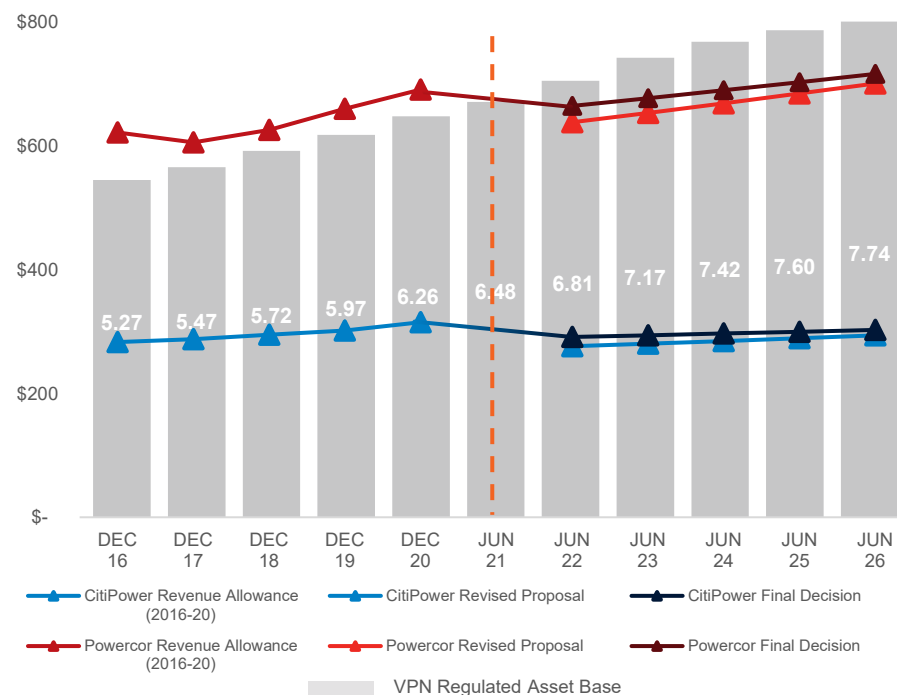


# VPN 2021-26 FINAL REGULATORY DETERMINATIONS

Regulatory proposal metric	CitiPower				Powercor			
	2016-20 Allowance <sup>(1)</sup>	2021-26 Draft Decision <sup>(2)</sup>	2021-26 Revised Proposal <sup>(2)</sup>	2021-26 Final Decision <sup>(3)</sup>	2016-20 Allowance <sup>(1)</sup>	2021-26 Draft Decision <sup>(2)</sup>	2021-26 Revised Proposal <sup>(2)</sup>	2021-26 Final Decision <sup>(3)</sup>
Capex (\$2021)	\$854m	\$570m	\$635m	<b>\$590m</b>	\$2,060m	\$1,586m	\$1,849m	<b>\$1,728m</b>
Opex (\$2021)	\$473m	\$463m	\$472m	<b>\$477m</b>	\$1,317m	\$1,321m	\$1,388m	<b>\$1,423m</b>
WACC	6.11%	4.59%	4.59%	<b>4.73%</b>	6.11%	4.59%	4.59%	<b>4.73%</b>
Risk-free Rate	2.48%	0.93%	0.93%	<b>1.38%</b>	2.48%	0.93%	0.93%	<b>1.38%</b>
Inflation	2.35%	2.37%	2.37%	<b>2.00%</b>	2.35%	2.37%	2.37%	<b>2.00%</b>
Gamma	0.4	0.585	0.585	<b>0.585</b>	0.4	0.585	0.585	<b>0.585</b>
Revenue (Nominal)	\$1,484m	\$1,426m	\$1,441m	<b>\$1,486m</b>	\$3,205m	\$3,242m	\$3,345m	<b>\$3,451m</b>

The Final Determinations will continue to deliver RAB growth across both CitiPower and Powercor

