



**IPART 20TH ANNIVERSARY
CONFERENCE**

Funding Infrastructure Projects

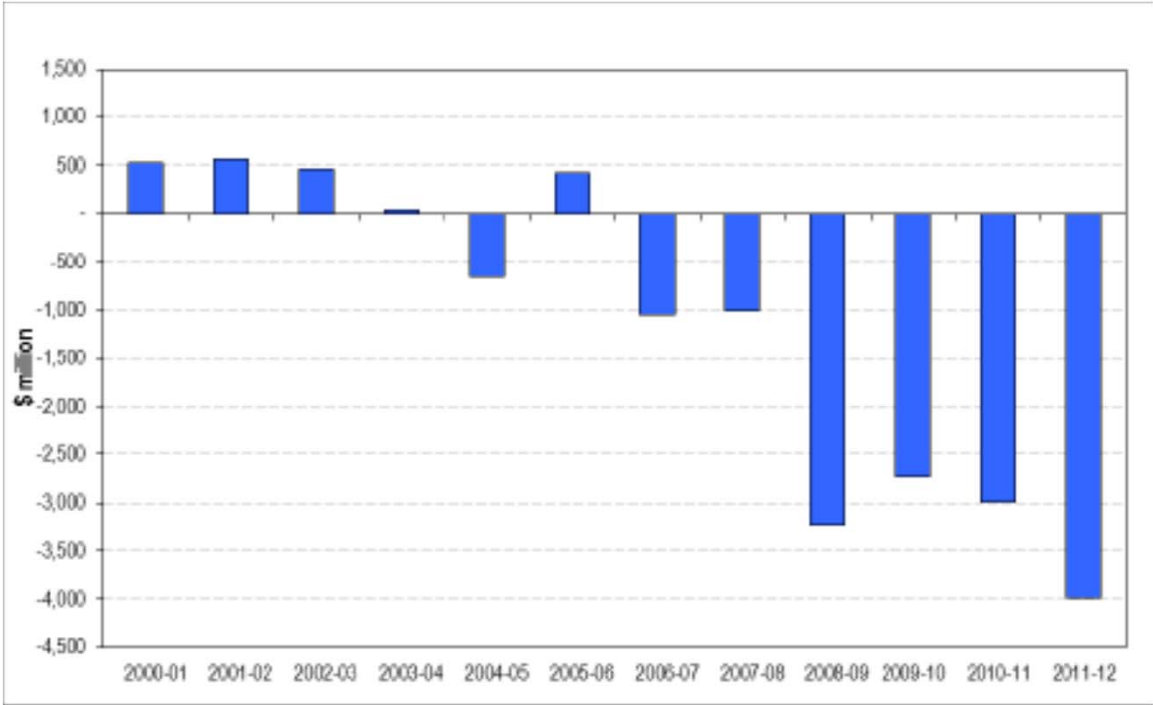
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1. FUNDING INFRASTRUCTURE

- Government funds are severely constrained
- The constraint may be eased by asset sales

1. FUNDING INFRASTRUCTURE

NSW: Net Lending Result 2000-01 to 2011-12



1. FUNDING INFRASTRUCTURE

- Is the infrastructure a priority ?
- What about timing and staging ?
- Have alternatives been examined ?
- If there are asset sales is retention value below sale value?
- Are other policy objectives met ?

