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Half Year 2020 Infigen Energy Ltd Earnings Presentation

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PRESENTATION

Operator

Good morning, and welcome to the Infigen half year results presentation for the 6 months ending December 31, 2019, Infigen's Chief Executive Officer, Ross Rolfe, who will present the financial results. He's joined by Sylvia Wiggins, Executive Director of Finance and Commercial; Paul Simshauser, Executive General Manager, Energy Markets; and Peter Campbell, General Manager, Investor Relations, who will be available to answer your questions. I will now hand you over to Ross Rolfe.

Ross Kenneth Rolfe *Infigen Energy Limited - CEO, MD & Executive Director*

Thank you, and good morning, everyone. I'm turning first to Slide 2. At Infigen, our goal is to offer Australian business and industry, a clean and reliable source of energy at a competitive price. Our strategy is to market under firm supply agreements, a growing volume of renewable energy to our customers. To do so successfully, we have invested in a portfolio of flexible fast start assets. These assets enable us to manage the market risk associated with contracting to supply energy to customers whose load shape does not correlate with the production profile of intermittent renewable generation.

As dispatchable generators, these firming assets also enable us to respond to other challenges and capture opportunities that accompany the current increasingly volatile market conditions. As a result of the functionality across our dispatchable renewable portfolio of assets, we've been able to progressively expand and diversify our customer base and enhance the quality of our current and future earnings.

Today, we are pleased to be able to report that during the first half of FY20, this strategy enabled us to continue to deliver strong financial results. In the first half of FY20, renewable energy generation increased by 17% compared to the prior corresponding period. This outcome principally reflects the full half year production of our owned asset Bodangora Wind Farm and our contracted asset Kiata Wind Farm. This higher renewable energy generation was the principal driver behind our net revenue increase of 13% on PCP to \$134.3 million.

During the first half of FY20, our contracted revenue also increased 23% on PCP. As mentioned earlier, this ability to improve the quality of our earnings is facilitated by our recently acquired firming assets to Smithfield Open Cycle Gas Turbine and the South Australian battery.

Higher net revenue resulted in higher EBITDA of \$98.2 million, up 11% on PCP and higher NPAT, up 24% on PCP. We should note, however, that this NPAT result should be considered in the context of the first half of FY19 result, which absorbed a \$9.1 million noncash impairment relating to a number of development assets.

While we're pleased to be able to report solid financial results for the first half year, we wish to confirm that these are in line with our prior outlook statements. Later in this presentation, I will discuss the factors that we take into account in comparing the outcomes for the first half year with our likely performance in the second half and the basis for our assessment that the revenue outcome for the full year will likely be materially weighted towards the first half.



Turning now to Slide 3. At Infigen, we seek to embed environmental, social and governance principles into the business we do and the way we do business. These principles lie at the core of our company's identity and are reflected in our values. They are, we believe, integral to delivering strong risk-adjusted returns to our investors over the short, medium and long term. The decarbonization of Australia's energy markets is central to our corporate purpose and business strategy. We are proud to be able to offer our customers who are seeking to reduce their carbon footprint, a reliable, clean, affordable product that is competitive with energy produced from high meeting fossil fuels. It's encouraging to see both the growing customer consciousness and concern in relation to the impact of their emissions on the environment and a genuine commitment to reduce or offset the contribution they make to global warming.

To service this demand, our strategy over the medium-term is to double the amount of renewable energy we sell to our customers. Over the past 12 months, our renewable energy generation is up 17%, an important contribution to making Australia's energy mix more sustainable. Similarly, our investment in storage and gas peaking plant supports the accelerated entry of renewables into the market. These firming assets are able to perform services that are critical to managing the heightened commercial and technical risks associated with the transition of the energy system to a low-carbon future.

The safety of our people and our communities will, however, always be our highest priority. As I advised at our most recent AGM, I'm disappointed that in October 2019, Infigen had its first lost time injury in 27 months. Following a root and branch investigation of the incident, we've further enhanced our efforts to look after our people and ensure their safety. This has involved the adoption of a disciplined effort to progressively eliminate risks to the greatest practicable extent while concurrently promoting a strong safety culture within our teams.

The provision of a safe working environment is an objective that we will continue to pursue with focus and vigor. In an encouraging development, I'm pleased to report that the engine worker has recovered well and has since returned to work. Maintaining a high-performance workforce is critical to the success of our business. I'm, therefore, pleased to be able to report that the Infigen team is highly engaged and motivated by the challenges and opportunities that the process of transition presents. This is apparent from the results of a pulse employee engagement survey conducted in September 2019. The survey, which was completed by 92% of employees, showed job satisfaction and current motivation are now tracking at 83% and 86%, respectively, with the employee Net Promoter Score, a compelling positive 55. It is the people of Infigen who are the key to the successful design and execution of our strategy. Hence, these results are encouraging indicators of a team that is passionate in the pursuit of its purpose; confident in its capability to deliver the strategy; and motivated by values that are designed to drive the achievement of successful outcomes in the short, medium and long term.

At Infigen, we are in long-term partnerships with our communities. While we undertook numerous community initiatives during the period, one highlight was the ninth annual run with the Wind event, where a record 720 runners participated in races around Woodlawn Wind Farm. In total, in the first half of FY20, consistent with our historic practice, we contributed more than \$6 million directly towards the economies of the communities we serve by way of local employment, local procurement, land owner payments and sponsorship of community projects.

In this past summer, like all Australians, we've been shocked and saddened by the devastating impact that the prolonged drought and recent bushfires have had on regional communities as well as on Australian wildlife. To that end, we've recently contributed to a range of initiatives that are designed to support rural fire services, assist fire affected communities to reestablish their local economies and support endangered Wildlife in their recovery following the extreme conditions that they have had to endure. As a result of human induced climate change.

