



Tuesday, 5 August 2014

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

Dear Sir / Madam,

**Presentation to Energy Networks Association Regulation Seminar**

Please find attached the presentation to be delivered to the 2014 Energy Networks Association Regulation Seminar in Brisbane on Wednesday, 6 August 2014.

Yours faithfully,

A handwritten signature in blue ink, appearing to read "Alex Finley". The signature is stylized and cursive.

**Alexandra Finley**  
**Company Secretary**

# IS REGULATION IMPORTANT TO INVESTORS? RICK FRANCIS, MANAGING DIRECTOR






## A TIME FOR QUALITY



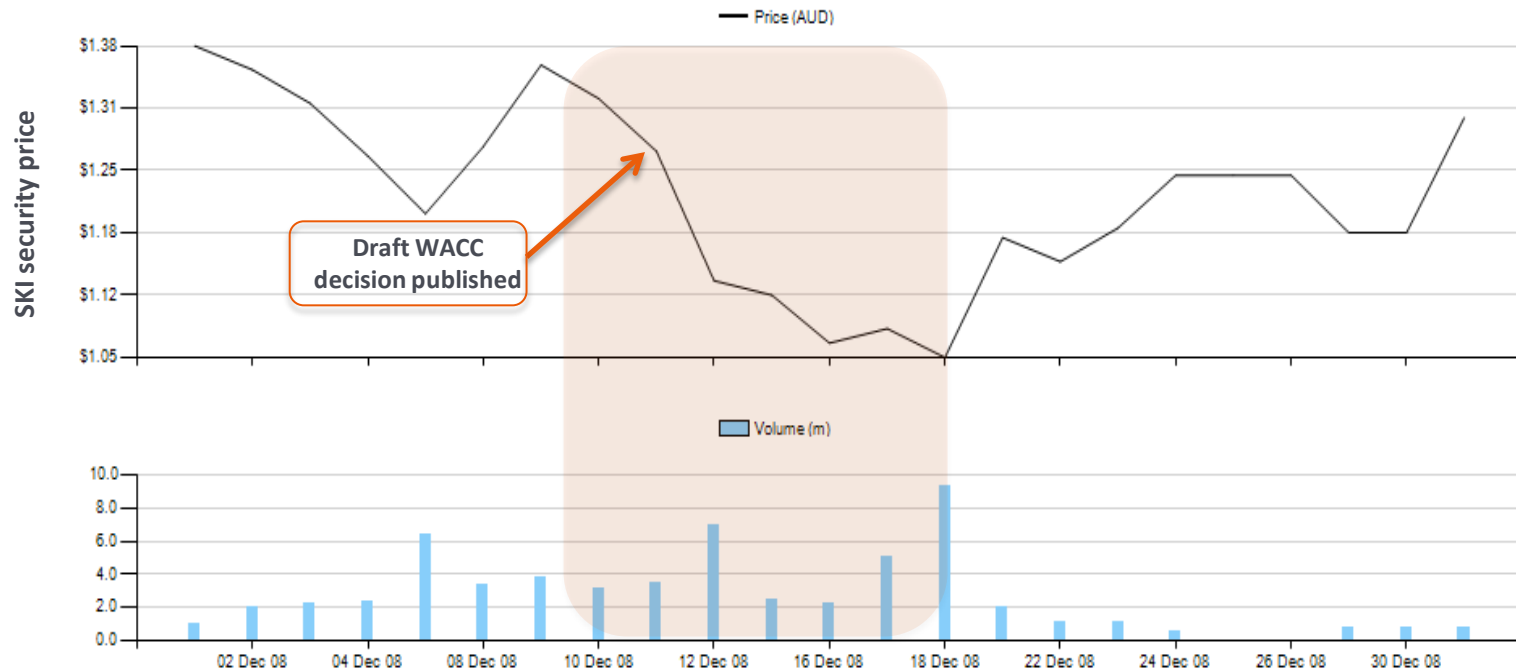
ENA REGULATION SEMINAR  
Wednesday, 6 August 2014

