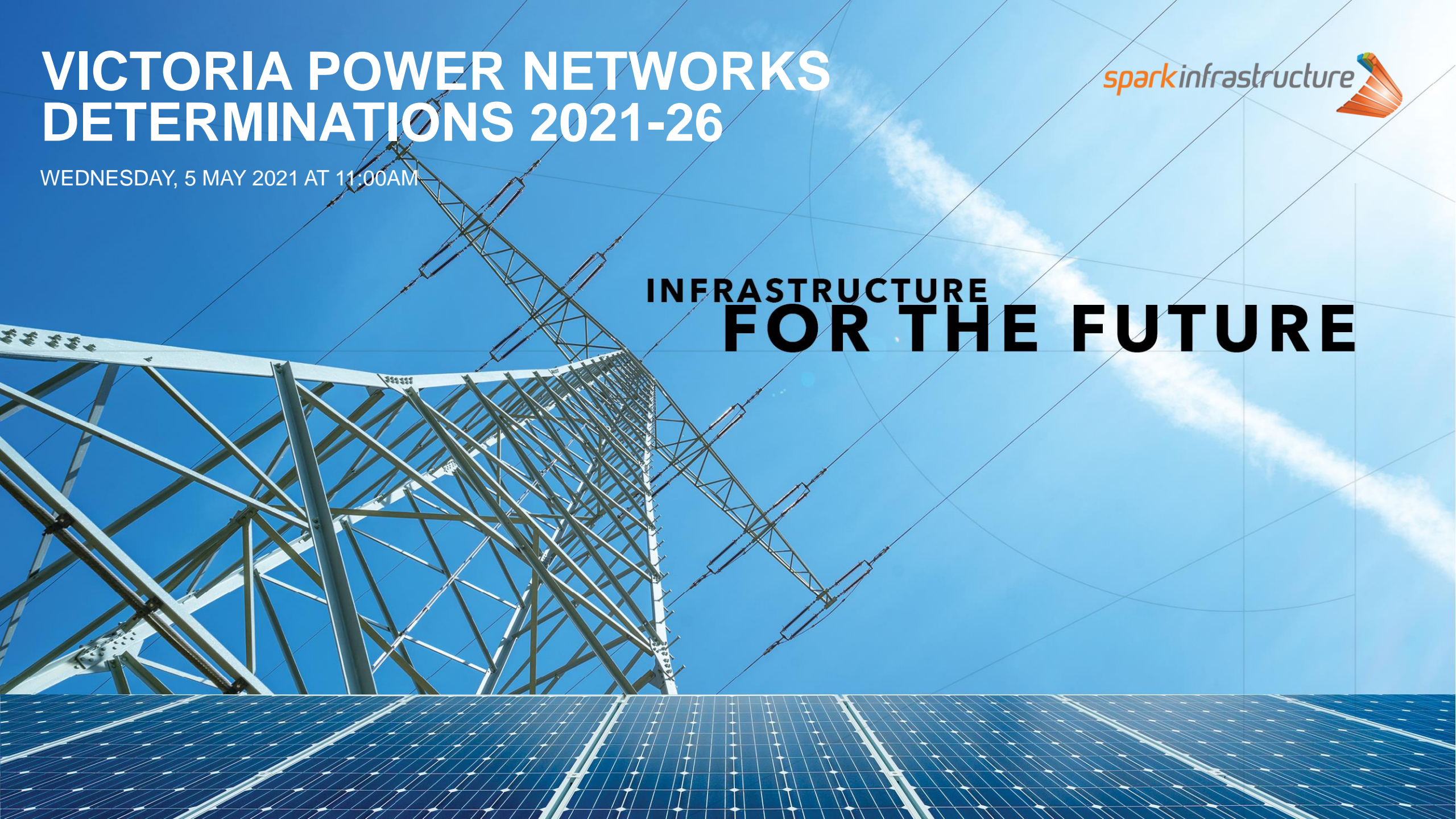


VICTORIA POWER NETWORKS DETERMINATIONS 2021-26

WEDNESDAY, 5 MAY 2021 AT 11:00AM



INFRASTRUCTURE
FOR THE FUTURE



TODAY'S AGENDA

AGENDA