Standard Control Services Revenue (\$m Nominal)<sup>(1)(2)(3)</sup> and RAB (\$bn)<sup>(4)</sup>



The Final Determinations reinforce VPN's improved consumer engagement and credible responses to the AER's Draft Decisions

(1) AER: CitiPower / Powercor – Final Decision 2016-2020 (Capex and Opex updated to \$2021)

(2) CitiPower / Powercor – Revised Proposal 2021-2026 – December 2020

(3) AER: CitiPower / Powercor – Final Decision 2021-2026 – April 2021

(4) RAB values from RAB roll-forward model (RFM) and post-tax revenue model (PTRM)

# AER FINAL DETERMINATIONS CITIPOWER AND POWERCOR 2021 TO 2026

TIM ROURKE  
CHIEF EXECUTIVE OFFICER  
VICTORIA POWER NETWORKS



# **Final determination**

## **2021 - 2026**

### **Regulatory Reset**



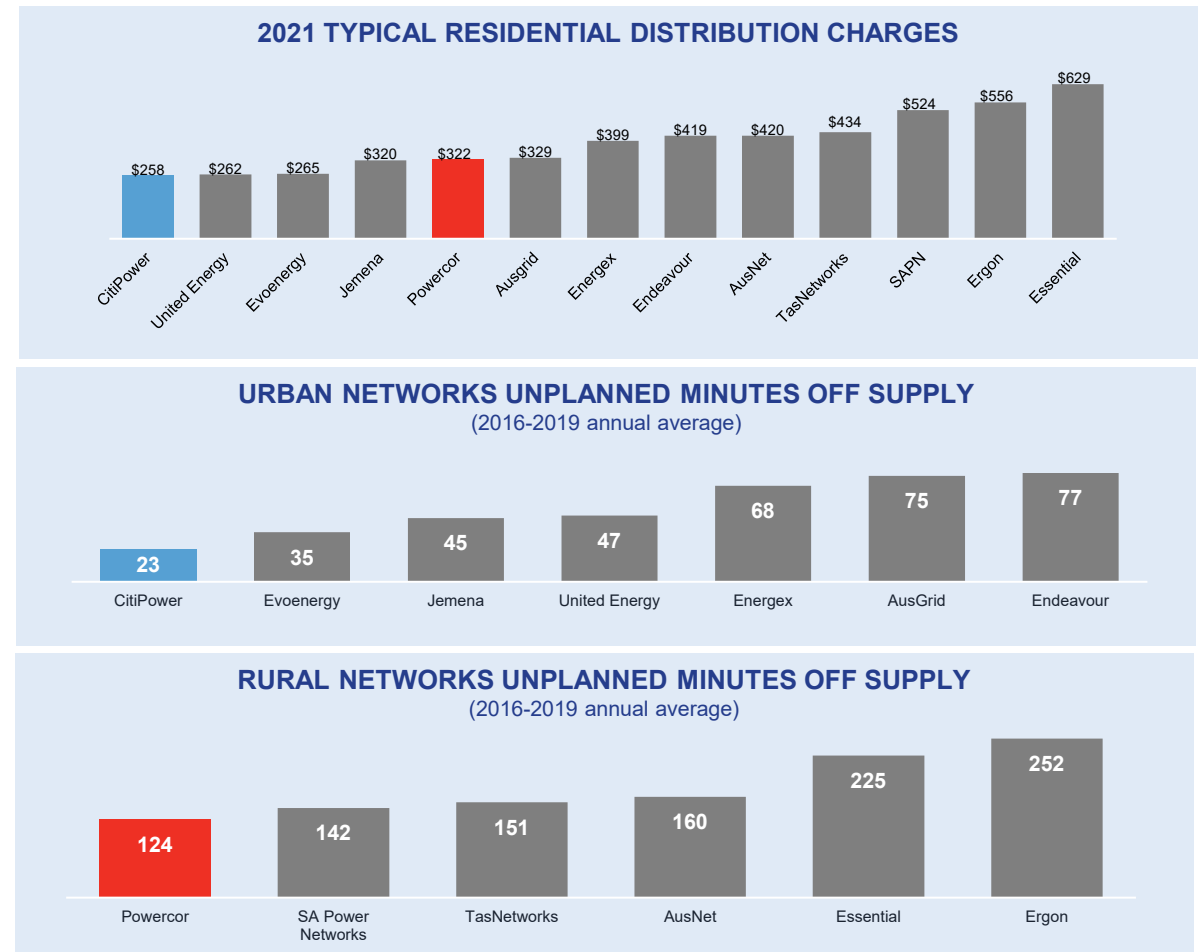
# Today

- 1 Track record
- 2 Key outcomes
- 3 Financial inputs
- 4 Operating expenditure
- 5 Capital expenditure
- 6 Other outcomes
- 7 Customer price impacts
- 8 Key dates and next steps

# We deliver a safe, reliable and affordable supply of electricity

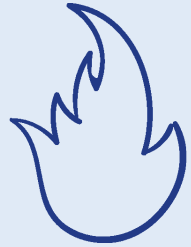
We are proud to deliver for our customers:

- Amongst the lowest network charges in the country (with a focus on affordability)
