

PART 2

ECONOMIC

INDICATORS

Spark Infrastructure's investment portfolio businesses, SA Power Networks, Victoria Power Networks and TransGrid, are focused on assessing and managing their economic impacts on stakeholders as well as any potential exposure to climate related risks and opportunities. All three businesses have robust risk management systems in place that allow them to monitor and manage any ongoing financial exposure to climate change, thereby minimising any potential impacts of this risks in the short, medium and long term.

This section of the report provides an overview of aspects that are material to the businesses' operations and provides further information on:

- The financial implications of climate change (EC2);
- The coverage of each business' defined benefit plan obligations (EC3);
- The financial assistance received from the government (EC4);
- The development and impact of infrastructure investments and services supported (EC7); and
- The proportion of spending on local suppliers at significant locations of operation (EC9).

It is expected that utility companies may face some level of exposure to risks and opportunities related to climate change. Such risks can be regulatory, transitional or physical and can affect revenues and expenditures in a number of ways. In this section of the Report, the approach of each business in assessing and managing these risks and opportunities is disclosed.

The three investment portfolio businesses employ a significant number of workers. Defined benefit plans have potential implications for employers in terms of the obligations that need to be met and therefore information regarding the coverage of each business' defined benefit plan obligations is disclosed.

Due to the nature of the businesses' operations and their involvement in infrastructure development projects

it is considered relevant to disclose information around financial assistance received from the government by each business. This indicator will help stakeholders gain a clear view of the transactions taking place between the investment portfolio businesses and the government.

Electricity utilities provide essential and vital services to society and users. Apart from generating and distributing economic value, Spark Infrastructure's investment portfolio businesses may impact the economy through their investments in infrastructure projects. Infrastructure investments can have significant impacts and costs attached to them and therefore it is considered relevant to disclose information in relation to this aspect.

Through their operations and spending practices the businesses have the opportunity to impact and create value in the regions in which they operate. The results of spending on local suppliers can indirectly affect employment in the region where the businesses operate and create further positive impacts on local communities. SA Power Networks, Victoria Power Networks and TransGrid have significant operations across Australia and their respective procurement processes may potentially impact local communities in a positive way.

Economic Impacts of SA Power Networks

Financial Implications of Climate Change

SA Power Networks continued its success in a number of environmental management and sustainability areas during 2017. With the aim of increasing environmentally and socially beneficial procurement decisions, SA Power Networks continues to implement initiatives focused on improving its environmental risk assessment processes and criteria into key contracts. SA Power Networks has examined the potential financial risks related to extreme weather events that could cause outages and impact financial incentive schemes. The business is closely monitoring its potential exposure to these risks and is well placed to address and manage any incidents that may occur.

SA Power Networks has also been actively engaging with the relevant government agencies and regulators to work more collaboratively on specific high-risk environmental issues such as site contamination, native vegetation, Aboriginal cultural heritage and native wildlife.

Coverage of the Organisation's Defined Benefit Plan Obligations

At SA Power Networks, employees under a defined benefit plan contribute up to 9% of salary either as pre-tax or post-tax contributions. The employer pays the balance of the cost to fund the liabilities. The defined benefit divisions are closed to new members. All new employees have a choice of fund whereby all benefits are provided on an accumulation benefit design.

Financial Assistance Received from the Government

SA Power Networks received a total of \$151,000 in financial assistance from the Australian government in 2017 for training purposes (Training Centre funding).

Development and Impact of Infrastructure Investments and Services Supported

Infrastructure investments are made in response to customer requirements for electricity supply. These investments result in positive impacts that include the provision of utility electricity services to enable business and residential activities to occur. These infrastructure investments are usually commercial arrangements initiated by SA Power Networks' customers.

Proportion of Spending on Local Suppliers

In 2017, 49% of SA Power Networks' external supplier spend was with local, South Australian suppliers.



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ECONOMIC INDICATORS CONTINUED

Economic Impacts of Victoria Power Networks

Financial Implications of Climate Change

Victoria Power Networks has a comprehensive risk control system in place that provides assurances in terms of economic profitability while considering environmental and social impacts that may occur as part of the business' operations. By properly assessing and managing these risks and opportunities Victoria Power Networks is able to evaluate and address potential impacts.

Coverage of the Organisation's Defined Benefit Plan Obligations

The Contribution and Funding Policy of Victoria Power Networks' defined benefit plan requires the maintenance of a funding ratio of 105%. The funding ratio is the ratio of assets to accrued liabilities, being the greater of vested benefits and the present value of past member benefits.

Each of the Powercor and CitiPower plans are, as of the date of the Report, on contribution holidays (i.e. contribution rate of 0%) as the assets of the plan are sufficient to exceed this funding ratio target.

The schemes are closed to new members. There are 385 total members across both plans and 15 pensioners.

Financial Assistance Received from the Government

During the reporting period, Victoria Power Networks received a research and development non-cash grant as an offset to future tax liabilities of \$2,761.

Proportion of Spending on Local Suppliers

Victoria Power Networks' proportion of spending on local suppliers at significant locations of operation in 2017 was 98%².

