Expert Report

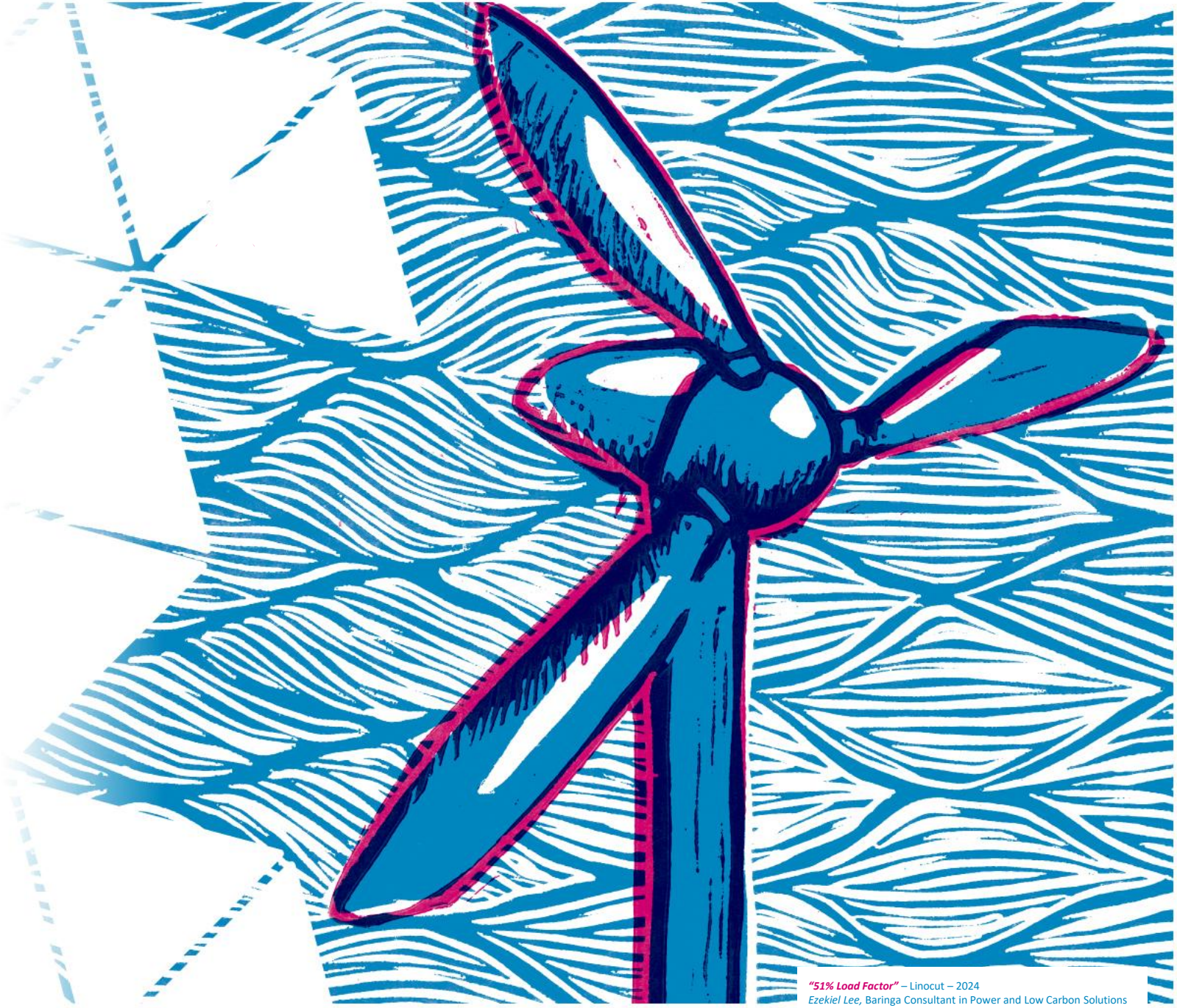
Energy Procurement Strategy for a Benchmark Efficient Firm in SDP's Circumstances | RP4

Sydney Desalination Plant

25 September 2026 – ***Final Report***

Public

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"51% Load Factor" – Linocut – 2024
Ezekiel Lee, Baringa Consultant in Power and Low Carbon Solutions

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Executive summary

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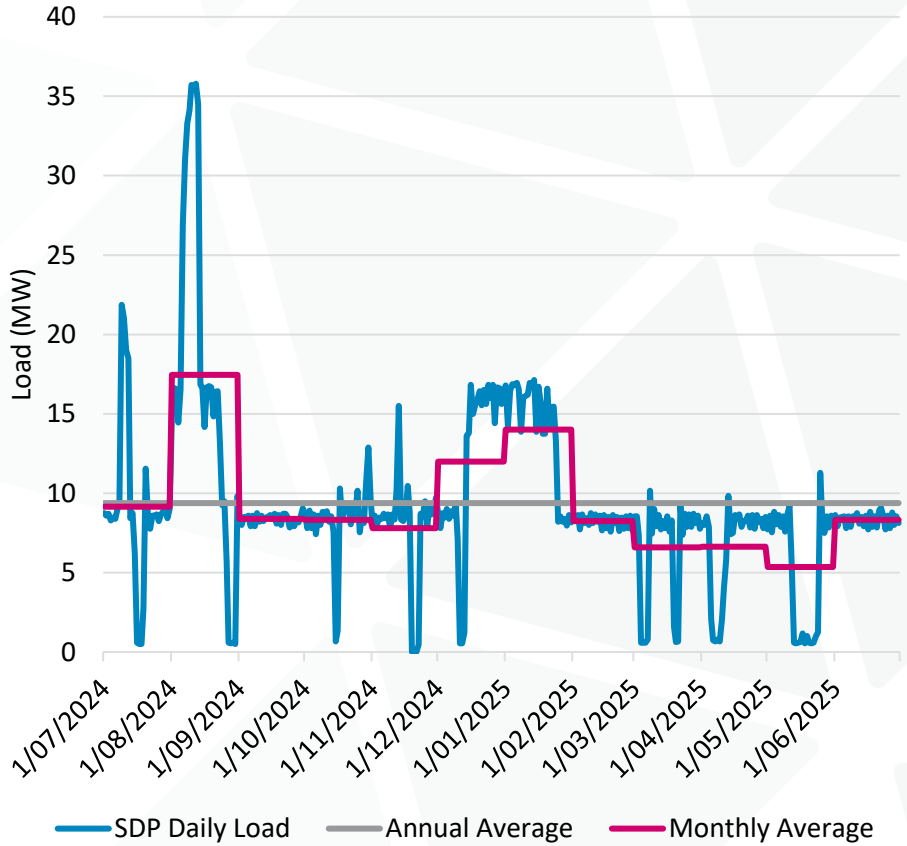
A benchmark efficient firm in SDP's circumstances requires high flexibility and a bespoke energy procurement strategy to manage the load efficiently

Sydney Desalination Plant (SDP) commissioned Baringa Partners (Baringa) to identify and assess future electricity procurement options and recommend a prudent and efficient strategy for a benchmark efficient firm in the circumstances of SDP (i.e. same electricity load characteristics, licence conditions and operating environment) that balances customer costs, risk management and operational requirements.

Operating context summary

- **SDP's load is large and highly variable**, typically ranging from approx. 10MW to 40MW - equivalent to the electricity consumption of ~ 20,000 to 80,000 NSW households. This is shown in the graph to the right.
- SDP's **electricity demand is inherently uncertain**, reflecting the flexibility embedded within Sydney Water's production ordering framework.
  - Annual Production Requests establish expected operating volumes.
  - Production requirements may subsequently change through six-monthly revisions, monthly scheduling adjustments, and unplanned operational events.
- As a result, a benchmark efficient firm in SDP's circumstances faces a combination of:
  - **volume risk**, where actual electricity consumption differs from contracted volumes; and
  - **price risk,** where uncontracted volumes must be purchased at wholesale prices, or excess contracted volumes sold at wholesale prices
- While retailers can provide additional volume and flexibility protections, these arrangements typically require a commercial and industrial customer to **pay a premium for sophisticated risk management**, increasing procurement costs.
- **No procurement approach can simultaneously maximise flexibility, minimise risk and provide the lowest customer cost outcome**.
- The preferred procurement approach was assessed from the perspective of a prudent and efficient benchmark firm operating in SDP's circumstances, reflecting a **balanced set of criteria including operational needs, customer outcomes, risk profile and market realities**.

SDP Historical Load | FY 2025



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We developed the recommended procurement approach through a staged assessment of requirements, market constraints and procurement alternatives

1

Establish procurement context

Confirmed SDP's renewable obligations, risk appetite, regulatory setting, operational flexibility, and Sydney Water ordering requirements.

2

Develop longlist of feasible procurement options

Considered available hedging products, retailer market feedback, deliverability and alignment with the operational requirements of a benchmark efficient firm in SDP's circumstances.

3

Assess longlist against objectives of a benchmark efficient firm

Options assessed against the objectives and requirements of a benchmark efficient firm operating in SDP's circumstances, with the highest performing options taken forward for additional quantitative analysis and stakeholder consideration.

4

Evaluate shortlisted options

Modelled cost, price mismatch risk, volume risk and performance across alternative regulatory scenarios.

5

Recommend preferred approach

Recommended the option that best balances customer cost, risk management, and operational flexibility.

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We designed the assessment framework to identify the procurement approach that best balances customer outcomes, risk management and operational requirements

Assessment approach summary

- **Procurement options were assessed against a consistent set of criteria** covering customer cost, risk management, financial sustainability, renewable energy objectives and stakeholder considerations.
- Collectively, these criteria were **designed to identify the procurement approach that best balances cost, risk, flexibility and deliverability** for a benchmark efficient firm in SDP's operating environment.
- The assessment framework was informed by Sydney Water's production ordering requirements, SDP's renewable energy obligations and SDP Board's objectives.
- These considerations reflect the **factors most relevant to determining a prudent and efficient electricity procurement strategy** for a benchmark efficient firm in SDP's circumstances.

Assessment criteria summary

Criteria	Customer cost minimised	Price risk minimised	Volume risk minimised	Financial sustainability	Green requirement	Stakeholder alignment
Definition	Minimises total electricity costs borne by Sydney Water customers	Reduces exposure to wholesale market price volatility	Provides flexibility to respond to changes in requested water production volumes without exposing customers, nor the benchmark efficient firm, to price volatility	Supports stable cashflows, financeability and long-term financial resilience	Supports SDP's renewable energy obligations and the objectives of a benchmark efficient firm in SDP's circumstances	Aligns with stakeholder objectives (including NSW Government, SWC, and Customer Advisory Panel) and is practical to implement
Key question	Does the option provide the lowest long-term sustainable cost of meeting the required levels of service for a benchmark efficient firm in SDP's circumstances, within which flexibility is highly valued?					

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We considered a broad range of procurement approaches, with only a small subset appropriately balancing customer cost, risk management and operational flexibility

Procurement approach	Summary of procurement approach	Outcome	Justification
Fixed-price structures Option 1	Lock in a fixed price for all forecast electricity volumes upfront.	Not shortlisted	Provides price certainty but creates significant volume mismatch risk where actual production differs from forecast.
25% fixed with caps on variable volumes Option 2	Cap contracts protect against extreme price spikes while retaining spot market exposure.	Not shortlisted	Improves flexibility but retains substantial exposure to wholesale market prices.
Simple option structures Option 3A & 3B	Options provide flexibility by allowing the benchmark efficient firm to hedge uncertain volumes as requirements become clearer.	Not shortlisted	Provides flexibility to manage volume uncertainty but does not align hedging decisions with SDP's legally binding production request framework.
APR-based hedging with options Option 3C & 3D	Fixed-price hedges aligned to Annual Production Requests, supplemented with options to manage intra-year load changes.	Shortlisted	Best balanced customer cost, risk management and operational flexibility.
True progressive procurement Option 4A	Energy is purchased progressively as production requirements become clearer over time.	Not shortlisted	Could be an efficient approach for an unregulated utility but is not practical for a regulated benchmark firm in SDP's circumstances
APR swaps with progressive balancing Option 4B	Hedges full APR volume as swaps at start of the financial year and rebalances for last 6 months in November.	Shortlisted	Provides strong alignment between procurement volumes and operating requirements.
Spot with caps Option 5	Energy is purchased from the wholesale market, with caps providing protection against extreme price events.	Not shortlisted	Maximises flexibility but retains substantial exposure to wholesale market volatility and adverse customer cost outcomes.
PPA-based structures Options 6 & 7 & 8	Renewable energy procured through retailer-led or direct renewable supply arrangements.	Not shortlisted	Supports renewable objectives but increases complexity, price mismatch risk and implementation challenges.

APR-based hedging and progressive balancing approaches minimise customer cost while enabling risk management, operational flexibility and practical deliverability.

Baringa

We recommend Option 3c as the prudent and efficient energy procurement strategy for a benchmark efficient firm in SDP's unique operating circumstances

RECOMMENDATION*

Baringa recommends a procurement approach based on Annual Production Request (APR) hedging, combining fixed-price swaps for annual production volumes with Asian quarterly options to manage six-monthly changes in water production requests (Option 3c).

SUMMARY REASONING FOR RECOMMENDATION

- SDP faces a materially different procurement challenge to a typical large energy user due to the operational flexibility that is provided to Sydney Water in making legally binding production requests on SDP and SDP's Operating Licence obligations, which creates **ongoing uncertainty in electricity demand volumes**.
- A **benchmark efficient firm in SDP's circumstances would seek to manage exposure to wholesale electricity market volatility through hedging. However, it is not efficient to eliminate all risk** as eliminating 100% of volume and flexibility risk would require the customer to pay a retailer a substantial premium to manage the underlying volatile energy price risk.
- The recommended approach aligns hedging volumes to legally binding annual production requests, while retaining flexibility to efficiently respond to 6 monthly reviews of the annual production request through option-based hedging. This provides a balanced price and volume risk profile without requiring SDP to hedge maximum production volumes upfront.
- **Our recommended approach balances** customer cost minimisation; wholesale price and volume risk management; operational flexibility embedded in the Sydney Water ordering framework; renewable energy procurement requirements; and practical deliverability using currently available market instruments.
- **In Baringa's expert opinion, our recommended approach represents a prudent and efficient commercial strategy for a benchmark efficient firm in SDP's circumstances**, providing a balanced allocation of cost, risk and flexibility consistent with SDP's operating requirements and the long-term interests of water customers. Option 3c best minimises costs while managing volume and price variability risks.
- Our recommended Option 3c approach hedges annual production requests and six-monthly APR revisions. We recommend a separate procurement and management strategy for short-notice production requests, fixed production day (FPD) changes and emergency events. See next slide for our recommended efficient procurement approach across each type of production request.

*An underlying assumption to our analysis and recommendation is that annual in-period adjustments to the benchmark price of wholesale electricity in meeting APRs occurs similar to the regulatory approach adopted in recent IPART decisions for other water utilities.

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A prudent and efficient procurement approach hedges only legally binding Operating Licence required water production requests

A benchmark efficient firm in SDP's circumstances will face a variety of different forms of production requests with differing levels of obligations to respond, advanced notice, along with different options and costs of those options to respond. The table below summaries our recommended prudent and efficient approach to managing each form of production request.

- Legal obligation
- Bilateral agreement
- Best endeavours

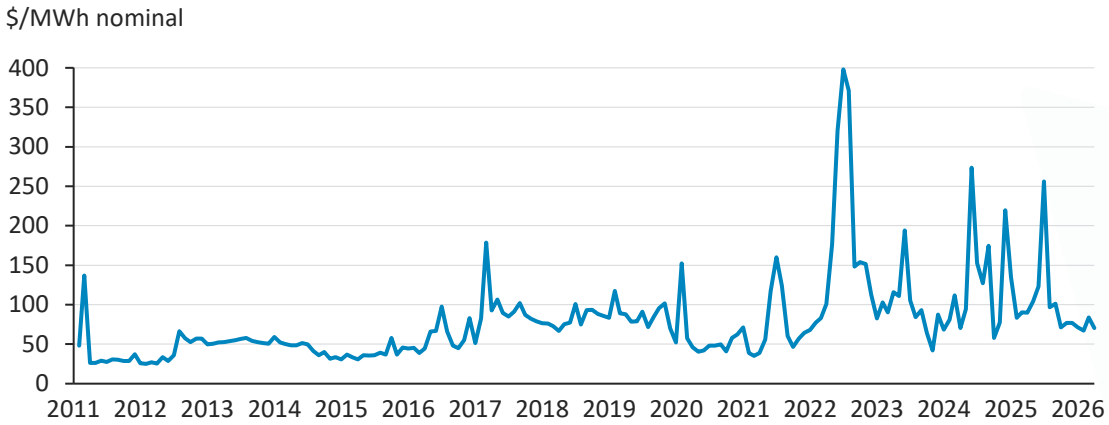
Production request	Definition	Volume and shape	Recommended prudent & efficient hedging approach
Annual Production Request (APR)	Contractually binding annual production volume request for the financial year	Daily and monthly schedule Includes scheduled FPDs	Hedge contracted annual production volumes using swaps
Revised APR	Updated annual production volume request replacing the original APR	Daily and monthly schedule Includes scheduled FPDs	Hedge potential revisions to the annual production volumes using options
Monthly rescheduling within a 6-month period	Monthly production schedule adjustment within the existing annual production request	Daily schedule	Do not procure dedicated hedges; revised volumes and timing are typically agreed only 3–7 days before the start of the month, making forward hedging inefficient. At short notice, the market prices of the hedges will reflect most known information about market conditions and the transaction costs of the hedges may outweigh risk reduction benefits.
Fixed production day changes within 6 months	Pre-scheduled periods of elevated production to support Sydney Water operational requirements (e.g. major maintenance works), where timing and duration may change if planned works are delayed	Daily schedule for set time period	Do not procure dedicated hedges; changes are often confirmed, revised or delayed close to delivery, making forward hedging inefficient and potentially resulting in unnecessary hedge costs
Emergency requests	Short-notice production change required to respond to an emergency event	Daily schedule for set time period	Not efficient to hedge given short notice (would require taking a very long position, giving rise to price and volume risk, and incurring a material upfront cost for the retailer to hold this risk). More efficient to pass costs through to customer if and when they arise, based on spot prices at the time, because the customer will be best placed to judge whether the value of the water is higher than the cost of producing the water at prevailing spot prices.
Unplanned changes (SDP-initiated)	SDP-initiated departure from the agreed production schedule due to operational requirements	Dependent on change	Adopt operational protocol to test with retailer

1 | Energy market background

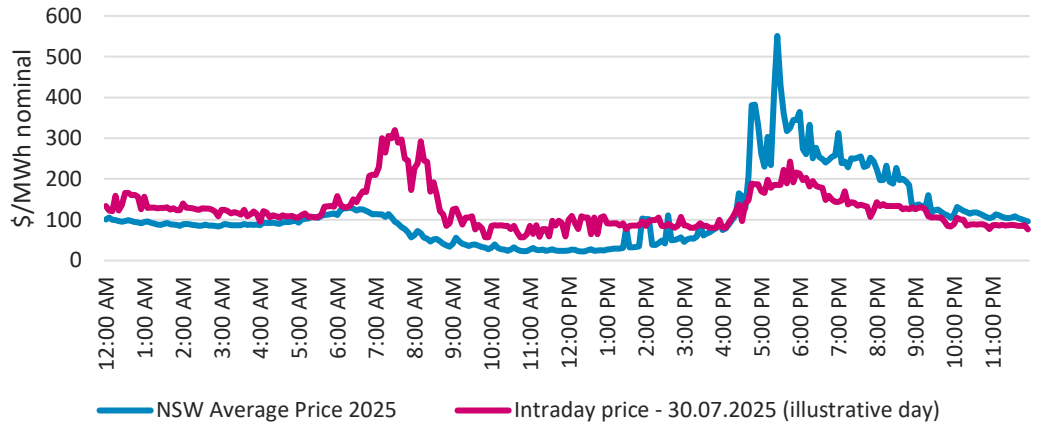
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Wholesale electricity prices are volatile, and managing exposure to this volatility is a primary function of electricity market trading and procurement

Historical monthly baseload prices | NSW



Historical intraday prices | NSW



Commentary

- Wholesale electricity prices are inherently volatile, reflecting changes in fuel costs, generation availability, weather conditions, transmission constraints and electricity demand. Electricity prices fluctuate between the regulated market price cap of $23,200/MWh (indexed annually) and price floor of -$1000/MWh.
- Historical price outcomes (shown to the left) demonstrate the scale of this volatility, including the unprecedented price spike observed during 2022-23, driven by a combination of fuel market disruption, coal plant outages, and demand recovery post-COVID 19. While prices have moderated from their 2022-23 peak, wholesale markets continue to experience significant short-term and long-term price fluctuations.
- The **NEM is entering a major period of structural transition**, with early-2030s wholesale prices likely to be shaped by both market fundamentals and policy intervention. The market is going through a **once in a generation shift with the transition from a coal-dominated to renewables-dominated system**.
  - Commonwealth and NSW schemes, including the Capacity Investment Scheme, Long-Term Energy Service Agreements and Renewable Energy Zone (REZ) Access Rights, are accelerating renewable and storage investment, but also influence the timing, location and contracting structure of new supply.
  - While coal will close, temporary coal life extensions may defer retirements and shift scarcity risk into later years, increasing uncertainty around when replacement generation, storage and firming capacity is needed.
  - Gas market reforms, including the proposed domestic gas reservation scheme, may also affect gas availability and price formation for gas-fired generation, which remains important during scarcity events.
  - As a result, **early-2030s market outcomes remain materially uncertain**, making exposure management a key objective of prudent electricity procurement and hedging strategies.