- The most reliable urban and rural networks in the country (with an emphasis on asset safety)
- Strong levels of customer service (offering products, technology, tariff and demand options which offer value and flexibility)
- The most efficiently operated businesses in the country based on the AER's 2020 benchmarking

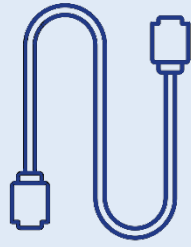


# Key outcomes

The final determination accepted the majority of our revised proposal and updated forecasts and improvement in macro conditions resulted in a 7% revenue increase from the draft



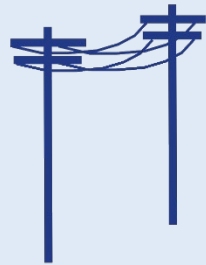
Accepted revised proposal operating expenditure in full, including an additional **\$68m** for bushfire insurance and **\$24m** for reclassification of minor repairs.



Additional **\$12m** IT capital expenditure to replace our field mobility system.



Additional **\$19m** for labour escalation by accepting our approach to average forecasts.



Accepted **\$148m** capital expenditure for our wood pole replacement program, up **\$44m** from draft determination.



Accepted our new customer service incentive scheme with maximum rewards of **\$23m** per annum.



Real increase in revenue from updated inflation forecasts and improved macro conditions



