



Wednesday, 6 June 2018

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

Dear Sir / Madam

Presentation and Speaker's Notes - Energy Networks (ENA) 2018 Conference

Please find attached the presentation and accompanying speaker's notes to be delivered at the Energy Networks Australia 2018 Conference in Sydney, by Mr Rick Francis, Managing Director and CEO of Spark Infrastructure.

Yours faithfully,

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

Alexandra Finley
Company Secretary

*spark*infrastructure

FUTURE. ENERGY.

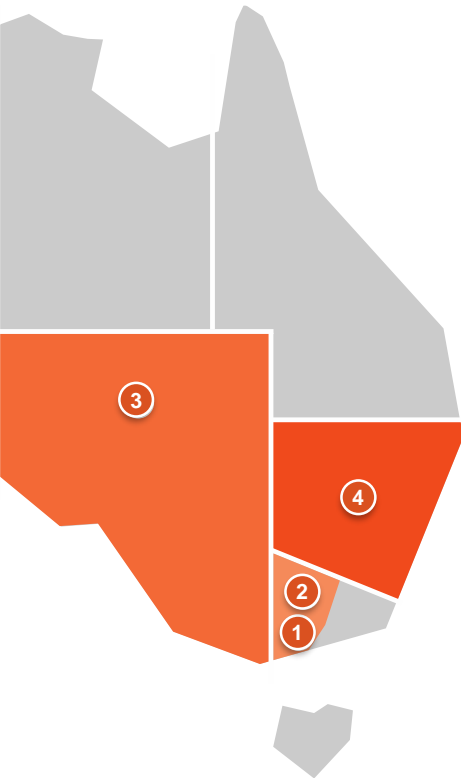
Presentation to Energy Networks 2018
Mr Rick Francis, Managing Director & CEO
Wednesday, 6 June 2018



OUR INVESTMENTS



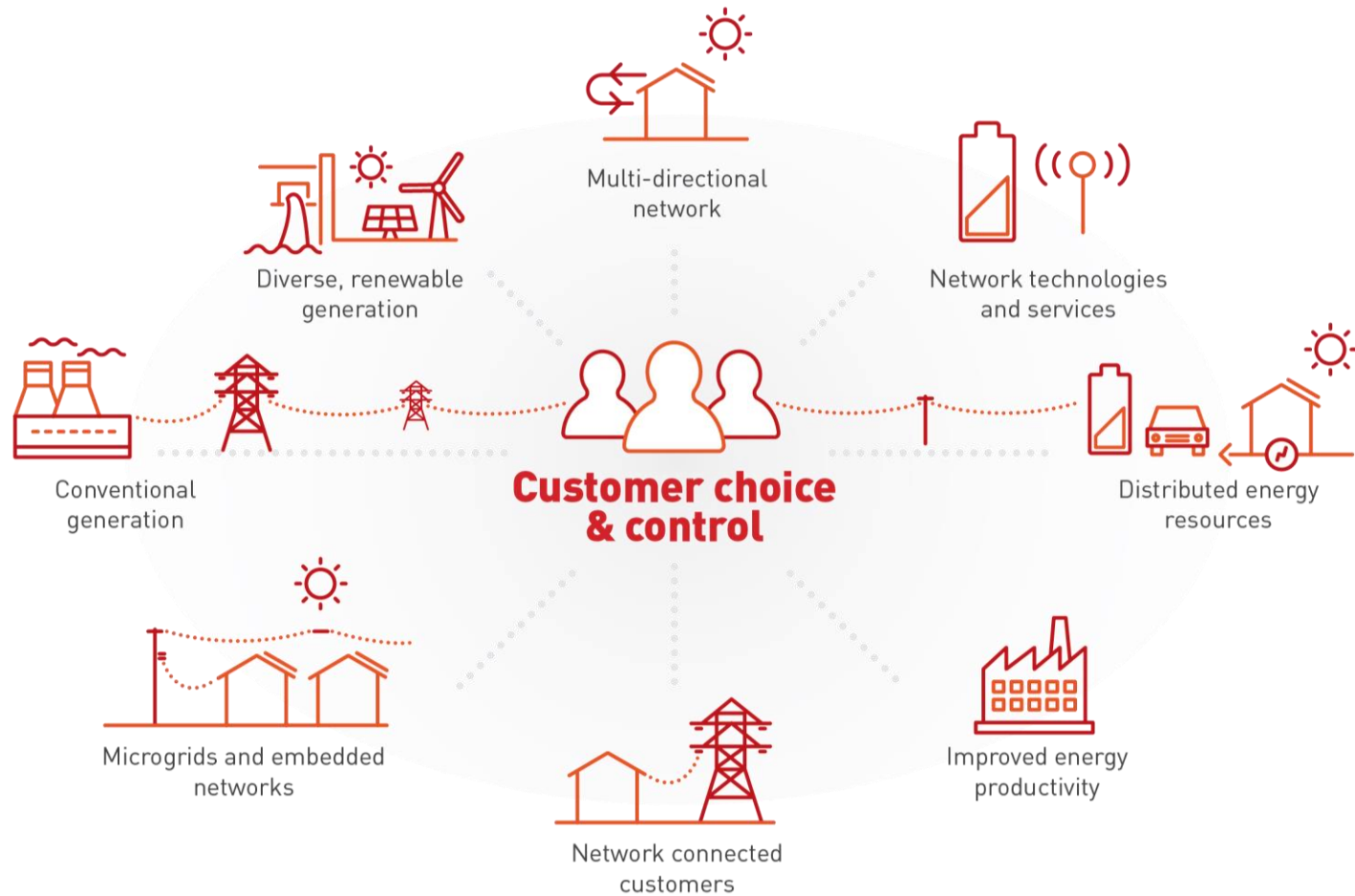
Spark Infrastructure is Australia's leading ASX-listed network owner. Our assets support economic growth and Australia's future sustainability