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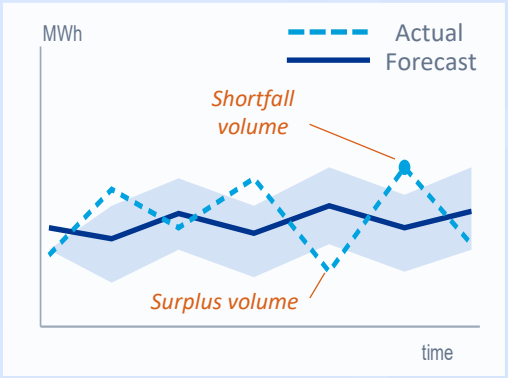
Commercial & Industrial (C&I) customers are exposed to wholesale market risk when actual load differs from contracted volumes

Price Risk



- Price risk **reflects financial risk driven by exposure to wholesale prices**.
- Wholesale spot and forward prices can move sharply before or during delivery.
- Uncontracted volumes remain exposed to market prices, including **price spikes**.
- Fixed-price hedges remove exposure, but come with a cost premium, and may reduce upside if prices fall.

Volume Risk



Forecast range

- Volume risk reflects the **risk that actual consumption differs from forecasted, contracted or hedged volumes**.
- **Shortfall volumes** must be bought at prevailing market prices, while **surplus volumes** may be sold back into the wholesale market, introducing price risk.
- Volume risk is greatest where load changes after hedges have been priced or contracted.

Price and volume risk are interrelated concepts. Price risk arises when volume risk is realised.

Term Risk

- Term risk reflects **the risk of locking in energy prices before future market conditions are known**.
- Purchasing all energy at a single point in time concentrates exposure to prevailing market conditions.
- The cost of a fixed-price contract may be higher or lower than prices available later.

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Hedging instruments are used by retailers and C&I customers to manage wholesale market risk. Further detail on these hedging instruments is contained in Chapter 3.

Hedging instrument	Description	Primary purpose	Typical application for C&I customers	Execution pathway	OTC?*	ASX?
Power Purchase Agreement (PPA)	▪ A longer-term contract linked to the output of a specific renewable generator	▪ Provides long-term renewable supply and partial price certainty	▪ Used where buyers value renewable alignment, require energy volumes, and accept generation-load mismatch	▪ Bilateral contract with generator ▪ Can be accessed via retailer	✓	✗
Flat swap	▪ A fixed-price contract for a set quantity of electricity over a defined delivery period	▪ Locks in price for a constant volume	▪ Used to remove wholesale price exposure for predictable, stable load	▪ ASX futures or Over-the-Counter (OTC) swap ▪ Often accessed via retailer	✓	✓
Shaped swap	▪ A fixed-price contract where the hedged volume changes throughout the day to better match expected load	▪ Locks in price for a forecast load shape	▪ Used where load is variable but can be forecast with reasonable confidence	▪ OTC structured product, usually via retailer	✓	✗
Cap	▪ An insurance contract that pays out when wholesale prices rise above an agreed level (commonly $300/MWh)	▪ Limits exposure to extreme price spikes	▪ Used to protect against high-price events	▪ ASX $300 cap or OTC cap ▪ Often accessed via retailer	✓	✓
Option (swaption/ caption)	▪ A contract giving the buyer the right, but not the obligation, to enter a hedge (cap/swap) in future	▪ Preserves flexibility before committing to a fixed-price position	▪ Used where future load requirements are uncertain	▪ OTC structured option ▪ Typically negotiated with retailer/financial counterparty	✓	✓**
Collar	▪ A combined option structure that sets a price range, usually with protection above a ceiling and payback below a floor	▪ Narrows price outcomes without fully fixing price	▪ Used where buyers want some price protection at lower upfront cost than a full hedge	▪ OTC structured product ▪ Typically negotiated with retailer/financial counterparty	✓	✗

*OTC = Over-the-counter

** Some options are ASX traded (specifically, options over base load futures (average rate and yearly stips) while other options are only OTC traded.

Products traded on the ASX are subject to higher level of market transparency.

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Prudent and efficient C&I customers can obtain greater flexibility and price certainty by transferring wholesale market risk to a retailer for a premium

- **Prudent procurement does not seek to eliminate risk at any cost. Rather, it balances wholesale market risk against the cost of transferring that risk, achieving an efficient trade-off between price certainty, flexibility and total customer cost.**
- **C&I customers can either execute hedges directly in the market, or transfer wholesale market risk to a retailer for a premium. We would not expect a benchmark efficient firm in SDP's circumstances to develop the capability for direct market execution and we would therefore strongly recommend retailer-led execution.**

Direct market execution

Most suitable where:

- Load is large, stable and predictable
- Customer has trading capability* and/or appetite for residual wholesale price exposure
- Customer has sufficient credit capacity for collateral and prudential requirements

What the customer retains:

- Hedge timing and execution decisions
- Residual price exposure on unhedged volumes/where load differs from forecast
- Full control of operational demand on site

Commercial implication:

Lower premium, but **more significantly more market execution risk retained**

Retailer-led execution

Most suitable where:

- Load is variable or difficult to forecast
- Customer lacks trading capability and/or appetite for residual wholesale price exposure
- Customer lacks credit capacity for collateral and prudential requirements

What the retailer provides:

- Bundled supply and hedge execution
- Fixed price for agreed load conditions
- Bespoke volume flexibility mechanisms

Commercial implication:

Higher premium for greater certainty, reflecting risk transferred to the retailer and the cost of the retailer managing market risks

Recommended option

* We note SDP does not currently have this capability and nor would we expect a benchmark efficient firm in SDP's circumstances to develop this capability.

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The inclusion of differing trading risk premiums differs by product across swaps, options, caps, PPAs and LGCs

- **Retailers will charge a wholesale risk premium based on the risk of the customer. Premiums are priced as a premium above the intrinsic contract value.**
- **Different premiums apply to different products. The table below explains the different types of trading risk premiums that can be expected to be priced into different products.**

Trading risk premiums

Risk premium	Definition	Inclusion by product type*				
		Swaps	Options	Caps	PPAs	LGCs
Execution/ Time Risk	Difference in time between refreshing (& requoting) transfer price within which the price of underlying hedge products may move significantly	✓	✓	✓	✗	✗
Liquidity Risk	Risk of having to pay more to buy a hedge in required quantity, because the volume is too big and price moves before locking in the position.	✓	✓	✓	✓	✗
Load Shape Risk	The risk that a forecast load profile is misaligned with a hedged baseload shape (eg. monthly or daily profiling)	✓	✓	✓	✗	✗
Volume Forecast Error	The risk that actual electricity consumption differs from contracted or forecast consumption	✓	✓	✓	✗	✗
Collateral (Credit Support)	Collateral (initial margin and variation margin) which is required to be posted with Exchanges and other counterparties. AEMO prudentials to be posted and maintained	✓	✓	✓	✓	✓ / ✗
Trading overheads	Staff, IT Systems/Support, Legal cost attributable to trading activities	✓	✓	✓	✓	✓
Commissions, Fees and Other	Brokerage, Clearance and exchange fees (Including physical market fees)	✓	✓	✓	✗	✓
Cap premium	ASX premium for trading $300 caps	✗	✗	✓	✗	✗
Option premium	ASX premium for trading Asian/American options	✗	✓	✗	✗	✗

* A tick indicatives this risk premium is typically built into retailer pricing for this form of product. For LGCs, collateral would be priced into some but not all forms of LGCs.

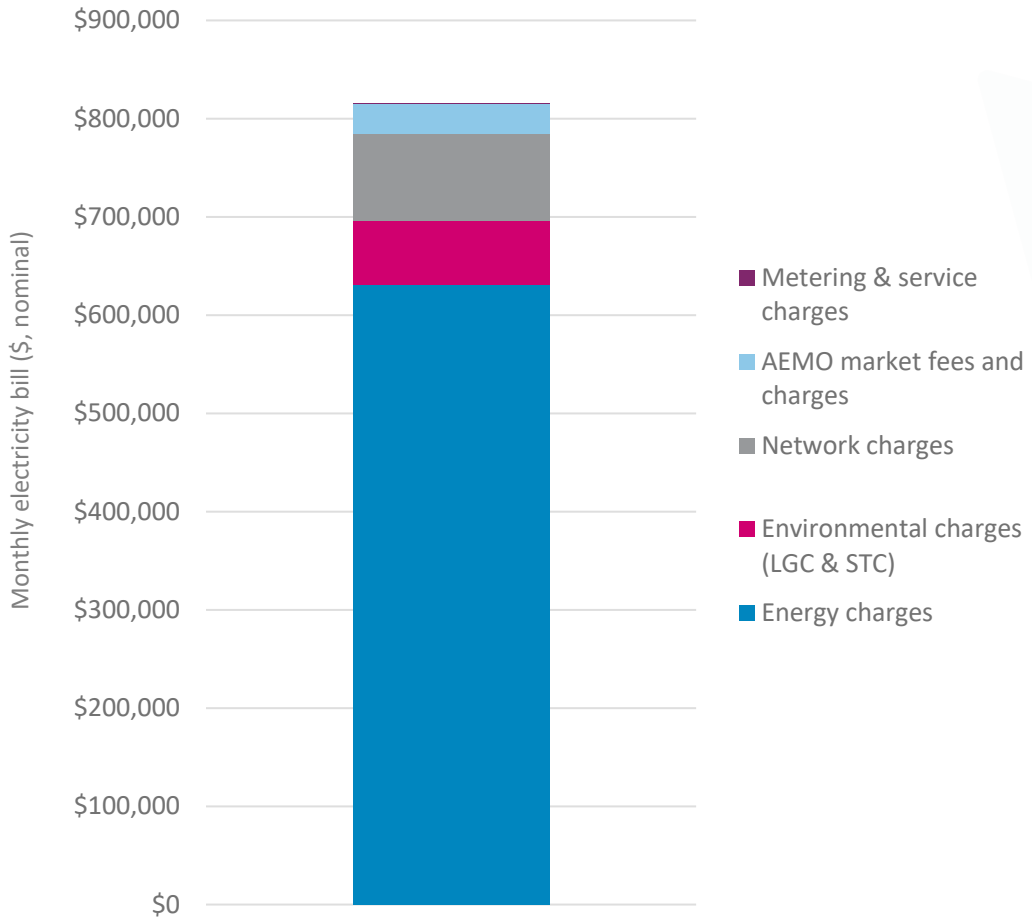
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2 | SDP’s energy procurement context and the needs of its customer (Sydney Water)

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Wholesale energy costs are the principal driver of SDP's electricity expenditure and associated cost risk

SDP Illustrative Bill Stack*



*Based on SDP electricity invoice from July 2025

Overview

- **Wholesale energy costs** represent the largest component (~75%) of SDP's electricity bill, accounting for the majority of total electricity expenditure.
  - The majority of electricity cost risk is therefore linked to wholesale market outcomes.
  - As wholesale energy costs dominate the bill stack, energy procurement strategy is the primary determinant of SDP's overall electricity costs.
  - **Prudent and efficient management of volatile wholesale energy costs through energy market contracting by a benchmark efficient entity in SDP's circumstances is the focus of this Expert Report. We note the recommended regulatory treatment of energy costs are considered in a separate Expert Report from Frontier Economics for SDP.**
- **Network charges** recover the cost of transporting electricity through the transmission and distribution network and represent the largest non-energy cost component. These charges are regulated by the Australian Energy Regulator (AER).
- **Environmental charges** recover the cost of meeting renewable energy and other environmental policy obligations.
- **AEMO fees and market charges** fund the operation and administration of the National Electricity Market and associated power system services.
- **Metering and service charges** cover electricity metering, connection and other retail service-related costs and comprise only a small proportion of the total bill.

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SDP’s legally binding commitment requires that 100% of procured electricity is derived from renewable sources; post-2030, green value is highly uncertain

Current requirements & certificate supply



- SDP’s **Greenhouse Gas Reduction Plan (GGRP)** outlines an enduring, legally binding commitment to procuring 100% renewable power.
- **Large-scale Generation Certificates** (**LCGs**) are currently supplied by the Capital Wind Farm.
- Green energy certificates are matched to consumption volumes on an annual basis.

Post-2030 requirements & certificate supply

Beyond 2030, green value is highly uncertain

- The renewable certification framework is changing. The current **Large-scale Renewable Energy Target (LRET)** framework, under which LGCs are issued, is scheduled to conclude in 2030.
- **Renewable Energy Guarantee of Origin (REGO)** certificates will become the primary renewable certification mechanism after 2030; however, the market remains nascent and long-term pricing outcomes are uncertain.
  - REGOs provide more granular evidence of renewable electricity use, including information on when, where and how renewable electricity was produced.
  - However, the REGO market is still forming, with future prices, liquidity and contracting practices yet to be established.
- Beyond 2030, when regulated RET demand falls away, voluntary demand will be the sole driver of the green certificate market; voluntary demand is difficult to accurately forecast, adding further uncertainty to future green value.
- Potential movement toward **more granular renewable electricity claims**, including time-matched or hourly-matched procurement, **would increase the cost and complexity of meeting SDP’s renewable energy commitments**.
- We recommend that the purchase of renewable certificates should align as closely with the benchmark efficient electricity procurement strategy as possible, but may be limited by the availability of standardised market products and publicly available price benchmarks.
- Given the uncertainty around the Federal and State renewable energy policy obligations that will apply to SDP from 2030, we recommend setting a placeholder forecast and assessing the efficient costs of renewable certification at the end of SDP's next Regulatory Determination period. See Attachment C for our considerations on this matter if 24/7 green matching became a requirement on SDP.

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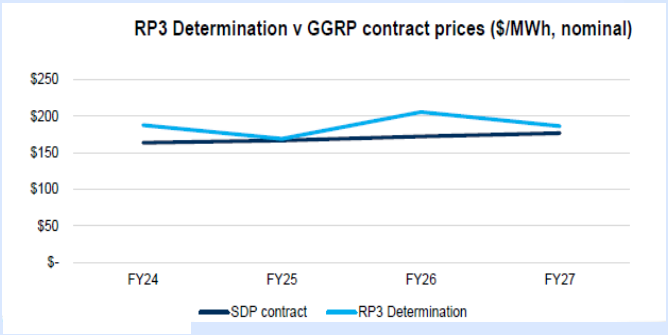
SDP's current electricity contracts and the supporting EAM expire part way through RP4, necessitating a revised procurement and regulatory approach for 2030 - 2032

Current contract & regulations

1. IPART sets a **benchmark energy price** based on forecasts of the retailer cost stack prices every 5 years, with the next regulatory period, **RP4**, spanning **July 2027 – June 2032**.

   Cost stack consists of*:

   - Energy futures
   - Other costs and fees
   - Retail premiums



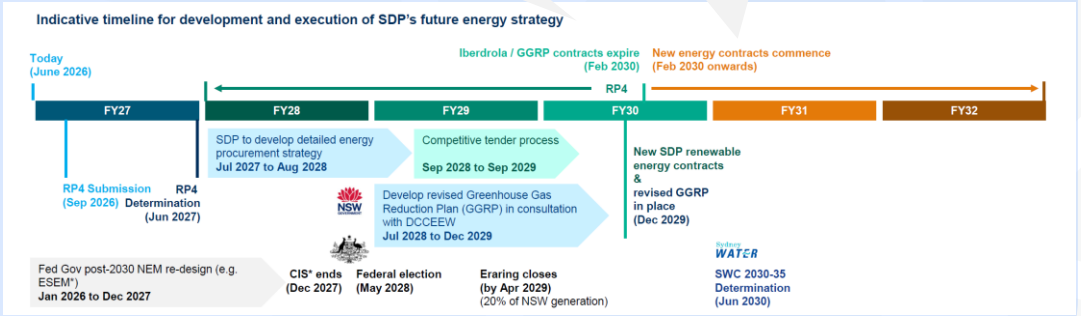
2. The **current supply contract with Iberdrola is a fixed-price contract for SDP's maximum load.** When load is below maximum, **SDP holds a surplus position** and must sell excess back to the market at wholesale prices.
   - SDP's load is highly variable and regularly lower than maximum load.
3. The **Energy Adjustment Mechanism (EAM)** was introduced in 2012 to mitigate **price risk** arising from this surplus position. The EAM allows sharing of gains and losses from the sale of surplus energy under current supply agreements, within the following parameters:
   - **2.5% core band**, within which SDP bears gains or losses
   - **80:20 sharing of gains or losses beyond the core band** between customers/Sydney Water and SDP respectively
   - Shortfall energy costs are not covered under the current mechanism.