Economic Impacts of TransGrid

Financial Implications of Climate Change

TransGrid has previously engaged an external consultant to review climate change related risks for its network with respect to extreme weather events such as flooding and storms. The findings of this exercise were reviewed by TransGrid's management team and the recommendations of the report will be incorporated into the future planning and design of the electricity network.

Coverage of the Organisation's Defined Benefit Plan Obligations

The NSW Electricity Networks Operations Trust, as the employer, contributes to the Energy Industries Superannuation Scheme Pool B (the **Fund**), which is a defined benefit superannuation scheme for which liabilities accrue. Under the Fund, Divisions B, C and D provide defined benefits whereby at least a component of the final benefit is derived from a multiple of member salary and years of membership. Members receive lump sum or pension benefits on retirement, death, disablement and withdrawal. Divisions B, C and D are closed to new members except for members of eligible schemes who can transfer their entitlements into the Fund.

The Fund is regulated primarily by the Superannuation Industry (Supervision) Act 1993 (Cth) (the **SIS legislation**), but

is also subject to regulation under the Superannuation Administration Act 1996 (NSW). The SIS legislation governs the superannuation industry and provides the framework within which superannuation plans operate. The SIS legislation requires that an actuarial valuation be performed for each defined benefit superannuation plan every three years, or every year if the plan pays defined benefit pensions, unless an exemption has been obtained.

The prudential regulator, the Australian Prudential Regulation Authority, licenses and supervises regulated superannuation plans. The Fund has received an exemption from annual actuarial valuation and therefore actuarial valuations are only required triennially. The last actuarial valuation of the Fund was performed as at 30 June 2015.

The Fund advises the level of liability in respect of the superannuation commitments of the Consolidated Entity to its employees who are members of the various divisions of the Fund. The calculation of the superannuation position is based upon independent actuarial reviews.

TransGrid recognises the net total of the following as an asset or a liability in its Statement of Financial Position:

- Present value of the defined benefit obligation at the end of the reporting period (\$237.9million as at 31 December 2017)³; and

² The organisation's geographical definition of 'local' suppliers is suppliers paid in Australian Dollars. The definition used for 'significant locations of operation' relates to all locations of operation within the Australian State of Victoria.

³ The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using high quality corporate bond rates at the end of each financial reporting period based on the Milliman G100 Discount Rates, and with terms approximating to the terms of the related obligation.

ECONOMIC INDICATORS CONTINUED

- Fair value of Fund assets in the defined benefit Funds at the end of the reporting period (\$220.8 million as at 31 December 2017).

In accordance with AASB 119 Employee Benefits, re-measurements of the net defined benefit liability are recognised in 'Other Comprehensive Income' while service costs and net interest on the net defined liability are recognised in 'Profit or Loss'. Contributions to the defined contribution section of the superannuation fund and other independent defined contribution superannuation funds are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Normal contributions to the scheme vary between 1.6 and 2.5 times the employees' contributions.

Financial Assistance Received from the Government

The amount of up to \$168,000 (excluding GST) was granted by the Federal Government to be paid to NSW Electricity Networks Operations Trust. An initial payment of \$84,000 was received in February 2017 and a final amount was received in August 2017 of \$57,830.

The purpose of the grant is to support the implementation of all necessary

technical capability for the company to have the capacity to retain the relevant data required under the Telecommunications (Interception and Access) Amendment (Data Retention) Act 2015 for the eligible services it provides as agreed in its Data Retention Implementation Plan.

This grant was provided as part of the Data Retention Industry Grants Programme.

Development and Impact of Infrastructure Investments and Services Supported

For TransGrid, infrastructure investments (both for the existing network and new connections to electricity generators and other large industrial customers) are pursued in response to customer requirements for electricity supply.

Most of TransGrid's investments are predominantly replacements or refurbishment of current assets.

TransGrid is delivering a project to provide a geographically diverse electricity transmission supply point to the Australian Capital Territory, with a new substation at Stockdill Drive, Holt. This is expected to improve the resilience of supply to the Australian Capital Territory.

TransGrid is planning projects to connect new electricity generation and improve interconnection between states

as the electricity system transitions to meet emissions targets and replace baseload generators that are reaching retirement. The projects include transmission to connect the new Snowy 2.0 pumped hydro storage scheme, interconnection from New South Wales to South Australia and Queensland and connection of over 20 new wind and solar farms in New South Wales. These projects will maintain the reliability of the national electricity system and contribute to emission reduction in line with Australia's emissions reduction targets.

TransGrid has a number of significant non-prescribed commercial infrastructure projects that are part of connecting new renewable energy to the grid as we transition to a renewable future. These projects involve supporting community and economic development in the regions where they are located and support the long-term security supply of electricity to the east coast of Australia. The development of these assets involves the installation of transmission lines and substations as part of the wider project development and whilst they will have impacts in the location of construction they are assessed under NSW planning requirements in relation to their wider community and sustainability impacts.

Proportion of Spending on Local Suppliers

For TransGrid, the percentage of the total procurement discretionary budget spent on local suppliers was 99.4% in 2017.



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