Infigen also believes that the environmental impacts are true costs that need to be measured and managed. During the first half of FY20, 98.5% of our generation was from renewable sources, but we believe we can do more. As a result, we've adopted the target of offsetting 100% of our Scope 1 and Scope 2 carbon emissions by FY25. This is a target that we are proud of as a vertically integrated utility. As our first step in that process, I'm pleased to confirm that we will be offsetting 20% of our CO2 emissions produced in FY20.

Turning to Slide 4. Infigen's strategy involves combining low-cost but intermittent renewables with flexible fast start generators. This generation mix enables us to provide our customers with reliable, competitively priced, clean energy under firm supply contracts. In



calendar year '19, Infigen delivered the cornerstones of our firming portfolio. We acquired the Smithfield open cycle gas turbine constructed the South Australian battery and agreed to lease the South Australian gas turbines from the South Australian government. Each of these firming assets is currently performing or progressing in line with expectations.

Our results for the first half of FY20 reflect the advantages of our complementary fleet of assets into the emerging market conditions. Specific updates in relation to each of our firming assets, include: First, the Smithfield OCGT has been successfully re-rated to 123 megawatts and has generated 15 gigawatt hours during the first half year. This 3% capacity factor was within the guidance range provided at the full year results. The asset heat rate and gas supply arrangements are also operating as expected and the plant has been integrated into our operational control center.

Secondly, on 29 November 2019, the South Australian battery was energized, enabling it to fully participate in the energy markets. To date, the asset is performing very strongly. Indeed, in the first 2 weeks of February 2020, following damage to the Heywood interconnector on 313 January, the battery's ability to benefit from very high gas prices, broadly offset the impact of the curtailment of Infigen's Lake Bonney Wind Farms by the market operator during this period.

Thirdly, in August 2019, Infigen entered into an agreement to lease 120 megawatts of fast out capacity for 25 years from the South Australian government. In line with prior disclosures, the lease is expected to commence in May 2020. The relocation budget remains on track and the relocation time line remains on schedule.

The physical firming assets, including the South Australian aero derivative gas turbines, once operational, will enable us to virtually double the amount of renewable energy we are able to supply to our customers on a firm basis. Procuring the optimal supply mix of additional renewable generation and maximizing the value-creating potential of our firming plant is and will remain a key focus for the business going forward.

Turning to Slide 5. The key benefit of our firming assets is that they enable us to effectively manage risks associated with the intermittency of renewable generation. This risk is a financial one that materializes when our renewable generators are not producing, forcing us to meet our supply obligations by purchasing from the potentially volatile spot market. The ability to offset the risk of high spot prices by immediately dispatching from a battery or gas peaker, enables us to more confidently contract to supply our customers at a fixed price over the medium to long term. The increased certainty that accompanies our revenues as a result of our contracting strategy, is reflected in the quality of our earnings.

This is evident from our first half FY20 results, where contracted electricity volumes were up 14% on the prior corresponding period. Similarly, it is also reflected in the improvements to our forward contract position. During the first half of FY20, Infigen increased customer contracting across all periods to 2025 -- FY25. And has now more than 70% of its expected renewable energy generation contracted in FY20, FY21 and FY22. Notably, during the first half of FY20, our overall revenue from contracted LGC and contracted electricity sales rose by 23% compared to the prior corresponding period and accounted for 87% of our revenues.

Turning to Slide 6. While increasing the level of contracting has been a key priority as we've transformed our business strategy, so, too, have we sought to diversify our channels to market. As you can see in the pie charts, showing C&I customer composition from FY19 to FY21, we have made solid progress in expanding and diversifying this significant customer segment. We are now proud to serve clean, reliable energy to a broad range of businesses across many industry sectors that are seeking to reduce the contribution they make to global emissions. These sectors include most local governments in South Australia, ports and terminals, food and beverage businesses, higher education facilities, electric vehicle charging stations, construction and utilities.

We believe the rapidly mounting concern in the community generally in relation to the impacts of global warming on life on earth, together with the gathering momentum behind sustainability in corporate Australia, will continue to promote growth in the commercial and industrial customer segment. Infigen is well placed to service this demand, providing our business with the opportunity for continuing growth.

Turning to Slide 7. In the first half of FY20, net revenue increased 13% on PCP to \$134.3 million. The increase in revenue was primarily



driven by higher renewable energy generation, which was largely sold under contract to our growing C&I customer base. This outcome reflected a \$9 million increase in revenues over PCP from C&I contracted sales and a \$4.8 million increase in sales under long-term PPA.

LGC revenue was also slightly higher, as higher volumes offset lower LGC prices. Merchant revenue from electricity sales were slightly lower. This is an outcome that is entirely consistent with our strategy. By increasing our levels of C&I contracted load, we reduced our exposure to uncertain spot prices, which were lower than during the PCP.

We are, of course, pleased to be in a position to report a strong revenue performance in the first half, but we wish to reaffirm our view that the traditional weighting of revenue towards the first half is likely to be more pronounced in FY20. This is due to a number of factors: First, historically, the first half of the year has enjoyed materially higher production levels than the second half. We expect this pattern of annual production will be repeated in FY20. Secondly, we expect the outlook for wholesale energy prices to remain on a subdued trajectory for the balance of FY20. Thirdly, the first half of FY20 included higher-priced calendar 2019 LGCs. Lower prices will be recognized for the second half of FY20.