Contract and Regulatory timeline

1. The EAM in its current state is premised on SDP's electricity contracts with Iberdrola which were mandated in SDP's Project Approval Greenhouse Gas Reduction Plan (GGRP) as the contracts through which SDP would purchase 100% renewable energy from the Capital Wind Farm. The EAM will expire along with the current contracts in February 2030.
2. As RP4 spans from 2027 to 2032, this creates the need to determine both what the benchmark efficient energy procurement arrangements are for the period following February 2030, along with what an efficient benchmark energy price set by IPART should be for that period, including any mid-period or end-of-period adjustments.

EAM expires in Feb 2030

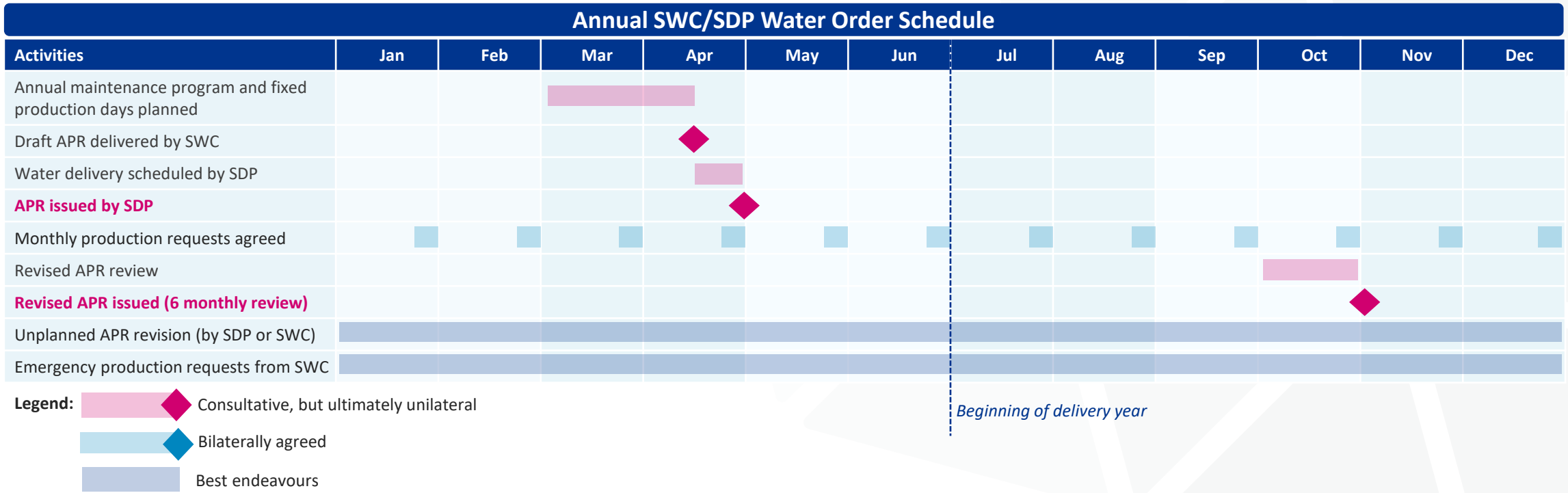
Modelled period



*Network costs are excluded from this cost stack as currently a cost pass through, but noted on previous cost stack slide which shows actual costs

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SDP sets and is obligated to meet Annual Production Requests and 6-monthly revisions from Sydney Water (SWC), with any further requests agreed bilaterally



Legal obligations

- **SWC sets the legally binding Annual Production Request (APR)** and **revised APR** (6 months after issue), with a +/- 10% tolerance
- APR and revised APR are issued **2 months prior to water delivery**
- **SDP works collaboratively with SWC** to determine when water will be delivered in the 2 months before issue.

Bilateral agreements

Monthly production requests, including revisions caused by outages or fixed production day rescheduling are developed **3-7 days** prior to the beginning of the month and **must be agreed between parties.**

Best endeavours

Fixed production days, **unplanned production request revisions**, and **emergency production requests** are met on a **best endeavours** basis.

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The revised procurement approach should deliver a prudent and efficient outcome for consumers

Future energy strategy project objectives
Secure reliable energy supply to meet Operating Licence requirements and reasonable flow requests as per SWC’s current water ordering protocol
Efficiently minimise energy costs to customers, while ensuring appropriate risk is borne by SDP, SWC and customers
Comply with SDP’s project approval requirements
Efficiently meet customer and stakeholder objectives through consultation with key stakeholders
Minimise price risk arising from exposure to market price movements
Minimise volume risk arising from SDP’s load variability
Support financial sustainability by minimising impact on financeability metrics
Supportive regulatory framework must be credible and likely to be accepted by IPART
Support SDP’s net zero requirements and ambitions by providing 100% renewable power (in line with the REGO framework)
Safe energy supply

Collectively, these objectives define the characteristics of a prudent and efficient procurement strategy that supports customer value, operational reliability and long-term financial sustainability.

These objectives have been used to develop the procurement assessment criteria, ensuring options are evaluated against SDP's core business requirements and obligations.

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The procurement strategy should align prudent and efficient risk management for a price regulated bulk water supplier with strict Operating Licence obligations

High-priority risk			Definition	Benchmark efficient firm risk appetite statement
DIRECT FINANCIAL RISK	Market	**Commodity price risk – electricity**	Level of financial exposure from movement in electricity prices	*A prudent and efficient benchmark firm in SDP's circumstances would have **low** risk appetite for electricity price risk (low appetite to trade energy actively).*
		Price mismatch risk	Ongoing risk of mismatch between contracted electricity (and green) price and regulated electricity price	*A prudent and efficient benchmark firm in SDP's circumstances would seek to align its costs to the regulated benchmark price. Under the regulatory incentive framework, it would have **no** appetite for exceeding that price.*
		Volume risk (demand & supply, capacity & volume)	Financial exposure from a change in demand and/or supply over the contract (or specified) period, including uncertainty over Sydney Water production request volumes	*A prudent and efficient benchmark firm in SDP's circumstances would have a **low** appetite for volume risk given it has limited ability to influence production requests from Sydney Water.*
		Shape/firming risk	Extent of financial exposure to a mismatch between the facility's load and hedged/ contracted supply	*A prudent and efficient benchmark firm in SDP's circumstances would have **some** appetite for shaping risk (i.e. structural changes to load shape) - at less than full production.**
	Corporate	**Cashflow risk**	Variability in timing or magnitude of cash inflows and outflows arising from market price movements, volume uncertainty, and settlement cycles, impacting the ability to meet contractual payment obligations	*A prudent and efficient benchmark firm in SDP's circumstances would have **very low** appetite for cashflow risk, limited requirements for a relatively small utility business to maintain a standalone BBB credit rating, consistent with IPART's regulatory benchmark.*
		P&L/ balance sheet risk	Impact of changes in the value of contractual positions on reported earnings and balance sheet outcomes	*A prudent and efficient benchmark firm in SDP's circumstances would have **some** appetite for P&L/balance sheet risk (e.g. to manage hedge positions).*
INDIRECT FINANCIAL RISK	Reg.	**Green certification compliance**	Risk of non-compliance with an agreed green/emissions standard (REGO)	*A prudent and efficient benchmark firm in SDP's circumstances would have **no appetite** for breach of green certification compliance, due to its strict Licence and Project Approval obligations for renewable energy supply.*
	Op.	**Ongoing mgmt. capability and costs**	Capacity and ability to build the capability required to operate the facility and generation portfolio	*A prudent and efficient benchmark firm in SDP's circumstances would have **low appetite** for risks from ongoing management of energy contractual position.** Some appetite for on-site energy generation and storage assets, but this would be sub-contracted.*

These risk appetite statements directly inform the assessment criteria relating to price risk, volume risk, financial sustainability, green certification requirements and stakeholder alignment.

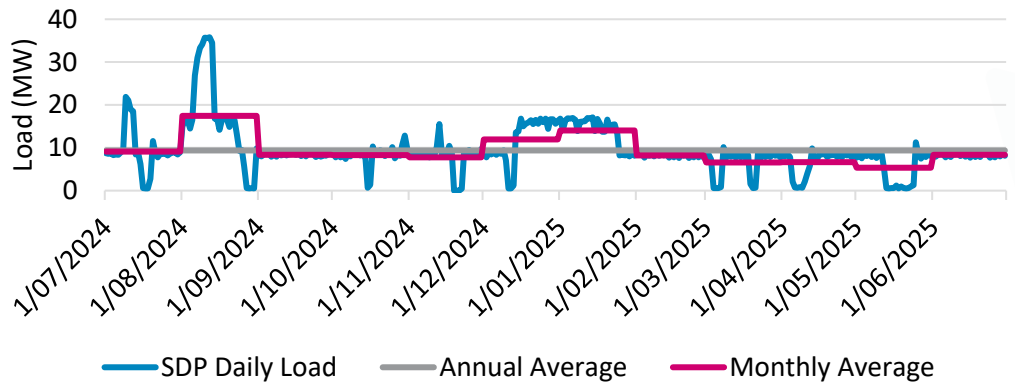
*We note that Sequana has provided an operational assessment of the operational prudence and efficiency of load shaping in SDP's circumstances

**For example, operational liaison with Sydney Water on energy price impacts of production requests and implementation of strategies in consultation with a retailer.

Baringa

The flexible water ordering protocol between SDP and Sydney Water means SDP's load is large and highly variable

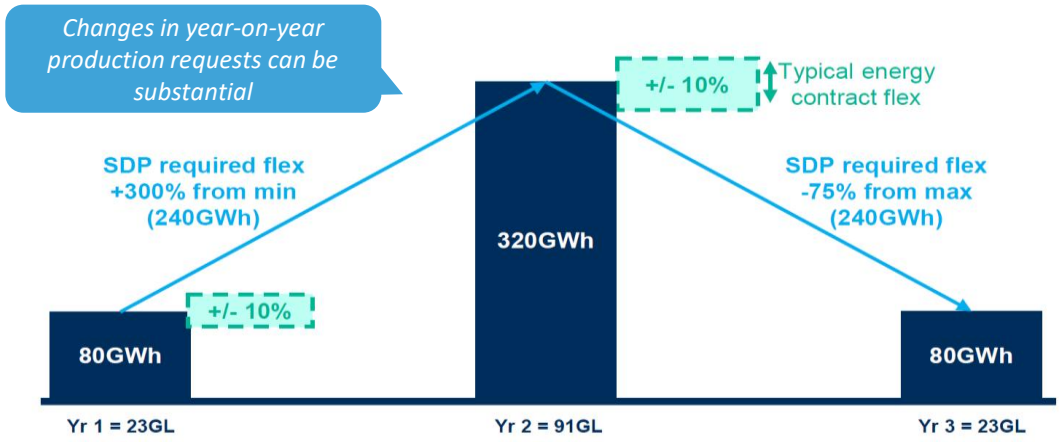
SDP Historical Load | FY 2025*



Commentary

- The **volume and shape of SDP's energy consumption is highly variable**, with a minimum load of c. 10MW and a maximum load of c. 40MW.
- Sydney Water issues an Annual Production Request (APR), which SDP must deliver within a ±10% tolerance in line with its Operating Licence obligations, with a formal mid-year revision mechanism.
  - Annual water orders can vary materially from year to year, creating significant uncertainty in SDP's future electricity requirements.
  - Water delivery profiles are refined through monthly production requests and scheduling discussions between SDP and Sydney Water.
- The flexible requirements of the water ordering protocol with Sydney Water create both **aggregate volume and variation of volume risk**, making SDP's load profile **more variable than that of a typical C&I electricity customer.**

Illustrative Annual Production Requests from SWC



Illustrative 6-Monthly Revisions from SWC



*Daily and monthly variations reflect the variety of demand drivers that SDP faces.

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SDP is obligated to respond to annual production requests (APRs) and revised APRs, with additional requests subject to bilateral agreement or best endeavours

Production request	Definition	Volume and shape	Delivery protocol
Annual Production Request (APR)	Legally binding annual production volume request for the financial year, issued on 1 May each year	Daily and monthly schedule Includes scheduled FPD	**Legal obligation** SDP is required to comply under its Operational Approval and Water Supply Agreement, subject to the agreed tolerances and conditions.
Revised APR	Updated annual production volume request replacing the original APR, issued on 1 November each year	Daily and monthly schedule Includes scheduled FPD	
Monthly rescheduling within a 6-month period	Monthly production schedule adjustment within the existing annual production request	Daily schedule	**Bilateral agreement** Changes that require agreement between Sydney Water and SDP before taking effect.
Fixed production day (FPD) changes within 6 months	Pre-scheduled periods of elevated production to support Sydney Water operational requirements (e.g. major maintenance works), where timing and duration may change if planned works are delayed	Daily schedule for set time period	
Emergency requests	Short-notice production change required to respond to an emergency event	Daily schedule for set time period	**Best endeavours** SDP must respond to these requests on a best endeavours basis, but is not in breach of its Licence obligations if it is unable to respond for credible reasons such as operational safety or doing so would result in a material financial loss for SDP.
Unplanned changes (SDP-initiated)	SDP-initiated departure from the agreed production schedule due to operational requirements	Dependent on change	

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While load flexibility can reduce procurement costs, SDP has determined that higher levels of flexibility introduce unacceptable operational and asset risks

- **Operational flexibility opportunities were assessed as part of the procurement strategy development process.**
- Baringa considered a range of potential flexibility mechanisms, including:
  - Seasonal flexibility
  - Critical response flexibility
  - Limited daily flexibility (up to two trains of 3.14 MW)
  - Full daily flexibility
  - Response to Loss of Reserve (LOR) events
- These flexibility options have the potential to improve alignment between electricity consumption and prevailing market conditions.
- **While operational flexibility may create opportunities to reduce electricity procurement costs, SDP has separately assessed the operational impacts of high levels of energy price driven flexibility could create unacceptable service reliability and asset management risks.***
- Baringa understands that Response to LOR events may be possible without undue operational or asset risk being experienced by the Plant.
- Accordingly, the procurement strategy has been developed on the basis of SDP's expected operating requirements, rather than assuming extensive operational flexibility that may not be achievable in practice.
- This ensures procurement recommendations remain aligned with prudent and reliable operation of the Plant.

***Please refer to Summary Assessment Report on Operational Flexibility authored by SEQUANA.**

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3 | Overview of hedging instruments

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A Power Purchase Agreement (PPA) provides a longer-term fixed price that is linked to the output of a specific renewable generator

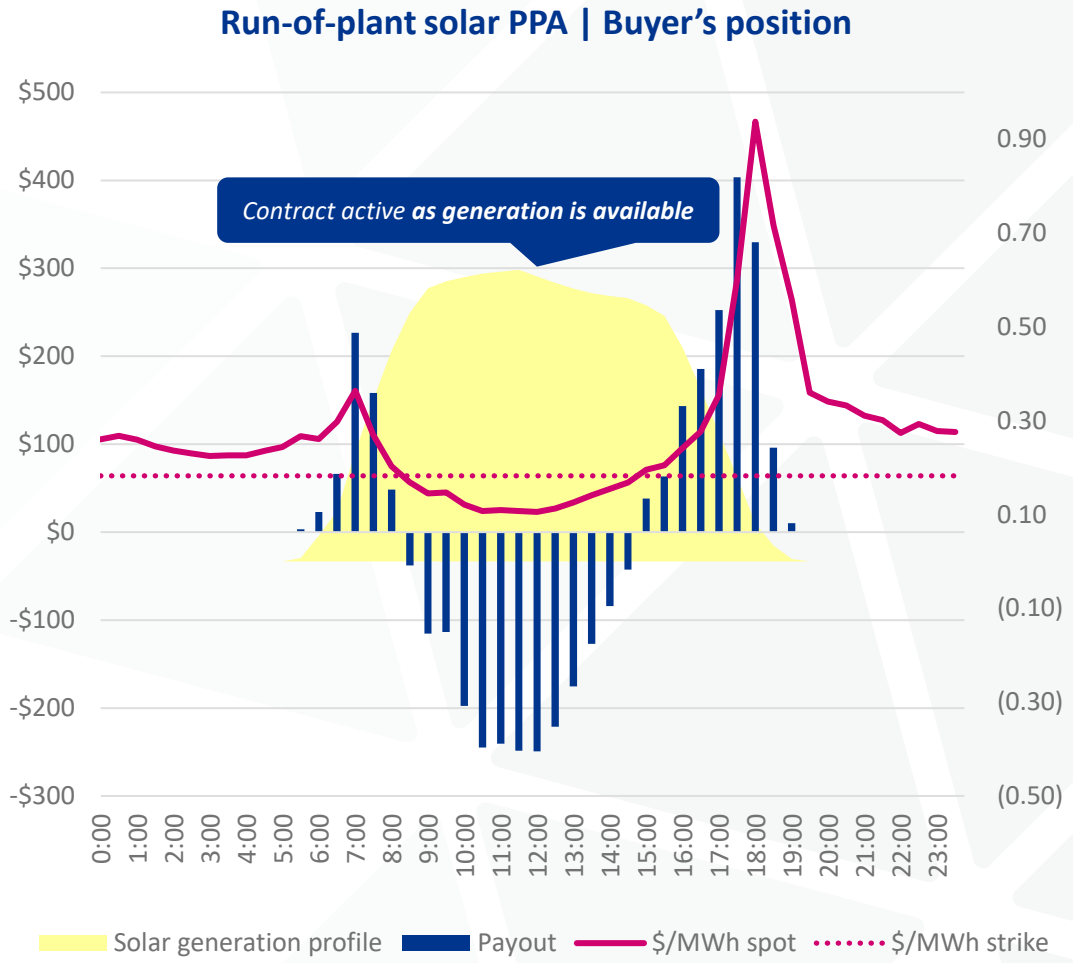
Power Purchase Agreement (PPA) Overview

How it works	▪ Buyer contracts to take a nominated generator's output at a fixed price ▪ On a run-of-plant (or 'as-generated') basis, the hedged volume follows the plant's actual generation as it occurs
Typical term	▪ 7 – 15 years
What buyer gains	✓ A fixed, long-dated price on the contracted output ✓ Associated renewable/sustainability benefits
What buyer gives up	× Because cover appears only when the plant is generating, the match to buyer's load is imperfect – Buyer is unhedged when the plant is idle (for example, wind or solar at low output) and over-covered when generation exceeds its needs × Buyer is unable to re-contract if lower market prices arise (term risk posed by PPA tenure)
Residual risk	⚑ Significant volume and timing ('shape') risk, plus a long-term commitment at a price set years in advance
Best suited to	▪ Long-term price certainty plus renewable benefits, accepting generation-shape risk

Sleeved vs unsleeved PPAs

An **unsleeved PPA** is a direct contract with a renewable generator, with the buyer exposed to the project's variable generation profile.

A **sleeved PPA** uses a retailer to manage delivery and settlement, and can include firming products that shape the renewable output into a more predictable supply profile.

