



Wednesday, 26 July 2017

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

Dear Sir / Madam

Presentation to Energy Networks Australia (ENA) Regulation Seminar 2017

Please find attached the presentation to be delivered to ENA Regulation Seminar 2017 in Brisbane, by Mr Rick Francis, Managing Director and CEO of Spark Infrastructure.

Yours faithfully,

A handwritten signature in blue ink, consisting of several overlapping loops and a horizontal line extending to the right.

Mario Falchoni
General Manager
Investor Relations and Corporate Affairs

ENERGY NETWORKS AUSTRALIA SEMINAR

WEDNESDAY, 26 JULY 2017



THE AUSTRALIAN INFRASTRUCTURE NETWORK SPECIALISTS





HOW DO INVESTORS ASSESS AND MANAGE POLICY AND REGULATORY RISK IN A DYNAMIC ENERGY MARKET?






Mr. Rick Francis, Managing Director & CEO
Spark Infrastructure



SPARK INFRASTRUCTURE

Australian based specialist infrastructure investor with a portfolio of high quality regulated businesses

- ▶ ASX listed investment vehicle since 2005 with a market capitalisation of around \$4.5 billion. Independent Board and ASX listing rules provide the highest standard of corporate governance and transparency
- ▶ Spark Infrastructure’s investment portfolio includes 49% interests in SA Power Networks, CitiPower and Powercor, and a 15% interest in TransGrid
- ▶ 80% owned by Australian institutional and retail investors; approximately 19,000 individual securityholders
- ▶ Detailed operational and regulatory knowledge – active commercial, financial and operational oversight provided by experienced in-house team

				
	49.0% Ownership	49.0% Ownership	49.0% Ownership	15.01% Ownership

DEFINING THE PROBLEM

1. The business environment is changing

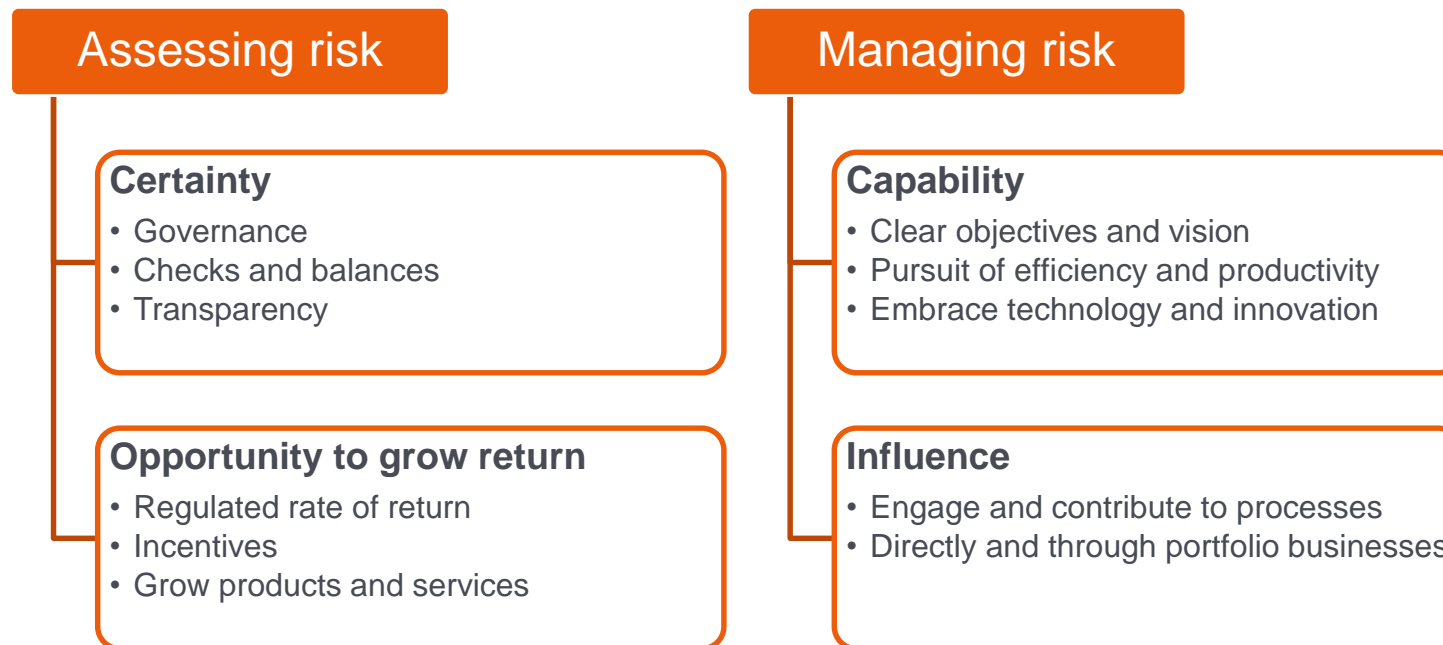
- The growth of distributed and embedded renewable generation
- Decline of fossil fuel generation
- Development of export markets
- Innovation and technology (smart meters, batteries etc.)
- Changes to pricing structures
- Move from public ownership to private ownership of network assets
- Increasing sophistication and assertiveness by energy consumers

