

DRAFT METHODOLOGY FOR THE ADJUSTMENT OF DESALINATION PRICES

19 March 2012 3pm: IPART has today released its Draft Discussion Paper on a methodology for adjusting Sydney Desalination Plant (SDP) prices from 1 July 2017 to take account of gains in efficiency and surplus energy gains and losses.

The Discussion Paper responds to the Terms of Reference issued in February by the Government.

The Discussion Paper sets out principles and a methodology to adjust SDP prices from 1 July 2017 for efficiency gains and losses made and for gains and losses on surplus energy beyond a core band.

Mr Jim Cox, IPART CEO said "The draft efficiency adjustment mechanism is intended to enhance Sydney Desalination Plant's incentives to become more efficient as quickly as possible. The proposed mechanism shares the benefits of efficiency gains fairly. SDP benefits for the first 4 years after a gain is made through lower costs and then consumers benefit after that via lower prices."

"In the absence of the efficiency adjustment, SDP would face incentives to defer efficiency programs until after the start of the next pricing period. This could delay the benefits of lower prices to consumers by up to 5 years."

The second adjustment mechanism set out in the Discussion Paper relates to gains and losses associated with the sale of surplus energy when the plant is shut down.

Mr Cox said "the Discussion Paper sets out 3 options to adjust for the treatment of gains and losses on surplus energy beyond a band. We are seeking feedback on those 3 options to inform our decision making."

IPART invites submissions on the draft methodology by 13 April 2012.

Copies of the Terms of Reference and the Discussion Paper are available on IPART's website <<http://www.ipart.nsw.gov.au>>.

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