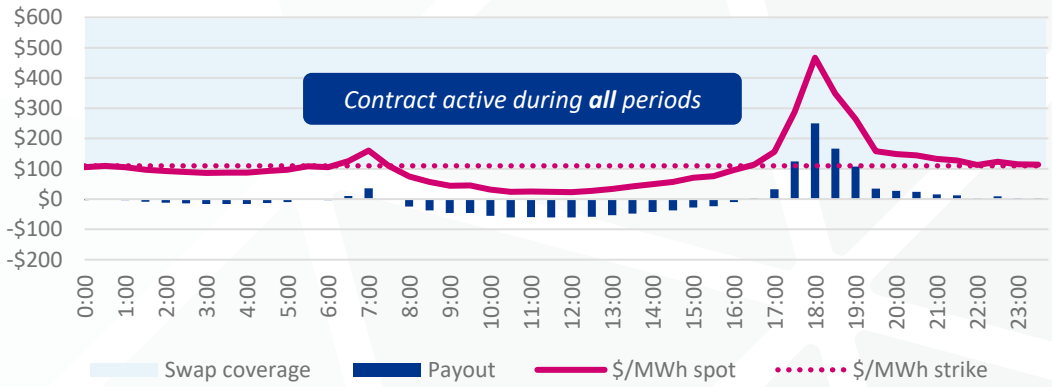


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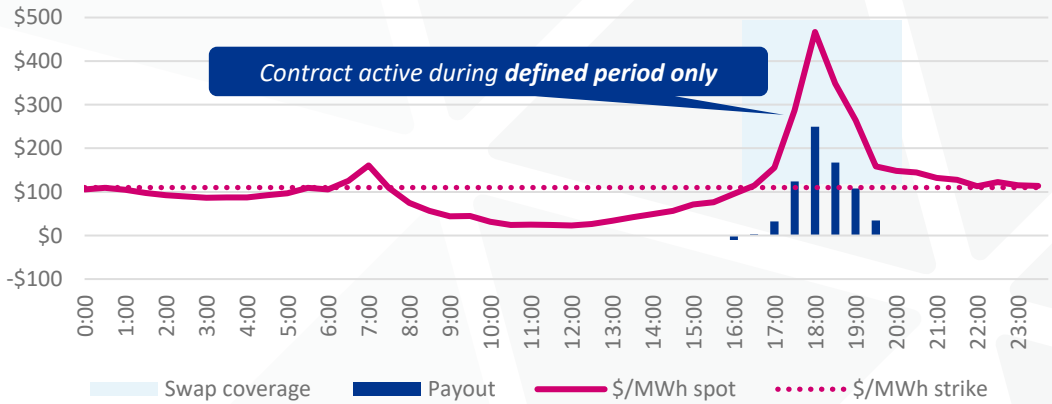
A swap fixes the price the buyer pays for an agreed quantity of electricity within a given period, removing exposure to market volatility on that volume

Swap Overview		
Type	**Flat swap**	**Shaped swap**
How it works	▪ Buyer and a counterparty agree a fixed price (‘**strike price**’) for a set quantity over a defined period ▪ In each trading interval they settle the difference between that strike price and the live market price	
	▪ Hedged quantity is the same in every interval, providing a constant block of cover ▪ The simplest, most widely traded and lowest-cost instrument	▪ Hedged quantity varies across the period, often to reflect an expected demand pattern
Typical term	▪ 4 – 6 years	
What buyer gains	✓ Price certainty for the hedged volume	
What buyer gives up	× Upside potential when market price falls below the strike price; buyer pays the agreed fixed price and forgoes the saving	
Residual risk	⚑ Any gap between the hedged quantity and buyer’s actual consumption stays exposed to the market (‘volume risk’) ⚑ A flat swap leaves more of this gap than a shaped swap	
Best suited to	▪ A stable, predictable base level of demand	▪ A variable load needing a closer match than a flat block gives

Flat swap | Buyer’s position



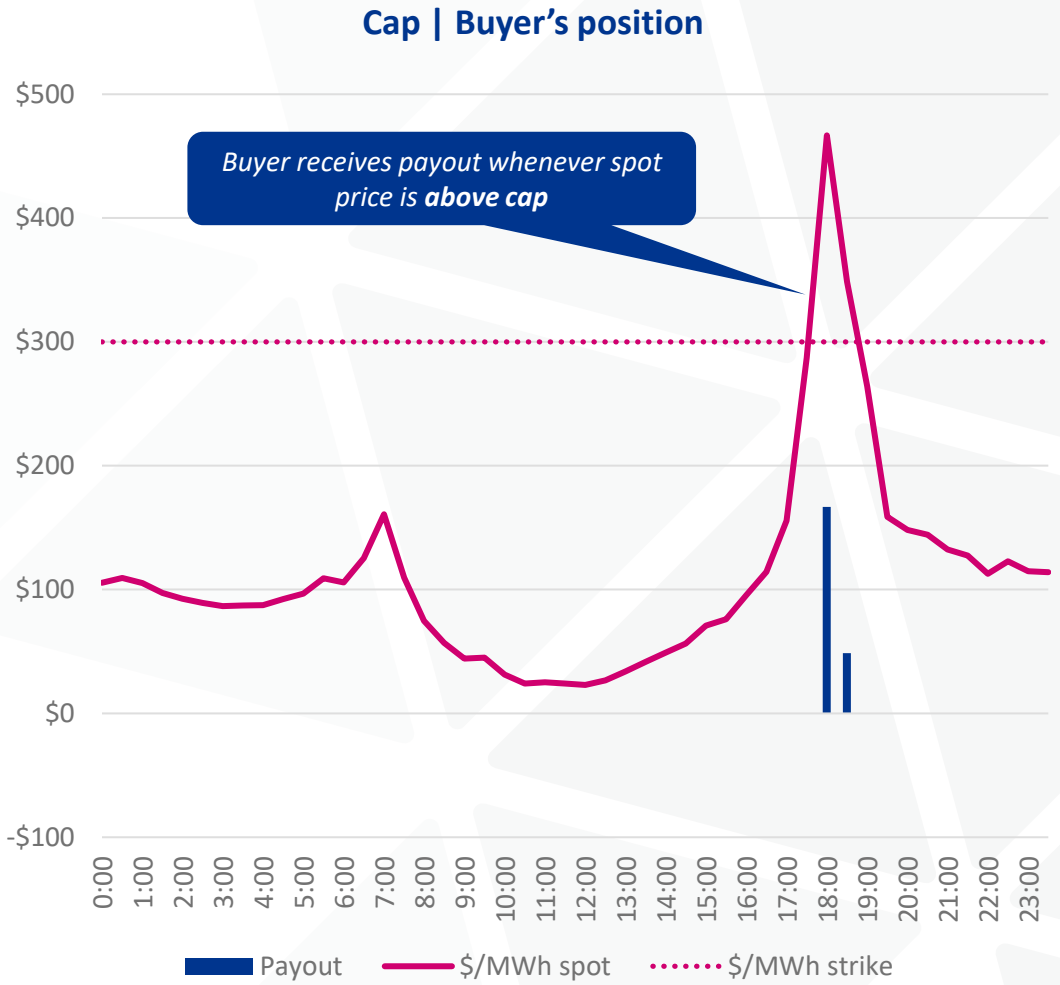
Shaped swap | Buyer’s position



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A cap protects the buyer against extreme price spikes only - typically above $300/MWh

Cap Overview	
How it works	▪ Buyer pays an ongoing premium in exchange for the right to be paid whenever the market price rises above a high agreed level (aka the cap, typically $300/MWh) ▪ Below that level, the cap pays nothing ▪ A cap limits the maximum price but does not fix the price
Typical term	▪ ASX: quarterly ▪ OTC: 1 – 5 years
What buyer gains	✓ A ceiling on the worst-case price ✓ A hedge against the rare, very high price events that drive severe financial risk
What buyer gives up	✗ The premium is paid whether or not spikes occur
Residual risk	⚑ Buyer remains fully exposed to all price movement below the cap
Best suited to	▪ Capping tail risk at lower cost than a swap **or** topping up other hedges to guard against extreme events



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Options provide flexibility to hedge uncertain load without committing upfront to a fixed volume or price outcome

Overview of options

- An option is a **hedging instrument that gives the buyer the right, but not the obligation, to enter a fixed-price position** at a pre-agreed strike price.
- Unlike a swap, which fixes the price outcome for a defined volume from the outset, an option allows the buyer to decide later whether the hedge is needed, depending on how market prices and expected demand evolve.
- A **call option, aka the right to buy,** protects the buyer against rising prices by allowing them to lock in a fixed price if market prices increase above the strike price.
- A **put option, aka the right to sell,** protects against falling prices or surplus contracted volume by allowing the buyer to lock in a sell-price outcome if market prices fall below the strike price.
- This flexibility has a cost: the buyer pays an **option premium**, which is the price of retaining optionality rather than committing immediately to a fixed hedge.
- Options are most useful where the buyer faces material uncertainty over future consumption, timing or market prices, because they can reduce exposure to adverse outcomes without forcing a fixed hedge position too early.
- Many energy market options are structured as **swaptions** or **captions**, which provide **the right to enter a swap or cap contract in the future** rather than creating an immediate fixed-price position.
- **For variable loads, options can sit alongside swaps**: swaps hedge the volume that is known with reasonable confidence, while options can cover any uncertain volume.

Asian & American options

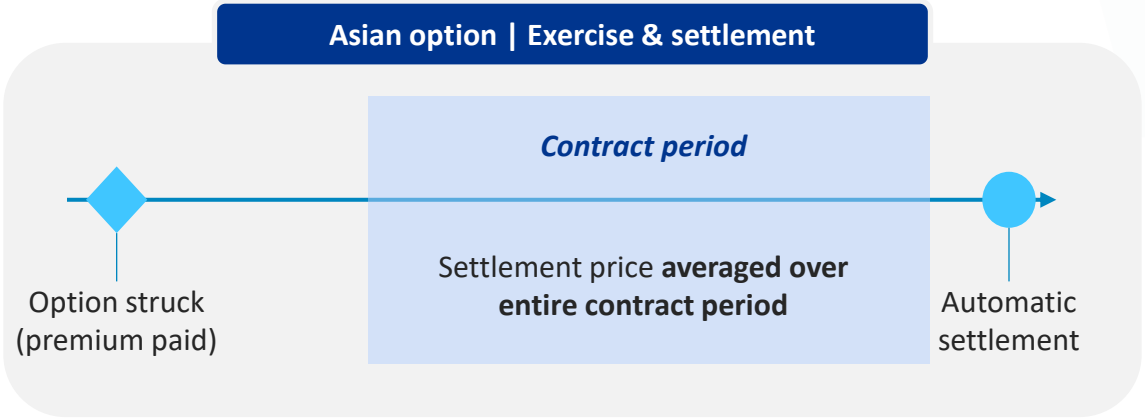
- Options can be structured in a range of ways depending on how and when they pay out.
- Two common design features are **Asian** and **American options**.
- 'Asian' and 'American' describe different dimensions of an option:
  - Asian refers to how the settlement price is calculated
  - American refers to when the option can be exercised
- While in principle they are not mutually exclusive, practically available products adopt either an Asian or an American option design.
- **The following slide provides further explanation of Asian and American options.**

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Asian options smooth price outcomes through averaging, while American options provide flexibility over when to lock in a hedge

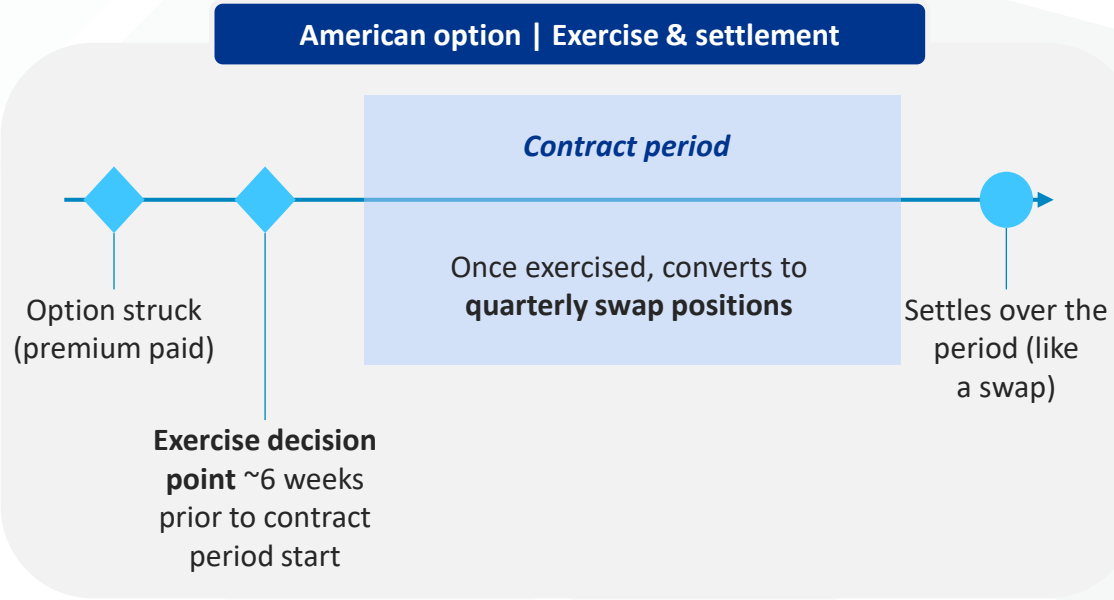
‘Asian’ defines how the settlement price is calculated

- An Asian option **settles against the *average* market price over a defined period**, rather than the price at a single point in time.
- The buyer does not choose a moment to exercise; the option is assessed automatically at the end of the averaging period, with the payoff determined by how the average price compares to the strike.
- This averaging smooths out short-term price volatility, making Asian options well suited to hedging a volume that is consumed steadily over a period rather than at a single settlement point.



‘American’ defines when the option is exercised

- An American option **can be exercised at any time up to expiry** (typically 6 weeks before contract period commences), giving the buyer discretion over *when* to lock in the fixed-price position.
- On exercise, the option converts into a standard fixed-price hedge (e.g. quarterly futures) that then settles against the market price over the remaining contract period.
  - Quarterly futures provide fixed-price swap exposure for the relevant quarter.
- This flexibility allows the buyer to respond to market movements or firming demand as they emerge but requires an active decision on the optimal time to exercise.

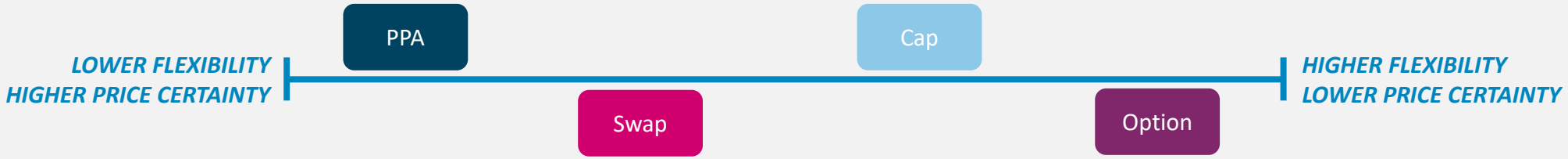


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As flexibility increases, buyers typically retain a greater share of wholesale market risk

SUMMARY OF COMMON HEDGING INSTRUMENTS				
Instrument	**Typical term**	**Wholesale price risk retained by buyer**	**Flexibility**	**Best suited to**
PPA	7 – 15 years	Mismatch between generation output and demand	Low	Buyers willing to accept generation-load mismatch in exchange for long-term renewable supply
Flat swap	4 – 6 years	Price risk on volumes outside the hedge	Low	Buyers with a stable load
Shaped swap	4 – 6 years	Price risk where actual demand differs from forecast shape	Low – Medium	Buyers with a variable but forecastable load
Cap	3 months – 5 years	Prices below the cap (e.g. $300/MWh)	Medium	Buyers seeking protection from extreme price events
Option (caption/swaption)*	Months – years	Future market prices until exercise decision (in addition to cap/swap risk)	High	Buyers with uncertain future load requirements

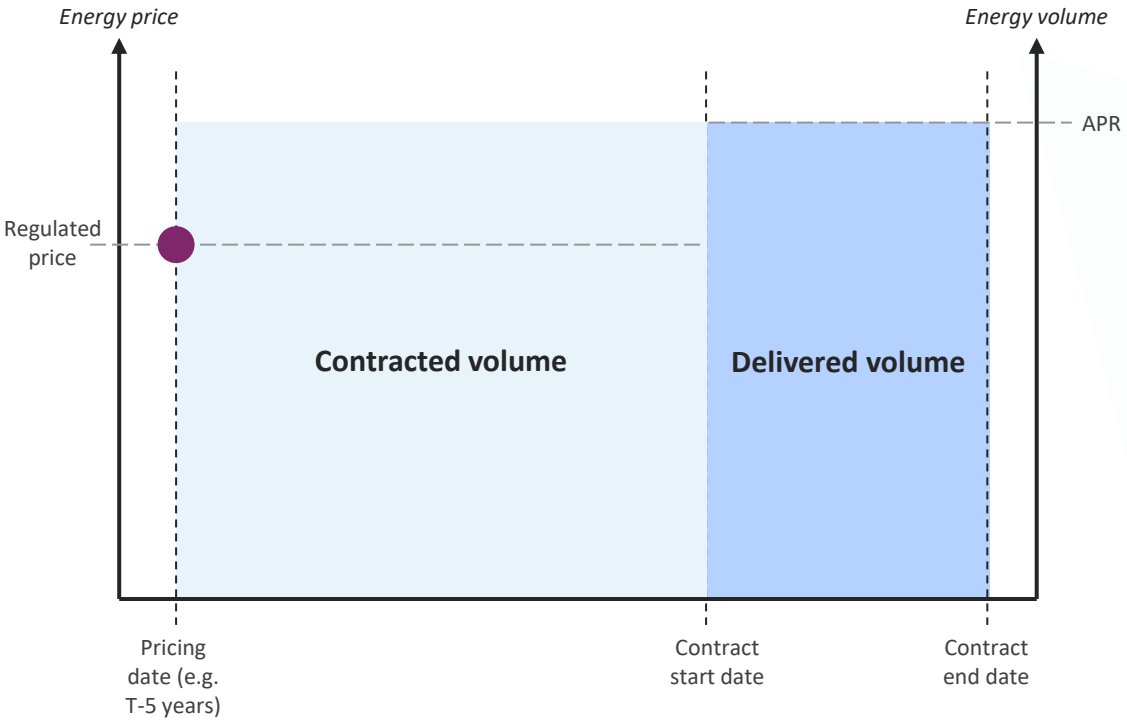
**Options can be structured as Asian or American options depending on how settlement and exercise are defined.*



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Instead of locking in all volume and price at a single point in time, progressive procurement builds the position in blocks as SDP's load firms toward delivery