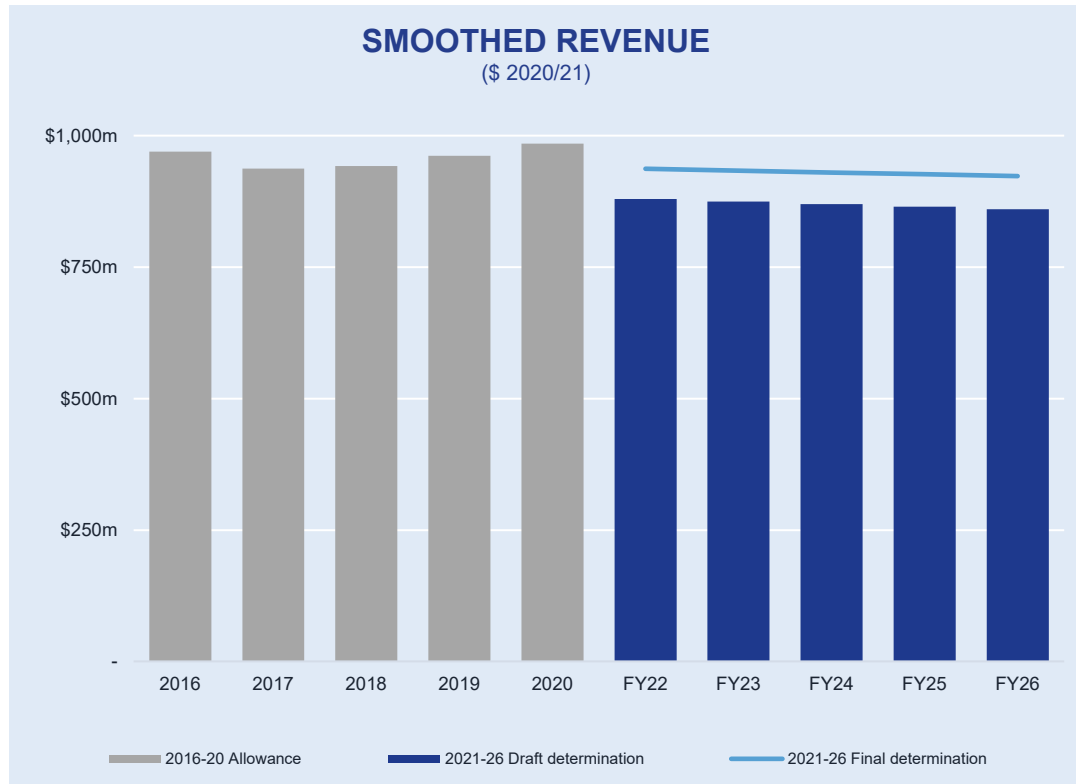
The AER welcomed CitiPower and Powercor proactively involving customers in the decision-making process with the formation of the Customer Advisory Panel

All numbers are \$2020/21



# Key outcomes

Final revenue allowance is 7% above the draft determination and 3% below 2016-2020 allowance



Operating expenditure allowance reflects a 23% increase in our efficient costs and net capital expenditure allowance is 1% lower

\$ real	2016-20 Actual	2021-26 Draft decision	2021-26 Final decision
Revenue Smoothed (\$ 2020/21)	4,796m	4,349m	4,651m
Net capital expenditure (\$ 2020/21)	2,332m	2,128m	2,318m
Operating expenditure (\$ 2020/21)	1,548m	1,783m	1,899m

Note: Changes from draft decision reflect reclassification of minor repairs from capital to operating expenditure, valued at \$24m.

# Financial inputs

The rate of return has declined from the current regulatory period. A combination of the 2018 Rate of Return Instrument and deteriorating financial markets have lowered the risk free rate and return on equity

Improvements in the risk free rate since the draft determination have however allowed some uplift:

	2016-20 Actual	2021-26 Draft determination	2021-26 Final determination
<b>Weighted average cost of capital (WACC) *</b> Nominal vanilla (year 1)	<b>6.11%</b>	<b>4.59%</b>	<b>4.73%</b>

The AER has commenced its update of the Rate of Return Instrument. The final determination will be made in 2022 and the decision will apply to our next regulatory decision for 2026-31

We will actively participate in the AER's process to gain acceptance of a more competitive rate of return at the next regulatory reset.