2. Political intervention and regulatory responses are increasing risk and curtailing opportunity

- **Removal of Limited Merits Review:** undermining investment confidence leading to either higher cost of capital (passed on to consumers) or less investment
- **Ring-fencing Guideline:** seeking to reduce the field of investment opportunity available to network businesses thereby constraining the ability of networks to manage the changes in the business environment; and, reducing choice and increasing costs to consumers

PRIVATE INVESTORS: ASSESSING AND MANAGING RISK

- ▶ Private investors and private investment are critical to the ongoing provision of essential services and private investment
- ▶ Private investment will grow in importance as government's accept that private investment can deliver greater efficiencies and relieve the burden of allocating funds across portfolios
- ▶ Active engagement in regulatory and policy issues has become core business in maintaining and growing returns

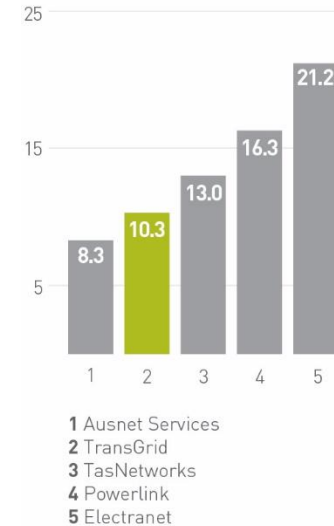


PRIVATE INVESTMENT DELIVERING BENEFITS TO CUSTOMERS

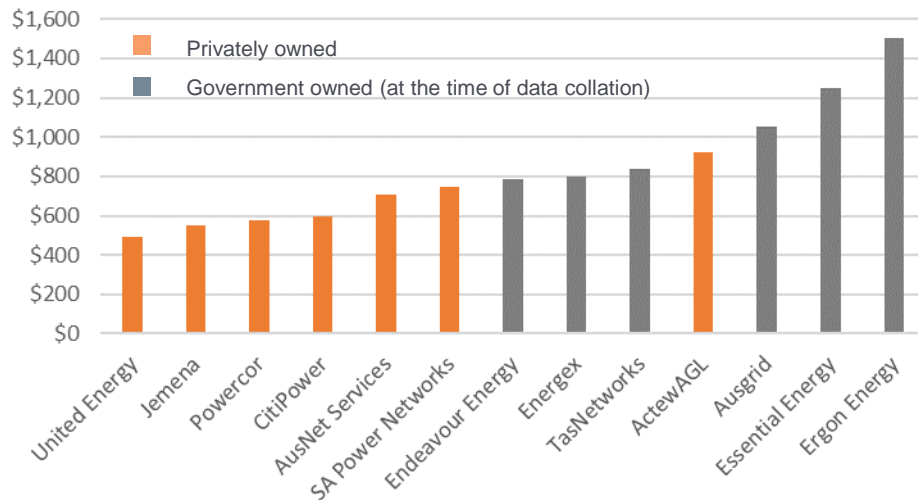
“The increased role of the private sector in infrastructure has brought considerable public benefit... Privatisation has also delivered more efficient management of assets and investments have been more responsive to changes in market demand... Well-considered contracting out or privatising remaining infrastructure assets is likely to drive further consumer benefits through comparatively lower prices flowing from greater discipline on privatised entities.”