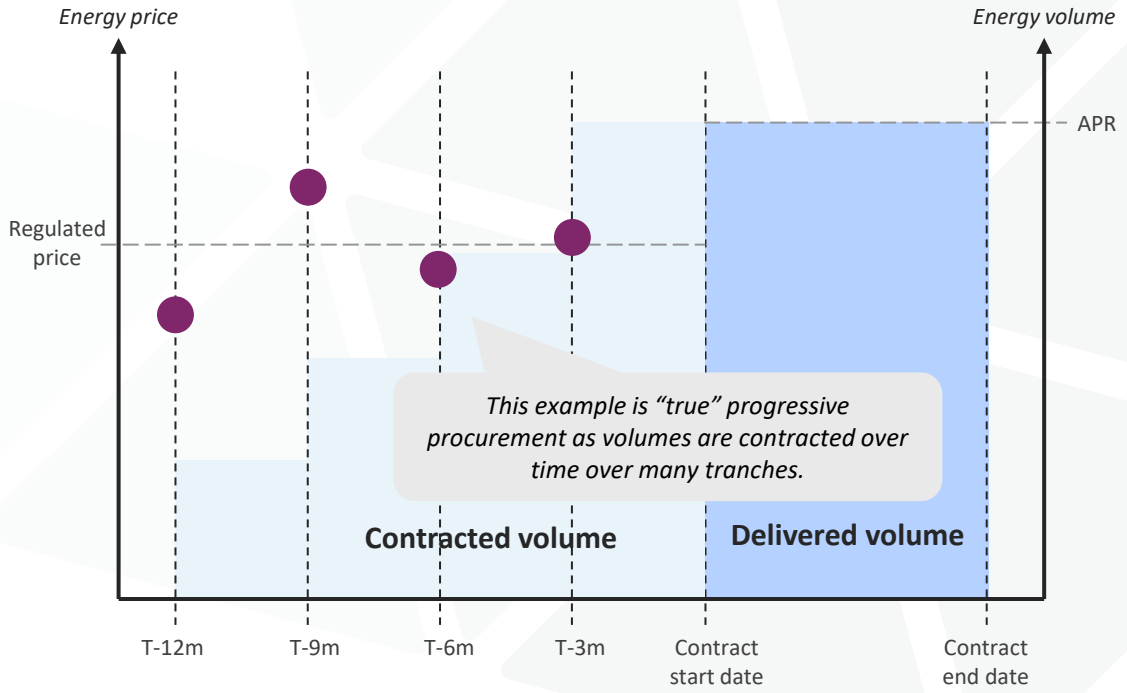
SDP'S CURRENT CONTRACT - FIXED VOLUME, FIXED PRICE



Fixed price, fixed volume: *SDP's current contract fixes 100% of volume and price at the start of the contract, with SDP exposed to resale price on surplus volumes*

Mitigates wholesale price downside risk, but exposed to volume risk

PROGRESSIVE PROCUREMENT - INCREMENTAL BLOCKS



Progressive procurement: *energy volumes are contracted in tranches over a period prior to delivery as confidence in volumes increases. Risk management frameworks are often used to set "triggers" to close out remaining volume purchases.*
Mitigates volume risk, exposed to price mismatch risk

● *Price of purchase*

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4 | Options analysis - Longlist

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We used a structured assessment process to identify feasible procurement strategies based on SDP's operating context

1. **Establish procurement context**

   Confirmed SDP's renewable obligations, risk appetite, regulatory setting, operational flexibility, and Sydney Water ordering requirements.

2. **Develop longlist of feasible procurement options**

   Considered available hedging **products**, retailer market feedback, deliverability and alignment with SDP's operational requirements.

3. **Assess longlist against objectives of a benchmark efficient firm**

   Options assessed against a benchmark efficient firms' objectives and requirements, with the highest performing options taken forward for additional quantitative analysis and stakeholder consideration.

4. **Evaluate shortlisted options**

   Modelled cost, price mismatch risk, volume risk and performance across alternative regulatory scenarios.

5. **Recommend preferred approach**

   Recommended the option that best balances customer cost, risk management, and operational flexibility.

The hedging products described in Chapter 3 are not procurement strategies in their own right.

These instruments were combined in different ways to create a range of feasible procurement approaches.

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We combined hedging instruments into a range of feasible procurement strategies with varying trade-offs between customer cost, risk and operational flexibility

Procurement option*		Summary of approach
Option 1	100% baseload fixed price	▪ Benchmark firm locks in a fixed price for the full expected maximum load *(most similar to current contract)* ▪ Provides the most price certainty but means the benchmark firm may be over-hedged if actual water production is lower than maximum output (i.e. most years)
Option 2	25% fixed price, caps only	▪ Benchmark firm fixes the price for the minimum load only, with caps providing protection against extreme wholesale price spikes for the remaining variable load. ▪ Reduces the risk of paying for unused fixed volumes compared with a fully fixed contract, while retaining greater exposure to wholesale market prices below the cap strike price.
Option 3A	25% fixed price, call options only	▪ Benchmark firm fixes the price for the minimum load only, then uses option products to manage the remaining variable load ▪ Reduces the risk of paying for unused fixed volumes but leaves more exposure to market prices than a fully fixed contract
Option 3B	100% fixed price, put options only	
Option 3C	APR fixed price, Asian quarterly call/put options for latter 6 months	▪ Benchmark firm sets its fixed-price hedge each year based on the Annual Production Request, then uses options to manage mid-year changes in water orders (up and down) ▪ Better aligns procurement with expected production and availability of options, while retaining flexibility for mid-year changes
Option 3D	APR fixed price, American annual call/put options	
Option 4A	True progressive procurement	▪ Under a progressive procurement approach, the benchmark firm buys energy progressively as water production requirements become clearer, rather than locking in all volumes upfront. Can reduce volume mismatch but exposes the benchmark firm to the market prices available closer to delivery
Option 4B	APR swaps with progressive balancing	▪ Hedges the full APR volume as swaps at the start of the financial year. Rebalances in November for the final six months if the APR is revised. Swaps are bought if the APR rises and sold if it falls. ▪ Average purchase price reflects market conditions across multiple purchase dates rather than a single point in time
Option 5	Spot with caps	▪ Benchmark firm buys all electricity at spot market prices, with caps used as protection against extreme price spikes ▪ Maximises flexibility but leaves the benchmark firm highly exposed to wholesale market volatility below $300/MWh
Option 6	7-yr wind PPA | Unsleeved CfD for green certificates on top of Option 1	▪ Benchmark firm contracts directly or indirectly with renewable generation, with different structures used to manage the remaining load and firm supply ▪ These options can support renewable objectives, but would introduce more complexity around how PPA output, the benchmark firm's load and wholesale market hedging interact
Option 7	2.5-yr wind PPA | Sleeved with caps	
Option 8	24/7 renewables | 2.5-yr wind PPA with BESS toll to firm	

*Please refer to Chapter 3 for explanation of caps, swaps, Asian & American options, and sleeved vs. unsleeved PPAs

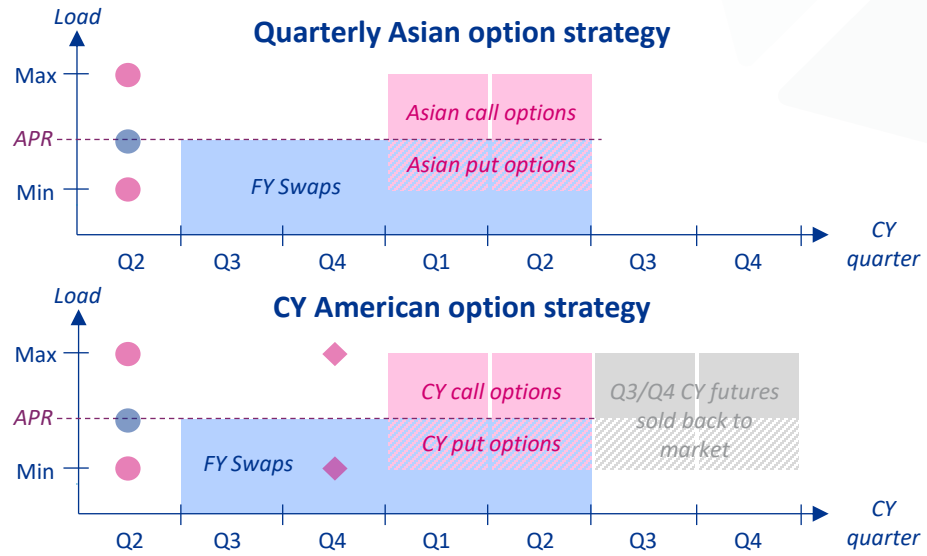
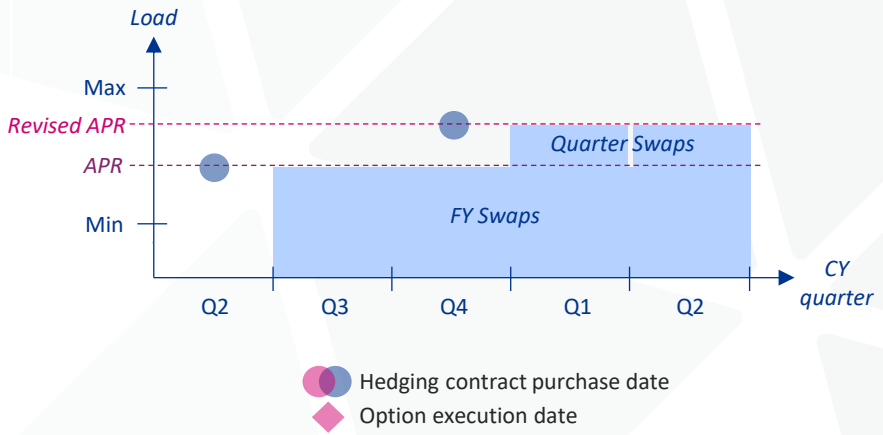
The longlist spans procurement approaches ranging from fully fixed-price hedging through to progressive procurement and renewable contracting structures

Procurement option*		Description	Commercial implications
Option 1	100% baseload fixed price	▪ Fixed-price swaps are purchased for maximum load, providing fixed pricing across maximum possible consumption **(similar to current contract)**	▪ Highest price certainty **but** creates significant mismatch risk if actual consumption is lower than maximum production
Option 2	25% fixed price, caps only	▪ 25% of maximum load (approx. minimum load) is fixed through swaps, with caps providing protection against extreme price spikes on the remaining volume	▪ Reduces mismatch risk relative to a fully fixed approach while retaining exposure to wholesale prices below the cap strike price
Option 3A	25% fixed price, call options only	▪ 25% of maximum load (approx. minimum load) is fixed through swaps, with call options used to provide price protection for variable volumes	▪ Increases flexibility and allows hedging decisions to respond to market conditions in exchange for payment of option premiums
Option 3B	100% fixed price, put options only	▪ 100% of maximum load is fixed through swaps, with put options providing protection for variable volumes (approx. 75% of maximum load)	▪ Maintains flexibility while providing downside price protection **but** offers less protection against rising prices than call options
Option 3C	APR fixed price, Asian qtrly options for latter 6 months	▪ Swaps are purchased for the Annual Production Request (APR), with Asian put/call options used to manage changes in water orders during the second half of the year	▪ Better aligns procurement with annual operating requirements while retaining flexibility to respond to changing load in the Revised APR
Option 3D	APR fixed price, American annual options*	▪ Swaps are purchased for the APR, with American-style call/put options used to adjust hedge volumes during the second half of the year	▪ Provides flexibility similar to Option 3C **but** introduces carry-over risk where option positions extend beyond the relevant procurement period
Option 4A	Progressive procurement	▪ Energy progressively procured in advance of APR issue as water production requirements become clearer, rather than locking in all volumes at APR issue.	▪ Minimises volume mismatch but is more exposed to the market prices changes closer to delivery
Option 4B	APR swaps with progressive balancing	▪ Energy is procured annually in line with the APR, and then balanced in the second half the year in line with the revised APR	▪ Reduces volume mismatch by aligning procurement with actual requirements
Option 5	Spot with caps	▪ All energy is purchased at spot prices, with caps limiting exposure to extreme price events	▪ Maximises flexibility **but** results in the highest exposure to wholesale market volatility below $300/MWh
Option 6	7-yr wind PPA | Unsleeved CfD for green certificates on top of Option 1	▪ A long-term wind PPA (typical market tenor of 7 years) provides renewable certificates and partial price certainty, with remaining energy volumes managed separately	▪ Supports renewable procurement objectives while increasing interaction between PPA output and wholesale hedging decisions
Option 7	2.5-yr wind PPA | Sleeved with caps	▪ A shorter-term wind PPA is combined with caps to manage the remaining load requirement to cover only the remaining RP4 period (2.5 years)	▪ Provides renewable supply and partial price protection, but typically at a higher cost than a longer-term PPA or a standard load-following product
Option 8	24/7 renewables | 2.5-yr wind PPA with BESS to firm	▪ A wind PPA is combined with battery storage toll to more closely match renewable generation with consumption throughout the day	▪ Delivers a high level of renewable matching but is operationally complex and materially more expensive due to firming and storage costs

*Please refer to Chapter 3 for explanation of caps, swaps, Asian & American options, and sleeved vs. unsleeved PPAs.

Procurement options 3 and 4 use hedges to defend legally binding APR revisions by SWC

This slide provides additional detail on the hedging mechanisms for Options 3 and 4 as these options contain mid-year flexibility (and more complexity).

Procurement option		Procurement Option 3	Procurement Option 4 | Progressive procurement
Description		Swaps procured for APR volume, with option hedging potential 6-monthly APR revision in the latter 6 months	Swaps procured live for APR and 6-monthly APR revision
Hedging approach	**Volume**	**Swaps**: as per annual demand scenario **Options**: puts and calls for back 6 months (Jan-June), covering from demand scenario to min and max load, respectively	**Swaps**: as per 6-monthly demand scenario
	Premium	**Swaps**: ~ $8/MWh (retailer risk premium on baseload) **Options**: ~ $16/MWh ($8/MWh retailer risk premium on baseload + $8/MWh option premium). Note: option premiums (fixed cost) could be reduced by purchasing "out of the money" options (i.e. higher strike price)	**Swaps**: ~ 8 $/MWh (retailer risk premium on baseload)
	Strike price	**Swaps** and **Options** struck at "live" price 6 weeks prior to start of FY	**Swaps** struck at "live" price 6 weeks prior to start of FY, and revised volumes struck at "live" price 6 weeks prior to start of CY
Illustrative hedging diagrams			

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We assessed procurement options against criteria that assess prudence and efficiency, along with alignment to stakeholder preferences

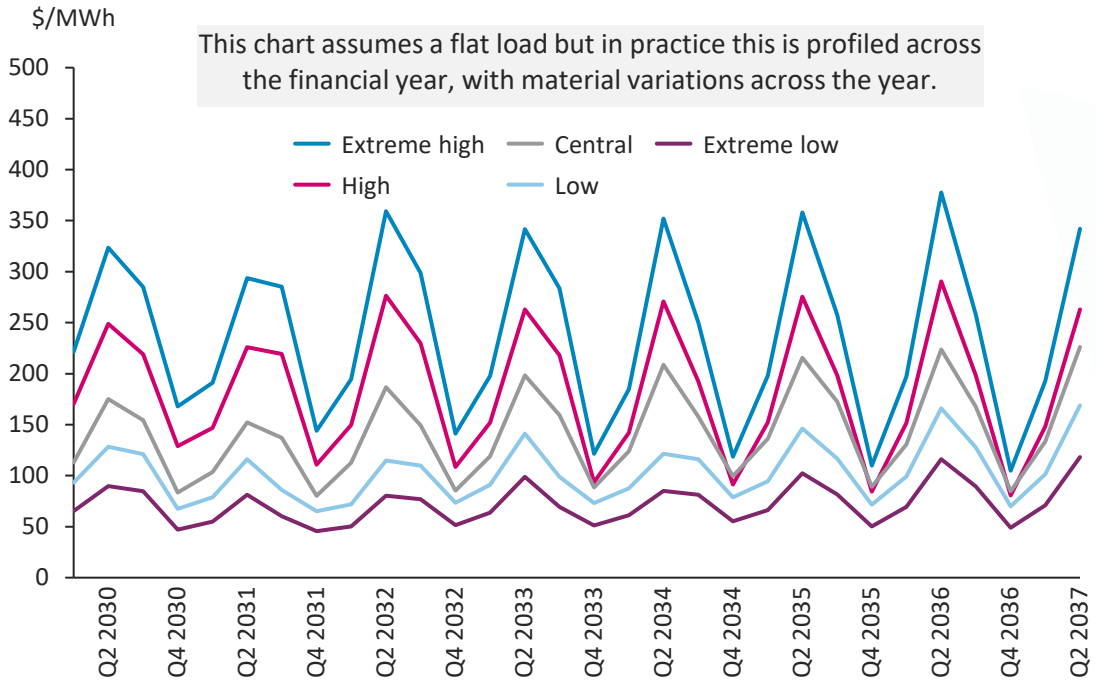
Criteria	Customer cost minimised	Price risk minimised	Volume risk minimised	Financial sustainability	Green requirement	Stakeholder alignment
Description	Extent to which the option minimises the electricity procurement costs borne by Sydney Water customers, including costs arising from wholesale price exposure, production volume variability and regulatory adjustments.	Extent to which the option reduces exposure to differences/ mismatch in wholesale market costs and regulatory price allowance.	Extent to which the option manages financial exposure arising from changes in water demand (i.e. how well does the option address the flexibility required).	Extent to which the option supports stable cashflows, financeability and long-term financial resilience, in line with a benchmark efficient firm's risk appetite.	Extent to which the option supports SDP's 100% renewable energy obligations and future certification requirements (REGO alignment).	Extent to which the option aligns with stakeholder objectives (SWC, SDP's Customer Advisory Panel) and is credible, practical and supportable to implement.
Evaluation approach	Assessed based on modelled customer cost outcomes across market, production and regulatory scenarios, including wholesale price exposure, production volume variability and procurement risk premiums. Given uncertainty around the future regulatory framework, options were evaluated under multiple potential regulatory adjustment approaches.	Assessed based on exposure to wholesale market volatility and regulatory price mismatch under differing market and regulatory scenarios.	Assessed based on the sensitivity of procurement costs and financial outcomes to uncertainty in electricity consumption volumes, including seasonal and operational variability.	Assessed based on cashflow variability, downside financial outcomes and potential impacts on financeability metrics under a range of market conditions. We assume cashflow true-ups occur at the end of RP4.	Assessed qualitatively based on alignment with SDP's renewable energy commitments and emerging certification requirements, noting the uncertainty a benchmark firm in SDP's circumstances faces.*	Assessed qualitatively based on alignment with stakeholder objectives (via feedback from SWC and CAP), market deliverability and the likelihood of stakeholder support.