Introduction and Overview

Rick Francis, MD & CEO, Spark Infrastructure

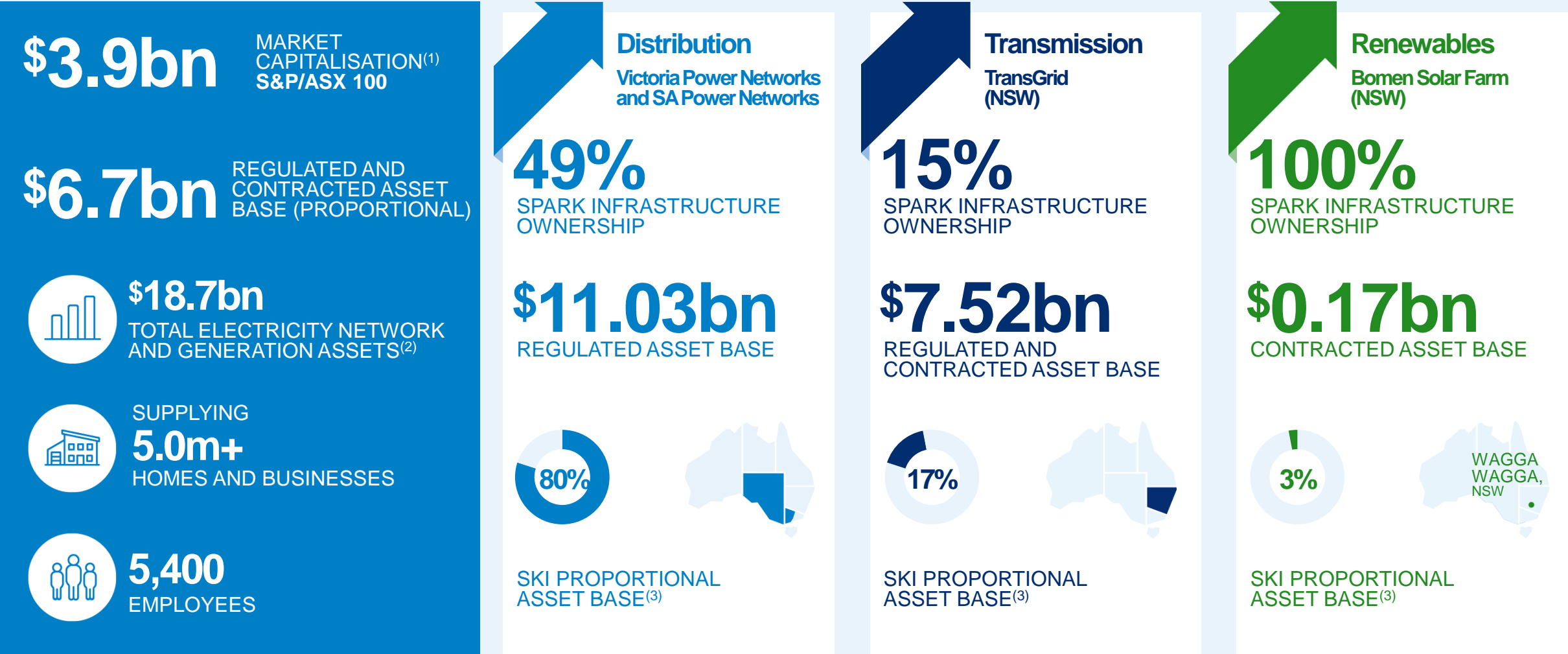
AER Final Decision – Victoria Power Networks Distribution Determinations 2021 to 2026