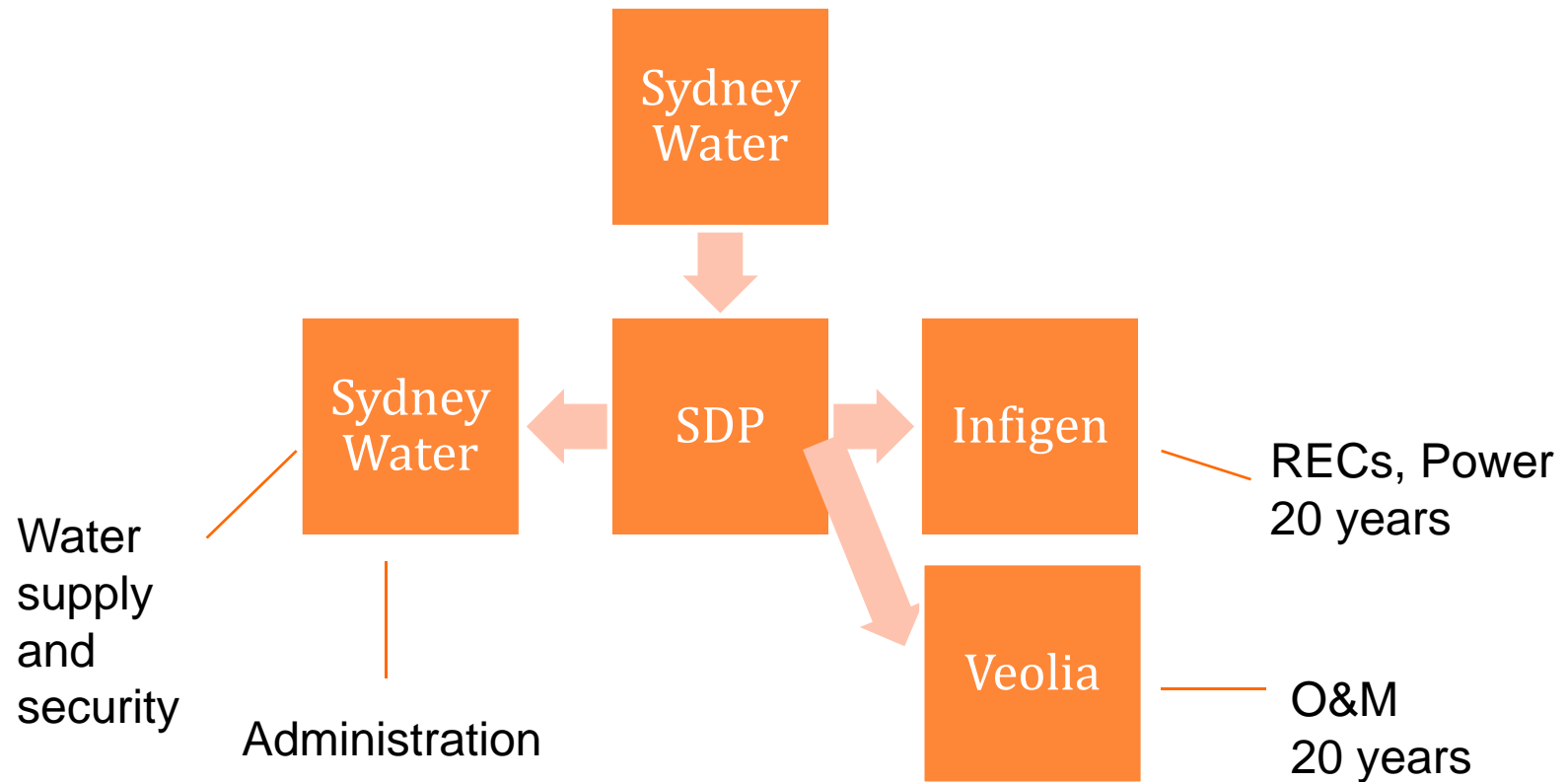
2. CASE STUDY: SYDNEY DESALINATION PLANT

- The Sydney desalination plant was sold with a lease structure in June
- Sydney Water retired \$1.8 billion in debt, and made a special dividend to government.
- Prices declined
- And competition was encouraged

3. PREPARATION & REGULATION

- **Metro Water Plan considered alternatives thoroughly**
- **Efficient design, construction**
- **IPART acknowledge efficient cost of construction**

3. PREPARATION: STRUCTURE



3. PREPARATION

- Dual Pricing Structure
- For sale value to exceed retention value the asset must be moved off the balance sheet - of both Sydney Water and the Government

AVOID “CONTROL” BY

- **Allowing SDP to sell to others**
- **Sydney Water and Government not controlling prices**
- **Being able to expand the plant but not by government direction**
- **Not having lessor (government) take over assets at the end of the lease**

4. THE PRICE DETERMINATION

- **Low WACC of real pre tax 6.7%**
- **Ignored the take or pay impacts in the Infigen contracts**
- **Other more minor but complex issues e.g. abatement**