Slide 8 illustrates Infigen's higher net revenue conversion to higher EBITDA. The key points to note include: First, owned renewable energy asset expenses at \$20.1 million were slightly higher than PCP, largely due to the contribution of Bodangora Wind Farm. Second, land leases, previously included within owned renewable energy asset expenses, are now capitalized in accordance with AASB 16. Third, underlying unit or operating costs were stable, reflecting the long-term operations and maintenance agreements in place with Vestas and General Electric. Fourth, at \$2.8 million FCAS expenses have significantly increased, reflecting the higher charges from the market operator. Fifth, firming asset, fixed operating costs of \$1.3 million primarily reflect the fixed operating costs at Smithfield, while noting that the Smithfield land lease is now capitalized in accordance with AASB 16. And sixth, business operating costs of \$12 million were higher in line with guidance. This reflects the additional investment in people and systems for our transitioned business model.

In summary, our results reflect a disciplined approach to cost control in considering our cost structure, our guiding principle is to ensure that cost increases can only be justified if they deliver quantifiable and realizable benefits to the business in the short to medium term and contribute to the creation of long-term securityholder value. The key movements explaining the translation of underlying EBITDA of \$98.2 million to an NPAT outcome of \$26.2 million as set out on Slide 9 and include: First, during the period, Infigen received \$1.2 million of other income. This reflects the sale of Northern Territory solar project for greater than book value, together with the residual cash proceeds relating to a prior sale of European assets. Second, depreciation and amortization was \$33.4 million with the increase of \$7.7 million, reflecting the addition of Bodangora Wind Farm and Smithfield OCGT. Bardengo is depreciated over 30 years, while the remaining wind assets are depreciated over 25 years and Smithfield over 20 years.

Third, in the first half of FY20, Infigen recorded a net loss in fair value of financial instruments of \$1.9 million. This reflects the noncash mark-to-market of Infigen's Capital Lite and partly unwinds the noncash net gain of \$6.5 million reported at the FY19 results. Fourth, net finance costs of \$25.4 million were higher. This primarily reflects the implementation of AASB 16 and the expensing of interest paid under the Bodangora project finance facility. Interest was capitalized until commercial completion in March 2019. And five, statutory income tax expense was \$12.5 million.

Let me now turn to Slide 10. While acknowledging that we've had a positive result in the first half of FY20, we have not changed our perspective of the full year outlook. For the reasons outlined on Slide 7, we believe that the revenue performance for the full year will be observably biased towards the first half. Conversely, net operating cash flow will be significantly weighted to the second half. This is due to the settlement during this period of calendar '19 LGC obligations. Notably, at this point, over 90% of the LGC inventory carried on balance sheet at 31 December, has now been cash settled in accordance with contract schedules.

Minor adjustments to the outlook also include improved sales mix as higher volumes are now sold to C&I customers with correspondingly lower volumes sold through the merchant channel. We are also expecting slightly lower capital expenditure in FY20. This reflects deferred timing of payments for the South Australian gas turbine relocation. The overall budget of \$55 million and the time line for the project remain, however, unchanged. We expect to take position of these assets from the South Australian government in May this year. We plan to operate them on their current location at Lonsdale for a period before commencing operations at their permanent site at Bolivar by November 2021.



Turning now to Slide 11. Following 3 years of significant transformation, Infigen is now well placed to manage the risks and capture the opportunities that the transitioning energy market presents. Over the course of the last 3.5 years, Infigen has transformed its vertically integrated electricity -- sorry, Infigen has transformed into a virtually -- vertically integrated electricity retailer, serving Australian customers with reliable and competitively priced clean energy. More than 95% of our generation remains renewable with intermittency risks managed through our firming portfolio. Our firming plant were likely to continue to operate at low capacity factors.

This transformation requires several critical steps: First, we delivered -- refinanced and restructured our debt facility. As a result, we were able to introduce sufficient flexibility into our capital structure to deliver our strategy. Secondly, we increased renewable energy generation by the construction of Bodangora Wind Farm in New South Wales and via the procurement of the output from the territory and Kiata Wind Farms in Victoria and the medium to long-term PPAs. Thirdly, we diversified our channels to market by focusing on supplying clean firm energy to the commercial and industrial customer segment under the medium-term contract. Fourthly, through the course of 2019, we made significant progress in achieving our goal of incorporating physical firming capacity into our portfolio mix. We achieved this by acquiring the Smithfield OCGT, a green to lease the South Australian gas turbines and completing the South Australian battery.

Finally, we delivered our growth consistent with our capital management strategy. This enabled us in August 2019 to reintroduce distributions at \$0.01 per security per half year. This distribution is paid from free cash flows and can be sustained, while we continue to pursue our parallel objectives under our capital management strategy of continued deleveraging and value-accretive growth. Accordingly, a distribution of \$0.01 per security will be paid on the 27th of March 2020, for the first half of FY20 to those security holders of record as of December 31, 2019.

Turning now to Slide 12. Going forward, Infigen's strategic priority is to introduce an additional 600 to 700 megawatts of nameplate renewable energy capacity into our portfolio mix. This additional capacity is expected to double Infigen's total renewable energy generation, with 70% to 80% of the expanded volume sold into firm contracts.

On 1 January 2020, Infigen took a modest step towards its objective of doubling our renewable generation by contracting to receive the production from the 21-megawatt Tour Wind Farm in Victoria, adding to and diversifying our generation portfolio in that market. However, there is much left to do. To that end, we are continuing to advance the development of our 138-megawatt Wind Farm at Flyers Creek in Midwest and New South Wales. We expect that it will likely achieve financial close in the first half of FY21.

We are also in advanced discussions with several third-party renewable project owners or developers regarding PPA offtake arrangements for various projects in New South Wales and South Australia. As a result, over the short to medium term, we expect to expand our supply of renewable generation by progressively layering into our portfolio, a combination of dominantly wind generated renewable energy. In selecting projects from which to source renewable generation, we seek to complement our existing production profile in ways that maximize the potential for inherent firming by renewables across the growing portfolio and optimize the use of our physical firming plant.