# SPARK INFRASTRUCTURE

- ▶ ASX listed investment vehicle since 2005 with a market capitalisation of around \$2.8 billion and a strong corporate governance track record
- ▶ Share register – 80% institutional + 20% retail; 70% Australian + 30% offshore
- ▶ 49% interests in three quality Australian electricity distribution networks with a combined Regulatory Asset Base of \$8.6 billion plus 14.1% interest in DUET Group (an ASX listed vehicle with interests in electricity and gas distribution networks and a gas transmission pipeline)
- ▶ Investment universe includes regulated electricity, gas and water infrastructure assets
- ▶ Hands-on commercial, financial and operational oversight provided by experienced in-house team with operational and regulatory knowledge
- ▶ Long term investment philosophy

				
	<p>49.0% Interest</p>	<p>49.0% Interest</p>	<p>49.0% Interest</p>	<p>14.1% Interest</p>

# REGULATORY CHANGES HAVE BIG IMPACTS



“I truly believe today is the most important day in Spark’s history. Management has to show leadership like never before. Management should not underestimate the market’s ability to cripple this company given the regulator’s lead. I am not being dramatic when I talk about crisis time at Spark.”

**Steve Goldberg, Portfolio Manager - Pengana Australian Equities - 12 December 2008**

“What is going on with the company? My investment in Spark Infrastructure is a significant part of my retirement plan. Should we be selling as a result of this (AER) decision?”

**Peter Forrester, small retail securityholder - 12 December 2008**

## INVESTORS HAVE ALREADY SHOWN THEY CARE

- ▶ Capital is global and moves quickly – investors have a wide universe of choices available to them
- ▶ Keen interest from investors in the Better Regulation program - extensive input by financial investors in making submissions and participation in consultations
- ▶ Global and domestic long only fund managers aligned in their views on regulation in the sector

“I don’t have the confidence that I used to (in the Australian regulatory environment). Australia has become more politicised and the environment is more opaque. I have already seen capital flowing away... we take a global view of potential investments and undertake benchmarking of regulatory regimes around the world. To actually attract capital to these assets the Australian regulatory environment needs to be in the top quartile of regulatory regimes (in relation to returns).” – **Jonathan Reyes and Tim Humphries, AMP Capital - 22 October 2013**

- ▶ Regulated utilities are big investments, and more investment is needed
- ▶ Big investors actually represent small ones in the listed space – the majority of Spark Infrastructure’s ultimate beneficial holders are Australian retail and private investors, self-funded retirees or superannuation account holders

## WHAT REGULATION DOES AND NEEDS TO DO

- ▶ Regulation needs to be predictable, transparent and accountable
- ▶ It needs to provide confidence to enable long-term investment decisions to be made
- ▶ Regulation needs to reward efficient operators and encourage inefficient operators to improve
- ▶ Incentives are always effective in influencing behaviour, but not always effective in doing so in the manner intended
- ▶ Well considered regulation can drive performance, while inappropriate regulation can lead to market failure
- ▶ Changing demand patterns and evolving technology will have an impact on how networks are run, how customers are charged and on how the disadvantaged are compensated
- ▶ Governments and regulators need to respond; regulation needs to be more adaptive, innovative and responsive

## CONSUMER ENGAGEMENT MUST BE EMBRACED BY INDUSTRY

- ▶ Consumer engagement greater than ever before; representative bodies, public forums, challenge panels etc.
- ▶ The role of consumers in the development of asset replacement and expansion programs needs to be embraced by industry - they can provide a guide to the planning of programs and support to NSP submissions to the Regulator
- ▶ The AER's engagement structures can be of use in developing solutions to the various challenges facing governments and regulators

## REGULATION AND OWNERSHIP STRUCTURES

*“...government owners have an incentive to over-invest because of their low cost of borrowing and tax allowance arrangements... political concerns about reliability of the network, and about the ramifications of any failures, reinforce these incentives.”*