① CitiPower (VPN)	② Powercor (VPN)	③ SA Power Networks	④ TransGrid
49% Spark Infrastructure ownership	49% Spark Infrastructure ownership	49% Spark Infrastructure ownership	15% Spark Infrastructure ownership
\$1.93bn Regulated Asset Base	\$3.97bn Regulated Asset Base	\$4.05bn Regulated Asset Base	\$6.70bn Regulated and Contracted Asset Base ("RCAB")
1,832⁽¹⁾ Number of employees	1,832⁽¹⁾ Number of employees	2,199 Number of employees	1,105 Number of employees
330,000⁽²⁾ Customers	795,000⁽²⁾ Customers	865,000⁽²⁾ Customers	3,600,000 Supplying homes and businesses

(1) Reported together
(2) Rounded to nearest thousand

FUTURE ENERGY WILL EMPOWER CUSTOMERS



OUR INVESTMENT BUSINESSES ARE WELL POSITIONED TO DRIVE THE TRANSITION AND BENEFIT FROM THE NEW ENERGY FUTURE

OUTSTANDING AER EFFICIENCY RANKINGS

Our investments continue to drive strong efficiency outcomes

Victoria Power Networks



Powercor

BEST PERFORMING NETWORK (DISTRIBUTION)⁽²⁾



CitiPower

SECOND BEST PERFORMING NETWORK (DISTRIBUTION)⁽²⁾

SA Power Networks



SA Power Networks

MOST EFFICIENT STATE-WIDE NETWORK (DISTRIBUTION)⁽¹⁾

TransGrid



TransGrid

SECOND BEST PERFORMING NETWORK (TRANSMISSION)⁽²⁾

1. Based on multilateral total factor productivity. Source AER Benchmarking Report, November 2017
2. Based on opex multilateral partial factor productivity. Source AER Benchmarking Report, November 2017

OUR MANAGEMENT TEAMS CONTINUE TO HAVE A VERY STRONG FOCUS ON EFFICIENCY, AS REFLECTED IN THE RECENT AER BENCHMARKING REPORTS

NETWORK CHARGES IN ENERGY BILLS

In Victoria and South Australia, distribution charges are less than 25% of a typical household bill