* There remains considerable uncertainty about the Federal and State renewables policy requirements that will apply to SDP from 2030 onwards (e.g. whether 24/7 time matched renewable supply requirements will apply)

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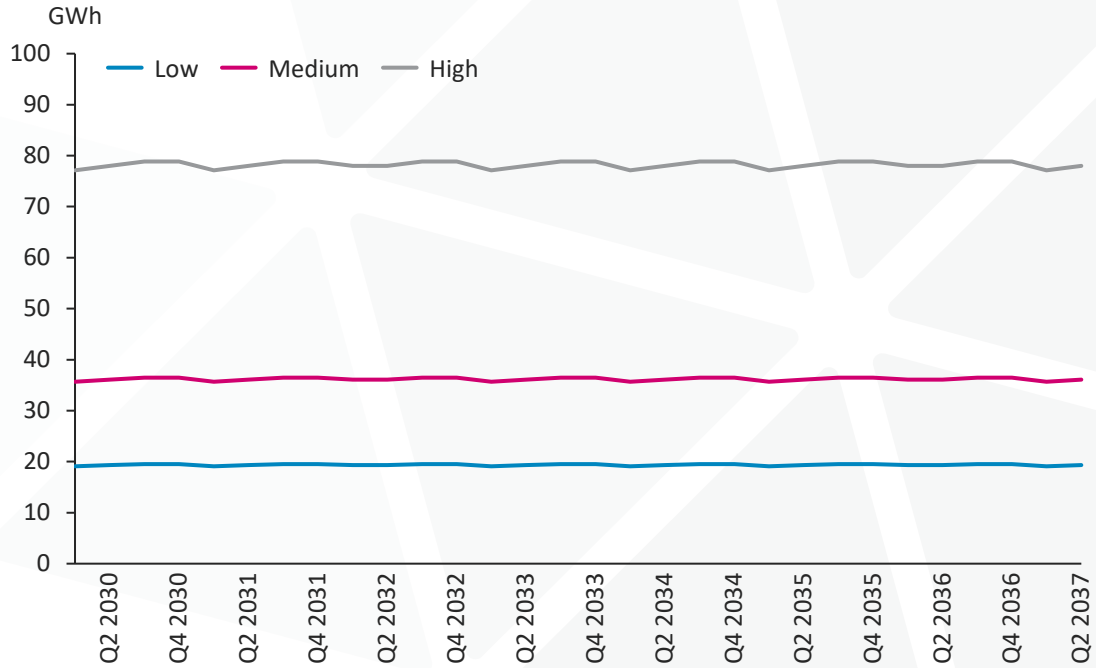
We assessed procurement options under five market scenarios and three load scenarios

Time-weighted average prices



- **Five market scenarios are used in this analysis:**
  - High, Central, and Low are Baringa's off the shelf curves as per Q4 2025 Reference Case *(please refer to Appendix C for detailed modelling methodology).*
  - Extreme high and Extreme low are set at a 30% premium/discount to High and Low, respectively
- These are independent market price projections that we use in all our advisory and transaction work for both buy-side and sell-side.

Quarterly load profiles*



- **Three load profiles** are calculated based on annual water demand scenarios representing minimum load, average load, and maximum load.
- A consumption rate of 3.4 MWh/ML and a fixed load of 1.2 MW is used to convert from water production to energy consumption profiles for three cases:
  - High = 90 GL/yr
  - Medium = 40 GL/yr
  - Low = 20 GL/yr

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Assuming efficient annual price resetting, the initial assessment identified a shortlist consisting of Options 3c, 3d, and 4B

Lower alignment to objective — *Higher alignment to objective*

Procurement option	Customer cost minimised	Price risk minimised	Volume risk minimised	Financial sustainability*	Green requirements	Stakeholder alignment
1. Fixed price contract for 100% of max load	🟠	🟡	🟡	🟠	🟢	🟠
2. Fixed price contract for min load, caps for the remainder	🟡	🟠	🟡	🟠	🟢	🟠
3a. Fixed price contract for min load, calls for the remainder	🟡	🟢	🟡	🟠	🟢	🟠
3b. Fixed price contract for min load, puts for the remainder	🟡	🟢	🟡	🟠	🟢	🟠
3c. APR swaps, Asian quarterly options	🟢	🟢	🟢	🟡	🟢	🟡
3d. APR swaps, American annual options	🟢	🟡	🟡	🟡	🟢	🟡
4a. True progressive procurement	🟢	🟠	🟡	🟡	🟢	🟢
4b. APR swaps with progressive balancing	🟢	🟢	🟡	🟡	🟢	🟢
5. Spot with caps	🟠	🟠	🟡	🟠	🟢	🔴
6. Unsleeved PPA	🟠	🟠	🟠	🟠	🟢	🟠
7. Sleeved PPA	🟠	🟠	🟠	🟡	🟢	🟡
8. 24/7 renewables	🔴	🔴	🔴	🔴	🟢	🟡

Counterfactual (akin to current contracts)

Shortlisted options

 | * For options 3c, 3d, and 4b financial sustainability is higher for these options if IPART annually updates prices to a referable benchmark rather than applying an end-of period true-up. Option 3c scores higher on this criterion than 3d because there is no surplus "over-hedging" exposure with quarterly vs annual options, and higher than 4b, because option 4b is less amenable to annual price resetting (requires more frequent price sampling by the regulator).

Only APR-based hedging and progressive procurement approaches minimise customer cost while enabling risk management, operational flexibility and deliverability

Procurement option*	Justification for shortlist or ruling out
1. Fixed price contract for 100% of max load	High volume mismatch risk. Requires SDP to hedge maximum production volumes upfront, creating significant exposure if actual water production is lower than forecast and wholesale prices are simultaneously low. *(This option serves as the counterfactual for the quantitative analysis, as this option is the closest in design to SDP's current procurement contracts - i.e. a long position is taken).*
2. Fixed price contract for min load, caps for the remainder	Insufficient price protection. Reduces volume mismatch risk but retains substantial exposure to wholesale market prices on the unhedged volume.
3a. Fixed price contract for min load, with calls options only	Improved flexibility but weaker overall risk management. Better aligned to variable production than traditional fixed-price structures, but do not manage annual and intra-year load changes as effectively as the shortlisted APR-based approaches.
3b. 100% fixed price contract, with puts options only	
3c. APR swaps, Asian quarterly options	**Shortlisted**. Aligns procurement with annual production requirements while providing a structured hedge for mid-year water order changes, resulting in a balanced price and volume risk profile.
3d. APR swaps, American annual options	**Shortlisted**. Similar benefits to Option 3c, with flexibility to adjust hedge positions as production requirements change during the year. However, key risk from 6 month over-hedging into the next financial year, due to the annual year nature of American options.
4a. True progressive procurement	Could be an efficient approach for an unregulated utility. But is not a practical approach for a benchmark efficient regulated firm in SDP's circumstances due to SDP's unique need to align procurement activity to 6-monthly APR requests and the regulatory price setting sampling window for benchmark energy costs for prudency and efficiency.
4b. APR swaps with progressive balancing	**Shortlisted**. Procurement is aligned progressively to actual production needs, minimising volume mismatch and improving alignment with annual water ordering timelines.
5. Spot with caps	Excessive wholesale market exposure. Maximises flexibility but leaves SDP highly exposed to wholesale price volatility and adverse customer cost outcomes.
6. Unsleeved PPA	Additional complexity and mismatch risk. Support renewable objectives but introduce interaction between renewable generation profiles, SDP load and hedging requirements, increasing risk and implementation complexity. Competitively priced renewable energy PPAs will generally introduce term risk.
7. Sleeved PPA	
8. 24/7 renewables	High cost and complexity. Delivers the strongest renewable matching outcome but materially increases procurement complexity and cost relative to alternative approaches. No clear approach to auditing and regulating this more complex solution.

5 | Shortlist and recommendation

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Shortlist

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Shortlisted options include Options 3c, 3d, and 4b, with Option 1 serving as a counterfactual

Procurement option		Customer cost minimized	Price risk minimized	Volume risk minimized	Financial sustainability*	Green requirements	Stakeholder alignment
1. Fixed price contract for 100% of max load*	Fixed-price swaps are purchased for maximum load, providing fixed pricing across maximum possible consumption	🟠	🟡	🟡	🟠	🟢	🟠
3c. APR swaps, Asian quarterly options	Swaps are purchased for the Annual Production Request (APR), with Asian options used to manage changes in water orders during the second half of the year	🟢	🟢	🟢	🟡	🟢	🟡
3d. APR swaps, American annual options	Swaps are purchased for the APR, with American-style options used to adjust hedge volumes during the second half of the year	🟢	🟡	🟡	🟡	🟢	🟡
4b. APR swaps with progressive balancing	Energy is procured annually in line with the APR, and then balanced in the second half the year in line with the revised APR	🟢	🟢	🟡	🟡	🟢	🟢

**Option 1 is presented within the shortlist analysis to serve as a counterfactual, as this option is the closest in design to SDP's current procurement contracts (i.e. a long position is taken).*

Lower alignment to objective 🔴🟠🟡🟢🟢 *Higher alignment to objective*

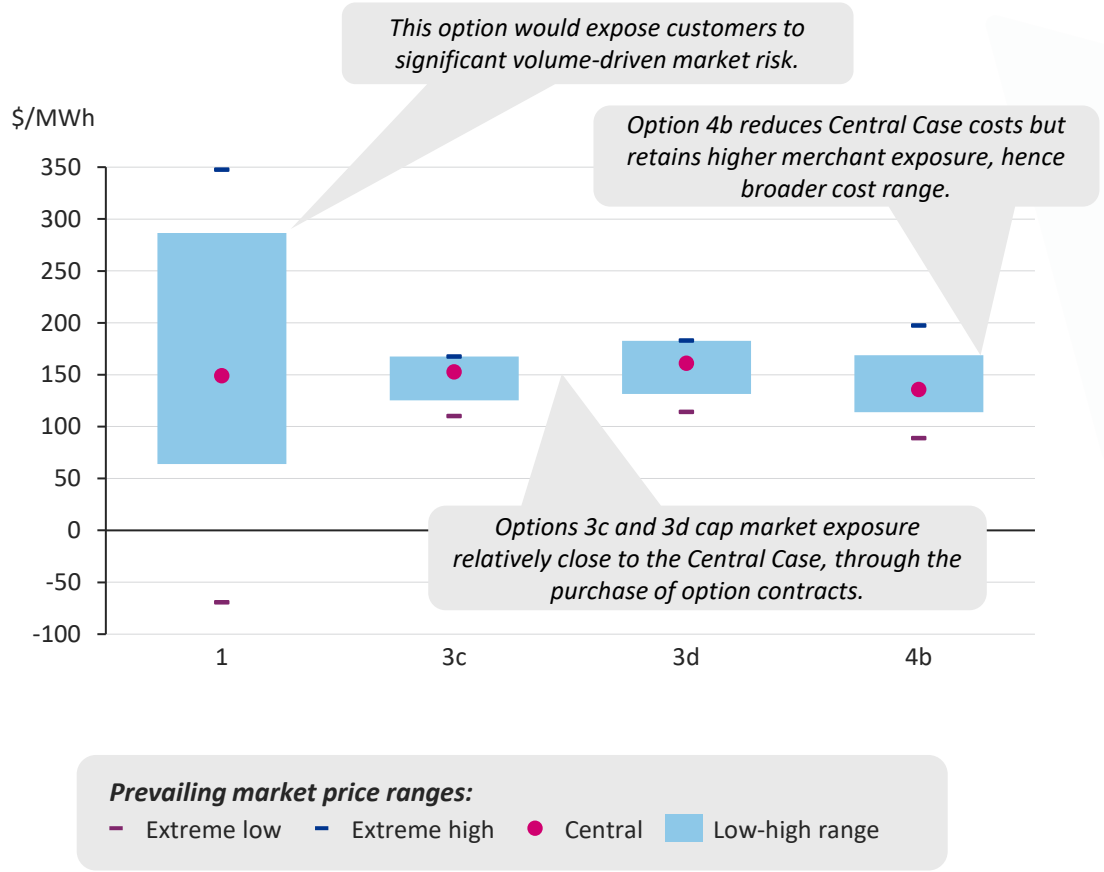
*Rating for financial sustainability (cashflow impacts) depends on timing of regulatory price updates. If focused only on high price events, Options 1, 3c, 3d and 4b would have similar ratings and be rated orange. However, taking consideration across high, central and low price events, Option 1 is the riskiest option and therefore is the only one rated orange among the shortlisted options. See Attachment A for more details.

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For customers, Option 3c balances cost, operational flexibility and price variability risks, minimising long term costs for customers.

Load-weighted regulated price ($/MWh), RP4 period FY2031-2032 average

Modelled premium, surplus + shortfall volume exposure



Assumptions & Notes

- *This cost analysis assumes procurement and regulated pricing occur at the Central price curve. Ranges shown are therefore driven by varying demand scenarios and prevailing market price conditions (which impact Option 1 for the whole year and Options 3c, 3d, and 4 for the latter 6 months). Emergency response premiums are excluded from this analysis.*
- *Consumer cost outcomes have been assessed under multiple plausible regulatory scenarios to test the robustness of procurement option performance under alternative regulatory approaches.*

Price ($/MWh)	1	3c	3d	4b
Extreme high case	347	167	183	197
High case	283	167	183	169
Central case	**147**	**153**	**161**	**136**
Low case	60	125	131	114
Extreme low case	-69	110	114	89

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Procurement approaches enabling greater flexibility may require higher procurement premium cost allowances than currently provided under the regulatory framework

Premium risk: Difference between procurement premium and current regulated premium* ($m, real 2026), RP4 period (FY2031-2032)

Demand scenario		Wholesale prices				
Q3/Q4	Q1/Q2	Procurement scenario	1	3c	3d	4
Low	Low	High	-0.37	-0.62	2.22	-6.14
Low	Low	Central	-1.77	-1.55	0.83	-6.48
Low	Low	Low	-2.85	-2.31	-0.26	-6.75
Medium	Medium	High	-0.37	1.03	3.87	-4.49
Medium	Medium	Central	-1.77	-0.21	2.17	-5.13
Medium	Medium	Low	-2.85	-1.20	0.85	-5.64
High	High	High	-0.37	5.15	7.99	-0.37
High	High	Central	-1.77	3.16	5.54	-1.77
High	High	Low	-2.85	1.58	3.63	-2.85

- **IPART's RP3 Determination approach applied a fixed procurement premium**, which does not vary by market conditions, demand uncertainty or procurement approach.
- **The procurement premium assumptions adopted in this assessment were developed by considering the underlying risks retailers must manage.** Procurement premiums consist of both wholesale trading premiums (including execution risk, liquidity risk, load uncertainty, collateral requirements), green commodity risk premiums and option premiums.
- **Options 3c and 3d require the highest procurement premiums** because they rely on substantial option volumes in addition to standard wholesale hedging products.
- **Required trading premiums increase in high-price environments**, as many premium components are linked to prevailing wholesale market conditions.
- **Option premiums are visible on the ASX for baseload futures for 1-2 years out and are liquid and reliable around 1 year out,** which means data is available that can be used by IPART to set benchmark efficient energy costs.
- **In our separate Expert Report on energy cost forecasts, we set out our recommendations on quantifying procurement premiums** for a benchmark efficient firm in SDP's circumstances in more detail. That Expert Report also sets out our recommendation on retail margins and costs which are in addition to procurement premiums.

*Current regulated premium is based on Marsden Jacob Associates recommendation of $11,000 / day for the RP3 period

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Recommendation

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Overall, we recommend Option 3c as the most efficient and prudent energy procurement option for a benchmark efficient firm in SDP's circumstances

Criteria	Rating	Commentary – Option 3c
Customer cost minimized	🟢	Minimises long-term likely cost variability to achieve production requested consistent with Licence obligations.
Price risk minimized	🟢	Regulated prices are aligned to efficient market prices. The benchmark efficient firm is incentivised to meet efficient market prices in its contracting and the regulated price is capable of being achieved.
Volume risk minimized	🟢	Annual purchases are aligned to Sydney Water's annual production requests along with options to manage mid-year APR reviews. Customers do not face volume risk from surplus energy as per option 1 and 3d, nor from shortfall energy per option 4b
Financial sustainability	🟡	Cashflow risk is low, but only if variable price updates are allowed in-period. Rated amber if the price update is implemented through an end-of-period true-up. In either scenario, the benchmark firm would still retain cashflow risks created through emergency operation and out-of-cycle variations to production profiles requested by Sydney Water. Risks are highest for option 1 due to the need to fund any surplus losses for an extended period of time across the regulatory period.
Green requirements	🟢	Renewable Energy Guarantee of Origin certificates (REGOs) are bought and retired in line with the Federal Government's guarantee of origin scheme requirements. However, we note that there remains uncertainty around Federal and State renewable policy settings that will apply to SDP from 2030.
Stakeholder alignment	🟡	We understand that Sydney Water and SDP's Customer Advisory Panel (CAP) was supportive of an annually updated cost of energy with volume commitments aligned to the APR volumes each year. Rated amber as the CAP had a slightly lower preference for long term optionality. We understand that the CAP also requested that the price of out-of-cycle requests be signalled to Sydney Water.

Lower alignment to objective — *Higher alignment to objective*

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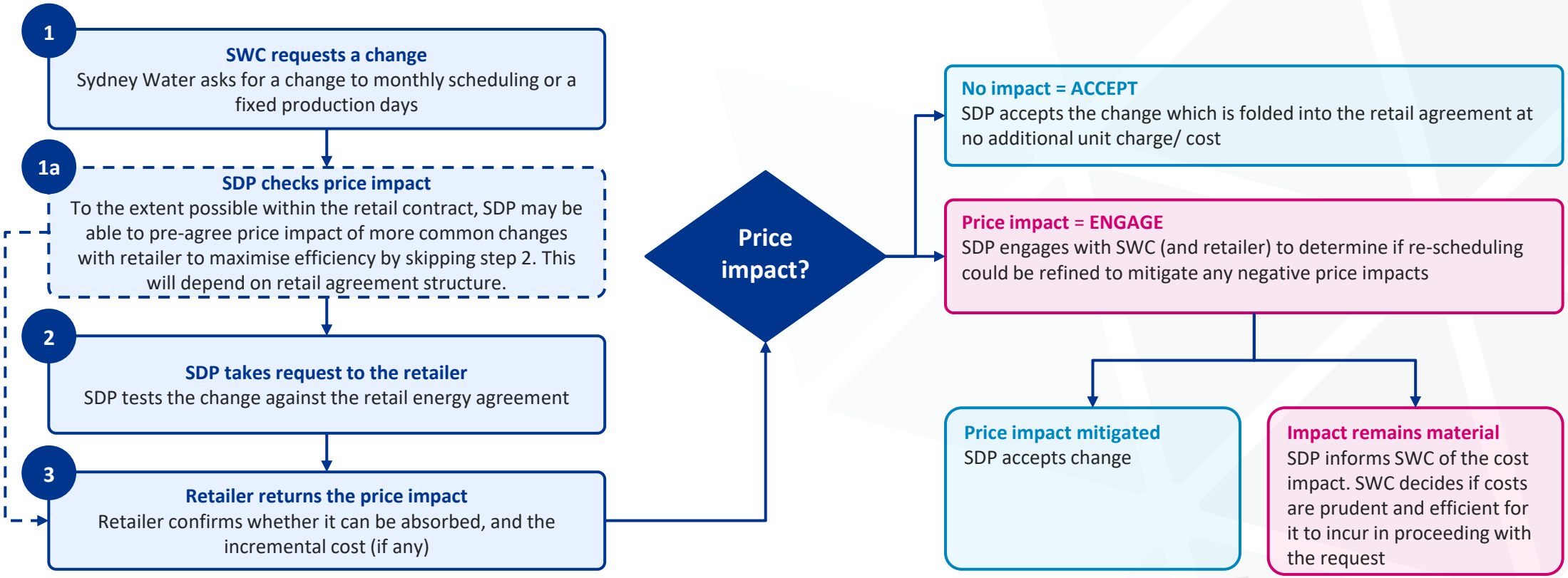
A prudent and efficient procurement approach hedges only legally binding Operating Licence required water production requests

- Most of this chapter has focused on the efficient procurement approach to APRs and revised APRs – i.e. SDP's legally binding delivery obligations.
- SDP also needs an efficient and prudent approach to deal with monthly rescheduling, emergency requests and unplanned changes.
- This slide summarises the recommended hedging strategy across all those categories of demand from SWC. The recommendation for the procurement of renewable energy certificates is set out on slide 51.