Tim Rourke, CEO, Victoria Power Networks

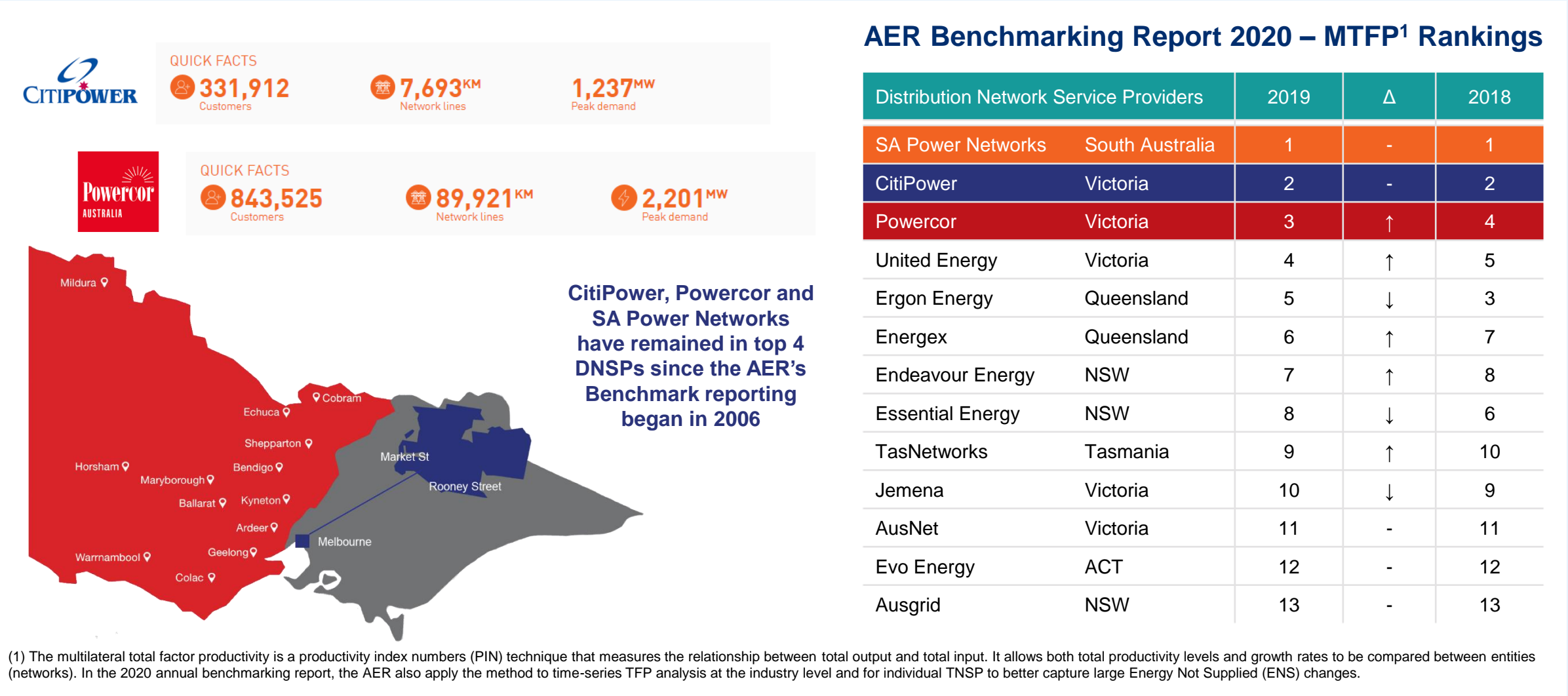
Q&A

SPARK INFRASTRUCTURE – AT A GLANCE

ASX-listed owner of leading essential energy infrastructure



VICTORIA POWER NETWORKS PERFORMANCE OVERVIEW



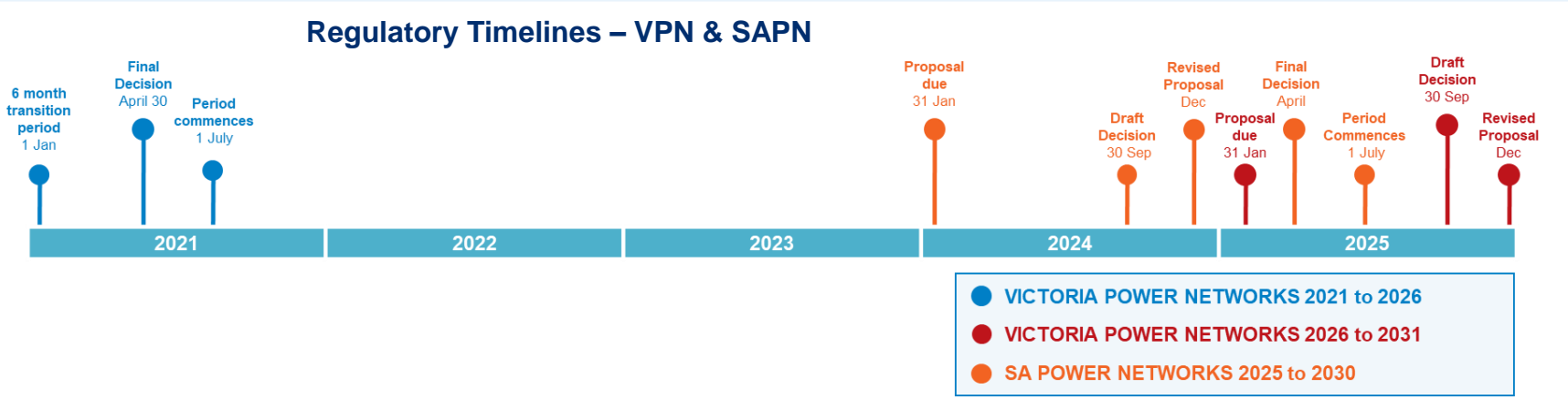
KEY TAKEAWAYS

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

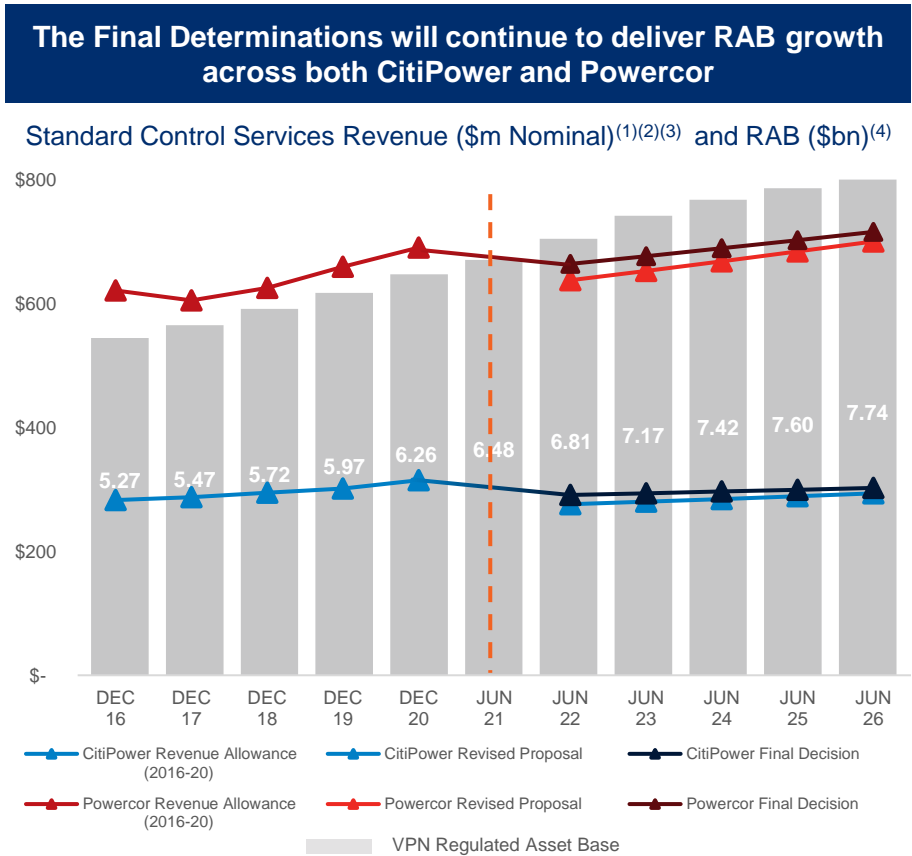
- Final Decisions reflect positive engagement between VPN, consumers and AER
- Improved outcomes in revenue, operating expenditure and capex compared to Draft Decisions
 - Additional capex reflects pole replacements, and distributed energy resources (DER) integration capex in response to the continuing 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