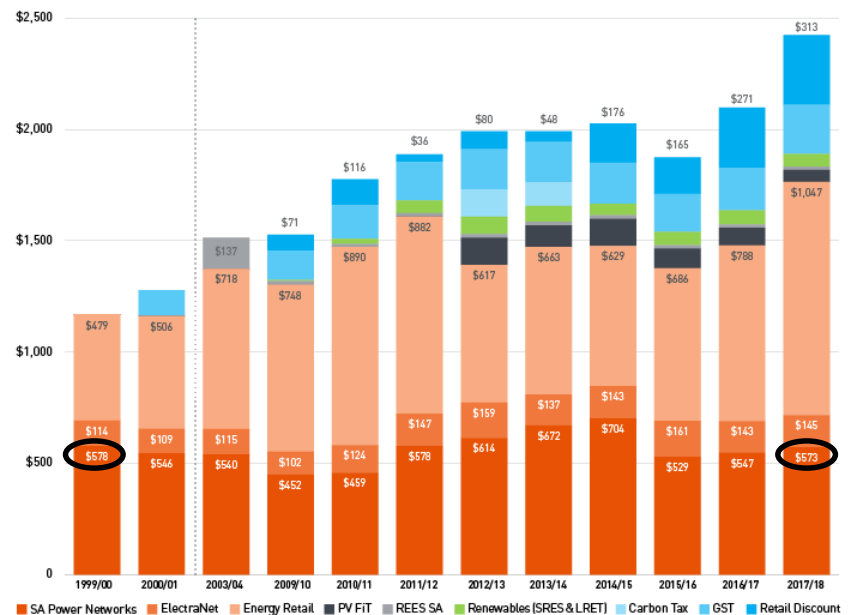
Residential bill contribution

- TransGrid's transmission costs are equivalent to ~4% of a residential retail tariff
- In South Australia and Victoria, distribution network costs account for less than ~25% of a residential retail bill

Residential bill increase

- TransGrid's average transmission charges decline by 3.8% from 2014-18 to 2018-23⁽¹⁾
- In South Australia, distribution network costs have risen by less than CPI since it was privatised in 1999 – refer chart on right
- CitiPower, Powercor and United Energy average distribution residential network bills have increased in real terms by 2% across the period 2007/08 – 2016/17⁽²⁾

In South Australia, distribution network costs have risen by less than CPI since it was privatised in 1999.



All amounts in 1999/00 dollars

PRIVATISED NETWORK BUSINESSES ARE NOT THE CAUSE OF RECENT PRICE INCREASES

(1) In real dollar terms, AER Final Decision, TransGrid transmission determination 2018 to 2023, May 2018.

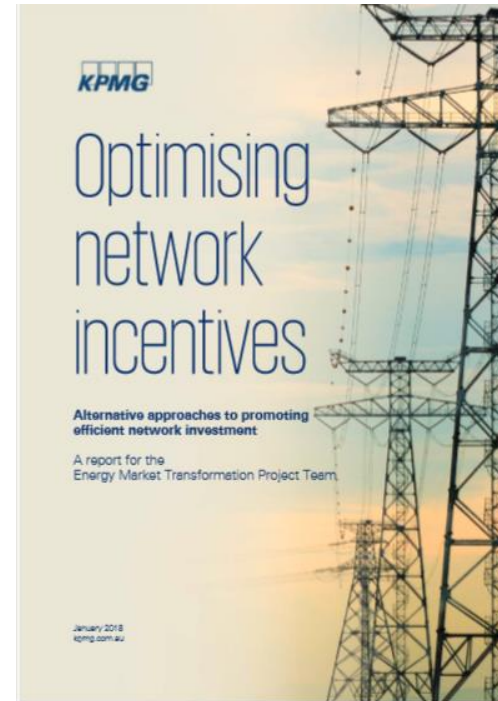
(2) Excludes the pricing impact of Government mandated schemes.