While we remain confident of doubling our supplier of renewable generation over the medium term, ongoing policy and regulatory discontinuity is inevitably complicating contract negotiations. Initiatives, such as the federal government's underwriting new generation investment plan, or ANGI, the coordination of generation and transmission investment or COGATI and the ongoing energy security board post 2025 market design consultation, create material uncertainties and heighten the inherent complexity around the key terms of PPA contract negotiations. All of these factors influence both the timing and the detail of commercial negotiations aimed at securing additional renewable generation.

We also note that the impact of the uncertain policy and regulatory environment is compounded by an increasing propensity by governments to intervene directly in the market, disturbing the principle of competitive neutrality, the very foundation stone, upon which a healthy functional market risks. This has resulted in a loss of impetus behind a number of new development projects. Running in parallel with the ebbing supply of new renewables projects is, however, reduced retailer demand for long-term PPAs in the market more generally. In these circumstances, the potential for Infigen to achieve its growth on competitive market terms remain solid. We will



continue to keep the market informed of material progress in delivering our growth strategy.

In closing, can I say that at Infigen, we remain very positive about the role our company will play in the future Australian energy market. The market fundamentals continue to increasingly militate in favor of a structural transition away from fossil fuels towards renewable generation. The energy supply system can only effectively deliver this outcome if consistent with the Infigen model, intermittent renewable generators are complemented by fast start dispatchable generation. This view reflects well understood principles of engineering and economics rather than ideology.

The inexorable shift in our energy mix, away from baseload coal, only gains added momentum from the rising tide of community concern in relation to the impact of fossil fuels on global emissions and the corresponding implications for the climate. Under these conditions, we firmly believe that Infigen is well positioned to create short, medium and long-term value for our security holders by continuing to implement our business strategy.

Before we turn to Q&A, I would like to take this opportunity to thank Paul Simshauser, our Executive General Manager Energy Markets, for his valuable contribution to Infigen over the last 2 years. I'm sad to report that Paul has accepted a significant role in his home state of Queensland as the Chief Executive Officer of Powerlink, that state's provider of high voltage transmission. He will be leaving us at the end of May. Paul has a first-class intellect, a deep expertise in energy markets and an abundance of personal and professional integrity. It's been a privilege to work with him now for the third time in our respective careers.

Concurrently, however, I'm pleased to announce that Tim Nelson will be joining Infigen as Paul's replacement. Tim has a formidable reputation in the Australian energy sector and joins us from the Australian Energy Markets commission, where he is Executive General Manager, Strategy and Economic analysis. Tim like Paul was previously the Chief Economist at AGL. He served on the Grattan Institute Energy Reference Group and has been a director of Sustainability Australia and the Clean Energy Council. There are a few individuals in this industry who match Paul's capabilities and qualities. Tim, however, is one such person. Tim will join us in mid-March, allowing an appropriate handover period prior to Paul's departure.

I'll now invite the operator to open the question and answers.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question today comes from the line of Rob Koh from Morgan Stanley.

Robert Koh Morgan Stanley, Research Division - VP

My first question -- questions relate to your offsetting strategy, which I take it is a new strategy. And I guess, firstly, just wondering if you could give us some color on what product you'll be using to offset and how you think about the price and the quality of that product?

Ross Kenneth Rolfe Infigen Energy Limited - CEO, MD & Executive Director

Yes. Well, I guess, in the first instance, Rob, we really looked at ACCUs as the device to offset that product. We are -- we do look closely at the sort of quality of the product from that sector. In due course, an opportunity may arise for us to utilize LGCs for that purpose. But I guess, in the short term, at least, we looked at ACCUs.

Robert Koh Morgan Stanley, Research Division - VP

Okay. Yes, sounds good. That kind of leads to my next question, which is, I guess, in the context of companies like Microsoft, pledging to not just go carbon neutral, but carbon negative is the offset market, a future opportunity for you.

Ross Kenneth Rolfe Infigen Energy Limited - CEO, MD & Executive Director

Well, indeed, that's certainly one of the things which we're very keen to explore. And frankly, it's a proposition, which we've been talking at various levels of the federal government about. And I guess, we feel that there's a lot of logic that lies behind that approach. And we're optimistic that in due course, we'll see the recognition of that within a carbon offsetting currency.



Robert Koh Morgan Stanley, Research Division - VP

Yes, yes. Okay, great. And then just a more general kind of market question, if you can share some color. I guess, wholesale pool prices, the forward curves look like they're going lower. We're hearing kind of different commentary from different companies about whether it's gas or renewables or coal plants coming back online. I'm wondering if you could give us your perspectives on that, given you're active and expert participants in the market? And then I guess, just as a subsidiary question, if you could give us some color on what you're seeing in the PPA market as well, please?

Ross Kenneth Rolfe Infigen Energy Limited - CEO, MD & Executive Director

Well, I'll hand over to Paul to speculate.

Paul Simshauser Infigen Energy Limited - Executive General Manager of Energy Markets

Thanks Ross. Look, I think the market, over the most recent couple of months is obviously reflecting a concerted effort leading up to our sort of calendar quarter 1 period to make sure availability and reliability of plant was as sharp as it could be and I don't mean just generation plant, I mean across the supply chain through to consumers. And this, I guess, reflects over the last -- at least over the last couple of months, a reasoned effort on the supply side. I'd also add, though, that the average prices are -- still got a very, very tight relationship with average gas prices. Not so much on a 30-minute by 30-minute basis, but on a quarter-by-quarter basis. If you look at the last, sort of, 8 to 10 years -- in fact, quite honestly, if you go back over the last 20 years, the relationship between those -- between the 2 commodities it's surprisingly tight and nothing has changed. And at the moment, you've seen the gas market prices. They were at \$7.5 leading into the most recent quarter. They brought in this quarter. They're down another \$1 given sort of the market conditions on both LNG and domestically. So -- and prices are falling in line with that.