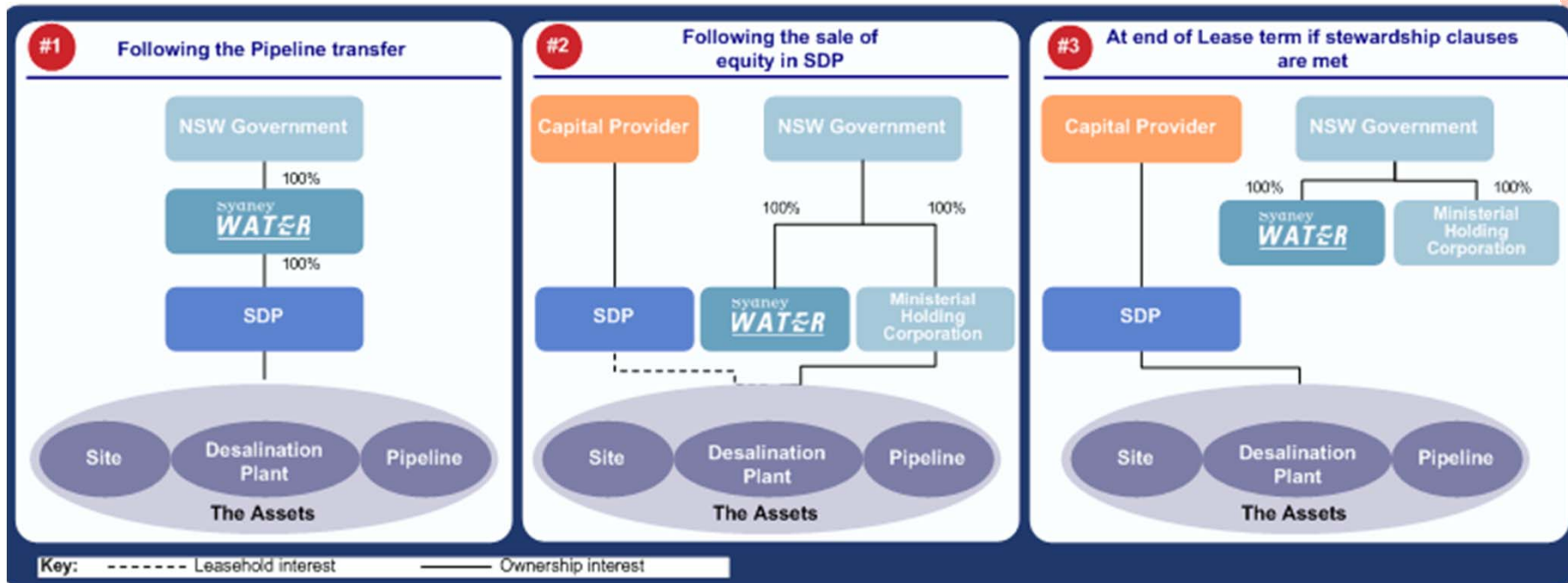
5. REACTION

- Likelihood we would not get \$2 billion, the Regulated Asset Base (RAB)
- Concern we would not have any bidders – because of power market exposures
- Some concern about IPART's approach

6. Structure and Contracts

- WICA Licences, IPART regulation, access regime, Metro Water Plan
- Water Supply Agreement
- Revised Veolia Agreement; continuing Infigen contract
- Lease of assets from Government to SDP; reverts to SDP ownership in year 50 if Stewardship Clauses met
- Security of Water Deed – Deals with expansion

6. Structure and Contracts



7. Key Bidder Issues

- Limited appetite for risk given the WACC of 6.7%
- Concern about:
 - Certainty of revenue
 - Lack of appeal or review of IPART decisions
 - Interpretation of determination
 - Future changes in pricing methodology
 - Merchant power risk
 - Sovereign risk

7. Key Bidder Issues

- Sydney Water's payments are not AAA credit
- Cost of expansion may not be covered by price determination
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- Interpretation of Price Determination needs clarification
- What if there are changes in pricing methodology

8. Outcome

- Started with over 85 Registrations of Interest sent out; 13 returned
- Received 6 Indicative Bids
- Shortlisted 4
- Received three strong bids: IFM/Spark and Hastings/OTP

9. Outcome

- Winning bidder: Ontario Teachers Pension Plan and Hastings Funds Management
- \$2.3B sale of Sydney Water's shares in SDP
- Contracts signed 10 May, financial close - early June

8. Outcome

Transition of SDP

- Veolia retained under existing O&M contract
- Sydney Water to provide interim 'back-office' services
- The plant is in Water Security Mode

9. IPART'S FUTURE CHALLENGES

- Encouraging competition
- Gap between the Regulated Asset Base and DORC
- Private corporations warrant an appeal or review process
- Usual balance between consumer and utility needs
- MAINTAIN INDEPENDENCE

9. IPART'S FUTURE CHALLENGES

- In regulations that support infrastructure funding must set market based/commercial returns.
- More capability needed in commercial environment
- Need to improve understanding of financial markets;
- And of corporate capital structures and funding;
- And of tax regimes and other responsibilities of companies
- And of risk.