THE PACE OF TRANSFORMATION

The COAG Energy Council Energy Market Transformation Team has recognised the challenges for innovation and investment in the regulatory framework

Issues impacting on the pace of transformation

- There is a bias in the regulatory framework against innovation
- That the incremental approach to changing the framework will be insufficient to deliver the transformation required
- A clear vision for the role of the networks in the transformation is required



SUCCESS WILL REQUIRE INVESTMENT CERTAINTY AND INCENTIVES FOR INNOVATION

INTERVENTIONS IN THE REGULATORY FRAMEWORK

Unprecedented level of intervention seen over the last 12 months

Commonwealth Government

- Abolition of Limited Merits Review – unilateral action overriding the AEMA
- Direct the AER to undertake a review of the regulatory approach to tax – unclear powers

COAG Energy Council

- Review of Limited Merits Review framework – overridden by the Commonwealth
- Binding Rate of Return Guideline draft legislation – proposes removing important guidance in national energy rules on rate of return and increasing the discretion of the AER, thereby reducing the effectiveness of judicial review and increasing uncertainty

ACCC

- Review of electricity retail pricing – draft report investigating the write-down of the RAB based on unverified information from retailers about network costs (final report end of June 2018)

AER

- Ring-fencing Guideline – reduced scope to leverage assets and capability to provide new and innovative services
- Regulatory treatment of inflation – additional risk in lower inflation environments but no changes made
- Rate of Return Guideline – pressure to reduce returns despite evidence that risk has increased
- Regulatory investment test – uncertainty about the interaction with AEMO's Integrated System Plan

AD HOC, REACTIVE POLICY - NO CLEAR VISION OF THE VALUE OR ROLE OF NETWORKS IN THE FUTURE ENERGY SYSTEM

REGULATORY FRAMEWORK FUTURE BLUEPRINT

Supporting innovation, incentives & higher value services to customers at lower cost

- **A forward looking approach** to future regulatory changes in line with a clear vision for energy networks
 - A continuation of the backward looking reviews is detrimental to the future
- **Transparency, certainty and predictability** to attract much needed capital at the lowest possible cost, reducing prices to customers
 - Amendments required to the draft Binding Rate of Return legislation
 - Retain the BEE construct and incentive-based regime for regulation
- **Continuation of the incentive based approach** to regulation with more explicit valuation of innovation and pace of transformation
 - Ensure regulatory investment test supports AEMO's ISP and network's future role
- **Strong governance and accountability framework** for regulation including independence of rule setting and implementation, and access to meaningful judicial review to enhance quality decision making
- **Network tariff reform** to support efficient investment across the energy supply system and to protect consumers
- **Further privatisation** to increase the effectiveness of the incentive based regulatory framework across the sector and to remove perceived distortions between public and private ownership
 - Private sector will be more willing to provide the long-term capital to fund the required expansion and innovation in networks

IT IS TIME TO LOOK FORWARD NOT BACKWARDS AT ECONOMIC REGULATION IN THE ENERGY SECTOR

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Energy Networks 2018 Conference

Wednesday, 6 June 2018

Address – Rick Francis, Managing Director and CEO

Regulation, Reform and Grid Transformation Session

“Re-crafting the NER for the new energy world - an investors perspective”

[SLIDE 1 – FUTURE ENERGY]

Good Morning.

As an ASX-listed entity, Spark Infrastructure occupies an important place in Australia’s energy asset landscape, so I am pleased to be able to speak to you today on an investor’s perspective of Australia’s network transformation.

This is a critical time for the network industry.

In order to deliver on our customers’ changing energy needs, we not only need to invest in the existing network, but also to prudently and efficiently invest in new expansions and technologies for the future of the grid. Networks are working towards achieving the Finkel trilemma of lower carbon emissions, delivering a secure and reliable supply of energy, and ensuring affordability for customers.

Innovation and incentive are both critical parts of achieving economic efficiency – which is a key objective of the National Energy Law and Rules – but are areas that are currently being overlooked in relation to the contributions that Networks can make in this transformation.

[SLIDE 2 – OUR INVESTMENTS]

To undertake efficient long-term investment, network owners and investors require a stable and predictable incentive based regulatory framework which encourages investment in innovation. However, our investment businesses, along with the rest of the industry, are trying to evolve and adapt in an unpredictable political and regulatory environment.