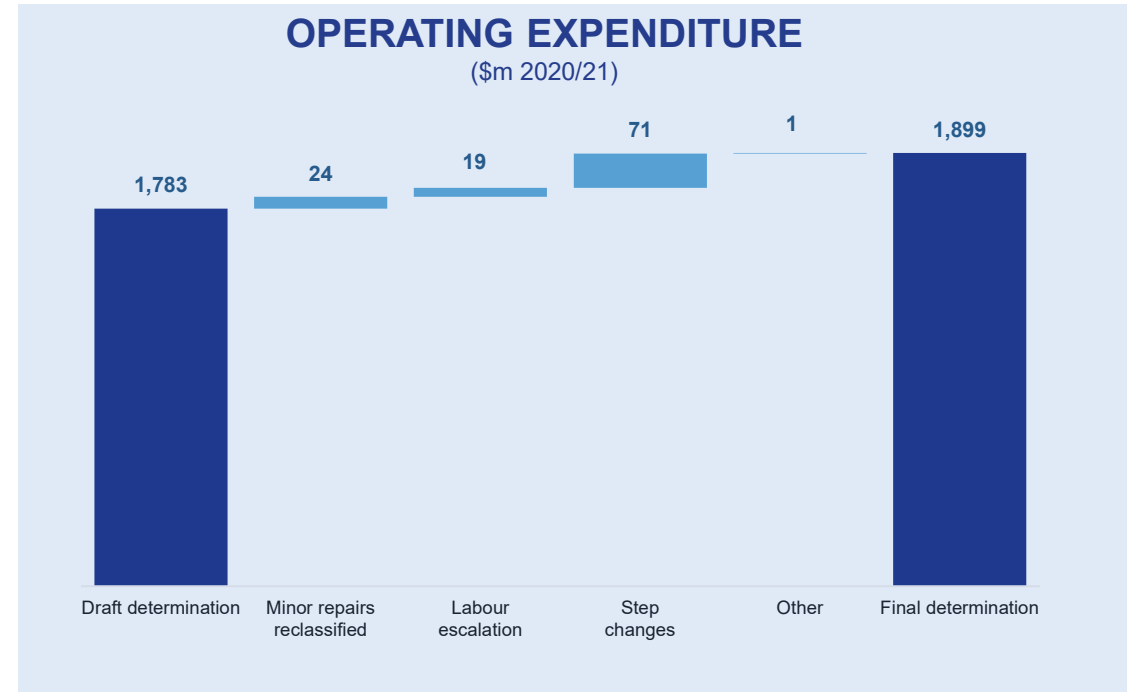
\* The values shown are for the first year of the regulatory period. The WACC will be updated for subsequent years reflecting changes to the trailing average debt rate



# Operating expenditure

The final determination operating expenditure allowance is greater than our revised proposal request. This resulted in an increase in revenue of \$115m from the draft determination, from the following:

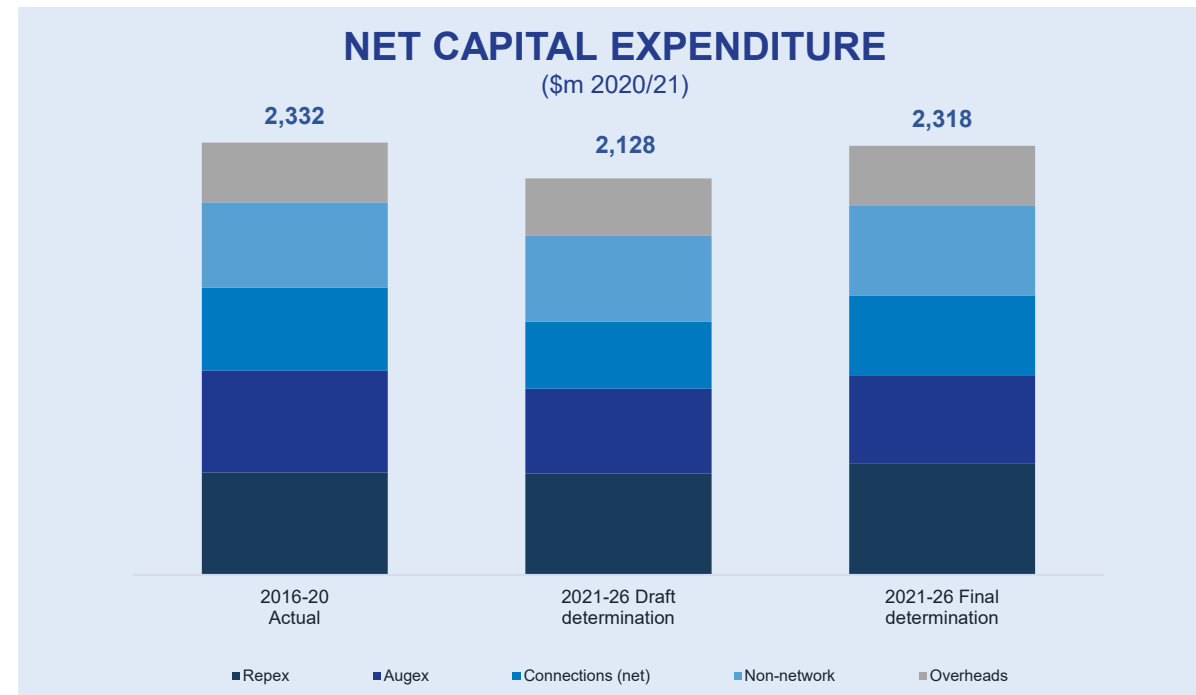
- Inclusion of forecast insurance premiums in addition to the actual premiums in 2020/21 - \$68m
- Acceptance of the majority of minor repairs reclassification - \$24m
- Yarra Trams step change - \$4m
- Solar enablement step change - \$6m
- The AER also updated the Deloitte labour escalator to March 2021. The final determination averages this with our BIS forecasts - \$19m increase compared with draft determination.