Robert Koh Morgan Stanley, Research Division - VP

Okay. And PPA prices, I guess, don't give us numbers if that's sensitive, but maybe color on direction and what you're seeing?

Paul Simshauser Infigen Energy Limited - Executive General Manager of Energy Markets

Look, I've been -- I guess, the discussions that we're having on negotiations that we've got underway at the moment are largely in line with the previous guidance that we've given. So there's a sort of broader question in my mind as to whether they're capable of staying at that point over the longer term. So far, so good would be the observation -- that would be our observation. That said, one of the difficulties with PPAs at the moment, and Ross alluded to it in his presentation, is actually trying to execute PPAs when you've got quite a lot of noise in the policy space. And the one example I can give to you is the coordination of generation and transmission investment or COGATI as it's efficiently referred to in our acronym prone industry. And what it has done has turned up at a time when in the process of trying to execute PPAs, it's just dramatically heightened the ability of counterparties to land PPAs. It's added time. It's added cost and it's at a risk to the parties and they're trying to navigate that. So that's been probably the bigger trend I would have observed over the last handful of months.

Robert Koh Morgan Stanley, Research Division - VP

Yes. Okay. We appreciate your insights as always. And on a personal note, congratulations on your new role. And I guess, to Mr. Nelson if he's around listening.

Operator

Next question comes from the line of James Nevin from RBC.

James Nevin RBC Capital Markets, Research Division - Analyst

Congrats on the results. Just a first question, just trying to get a understanding kind of following on from what's happening in the wholesale electricity prices, just how that impacts kind of envision strategy, you talk about kind of the large opportunity to increase contracted volumes by like 600 to 700 megawatts and if the wholesale prices are falling and kind of reduces that margin between PPA prices and what you can actually sell it in the market. Does that make it just harder for you to grow volumes for a while until maybe you see a bigger margin there?



Paul Simshauser Infigen Energy Limited - Executive General Manager of Energy Markets

James, it's Paul. Yes, look, I think when you see the forward curve rising it makes sort of the pool of candidates on a medium-term basis, a bit broader. And obviously, when forward prices fall, you need to be a lot more discerning about the type of generation that you bring into the portfolio. And you obviously do need to make sure you've got a very sharp pencil in your hand when you're writing down the dollars per megawatt hour. But I guess, when you sort of look pragmatically at the fundamentals in the marketplace, it's a commodity market. It will cycle, but the most important thing for us is that when you're participating in forward prices the standard deviation of your price variations will be literally half of the spot market. And if you can sort of orchestrate a diversified portfolio of retail contracts, you can reduce that standard deviation further again. And there will be moments. There will be quarters and there will be halves and there may even be years where where if you hadn't done anything prior, you may find yourself with a very lean set of market conditions. But I guess, adding in a particular piece of generation that's got a nice portfolio you will find some portfolio benefit, which still means for us that we will be able to navigate gyrations in both the spot and forward markets going forward. But just -- it would be disingenuous to say that that the pool of candidates is as big as it is if you've got falling market prices, that's for sure.

James Nevin RBC Capital Markets, Research Division - Analyst

Okay. And then, just wondering on your contracting, are you seeing any uplift in pricing? So when you go to contract -- with some of your C&I contract like a greater demand for the product that you're delivering, like close to 100% renewable energy. Is there any uplift in your recent contracting in the prices that you're able to achieve?

Paul Simshauser Infigen Energy Limited - Executive General Manager of Energy Markets

James, we're starting to see length in the 100% transactions. Look, sometimes, they just strike the visible trade, someone really after, they really just want the LGC, so to speak, stripped out and sold separately, which, quite honestly, we're very happy to do, especially if it puts a bit of length in our book. And I mean, the point here, though, is that you'd expect to see more of it as LGCs fall in price. I mean, if a customer asked me 2 years ago, should we be going 100% green? I'll be saying, well, when LGCs are trading at north of \$50 a unit, that's a pretty expensive commodity. Maybe you should wait until the market starts to settle down a bit. Well, once they sort of start trading in the low 20s or the high teens, there will be absolutely an elasticity -- a price elasticity demand for these instruments. And I mean, I guess, if you follow the logic and thinking of Jacob's most recent template model that they've put into the marketplace that they have them basically becoming fungible with ACCUs at a point in the future. And I think that's pretty logical. Ultimately, carbon is a really scarce -- carbon offsets our scarce resource. And they're going to have a value. And I guess, there will be a point where you expect to see a much greater demand for any form of offset. What form that takes? Obviously, the crisper the exchange rates between the various carbon currencies, the better and there's no doubt a bunch of very clever people in Canberra working on that right now.

James Nevin RBC Capital Markets, Research Division - Analyst

Okay, sure. And just the last one on the Flyers Creek Wind Farm that you're looking to progress to FID. I think you talked about -- you may looked to either owned us are develop it on a capital-light basis. Can I presume the preference is probably still be a Capital Lite basis, but is it just potentially that there's not enough demand out there for investors to to finance it, but you might end up like owning it?