Strong governance and incentive based arrangements are fundamental to delivering the best price and service outcomes to customers, especially where there is change and uncertainty elsewhere in the supply chain. Investors are not averse to change, as

there will always be opportunities to improve the framework, but the process of change should be well considered, consultative and transparent. Unilateral decision making, on the other hand, increases risk, cost and discourages investment.

Our investment businesses are all currently in electricity T&D network assets which span South Australia, Victoria, NSW and the ACT. Each business is playing a critical role in delivering and enabling new energy technologies. In aggregate, they operate \$17 billion of energy network assets, deliver energy to more than 5.5 million customers across three states, and also transports electricity between regions in the NEM.

There is fragmented ownership in networks, with both significant public and private ownership. Government owners may be unwillingly to invest significant dollars in grid innovation and development going forward. Whereas private investors have significant capital to deploy, and will continue to willingly invest in long-term assets and innovation, subject to there being a robust and transparent economic and regulatory framework in place.

[SLIDE 3 – FUTURE ENERGY WILL EMPOWER CUSTOMERS]

Technological change in the sector is developing at an unprecedented rate, albeit off a low base. It is, and will, continue to drive a shift in how we generate, transport and store energy, and therefore how we monitor and manage electricity networks.

It is forecast that 45 terawatt hours (TWh) of coal-fired generation will be retired within the next 12 years and, according to AEMO, will be replaced by up to 90 TWh of gas and renewable energy sources. Hence, the role of the grid is expected to expand considerably to facilitate multi-directional energy flows between customers and a diverse mix of generators and storage points, spread geographically across the NEM.

These developments are slowly changing the way consumers' source and use electricity, and how transmission and distribution systems need to operate.

[SLIDE 4 – OUTSTANDING AER EFFICIENCY RANKINGS]

The networks in Victoria and South Australia have been owned and operated by the private sector since the mid to late 1990's, and these businesses represent the best performing businesses in the sector in terms of cost efficiency and reliability.

We also have a well-established regulatory regime which has worked well for commercially focused businesses, like ours and others in the private sector.

Prices have gone up and down in response to changes in efficient costs, according to the 5-year regulatory cycle. For SA Power Networks and Victoria Power Networks, the increases in prices that we saw in the 2010-15 regulatory period from increases in the cost of debt and equity following the Global Financial Crisis, have reversed in the current 2015-20 regulatory period. Customers will also again benefit from low costs of debt and equity in the new TransGrid regulatory determination for FY18-23 handed down two weeks ago.

[SLIDE 5 – NETWORK CHARGES IN ENERGY BILLS]

I cannot neglect this slide. Network tariffs in our distribution businesses have declined in real terms since privatisation. And regardless of what you may have heard elsewhere, our networks' share of the overall energy cost to residential customers is closer to 25% for distribution, not 50%, and only 4% to 5% for transmission in comparison to an average residential tariff.

This misinformation was fuelled by the ACCC's preliminary report into retail electricity pricing in September last year, and has distracted attention away from the core issues. The ACCC will issue its final report at the end of June. With more time and more consultation, it should recognise the important difference between publicly and privately owned network businesses that has clouded the debate for the last 12 months, and I hope it encourages the NSW and QLD governments to re-examine the benefits of privatising their remaining networks, which was also acknowledged in the recent Grattan Report.

[SLIDE 6 – THE PACE OF TRANSFORMATION]

The need for the regulatory framework to evolve to support innovation and industry transformation has been highlighted in a recent report commissioned by the COAG Energy Council's Energy Market Transformation Team. The report, prepared by KPMG, identified a number of issues that may be acting as handbrakes on grid innovation, for example:

- There is a bias in the regulatory framework against innovation;
- That the incremental approach to changing the framework will not be sufficient to deliver the transformation required; and
- A clear vision for the role of the networks in the transformation is required.

The bias in the regulatory framework against innovation, amongst other things, is driven by lower rates of return leading to the adoption of more operating or business as usual solutions, and network businesses not adequately capturing rewards from innovation to compensate for the higher risk of investigating and implementing new technologies.

