



Thursday, 30 April 2015

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

Dear Sir / Madam

**Australian Energy Regulator (AER) publishes Draft Decision for SA Power Networks' 2015-2020 regulatory period**

Please find attached a statement by Spark Infrastructure in response to today's publication of the AER's Draft Decision for SA Power Networks' 2015-2020 regulatory period. A statement issued by SA Power Networks is also attached.

A full copy of the AER's Draft Decision and associated documents can be found on the AER website at [www.aer.gov.au](http://www.aer.gov.au)

Yours faithfully,

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

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

Thursday, 30 April 2015

## AER releases Draft Decision for SA Power Networks

Spark Infrastructure notes that the Australian Energy Regulator (AER) has today released its Draft Decision for the 2015-2020 regulatory period of SA Power Networks, in which Spark Infrastructure holds a 49% interest.

As expected, the AER has proposed rate of return parameters which have been determined on a basis which is inconsistent with the intention of the rule changes announced by the Australian Energy Markets Commission (AEMC) in 2011. Specifically, it has maintained a prescriptive application of the Sharpe-Lintner CAPM with its reliance on historically low bond rates as the proxy for the long term Risk Free Rate.

Spark Infrastructure has consistently argued that the process used to set regulatory returns must have a credible commercial and practical overlay to ensure it provides a long term market competitive return to owners of network assets. If not, the National Electricity and Gas objectives will not be met, and efficient investment in energy network assets will not occur to the long term detriment of consumers.

"Spark Infrastructure urges the AER to fundamentally reconsider the way it calculates returns, and in particular its reliance on current bond yields as a proxy for the long term risk free rate. Not only has this methodology proven itself incapable of delivering a realistic market-based return on equity which reflects the requirements of long term investors, but we firmly believe it is inconsistent with the intent of the changes made by the AEMC to the National Electricity Rules in 2011", said Rick Francis, Managing Director of Spark Infrastructure.

In addition, the AER's proposed changes to the calculation of regulatory depreciation have not been subject to an appropriate consultation process and if implemented will have a negative impact on investment in these businesses, to the long term detriment of consumers.

In relation to the regulatory allowances, the AER's Draft Decision has confirmed its acceptance of the 2014 regulatory year for the 'revealed cost year' as the baseline in determining operating allowances for efficient businesses which have benchmarked well, of which SA Power Networks is one. However, despite strong support from the community registered through SA Power Networks' extensive consumer and stakeholder engagement program, the AER has not approved some important programs requested by consumers, for example:

- Improved vegetation management or clearance programs
- Improved bushfire management and safety programs
- Hardening of the electricity network against extreme weather events
- Preparing the electricity network and back-office systems for growth in solar PV, battery storage and electric vehicles.

SA Power Networks intends to resubmit these initiatives to the AER in its revised proposal to be lodged on 2 July 2015.

Regulatory determinations may be appealed by Network Service Providers to the Australian Competition Tribunal (ACT) which acts as an independent appellate body. Applications to the ACT can be made within three weeks of receipt of the AER's Final Decision, which is due for SA Power Networks by 31 October 2015.

### Further Information:

**Mario Falchoni**  
General Manager  
Investor Relations and Corporate Affairs

**Phone: 02 9086 3607**  
**Mobile: 0418 401 415**



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## Regulator's preliminary decision on electricity network plans for 2015-2020

Background: Every five years, the Australian Energy Regulator (AER) must hand down a determination establishing the level of reliability and customer service to be delivered by SA Power Networks in managing the SA electricity distribution network and, accordingly, set prices to allow for their achievement.

The determination is made on the basis of a Regulatory Proposal. The proposal for 2015-2020 was submitted by SA Power Networks last October. The AER today issued its preliminary determination and SA Power Networks must respond to this on 2 July with a final decision due from the Regulator in late October.

"We will need to review the AER's detailed preliminary decision carefully before issuing our considered response to the Regulator as the next step in the process," said SA Power Networks spokesman Paul Roberts.

"Our proposal was comprehensive and based on extensive consultation with stakeholders and customers. The outcome has been strongly influenced by the Regulator's views on funding the business and interest rates, which have fallen to record lows.

"We welcome the fact that we have been recognised by the Regulator for our relative cost efficiency compared with other distributors. But we note that the Regulator has not approved a number of key initiatives customers told us they supported or wanted," Mr Roberts said.

"For example, the Regulator has not funded plans for improved outcomes for the community from vegetation clearing around power lines. It also has rejected proposals to commence a program to ensure continuous electricity supply to CFS Bushfire Safer Places and to improve bushfire management in line with relevant initiatives developed in Victoria in the wake of the Black Saturday fires. It also has rejected plans to improve the resilience of the network to more severe and frequent extreme weather events.

"The Regulator also has rejected components of our proposal to ready the network and back-office systems for the ongoing growth of solar PV and the take up in coming years of other energy solutions wanted by customers, including battery storage and electric vehicles," Mr Roberts said.

"The Regulator also has made some decisions on highly technical aspects relating to funding the business, that will require detailed and considered review.

"We will be making submissions on all these matters when we submit a revised proposal to the Regulator in early July. We encourage South Australians to also communicate their views to the AER."

Public submissions on the preliminary decision can be lodged at [www.aer.gov.au/node/20941](http://www.aer.gov.au/node/20941).

SA Power Networks is responsible for managing and maintaining South Australia's electricity distribution network serving more than 845,000 customers.

Media contact: 0403 582 500