# Capital expenditure



- Most significant change was the uplift for Powercor's wood pole replacement program by \$44m
- Other projects rejected at the draft determination but accepted in the final determination included J18/J22 circuit breakers (\$8m), bushfire mitigation costs (\$21m) and switchgear replacements (\$21m)
- Partial uplifts were provided in the draft determination for CBD cable pit replacement program (\$7m) and CitiPower's zone substation transformer replacements (\$13m)
- The field service management system replacement (\$12m) and customer enablement project (\$2m) were also accepted in the final determination which was not included in the draft determination.





# Other outcomes



- The opening nominal RAB on 1 July 2021 will be \$6,483m and the closing nominal RAB is forecast to be \$7,741m by 30 June 2026 (assuming the capital allowance is spent in full)
- Outperformance benefits arising from the capital (CESS) and operating (EBSS) incentive schemes added \$113m to 2021-26 revenue
- The AER accepted the alternate control charges we proposed in our revised proposal
- Our Tariff Structure Statement was accepted with minor adjustments
- Our Connection Policy was approved with minor adjustments
- No contingent projects have been allowed over this period (the existing REFCL program is in our capital expenditure allowance)

# Customer price impacts

- The final determination continues to deliver price reductions to our customers
- Although the price reductions are lower than the draft determination, this is due to an increase in the efficient cost of providing services, including updated rate of return parameters and insurance

	CITIPOWER		POWERCOR	
	2021-26 Draft determination	2021-26 Final determination	2021-26 Draft determination	2021-26 Final determination
<b>Average residential consumer bill impact</b> <i>First year (\$ nominal)</i>	\$60 ▼	\$46 ▼	\$55 ▼	\$34 ▼
<b>Average small business consumer bill impact</b> <i>First year (\$ nominal)</i>	\$219 ▼	\$151 ▼	\$200 ▼	\$107 ▼

Source: AER

Bill impact is based on an estimate of the financial year 2022 bill compared to the calendar year 2020 bill

Assumes that actual energy consumption will equal the forecast adopted in the draft decision/final decision

Reflects the average consumption of 4,000 kWh for residential customers in Victoria and 20,000 kWh for small business customers in Victoria

Actual bill impacts will vary depending on electricity consumption and tariff class





## Key dates & next steps

- 30 April – AER publishes 2021-2026 final determination
  - 21 May – CitiPower/Powercor submit full 2021/22 Pricing Proposals to the AER
  - Mid June – AER publishes approved 2021/22 prices
  - 1 July – new regulatory period commences
- 
- 2021-2026 reset post implementation review
  - Staged implementation of PIR findings in preparation for the 2026-31 regulatory reset

# DISCLAIMER AND SECURITIES WARNING

**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 2020 and half year ended 31 December 2020. Results have been adjusted by Spark Infrastructure to reflect the 12-month period to 31 December 2020.