The Australian Government Competition Policy Review, March 2015, section 11.1.

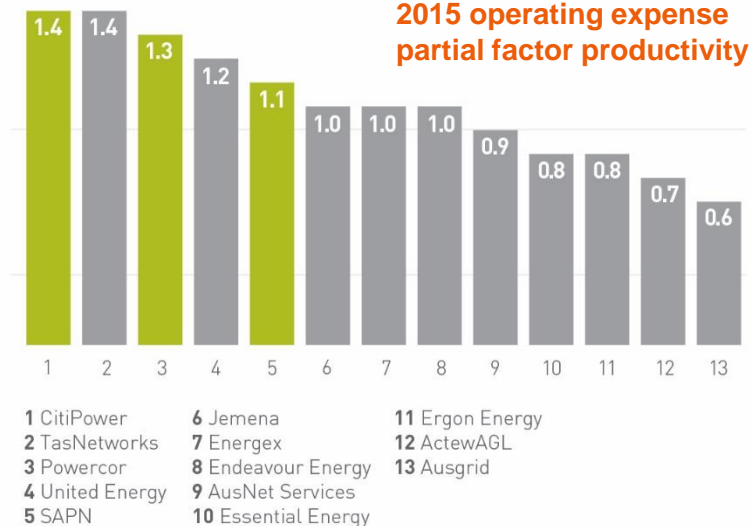
2015 Total user cost per MWh of energy transported (\$/MWh)



Total user cost per customer (5yr avg to 2015)