VPN 2021-26 FINAL REGULATORY DETERMINATIONS

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



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

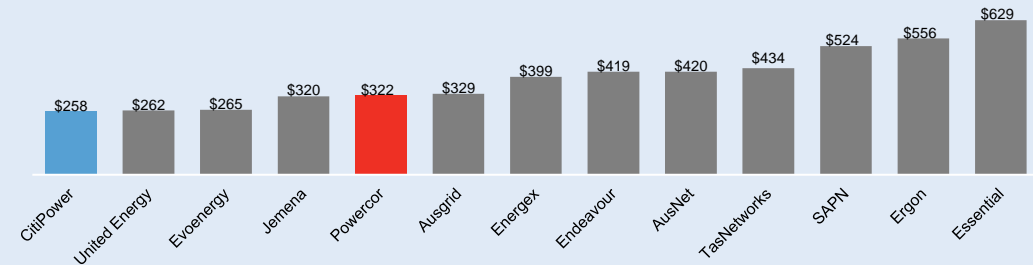
- 1 Track record
- 2 Key outcomes
- 3 Financial inputs
- 4 Operating expenditure
- 5 Capital expenditure
- 6 Other outcomes
- 7 Customer price impacts
- 8 Key dates and next steps

We deliver a safe, reliable and affordable supply of electricity

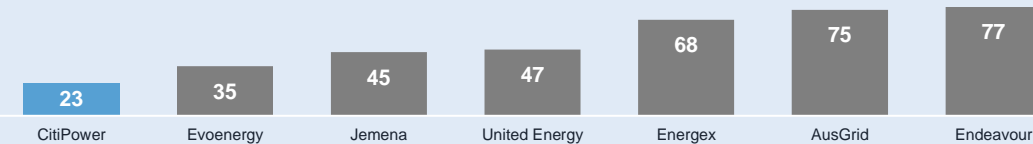
We are proud to deliver for our customers:

- 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

2021 TYPICAL RESIDENTIAL DISTRIBUTION CHARGES



URBAN NETWORKS UNPLANNED MINUTES OFF SUPPLY
(2016-2019 annual average)



RURAL NETWORKS UNPLANNED MINUTES OFF SUPPLY
(2016-2019 annual average)

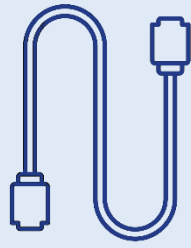


Key outcomes

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



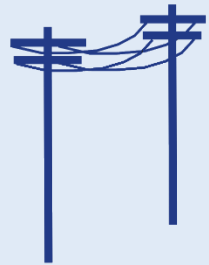
Accepted revised proposal operating expenditure in full, including an additional **\$68m** for bushfire insurance and **\$24m** for reclassification of minor repairs.