- Legal obligation
- Bilateral agreement
- Best endeavours

Production request	Definition	Volume and shape	Recommended prudent & efficient hedging approach
Annual Production Request (APR)	Legally binding annual production volume request for the financial year	Daily and monthly schedule Includes scheduled FPDs	Hedge contracted annual production volumes using swaps
Revised APR	Updated annual production volume request replacing the original APR	Daily and monthly schedule Includes scheduled FPDs	Hedge potential revisions to the annual production volumes using options
Monthly rescheduling within a 6-month period	Monthly production schedule adjustment within the existing annual production request	Daily schedule	Do not procure dedicated hedges; revised volumes and timing are typically agreed only 3–7 days before the start of the month, making forward hedging inefficient. At short notice, the market prices of the hedges will reflect most known information about market conditions and the transaction costs of the hedges may outweigh risk reduction benefits.
Fixed production day changes within 6 months	Pre-scheduled periods of elevated production to support Sydney Water operational requirements (e.g. major maintenance works), where timing and duration may change if planned works are delayed	Daily schedule for set time period	Do not procure dedicated hedges; changes are often confirmed, revised or delayed close to delivery, making forward hedging inefficient and potentially resulting in unnecessary hedge costs
Emergency requests	Short-notice production change required to respond to an emergency event	Daily schedule for set time period	Not efficient to hedge given short notice (would require taking a very long position, giving rise to price and volume risk, and incurring a material upfront cost for the retailer to hold this risk). More efficient to pass costs through to customer if and when they arise, based on spot prices at the time, because the customer will be best placed to judge whether the value of the water is higher than the cost of producing the water at prevailing spot prices.
Unplanned changes (SDP-initiated)	SDP-initiated departure from the agreed production schedule due to operational requirements	Dependent on change	Adopt operational protocol to test with retailer

We recommend that SWC-initiated changes to scheduling or FPDs are priced by the retailer; SDP then accepts, engages, or rejects, using operational flexibility to limit cost



When spot energy costs are high, SWC is best placed to judge the value of additional water at that time and whether the incremental value of additional water is greater than the energy cost. Therefore, SDP passing through the spot energy cost of that water when judged efficient by SWC is the most efficient and prudent procurement strategy (the prudent and efficient regulatory mechanism to then recover those costs is addressed in the Frontier Economics Expert Report)

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The recommended procurement strategy is Option 3c with annual price updates and pass through of short-notice production orders

Regulatory framework for the benchmark efficient firm

- **Annually updated energy price**, $/MWh, estimated by reference to ASX 1-yr baseload energy futures contacts for NSW, and an appropriate 1 year green certificates (LGCs, REGOs or other) future benchmark.*
  - **In-period price updates to energy price** applied through a self-executing formula that picks up energy prices in May/June for the financial year ahead.
- **Price exposure mitigation through a fixed option cost allowance (Option 3c)** to hedge changes driven by Sydney Water's mid-year review of the APR.
- **Allowance for premiums** for wholesale risk and option premiums for energy futures and green commodity risk premiums for green certificates.
- **End-of-period true-up** for any gains/losses incurred responding to emergency production requests and FPD changes requested by SWC outside of the APR and mid-year APR review processes.

Energy contract structure (based on Option 3c)

- **Annual price & volume nominations.** SDP to provide retailer with desired annual load and consumption profile. Price update in May/June each year. Goal of meeting or outperforming ASX futures curve.
- **Purchase APR volumes at the start of each financial year.** APR revisions managed by **put/call options purchase for the latter 6 months (Option 3c)**. Option strike prices set in May/June each year to hedge changes driven by Sydney Water's mid-year review of the APR.
- **Spot price pass-through (from retailer to SDP) for unplanned variations,** designed for emergency production requests.
- **Green certificates are procured for each calendar year in line with the APR schedule**. SDP is exposed to price variability on volume changes driven by the APR revision in November (surplus or shortfall)

Operating framework (notional)

- **Consultation with Sydney Water and energy supplier on annual profiling** before APR issued on 1 May each year and if needed prior to mid-year APR review issued on 1 Nov each year.
- **Fixed production day (FPD) timing negotiated** with Sydney Water as part of APR and Revised APR profiling.
- **Unplanned changes to profile of production negotiated** (e.g. shifting/cancelling FPDs) with Sydney Water and in consultation with SDP's energy supplier.
- **Emergency production requests issued as needed.**

*We have provided SDP with a forecast for green value (LGC and REGO) prices based on today's policy settings. However, there is not yet any published benchmark price for REGOs. The market is in the very early stages of development and is intended to enable price variation based on time of day production. The Federal and State renewable policy obligations that apply to SDP by 2030 could materially impact the price that SDP pays. For this reason, we recommend that the cost of renewable certification is reviewed by IPART at the end of SDP's next regulatory determination period.

Estimating wholesale costs each year will largely be based on publicly quoted, liquid products, with a standard wholesale and green commodity risk premium applied

Efficient cost of supply (as at May each year) =
[Component 1] (NSW Financial Year Base Strip swap price x (1+wholesale risk premium) x APR)
+ [Component 2] (Put/call option premium + (NSW Financial Year Base Strip swap price x wholesale risk premium)) x ((maximum load – minimum load) * 50%)
+ [component 3] ((Current Calendar Year Green Certificate Price x APR x 50%) + (Subsequent Calendar Year Green Certificate Price x APR x 50%)) x (1+green commodity risk premium)

#	Reference	How	Source
1	Financial year Base Strip price	Measure the price over the set sampling period each year (sampling period recommended in Fronter Economics Expert Report)	**ASX Energy.** If this no longer exists at the time, seek quotes from multiple credible trading houses.
1, 2, 3	Wholesale risk premium, green commodity risk premium	Apply a 6% premium based on risk premiums detailed on slide 15. Wholesale risk and green commodity risk are separate premiums with 6% recommended for each.	**Baringa benchmark.** Other credible market advisors will land at a similar level. See slide 15 and Attachment D for more details on the build-up and calculation of the wholesale risk premium.
1, 3	APR	Review contractually binding volumes for the FY between SDP and SWC	**APR agreement/ schedule** between SDP and SWC
2	Put/call option premium	• Identify the quarterly baseload swap product relevant to the delivery period (e.g. subsequent CY Q1/Q2). • Sample the baseload swap price at either a single point in time or over a defined averaging period. • Determine the equivalent put/call option premium using a strike price equal to the sampled baseload swap price. • Sample the option premium over the same period used for the baseload swap price.	**ASX Energy.** If this no longer exists at the time, seek quotes from multiple credible trading houses.
2	(maximum load – minimum load) * 50%	• SDPs Water Supply Agreement with SWC details the maximum and minimum supply volumes at any point in time • Convert this to MW of capacity based on conversion efficiency rates at the time • Note that the 50% accounts for options only being needed for January to June each year to mitigate risks associated with the Revised APR.	**SDP-SWC Water Supply Agreement**
3	Current, Subsequent Calendar Year Green Certificate Price	• Measure the price of the common Green Certificate (LGC in CY 2030 and REGO thereafter) for the Current Calendar Year and Subsequent Calendar Year • Note that the 50% reference is to convert CY products into a FY price.	For LGCs (CY 2030) - **ASX Energy or Mercari.** If this no longer exists at the time, seek quotes from multiple credible trading houses. For REGOs (CY 2031 and beyond) – **public source TBC**. If no public source exists (unlikely), seek quotes from multiple credible trading houses.

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Attachment A – Additional quantitative analysis supporting option shortlisting

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Our qualitative ratings were informed by quantitative modelling of P&L and cashflow risk for the shortlisted procurement options

Summary of results

Procurement option	Price risk minimised	Volume risk minimised	Financial sustainability
1. Fixed price contract for 100% of max load	🟡	🟡	🟠
3c. APR swaps, Asian semi-annual options	🟢	🟢	🟠
3d. APR swaps, American semi-annual options	🟡	🟡	🟠
4b. APR swaps with progressive balancing	🟢	🟡	🟠

Lower alignment to objective 🔴🟠🟡🟢🟢 *Higher alignment to objective*

- *Earlier in the report we presented the above qualitative assessment, which was informed by energy cost modelling undertaken on a profit and loss (P&L) and cashflow basis*
- ***Price and volume risk ratings** are informed by P&L analysis under varying price and volume scenarios, respectively*
- ***Financial sustainability ratings** are informed by cashflow analysis and the impact on SDP's in-period financeability metrics*

Summary of approach

P&L modelling

- **Method**: P&L modelling assessed the differential between energy procurement cost across different market price scenarios and the regulated price at the same procurement price scenario, assuming regulated premiums match the RP3 allowance. P&L exposure was modelled across different procurement price scenarios, different prevailing market prices (the price at which surplus/shortfall exposure occurs), and different demand scenarios.
- **Three regulatory scenarios were assessed**: no EAM; surplus EAM; and shortfall/surplus EAM.

Cashflow modelling

- **Method**: the same mismatch to regulated price approach used for the P&L assessment was also used for cashflow modelling. However, cashflow analysis excludes any end-of-period true-ups as it assesses the cashflow risk within the RP4 period. The impact of EAM and annual price reset true-ups is therefore excluded from cashflow modelling.
- **One regulatory scenario was assessed**: end-of-period true-up of annual price resetting, where the regulated price holds at the central curve and differences to the annual price reset are trued up at the end of RP4.

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Profit and loss based analysis

Quantitative analysis

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Baringa

Option 3c is lower risk than Option 4b, as Option 3c hedges potential load changes most effectively with Asian options

P&L risk: total cost delta* to regulation ($m, real 2026), RP4 period (FY2031-2032)

Approach

*This analysis calculates the potential mismatch between the regulated price and the price faced by a benchmark firm **when the demand scenario changes mid-year**, across price scenarios. These scenarios assume benchmark energy price allowances are updated annually*

***Demand scenario**: assumed water production scenario (6-monthly block)*

***Procurement scenario**: price scenario at time of procurement/regulatory price setting in May*

***Prevailing market prices**: price scenario faced in November (6 months after initial procurement)*

	Demand scenario		Wholesale prices		Annually updated reg price (T-1), No EAM			
	Q3/Q4	Q1/Q2	Procurement scenario	Prevailing mkt prices	1	3c	3d	4b
Price risk	Low	Low	High	High	-0.38	-0.63	2.22	-6.14
	Low	Low	High	Central	25.73	-0.63	2.22	-6.17
	Low	Low	High	Low	45.97	-0.63	2.22	-6.19
	Low	Low	Central	High	-27.88	-16.05	-25.10	-6.46
	Low	Low	Central	Central	-1.77	-1.56	0.82	-6.49
	Low	Low	Central	Low	18.47	-1.56	0.82	-6.50
	Low	Low	Low	High	-49.20	-28.93	-46.35	-6.71
	Low	Low	Low	Central	-23.10	-14.44	-20.43	-6.74
	Low	Low	Low	Low	-2.86	-2.32	-0.26	-6.75
	Medium	Medium	High	High	-0.38	1.01	3.86	-4.50
	Medium	Medium	High	Central	18.26	-3.13	-3.55	-4.56
	Medium	Medium	High	Low	32.72	-6.59	-9.31	-4.58
	Medium	Medium	Central	High	-20.43	-10.57	-16.36	-5.10
	Medium	Medium	Central	Central	-1.78	-0.22	2.16	-5.15
	Medium	Medium	Central	Low	12.68	-3.69	-3.60	-5.18
	Medium	Medium	Low	High	-35.96	-20.21	-32.07	-5.56
	Medium	Medium	Low	Central	-17.31	-9.87	-13.56	-5.61
	Medium	Medium	Low	Low	-2.86	-1.20	0.85	-5.64
	High	High	High	High	-0.40	5.11	7.96	-0.40
	High	High	High	Central	-0.40	-9.37	-17.97	-0.52
	High	High	High	Low	-0.40	-21.50	-38.13	-0.58
	High	High	Central	High	-1.80	3.13	5.51	-1.69
	High	High	Central	Central	-1.80	3.13	5.51	-1.80
	High	High	Central	Low	-1.80	-9.00	-14.66	-1.86
	High	High	Low	High	-2.86	1.58	3.63	-2.69
	High	High	Low	Central	-2.86	1.58	3.63	-2.80
	High	High	Low	Low	-2.86	1.58	3.63	-2.86
Volume risk	Low	High	High	High	4.40	5.38	8.22	0.46
	Low	High	High	Central	15.93	-9.19	-6.35	-14.05
	Low	High	High	Low	24.00	-21.36	-18.52	-26.20
	Low	High	Central	High	-10.14	2.84	-6.22	12.52
	Low	High	Central	Central	1.39	2.75	5.13	-2.00
	Low	High	Central	Low	9.46	-9.42	-7.04	-14.14
	Low	High	Low	High	-21.40	-0.03	-17.45	21.84
	Low	High	Low	Central	-9.87	-0.11	-6.10	7.33
	Low	High	Low	Low	-1.80	-0.16	1.90	-4.82
	High	Low	High	High	-5.18	0.34	3.18	-7.01
	High	Low	High	Central	9.39	0.42	-8.17	7.37
	High	Low	High	Low	21.56	0.47	-16.17	19.43
	High	Low	Central	High	-19.54	-14.61	-12.23	-20.66
	High	Low	Central	Central	-4.97	-0.04	2.34	-6.29
	High	Low	Central	Low	7.21	0.01	-5.65	5.78
	High	Low	Low	High	-30.66	-26.22	-24.17	-31.24
	High	Low	Low	Central	-16.09	-11.65	-9.60	-16.86
	High	Low	Low	Low	-3.92	0.52	2.57	-4.79

Legend

In the money
Out of the money, low risk
Out of the money, high risk

Insights

Across scenarios, 3d faces higher option premiums relative to 3c, because the full year's volume must be hedged when using American options.

Assuming no mid-year change to production volumes, price risk is lowest for Option 4b, as volumes are procured annually in line with Annual Production Requests.

Stepped demand scenarios introduce surplus/shortfall risk for options 1 and 4b, which is mitigated by option coverage for options 3c and 3d

These scenarios assume benchmark energy price allowances are updated annually, The following slide assumes that the benchmark allowances are trued-up at the end of the regulatory period which introduces material financeability/cashflow risks across all procurement options.

* Total cost delta to regulation = difference between modelled procurement costs and the corresponding regulatory allowance over the RP4 period. Positive values indicate costs exceeding the allowance.

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Cashflow based analysis

Quantitative analysis

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End-of-period true-ups of annual price resets presents a large in-period cashflow risk, with risk greatest under high price future market scenarios

Cashflow risk: total cost delta* to regulation ($m, real 2026), RP4 period (FY2031-2032)

Approach

This analysis calculates the potential mismatch between the regulated price and the price faced by a benchmark firm across demand and market scenarios, ***on a cashflow basis (assuming an end of period true-up)***

Demand scenario*: assumed water production scenario (6-monthly block)*

Procurement scenario*: price scenario at time of procurement/regulatory price setting in May*

Prevailing market prices*: price scenario faced in November (6 months after initial procurement)*

Demand scenario		Wholesale prices		Annually updated reg price (T-1), end of period true-up			
Q3/Q4	Q1/Q2	Procurement scenario	Prevailing mkt prices	1	3c	3d	4b
Low	Low	High	High	8.21	7.96	10.80	2.44
Low	Low	High	Central	34.31	7.96	10.80	2.42
Low	Low	High	Low	54.55	7.96	10.80	2.40
Low	Low	Central	High	-27.88	-16.05	-25.10	-6.46
Low	Low	Central	Central	-1.77	-1.56	0.82	-6.49
Low	Low	Central	Low	18.47	-1.56	0.82	-6.50
Low	Low	Low	High	-55.86	-35.59	-53.02	-13.37
Low	Low	Low	Central	-29.76	-21.11	-27.10	-13.40
Low	Low	Low	Low	-9.52	-8.98	-6.93	-13.42
Medium	Medium	High	High	15.66	17.06	19.90	11.54
Medium	Medium	High	Central	34.31	12.92	12.50	11.49
Medium	Medium	High	Low	48.76	9.46	6.73	11.46
Medium	Medium	Central	High	-20.43	-10.57	-16.36	-5.10
Medium	Medium	Central	Central	-1.78	-0.22	2.16	-5.15
Medium	Medium	Central	Low	12.68	-3.69	-3.60	-5.18
Medium	Medium	Low	High	-48.41	-32.67	-44.53	-18.01
Medium	Medium	Low	Central	-29.77	-22.32	-26.01	-18.07
Medium	Medium	Low	Low	-15.31	-13.66	-11.61	-18.09
High	High	High	High	34.29	39.81	42.65	34.29
High	High	High	Central	34.29	25.32	16.73	34.18
High	High	High	Low	34.29	13.19	-3.44	34.12
High	High	Central	High	-1.80	3.13	5.51	-1.69
High	High	Central	Central	-1.80	3.13	5.51	-1.80
High	High	Central	Low	-1.80	-9.00	-14.66	-1.86
High	High	Low	High	-29.79	-25.35	-23.30	-29.61
High	High	Low	Central	-29.79	-25.35	-23.30	-29.73
High	High	Low	Low	-29.79	-25.35	-23.30	-29.79
Low	High	High	High	25.95	26.93	29.77	22.01
Low	High	High	Central	37.48	12.36	15.20	7.49
Low	High	High	Low	45.55	0.19	3.03	-4.65
Low	High	Central	High	-10.14	2.84	-6.22	12.52
Low	High	Central	Central	1.39	2.75	5.13	-2.00
Low	High	Central	Low	9.46	-9.42	-7.04	-14.14
Low	High	Low	High	-38.13	-16.76	-34.18	5.11
Low	High	Low	Central	-26.59	-16.84	-22.83	-9.40
Low	High	Low	Low	-18.53	-16.88	-14.83	-21.55
High	Low	High	High	16.55	22.07	24.91	14.72
High	Low	High	Central	31.12	22.15	13.56	29.10
High	Low	High	Low	43.29	22.20	5.56	41.16
High	Low	Central	High	-19.54	-14.61	-12.23	-20.66
High	Low	Central	Central	-4.97	-0.04	2.34	-6.29
High	Low	Central	Low	7.21	0.01	-5.65	5.78
High	Low	Low	High	-47.52	-43.09	-41.03	-48.10
High	Low	Low	Central	-32.95	-28.52	-26.46	-33.72
High	Low	Low	Low	-20.78	-16.34	-14.29	-21.66

Legend

In the money
Out of the money, low risk
Out of the money, high risk

Insights

End-of period true-ups introduce large in-period liability into a benchmark firm's cashflows, particularly in high procurement price scenarios

Hich procurement price scenarios see the highest cashflow risk as the allowance for high price exposure is not trued up until the end of RP4

Across scenarios, option 1 shows the highest cashflow risk due to the impact of the EAM not being realised within the RP4 period

** Total cost delta to regulation = difference between modelled procurement costs and the corresponding regulatory allowance over the RP4 period. Positive values indicate costs exceeding the allowance.