Also, the risk of stranding assets skews behaviour against innovation and leads to the need for a higher hurdle rate for new capital expenditure.

These issues will not be resolved through ad hoc changes to the regulatory framework. We need a clear vision for the future role of networks and innovation.

The report is clear: the current incremental approach to reviewing the regulatory framework may be too slow to keep up with the pace of change in the energy sector. So what is needed?

- Success will require investment certainty to be maintained through a stable regulatory environment where changes are based on good public policy and transparent processes free from political influence and intervention; and
- Incentives for innovation that are strong and reflect a clear vision for the value and role of networks in the future energy system, removes road blocks and which support new services to meet the changing needs of customers.

Unfortunately, we have neither the investment certainty we need currently, right across the industry, nor the right incentives for innovation.

[SLIDE 6 – INTERVENTIONS IN THE REGULATORY FRAMEWORK]

Investor certainty in the sector is low. On the slide are just a selection of regulatory reviews and interventions over the last 12 months.

A forward looking view of the regulatory framework needs to be adopted, taking into account the important role that networks will play in the future transition in the industry.

Continued attacks on the regulatory framework undermines the credibility of the sector. This will only lead to increased uncertainty and risk, and ultimately to increased debt and equity capital costs to the detriment of consumers.

Investors invest for the long-term. Long term is measured as 40 to 50 years. Certainty for a 5 year period is good, but far from sufficient. Long-term investment confidence requires certainty across multiple regulatory periods and resets.

- Hence, transparency, certainty and predictability in the regulatory governance structure is critical to the availability of long-term and low costs of capital – both for debt and equity.
- This is a pre-requisite for lenders, rating agencies and equity providers.

COAG Energy Council's proposed legislation to make the rate of return decision binding cuts across the established separation of roles, removes important guidance on how investor returns are to be determined and reduces rights to review decisions about those returns. All of which will damage investor confidence in the long term.

Accordingly, the independence of the main bodies – AEMC, AEMO and AER should be maintained. Changes in leadership may be required, but the separate roles and mandates for the bodies should be maintained.

Also, the underpinnings of the regulatory construct, i.e. the benchmark efficient entity, the incentive based regime, the WACC methodology and regulatory tax principles should be maintained, and not removed.

The AER already has significant increased discretion at its fingertips. The investment community therefore requires confidence as to how the Regulator will operate and make decisions, and hence, the draft Binding Rate of Return legislation should reference the well-established rate of return guidelines and incentive based regime.

The Regulator needs accountability to ensure quality in its decision making. A credible appeals mechanism is therefore a pre-requisite to any robust regulatory process and ensures that regulatory decisions are being made in the long-term interests of all consumers.

[SLIDE 7 – REGULATORY FRAMEWORK FUTURE BLUEPRINT]

As I said before, a forward looking review of the regulatory framework is needed.

The Finkel Report, creation of the ESB and the development of the NEG are all important initiatives, which are moving in the right direction. In that same vein, AEMO is scheduled to release its Integrated System Plan (ISP) in June, which customers, regulators and industry participants should support. It will be important that the regulatory framework supports and facilitates the implementation of the ISP.

Networks do not generate electricity, but an unconstrained network will ensure that the optimal amount and mix of generation and storage is built in the most conducive places, thereby optimising the cost to consumers. An unconstrained network will also ensure that the wholesale markets work with maximum efficiency.

Accordingly, the regulatory investment test is one aspect that needs to be revisited to ensure it takes into account all market benefits which can be delivered from further network investment and delivers on the objectives of the ISP.

Subsidies have been commonplace in the industry and has led to distortions in investment. As a result, consumers are engaging and managing their energy requirements more pro-actively and are interacting with the grid in different ways, whilst still relying on the grid for back-up and peak. This requires a change in how grid services are valued, and for network tariff reform for consumers.

How customers value their interactions with the grid should be supported by network regulation. We believe now is an appropriate time to consider the merits of explicit recognition of innovation so that incentives and rewards ensure timely transformation of the grid for the benefit of customers and service providers. Accordingly, a model like the UK's RIIO (Revenues = incentives, innovation and outputs) should be something we consider for our regulatory future.