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

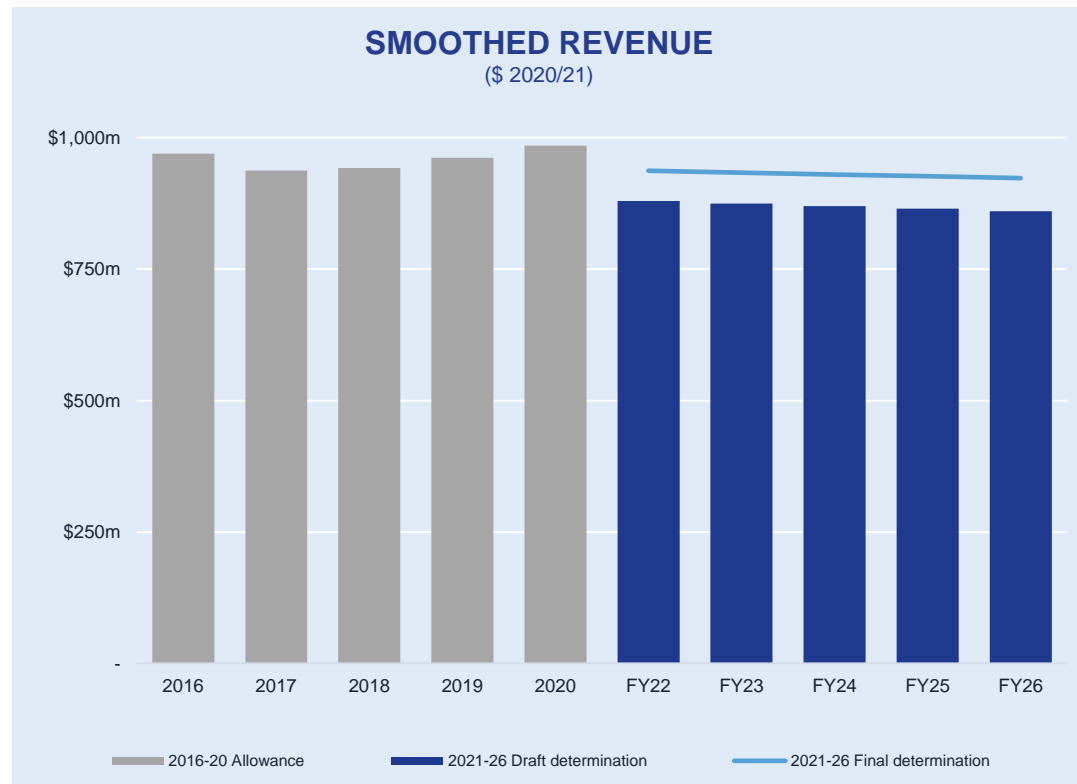


The AER welcomed CitiPower and Powercor proactively involving customers in the decision-making process with the formation of the Customer Advisory Panel

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
Weighted average cost of capital (WACC) * Nominal vanilla (year 1)	6.11%	4.59%	4.73%