**No offer or invitation.** This presentation is not an offer or invitation for subscription or purchase of, or a recommendation to, purchase securities or any financial product.

**No financial product advice.** This presentation contains general information only and does not take into account the investment objectives, financial situation or particular needs of individual investors. It is not financial product advice. Investors should obtain their own independent advice from a qualified financial advisor having regard to their objectives, financial situation and needs.

**Summary information.** The information in this presentation does not purport to be complete. It should be read in conjunction with Spark Infrastructure's other periodic and continuous disclosure announcements lodged with the Australian Securities Exchange (ASX), which are available at [www.asx.com.au](http://www.asx.com.au).

**U.S. ownership restrictions.** This presentation does not constitute an offer to sell, or a solicitation of an offer to buy, securities in the United States or to any "U.S. person". The Stapled Securities have not been registered under the U.S. Securities Act or the securities laws of any state of the United States. In addition, none of the Spark Infrastructure entities have been registered under the U.S. Investment Company Act of 1940, as amended, in reliance on the exemption provided by Section 3(c)(7) thereof. Accordingly, the Stapled Securities cannot be held at any time by, or for the account or benefit of, any U.S. person who is not both a QIB and a QP. Any U.S. person who is not both a QIB and a QP (or any investor who holds Stapled Securities for the account or benefit of any US person who is not both a QIB and a QP) is an "Excluded US Person" (A "U.S. person", a QIB or "Qualified Institutional Buyer" and a QP or "Qualified Purchaser" have the meanings given under U.S. law). Spark Infrastructure may require an investor to complete a statutory declaration as to whether they (or any person on whose account or benefit it holds Stapled Securities) are an Excluded U.S. Person. Spark Infrastructure may treat any investor who does not comply with such a request as an Excluded U.S. Person. Spark Infrastructure has the right to: (i) refuse to register a transfer of Stapled Securities to any Excluded U.S. Person; or (ii) require any Excluded U.S. Person to dispose of their Stapled Securities; or (iii) if the Excluded U.S. Person does not do so within 30 business days, require the Stapled Securities be sold by a nominee appointed by Spark Infrastructure. To monitor compliance with these foreign ownership restrictions, the ASX's settlement facility operator (ASX Settlement Pty Limited) has classified the Stapled Securities as Foreign Ownership Restricted financial products and put in place certain additional monitoring procedures.

**Foreign jurisdictions.** No action has been taken to register or qualify the Stapled Securities in any jurisdiction outside Australia. It is the responsibility of any investor to ensure compliance with the laws of any country (outside Australia) relevant to their securityholding in Spark Infrastructure.

**No liability.** No representation or warranty, express or implied, is made in relation to the fairness, accuracy or completeness of the information, opinions and conclusions expressed in this presentation. To the maximum extent permitted by law, each of Spark Infrastructure, all of its related bodies corporate and their representatives, officers, employees, agents and advisors do not accept any responsibility or liability (including without limitation any liability arising from negligence on the part of any person) for any direct, indirect or consequential loss or damage suffered by any person, as a result of or in connection with this presentation or any action taken by you on the basis of the information, opinions or conclusions expressed in the course of this presentation. You must make your own independent assessment of the information and in respect of any action taken on the basis of the information and seek your own independent professional advice where appropriate.

**Forward looking statements.** No representation or warranty is given as to the accuracy, completeness, likelihood of achievement or reasonableness of any forecasts, projections, prospects, returns, forward-looking statements or statements in relation to future matters contained in the information provided in this presentation. Such forecasts, projections, prospects, returns and statements are by their nature subject to significant unknown risks, uncertainties and contingencies, many of which are outside the control of Spark Infrastructure, that may cause actual results to differ materially from those expressed or implied in such statements. There can be no assurance that actual outcomes will not differ materially from these statements.

**Rounding.** Amounts have been rounded to one or two decimal places (as the case may be). As a result, totals as correctly stated in this presentation may differ from individual calculations.