Ross Kenneth Rolfe Infigen Energy Limited - CEO, MD & Executive Director

Look, at the moment, really, James, we haven't taken a decision on of which direction to head, whether we do it on balance sheet or through Capital Lite and we're sort of weighing up the pros and cons. To be frank, there's probably not really a bias in either direction. Although we're certainly not seeing any lack of interest by sort of Capital Lite providers for that asset. It is a very good asset, and we've had quite a lot of unsolicited approaches from our prospective capital-light providers. But I guess, ultimately, we'll just sort of weigh up which option makes the most sense for us. As I've said previously, while we like the capital-light model has got certain advantages to us. It's also the case that we don't want to see ourselves move away from owning certain assets, particularly strategically important ones on balance sheet.

Operator

Your next question comes from the line of Mark Busuttill from JPMorgan.

Mark Busuttill JP Morgan Chase & Co, Research Division - Equity Research Analyst

Just a couple of questions following on some of the previous ones about new renewable capacity coming online. We've seen a noticeable slowing of this sort of stuff over the last, sort of, 12 months. I was hoping to get a couple of comments about why you think that's the case? Is it because I can make a relatively marginal? Is it the infrastructure constraints? Or is it sort of delays in AEMO sort of approving these things or anything else?

Ross Kenneth Rolfe Infigen Energy Limited - CEO, MD & Executive Director

It's all of the above. But I'll let Paul scratch that itch.

Paul Simshauser Infigen Energy Limited - Executive General Manager of Energy Markets

Yes, Mark, I reckon you nailed it. It's all of the above. I mean, the thing that I have sort of been at pains to point out just at a general policy level is over the course of the last sort of 4 years, there was 90-odd projects committed to that. That's a lot of activity for our industry. And you do -- the industry does need to sort of allow the dust to settle, so to speak. The LGC market was largely driving the -- or drive a majority of that activity, but it didn't drive all of it. But I think we're at a point where the market will need time to settle. And there's absolutely no doubt people have had to sort of pause, take stop and think about things like marginal loss factors, congestion risks, time delays in terms of sort of getting a connection agreements in place. And those delays are sort of material. They're not -- they're -- whatever you've heard about from that, you probably heard the clean version because it's a really tough ordeal, trying to connect to the grid following the change to the rules in 2018 with what is now fictional referred to as the Section 5.34 A and B letters. They're really tough hurdles to pass. And that will just naturally slow the rate of development in the industry.

Ross Kenneth Rolfe Infigen Energy Limited - CEO, MD & Executive Director

In our case, Mark, we just -- we put a lot of effort into selecting the projects that complement our existing portfolio. So sort of not all renewable, new renewable energy projects are equal in our view. Solar has its own particular set of challenges. And then, of course, when it comes to wind, we're very mindful of the extent to which it complements the balance of our existing wind portfolio and sort of introduces sort of what you might call inherent firming by another renewable. And also, we take a lot of notice of where these projects are located within the existing grid and what impact they might have on sort of overall system strength. So that sort of means that we do a fair bit of work in selecting the projects to begin with. And in a thinning field, as you say. But the upside, as I mentioned in my notes, is that there has been a sort of corresponding reduction in demand by large retails for new PPAS. So we're doing okay. We're in advanced discussions with several counterparties, and we would expect to see some outcome from that in the medium term.

Paul Simshauser Infigen Energy Limited - Executive General Manager of Energy Markets

And I guess, the other thing, just to add to that too, Mark, and just in terms of its implications with Infigen. One of the, I guess, defining characteristics of the investment cycle that we saw between 2016 and 2019 was a surprising number of merchant renewable investment commitments. In fact, if you sort of tally them all up on the East Coast, they're probably close to 20% of all the megawatts that were installed (inaudible) also giving us a pool of counterparties that we have been able to engage with in terms of writing PPAs. Because it will, by definition, enhance the quality of their earnings as the market cycles.

Mark Busuttill JP Morgan Chase & Co, Research Division - Equity Research Analyst

Okay. Well, if we think about the potential implications on Infigen, and you've highlighted the opportunity on Slide 12, I wanted to just touch on a couple of things from that. Firstly, you're saying that you've suggested Cherry Tree is going to come on from fiscal '21. Can you maybe give us an update as to how likely that is? What the status of that project is? Given what we talked about those constraints in getting new renewables up and running.

Ross Kenneth Rolfe Infigen Energy Limited - CEO, MD & Executive Director

Well, Cherry Tree is actually performing very well at the moment, Mark. In fact, I think we've got first energy out of it yesterday. So we're more or less on track. I mean, once again, we have got some process issues to go through with that in terms of getting the sort of final generation license, which we get through the Essential Services Commission, I think, in Victoria. And all of these



bodies are currently having great -- having to deal with greater complexity than they have historically done. So their processes tend to be slower. But look, in terms of the construction timetable, that's all gone very well, and we would expect to see it come online over the course of coming weeks.

Mark Busuttill JP Morgan Chase & Co, Research Division - Equity Research Analyst

And the other projects that maybe feel that volume opportunity you've highlighted in that slide?

Ross Kenneth Rolfe Infigen Energy Limited - CEO, MD & Executive Director

Well, I'm not quite sure what you wanting me to say there other than we've got the Flyers Creek Creek, which we -- is currently one of our own development pipeline projects, 138 megawatts that is very mature in the development cycle at present. And then we're dealing with several hundred megawatts of other renewable projects in various stages of gestation in South Australia and New South Wales.

Operator

Your next question comes from the line of James Bullen from Canaccord.

James P. Bullen Canaccord Genuity Corp., Research Division - Senior Energy Analyst

Congrats on the results. Just around prices. You made the comment there that gas prices come off by another \$1 or so. So \$6 to \$7 at the moment in New South Wales. I was just wondering how that impacts your view of Smithfield utilization with the lower gas price? Do you expect to turn a project on a little bit more?

