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

Sydney Water

SDP

Infigen

Veolia

Water supply and security
Administration

RECs, Power 20 years
O&M 20 years
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
- 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.