***‘The Garnaut climate change review’ 2011***

*“...State governments receive not only the regulated return on assets, but the debt arbitrage plus the tax equivalent payments. They effectively are able to “triple dip” from their ownership of the electricity poles and wires businesses.”*

***‘The capital efficiency of Australian Electricity Distributors’  
AMP Capital submission to the Productivity Commission - November 2012***

*“...the rationale for government ownership of electricity network businesses no longer holds... the evidence appears to suggest that state owned enterprises are less efficient than their private sector peers. The best remedy is privatisation.”*

***‘Electricity Network Regulatory Frameworks Inquiry Report’  
Productivity Commission - 26 June 2013***



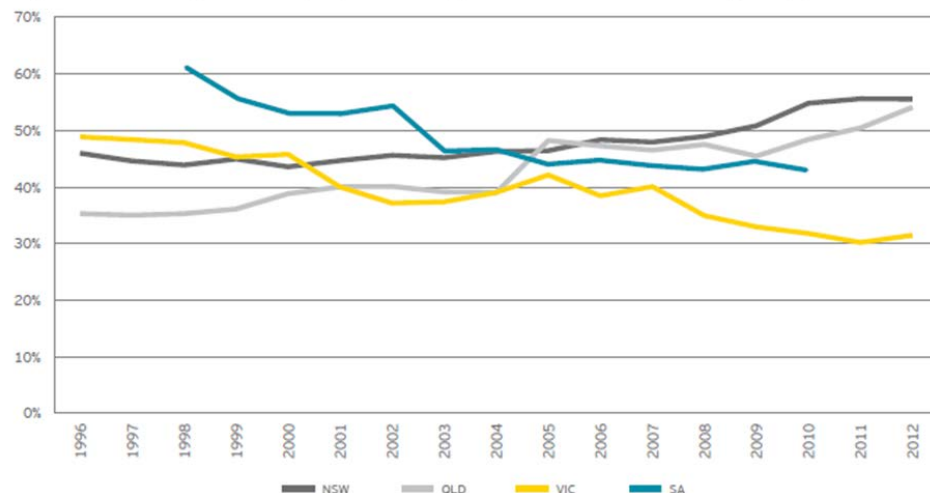
# PRIVATELY OWNED NETWORK ASSETS SET THE STANDARD

Table 3: Typical annual retail electricity bill (\$ per year, nominal terms)

	Government-owned		Privately-owned	
	NSW 1996-97 to 2012-13	Qld 1996-97 to 2012-13	Victoria 1996 to 2013	SA 1998-99 to 2010-11
Current electricity bill	\$1,925	\$1,547	\$1,495	\$1,481
Electricity bill in 1996/1998	\$745	\$615	\$752	\$821
Increase in electricity bill	\$1,180	\$932	\$743	\$660
Current network bill	\$1,069	\$836	\$595	\$636
Network bill in 1996/1998	\$343	\$217	\$368	\$501
Increase in network bill	\$726	\$619	\$227	\$135

- ▶ Network costs have risen significantly more in the government owned States than in the privatised States
- ▶ Privately owned NSPs are among the most reliable, efficient and safe businesses of their kind in Australia, and generally rank above their government owned peers

Figure 3: Network prices as a proportion of typical annual retail electricity bill (%)



**Source: “Electricity network services : Long term trends in prices and costs” EY, June 2014  
Commissioned by NSW Treasury**

## SUMMARY

- ▶ Regulation is the prime concern of investors in the regulated utilities space
- ▶ Regulation needs to provide both a bedrock of confidence to enable long-term investment and keep pace with expected changes in markets and technology
- ▶ The role of consumers in guiding and supporting asset replacement and expansion programs needs to be embraced by industry
- ▶ The interplay between regulation and ownership is important and has significant implications for investment, efficiency and cost to consumers
- ▶ The privatisation of government owned electricity distribution and transmission assets would be a positive step towards a more efficient and responsive sector

# FOR FURTHER INFORMATION

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