Paul Simshauser Infigen Energy Limited - Executive General Manager of Energy Markets

Good Question, James. As a general principle, not really. Look, I think if gas prices really fell materially lower, that might alter things a bit. But the pattern of relative prices really sort of -- we'll still bias towards turning on in sort of peak -- sort of elevated price by style events. And the reason I say that, James, we only ever really rely on our peaking and firming assets to defend against the elevated prices. We'd always rather just get more sort of low-cost renewables into the portfolio rather than sort of burn gas. And if you think about Smithfield even at \$6.5, you still into the 80s per megawatt hour before it makes sense to turn on. And then you need to think about sort of variable O&M costs, which don't really hit you until you do overhauls. So I wouldn't expect a great change in its capacity factor. Certainly wouldn't start adding in multiples of what we've been doing recently.

James P. Bullen Canaccord Genuity Corp., Research Division - Senior Energy Analyst

Okay. And just around Flyers Creek hoping that you could map out a few of the milestones we should be looking out for as you approach financial close on that one?

Ross Kenneth Rolfe Infigen Energy Limited - CEO, MD & Executive Director

I probably haven't really put any milestones out there in the market other than to say we expect to reach financial close in the beginning of -- early FY21. And I probably don't really want to give any further milestones beyond that. To be honest, James, because they're all moving around a lot. There's lots of moving parts in bringing a project like that together. And sort of trying to sort of segment the time line is probably going to just end up misleading you, I think. So I'll probably stick with early FY21.

Operator

Your next question comes from the line of Ian Myles from Macquarie.

Ian Myles Macquarie Research - Analyst

First, Paul, just on COGATI, isn't that what Tim Nelson (inaudible) for you guys?

Paul Simshauser Infigen Energy Limited - Executive General Manager of Energy Markets

(inaudible) actually, Tim has certainly been inside the AEMC. I'm not sure that it was a Tim Nelsen invention, though.



Ian Myles Macquarie Research - Analyst

Okay. Sorry, that's Robertson have to deal with what your (inaudible) Look more mundane question. I saw some commentary that some wireless as prices in South Australia because of the isolation. I was just wondering maybe you could give us a bit of color on is your guidance inclusive of that ? Or is there more possibly to come?

Paul Simshauser Infigen Energy Limited - Executive General Manager of Energy Markets

Look, I guess, if I can maybe just keep it fairly simple. In terms of the South Australian market, there were some adverse conditions directly affecting our like Bonney 1, 2 and 3 Wind Farms. They've really been constrained to a 0 output for a few weeks, but we did have our battery primarily operational throughout that period. And the sort of the net position for us was really about, I guess, you'd say breakeven for us. And it was -- the battery, obviously, scale is through the spot electricity market. The spot markets for frequency regulation, both raise and lower and the spot markets for contingency frequency in 6 seconds, 60 second and 5 minutes. So it's got sort of 9 spot markets that it's sort of constantly scaring through and it dispatches itself into the most profitable of those under the watchful of our OCC team. And net-net, we've sort of ended up about where we thought we'd be.

Ian Myles Macquarie Research - Analyst

Okay. The flooding in New South Wales, I didn't expect you to be asking is desalination plant. Given we got back to 80%, does that thing actually turn back on? Or are we going to have a deferral of you being able to sell high-priced electricity (inaudible) to the government.

Sylvia Ann Wiggins Infigen Energy Limited - Executive Director of Finance & Commercial and Executive Director

This is Sylvia, I'll take that one. We have 2 effective relationships with the SDP. The first 1 is in relation to our electricity sales, and that actually is really unaffected by whether or not the plant is on or off. Because it's actually done as a CFD over a firm supply of electricity regardless of its operation. So our C&I contracting outcomes in terms of the revenue numbers and proportion sold is unaffected by any decision between the government and the SDP to remain on or off. The second aspect of our relationship with SDP in terms of our green product sale to them (inaudible) our FY20. And that basically doubles effective if they're on versus the minimum supply obligations if they're off. We have assumed for FY20, that they will be on for the remainder of FY20. And in our results presentation, that is reflected in our overall expected LGC price for FY20 of \$54 for LGC. And we have not assumed that they will be on any period after the 30th of June. So if they do decide to turn off, it really won't affect the numbers that we've got out in the market, won't have any material effect on our FY20 results or FY21 going forward.

Ian Myles Macquarie Research - Analyst

I just want clarify that. API is wanting to develop a gas plant down in Victoria, don't really want to actually have merchant exposure. And so I sit there, is that the total plant you might be interested in doing a tolling agreement for us, we'll like that where you get some dispatch rights?

Paul Simshauser Infigen Energy Limited - Executive General Manager of Energy Markets

Look, as -- never say never in energy markets. But I guess our house view on dispatchable assets is that they're really good things to actually iron out right because you may sort of need to call on them in ways that contracts find difficult to envisage bounded rationality just means it's complex to try and write these things up for all conditions. Look, that said, someone puts the right sort of proposition in front of you then why would you not, especially if it's the right price and the right technology and the right sort of speed. But so far, whenever we've been asked about doing Capital Lite with our dispatchable plant, our sort of very sort of strong preference has been to go down the path of ownership. I think the more interesting one going forward, though, and I will put a caveat on that comment and that sort of relates to batteries. I think with batteries, there are genuine reasons why sort of some form of joint ownership or some sort of contracting arrangement may make sense. Because you know that to make a battery work well, it needs to really utilize all its skills and capabilities. And in some respects, that's -- in certain instances, that's going to mean that there's real genuine value to a network. And I think I would expect over time to see batteries done cooperatively between merchant, organizations and network organizations to deal with unique problems that batteries can resolve for both parts of the regulated and unregulated parts of our industry.