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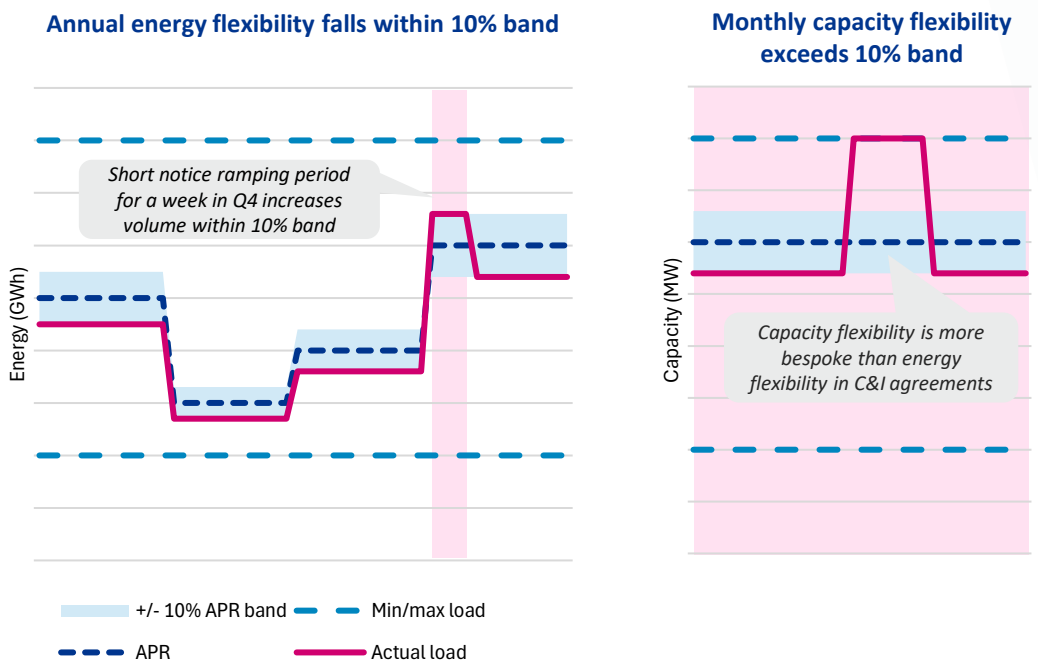
Attachment B – Flexibility in a standard retailer agreement

Additional detail for all Options

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A standard retailer agreement includes ±10% flexibility on volume, but is likely to cap max demand separately to manage the hedging risk of short-notice ramps

ILLUSTRATIVE HEDGING RISK



1 What a retailer will offer

A standard green C&I retail agreement would include volume flexibility over a specified period (e.g. quarterly or monthly), and likely more bespoke capacity demand limits. The Operating License's ±10% APR tolerance is on market for standard volume flexibility, providing flexibility around the ordered APR shape but bounded by capacity demand limits.

2 Where the hedging risk sits

±10% of volume flexibility does not account for the timing of volume changes. A low-APR month met by a short-notice order that ramps the plant to full for a few days may stay inside the volume band, but could expose the retailer if sudden volume change coincides with high prices.

3 Likely retailer response

A retailer may hedge this risk by providing a prescribed shape for both volume and capacity tolerance (e.g. ±10% on MW), but there may be some ability to move peak periods within quarterly/monthly hedge period.

Key takeaway: *The risk for the retailer sits not only in ±10% volume changes but also in timing of sudden load variations, because short-notice, concentrated ramps are what carry the hedging cost.*

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Attachment C – 24/7 green value time matching

Additional detail for Option 8

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SDP has a 100% green obligation as per the GGRP and a 2050 Net Zero Target with interim 2035 targets



100% Green Energy

- GGRP outlines an enduring commitment to 100% renewable power.
- LCGs* are currently supplied by the Capital Hill Wind Farm and STCs* from Iberdrola's portfolio.
- Green energy is matched on an annual basis to consumption.



Additionality

- Additionality and co-benefits were criteria used in the original energy procurement process for renewable generation capacity.
- The latest indications from the NSW Government and DCCEEW are that SDP will not be expected to support additional renewable generation moving forward. However, this remains uncertain due to the evolving policy landscape.
- SDP's RP4 customer advocacy panel and Sydney Water have told SDP that additionality of SDP's renewable supply is not currently a high priority for them. Their focus is on lowest efficient cost of desalinated water supply that remains 100% renewable certified.



Net Zero

- SDP, supported by its shareholder, Utilities Trust of Australia, is focused on its ESG commitments, as evidenced in the Net Zero Policy.
- SDP's target is to reduce scope 1 and 2 emissions by 2035 (from 2023 baseline) and achieve Net Zero by 2050.
- SDP is exploring Science Based Targets Initiative (SBTi) validation for its emissions targets.

***LGC = Large-scale Generation Certificate**

***STC = Small-scale Technology Certificate**

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There is a spectrum of green schemes and associated level of ambition, with alignment to Australia's GO scheme most relevant to SDP

Increasingly onerous ↓

Scheme	Regulator	Requirements	Alignment to SDP
Climate Active Carbon Neutral	Certification of carbon neutrality in Australia, administered by the Australian Government	▪ Renewable energy can be procured through purchase and retirement of LGCs ▪ Alternatively, power can be purchased through an accredited GreenPower scheme or from a Climate Active certified carbon neutral electricity generator ▪ Allows the use of carbon offsets for Scope 2 emissions	🔴
RE 100	Recognised globally, administered by private entity	▪ Requires procurement of renewable electricity that may be sourced directly through a physical connection or via a financial contract ▪ Guarantee of origin certificates for electricity procured must be retired to cover site demand	🟢
CLEAN ENERGY REGULATOR	Domestic Guarantee of Origin scheme, administered by the Australian Government	▪ Measures and displays key attributes of products including carbon intensity ▪ Requires use of green certificates (REGOs), at a minimum of annual time matching, but also allows annual, quarterly, monthly, or 24/7 time matching ▪ From 2030, REGOs replace LGCs as Australia's only recognised RE certificate	🟢
SCIENCE BASED TARGETS	Recognised globally, administered by private entity	▪ Considered the most robust emissions reduction standard ▪ Recognises and requires green guarantee of origin certificates as real emission reductions ▪ Renewable electricity may be sourced directly through a physical connection or via a financial contract ▪ New SBTI standard encourages hourly matching, but does not require it. Reporting is mandatory for large users, but the matching itself is voluntary.	🟢
Voluntary high ambition	-	▪ Voluntary stringent green requirements such as additionality and mandatory time-matching	🟡

Does not meet renewable energy (RE) certificate requirements

Likely meets SDP's '100% renewable power' criteria; global scheme

Meets SDP's '100% renewable power' criteria; primary Australian scheme from 2030

Stringent green criteria; longer-term ambition for SDP

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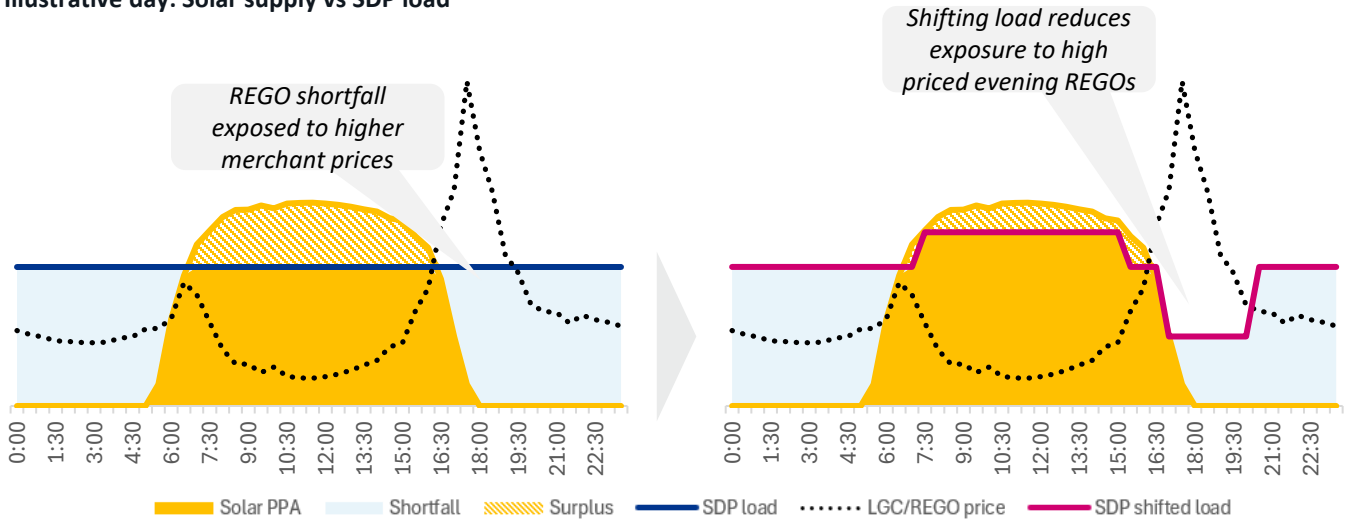
Time-matching is most effectively hedged if load can be shifted to align with renewable backed supply agreements

Mechanism

Time-matching can be achieved by:

- Shifting flexible load to line up with a renewable supply contract where possible.
- If renewable supply runs above load, the surplus certificates can be sold to the market; when it falls short, the residual is bought at the hourly stamped price.
- Matching supply and demand hour-by-hour, while operationally onerous, can limit exposure to volatile spot energy prices as well as high hourly green prices during renewable droughts and evening peaks.

Illustrative day: Solar supply vs SDP load



Policy

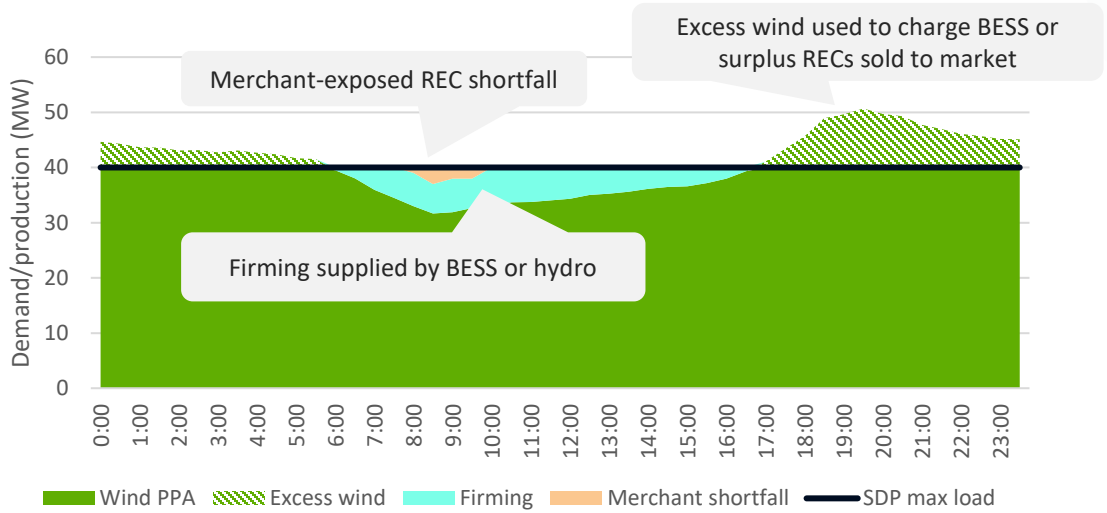
- Renewable Energy Guarantee of Origin (REGO) certificates will be time-stamped, so generation and use can be matched by interval rather than annually.
- The Clean Energy Regulator (CER) has not announced any regulatory management of time-based commitments, so time-matching remains a voluntary mechanism that requires self-regulation.
    - 24/7 matching is a commercial ambition SDP can pursue with time-stamped REGOs, however compliance and reporting will be self-regulated at this stage.

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High-level analysis of a 24/7 green product results in up to a $40m P&L risk compared to current ESA over RP4, but more robust modelling is required

- The Renewable Energy Guarantee of Origin (REGO) market is new, and a liquid market for time-matched renewable energy supply is yet to emerge.
- Australian policy settings and the SBTi framework do not presently require time-matched renewable supply to claim 100% renewable power use, but this could emerge into the future, creating a policy risk to the cost of renewable certification.
- A 24/7 green contract would enhance SDP's net-zero outcomes, accelerate timeframe for SDP to achieve SBTi validation, and increase resilience to daily price volatility as the energy transition progresses. However, this comes at the cost of considerable volume risk on an aggregate and shape basis due to variability of renewable supply.
- Management considers that SDP could explore underlying competitive advantages from hydro/battery linkage after the RP4 Determination, closer to live procurement.

Illustrative 1-day hedging profile of 24/7 contract



Potential firming solutions

- **Wind PPA + BESS:** As per the illustrative example, a potential portfolio is an oversized wind PPA firmed by a BESS. The BESS could firm the wind output up to SDP's load, but would predominantly discharge during lower-priced periods, limiting revenue potential.
- **Residual firming:** Time-stamped REGOs will need to be bought and retired for residual volumes that are not hedged (e.g. under long wind drought conditions)
- **Hydro firming:** Hydro could offer greater dispatch flexibility to align with SWC water orders. Subject to dam levels, hydro generators would have a set volume of energy on demand to match SDP's energy requirements.

Key risks

- **Compliance risk:** Retailers have limited experience with this contract type, and no specific regulation exists yet, so compliance risk is likely to be significant. SDP may be able to manage this if retailers commit to investing in the capability to monitor generation output and track renewable certificate timestamps.
- **Volume risk**: SDP's load can vary significantly from year to year; therefore, any hedge needs to have the ability to be volume varied (at least) semi-annually. This flexibility is not achievable if volumes are locked-in under a long term PPA and exposes SDP to material volume risks if IPART does not extend the EAM to these circumstances.
- **Shape risk:** The intermittent nature of renewable generation creates exposure on a half-hourly basis, with potentially large merchant risk on volume shortfall.
- **Cost risk:** Sub-optimal operations of the storage asset and oversizing of firming assets to meet load will significantly increase the cost of a 24/7 green solution. Baringa ran a high-level scenario with a BESS physically firming a wind PPA, which increased costs by $40m (from a base of $100m) in a worst case scenario over 2030-2032.

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The key risks lie in compliance and price risk given a likely limited retailer pool able to offer time-matched products

Executability	Retailers have limited experience with 24/7 products, therefore allocating responsibility for monitoring timestamp compliance would need to be resolved.
Opex and process burden	Time matching requires more detailed demand forecasting, certificate tracking, settlement and compliance management than annual matching.
Scarcity price risk	The highest-cost certificate intervals are likely to be renewable drought / evening peak periods where demand is high and renewable generation is low. It is conceivable (but not currently transparent) that this scarce certificate is highly valued in the market, exposing SDP to higher costs unless their load physically responds.
Retailer participation	If 24/7 is firm rather than aspirational, it may narrow the credible retailer field and attract a premium for bespoke risk transfer.

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Time-matching is feasible for SDP, but comes with a high cost risk and is not currently a requirement for Domestic GO or SBTi accreditation

Current state

Annual matching is sufficient for current commitments

SDP can meet current green commitments through annual matching, aligned with current green certificate frameworks and existing SDP positioning. New SBTI standard encourages hourly matching, but does not require it.

24/7 is likely feasible, but cost risk is high

Time-matched supply could likely be structured, but scarce interval certificates, retailer capability premiums and firming costs are uncertain. A hard 24/7 requirement could narrow the retailer field and create costly premiums that are not efficient or prudent and therefore not risk not recovering costs under the regulatory framework.

Future response

Current commitments could be enhanced without 24/7 matching

Annual matched commitments could be enhanced through physical linkage to renewable projects in the retailer portfolio. Additionality is a further step up from physical linkage before reaching time-matched commitments.

Do not over-commit ahead of certainty

Steps could be made to progress toward this higher standard over time, once certainty is increased in the market around pricing and process for regulation.

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Attachment D – Risk premium calculation methodology

Additional detail for the wholesale trading risk premium

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Baringa

Wholesale trading risks are estimated through statistical analysis of historical ASX contract data

Wholesale trading risks and materiality

Risk	Definition	Methodology	Materiality
Execution/ time risk	The risk that hedge contracts cannot be purchased immediately, particularly for contracts where market liquidity is limited	The methodology estimates the risk that prices may move between quotation and the point at which hedges can realistically be executed. Historical ASX futures prices are analysed over varying waiting periods. The premium is based on a selected percentile of historical adverse price movements (P20), representing a modest but plausible downside outcome. This is a historical scenario analysis rather than a stochastic forecasting model.	●●●
Liquidity risk	The additional cost associated with executing large hedge positions that cannot be purchased in a single trade without affecting market prices	The methodology assumes volumes must be acquired progressively over several trading days, with the trading horizon determined by a maximum allowable trade size. Historical futures price data is then used to calculate how prices have moved during similar purchasing windows. The risk premium is based on the 65th percentile of the volume-weighted increase in purchase cost driven by spreading trades over a longer period of time. This approach is a historical simulation of phased hedge execution rather than a regression analysis.	●
Load shape risk	The risk that a forecast load profile is misaligned with a hedged baseload shape (eg. monthly or daily profiling)	The methodology assumes a baseload shape and a sensitivity analysis is then performed by assuming a change in the shape and measuring the resulting increase in wholesale energy costs. The approach is deterministic rather than statistical, relying on scenario testing of defined shape changes using historical data.	●●
Volume forecast error	The risk that actual electricity consumption differs from contracted or forecast consumption	The methodology uses historical ASX hedge prices and compares them with actual spot market outcomes during the delivery period to estimate the financial impact of over- or under-hedging. The premium is applied only to the volume flex permitted under the contract and is based on the 55th percentile of historical adverse outcomes. This approach uses historical price differentials rather than stochastic demand forecasting or regression modelling. We assume a load following supply agreement will have 10% flexibility on a volume and capacity basis, which is in line with standard retail agreements.	●●●
Collateral and fees	Collateral required to be posted with Exchanges and other counterparties; and brokerage, clearance and other exchange fees	Based on Baringa internal trading cost benchmarks, converted to a percentage assuming a central price scenario.	●●●
Trading desk overheads	Costs associated with trading activities (e.g. staff, IT systems, legal costs), which are separate from general retail overheads included in the retail margin	Based on Baringa internal trading cost benchmarks, converted to a percentage assuming a central price scenario.	●●

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