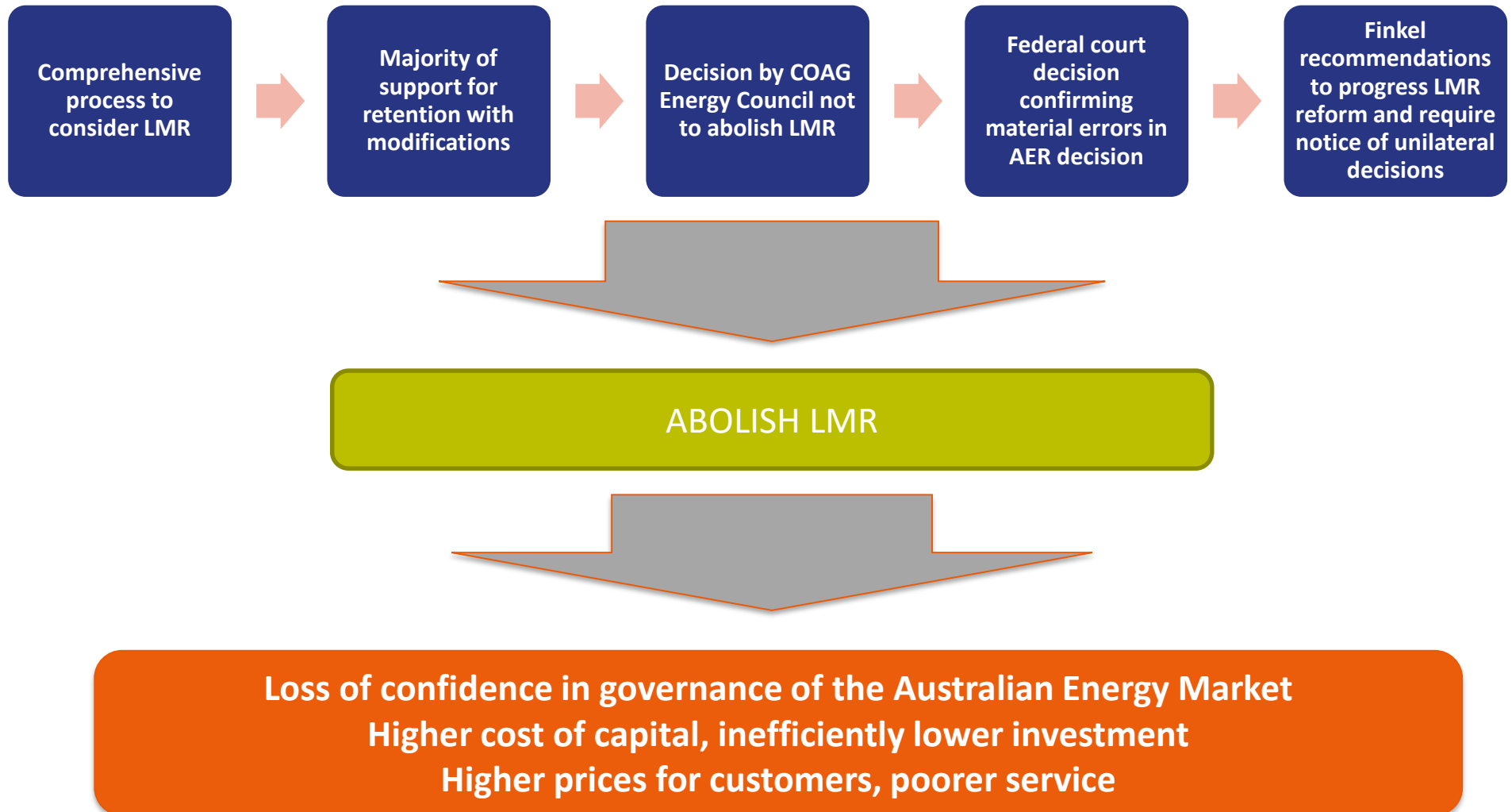
2015 operating expense partial factor productivity



Source: AER distribution partial performance indicator trends.xls, 2015

LMR - WHAT HAPPENED?

An effective and comprehensive process of consultation has been unnecessarily discarded and important AEMA governance arrangements over-ridden



RING FENCING

Ring fencing obligations will reduce the opportunities for investors to grow returns above the regulated return

- ▶ Stifle competition, innovation and efficiency by removing the ability and incentives for DNSPs to pursue non-network solutions and continuously pursue more efficient ways to deliver services.
- ▶ This includes efficiently utilising existing networks to provide value adding non-traditional energy delivery services and sharing the benefits of this with customers as currently required through the Cost Allocation Methodology and Shared Asset Guideline.
- ▶ By prohibiting DNSPs from providing services in competitive markets, customers will be prevented from receiving the benefits of efficiencies and innovation in services that competitive rivalry stimulates. This is not in the long term interests of customers.
- ▶ Any new regulation must be demonstrated to be in response to a market failure and deliver a positive net present value
- ▶ For every new regulation that reduces the opportunity to investors, the competition for capital and likelihood of inefficiently low levels of investment increases.

A STABLE REGULATORY REGIME

Certainty, stability and transparency is a prerequisite for both equity and debt investor confidence

- ▶ Maintaining “checks and balances” is essential to promote high quality decisions and accountability of the regulator without political or external interference - this is not only critical for investors but provides an avenue for consumers’ legitimate views to be heard
- ▶ Without a proper LMR framework, key input parameters to determining the rate of return (equity beta, MRP debt costs and credit ratings) will be affected increasing costs to customers
- ▶ Private investors and private investment will become more critical to the ongoing provision of essential services and private investment
- ▶ Active engagement in regulatory and policy issues has become core business in maintaining and growing returns
- ▶ Investors need certainty and opportunity. If provided, investor and consumer interests are aligned

Under a well designed effective regulatory framework maintaining and growing returns is in the long term interests of customers

FOR FURTHER INFORMATION

Please contact

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