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

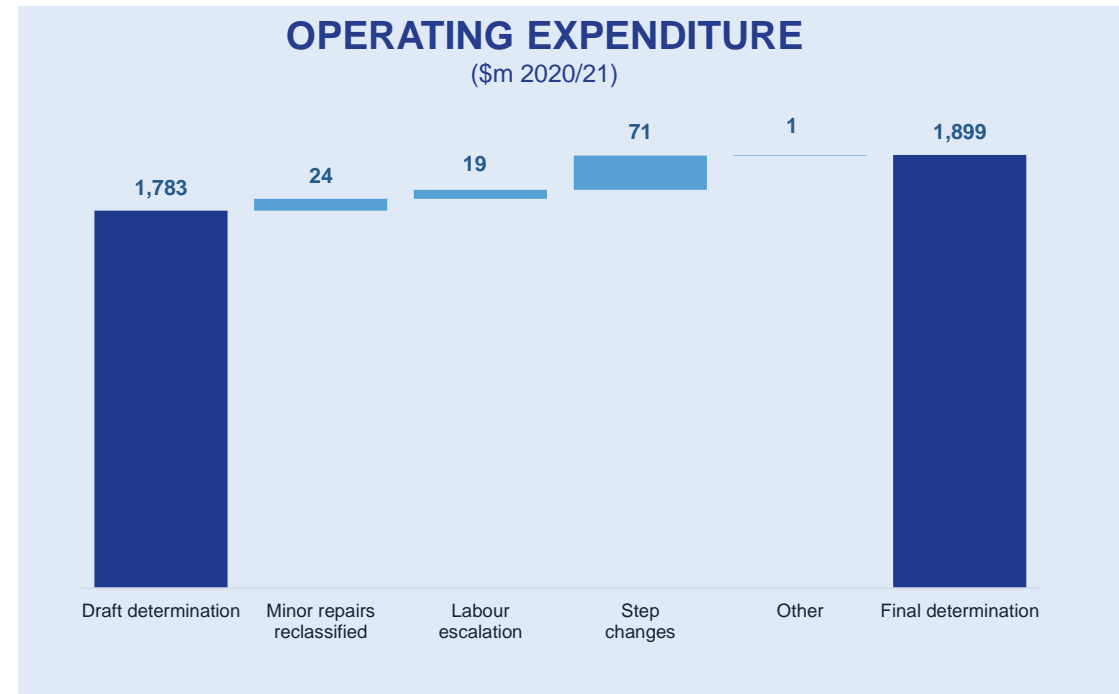
We will actively participate in the AER's process to gain acceptance of a more competitive rate of return at the next regulatory reset.

* 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.

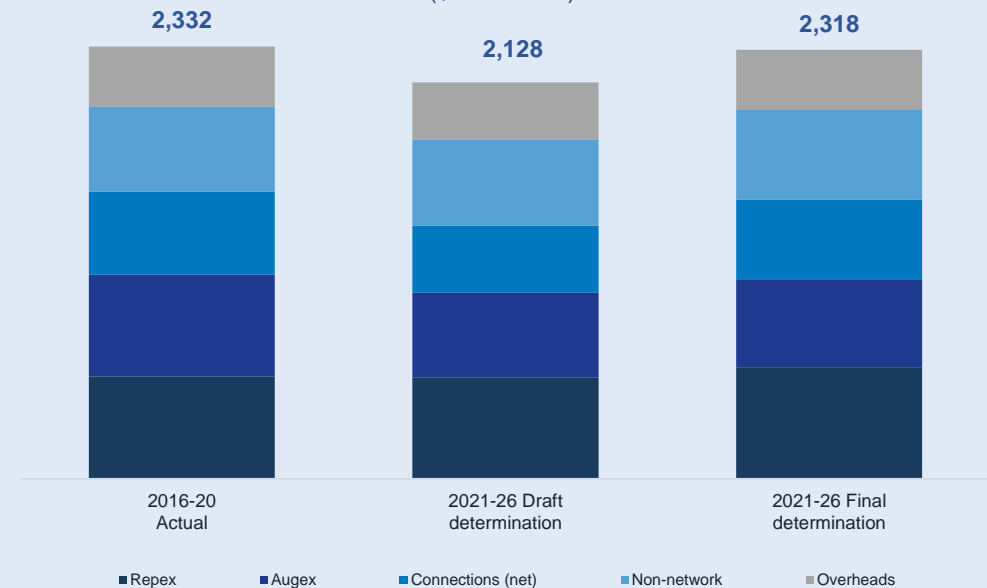


Capital expenditure

- 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.

NET CAPITAL EXPENDITURE

(\$m 2020/21)



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
Average residential consumer bill impact <i>First year (\$ nominal)</i>	\$60 ▼	\$46 ▼	\$55 ▼	\$34 ▼
Average small business consumer bill impact <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.

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