Ian Myles Macquarie Research - Analyst

Thanks Paul, I presume that's good for you at Infigen. Just on the -- another one is we're seeing the interconnectors coming up and they're getting through their proposals. While they may not be (inaudible) how does that start to change the economics around some of



your products and the effective cap prices? Do you -- were you expecting that when you acquired this with the -- within your longer term expectations?

Paul Simshauser Infigen Energy Limited - Executive General Manager of Energy Markets

Yes, absolutely. I mean, I think the reality is that for the industry, overtime, to continue to produce a lower emission footprint and keep the lights on, we're just going to need more interconnectors. And we're also going to need a lot more peaking plants. So I mean, if you have a look at the latest integrated system plan. And look, I'm just going from memory insights. So -- but my recollection was over the next couple of decades, there was another 20,000 megawatts of peaking capacity required. It was enormous. So when I sit back and think about the peaking capacity, we got a pretty relaxed about our -- and particularly, the cost base that we got the minute. I have, again, working from memory rather than from data sitting right in front of me at the moment. But the expected cost of firming capacity, particularly a capacity that's got a reasonable run time has gone up, not down. Batteries will be a bit different, I'm sure. I'm sure they will continue to make their way down the cost curve. But of course, batteries are not a cure for all things. They're cure for a lot of things, but there's still an awful lot of other sort of dispatchable capacity that will be required. We used to always talk about base in immediate and peak. I think in the future, we're going to be talking about -- we won't use those terminologies anymore, we'll use renewables plus batteries and fast starting gas plants. And of course, pump storage hydro, I think, if we can get those numbers to work.

As every piece of coal-fired equipment closes down over time, you simply can't replace all of the capacity with intermittent renewables and that's why you come up with that 20,000 megawatts or thereabouts number of capacity required overtime.

Ian Myles Macquarie Research - Analyst

Okay. One final question, I think (inaudible) a bit more part the merchant market to rephrase it -- sorry, the C&I market for signing PPAs. We're seeing a lot more corporates being quite proactive to be wanting to be green and progress down that path. How much ability are you aiming (inaudible) falling environment, being able to get those contract signing?

Paul Simshauser Infigen Energy Limited - Executive General Manager of Energy Markets

Look, I guess, the path that we've gone down has not been to sign really long-dated PPAs with the C&I customers. We've probably orchestrated a different paths where we're sort of -- we've really targeted transactions in the 3 to 7 year range on a firm basis. So it is -- we haven't -- now that said, Ian, we have started to see requests come through the side for stripping out the LGC, as I mentioned that earlier. So that's probably the other trend. We're just starting to spot where people are actually after 10 years worth of LGCS, for example. And that is not to meet the 20% renewable obligations. It is to make our corporate targets of 100% renewables.

Ross Kenneth Rolfe Infigen Energy Limited - CEO, MD & Executive Director

Yes, maybe one thing worth adding there, Ian, is while we only sort of see a segment of this, but one of the things that sort of seem to be happening a year or 2 ago, was large corporates, in particular. We're entering long term PPAs, believing that they could manage the energy market risk associated with intermittency. And certainly, we're hearing quite a lot of unfortunate experiences that those guys have subsequently had not appreciating just how impactful the hit from spot prices can be if your generation is not performing for you. And also, of course, the impact that (inaudible) can have on you. So I think there's been a -- there's perhaps a slightly more subdued environment around sort of going it alone as a large corporate with your own PPA and managing energy market risk.

Ian Myles Macquarie Research - Analyst

Yes. No, that's good. And in terms of, like, I'm just touch on that LGC strip. How do you know if anyone has actually done some LGC strips? Because it sort of makes a logical concept that you could neutralize, clean your energy up by taking. Have you actually seen actually people executing those transactions?

Paul Simshauser Infigen Energy Limited - Executive General Manager of Energy Markets

Yes. Look, without going into too much detail, Ian, we've routinely doing the varying levels of length, of course, but it's not unusual for us to be approached for LGC only transactions for corporates.

Ross Kenneth Rolfe *Infigen Energy Limited - CEO, MD & Executive Director*

And more recently, some of those proposals have been quite long-dated, albeit perhaps not at prices that we found particularly interesting.

Ian Myles *Macquarie Research - Analyst*

Also much mutiny portfolio or you have to sign up more PPAs to get to realize the LGC to that sort of stuff?

Sylvia Ann Wiggins *Infigen Energy Limited - Executive Director of Finance & Commercial and Executive Director*

And we've got fortunately, we've fully put contracted for FY20. But if you go to, I think it's going to be on Slide 17 of the presentation. In FY21 was 79% contracted, 67% in '22, dropping to 33% by '23. So we do actually have some forward start LGCs that we are certainly, as Paul said, actively engaged talking with people who are looking to get to deal with their own long-term effect on the carbon. So we do have LGCs available for sale.

Ian Myles *Macquarie Research - Analyst*

What would -- how would that change if you -- if the desalination was on?

Sylvia Ann Wiggins *Infigen Energy Limited - Executive Director of Finance & Commercial and Executive Director*

Not at all. That's what I was saying, those contracted levels that I've given you assume the desal is on until the 30th of June 2020. And thereafter, we've assumed it's off. So if the desal remains on, i.e., the government doesn't turn it off, notwithstanding more again, be sitting at 80%, as you mentioned earlier, we would see an uptick in our contracted levels going forward.

Operator

There are no further questions at this time. I would now like to hand the conference back to today's presenters. Please continue.

Ross Kenneth Rolfe *Infigen Energy Limited - CEO, MD & Executive Director*

Well, thank you, everyone, very much for your time, and your interest in our business. We greatly appreciate it and look forward to catching up with most, if not all of you, over the course of the next couple of weeks.

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