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Dr Peter Boxall
Chairman
Independent Pricing and Regulatory Tribunal
PO Box K35
Haymarket Post Shop NSW 1240

Dear Dr Boxall

Submission on Sydney Desalination Plant price review

Thank you for the opportunity to make a submission to IPART's draft determination for the review of prices for Sydney Desalination Plant Pty Ltd (SDP).

On 19 March 2017, the NSW Government announced the 2017 Metropolitan Water Plan (MWP). A key element of the 2017 MWP involves new operating rules for SDP.

The Department of Planning and Environment's key recommendations relating to the new operating rules for SDP are that the final determination (1) be updated as necessary to reflect the new operating rules changing the maximum production trigger levels for SDP to 60/70 per cent of total dam storage, and (2) include a provision for the nil price to be removed for a 14-month minimum run time after a drought response trigger day.

Further information is provided in Attachment 1. Due to the complex technical nature of the analysis undertaken to reach the new operating rules for SDP in the 2017 MWP, DPE is happy to continue discussions with the IPART Secretariat and its consultants and can provide further information if required. Please feel free to contact Judy Birrell, Manager Metro Water Strategies by telephone on [REDACTED]

Yours sincerely

[REDACTED]

Liz Develin
Deputy Secretary
Energy, Water, Regulation and Portfolio Strategy

ATTACHMENT 1

Introduction

The 2017 Metropolitan Water Plan (MWP) sets triggers for taking actions under the recommended portfolio of supply and demand measures at specified storage levels. Included in the portfolio for the 2017 MWP are new operating rules for the Sydney Desalination Plant. The new operating rules and their context are described below.

DPE's key recommendations in relation to these rules and the draft determination are as follows:

1. The final determination should be updated as necessary to reflect the new operating rules changing the maximum production trigger levels for SDP to 60/70 per cent of total dam storage.
2. The final determination should include provision for the nil price to be removed for a 14-month minimum run time after a drought response or exceptional circumstances response trigger day.

2017 MWP changes to the operating rules for the Sydney Desalination Plant

For the 2017 MWP, the changes to the operating rules for the Sydney Desalination Plant (SDP) are:

Changing the maximum production trigger levels to 60/70 per cent of total dam storage capacity:

- The trigger for operating the desalination plant with the objective of maximising production of drinking water (defined in the draft determination as the 'drought response trigger day') moves downward from the (current 2010 MWP) trigger of 70 per cent of total dam storage capacity to 60 per cent. The trigger for removing the requirement to maximise production (defined in the draft determination as the 'drought response cease day') moves from 80 per cent to 70 per cent.

Allowing a 14 month 'minimum run time' of the SDP from the drought response trigger (of 60 per cent)

- Currently the 2010 MWP does not set a minimum run time for SDP. When the current drought response obligation trigger of 70 per cent is reached, the plant is required to be operated until, and only until, the drought response cease day trigger of 80 per cent is reached.
- The new MWP provides that SDP can operate the plant to produce drinking water for a minimum of 14 months from the date the new drought response obligation trigger of 60 per cent is reached, irrespective of whether the 70 per cent trigger is reached during that 14-month period. Once the 14-month minimum run time has expired, the new drought response cease day trigger of 70 per cent is effective from the date dam storages reach 70 per cent. The 14-month period includes an eight (8) month period for returning the plant to full production from deep shut down.
- This additional run time can be reduced to less than 14 months at the discretion of SDP provided dam levels have recovered to 70 per cent.

Flexibility to operate SDP outside the drought response rules due to an exceptional event that poses a threat to water supply.

- The 2017 MWP makes provision to enable the State to activate the SDP outside the 60/70 per cent band on the occurrence of an exceptional event that poses a threat to the water supply.
- It is noted that the Water Supply Agreement between Sydney Water and SDP includes a provision for Sydney Water to request supply under exceptional circumstances.

Changes in the MWP and the Draft Determination

Changing the maximum production trigger levels to 60/70 per cent of total dam storage capacity

The draft determination report states that the draft determination is based on the previous 70/80 maximum production triggers but is equally applicable to the new 60/70 triggers under the 2017 MWP. On this basis, DPE has no comment relating to the change in trigger levels other than that text in the final report and determination should be updated as necessary to reflect the changed triggers in the 2017 MWP.

Exceptional circumstances

Although the draft determination does not specifically address the MWP provision for exceptional circumstances (the 2017 MWP was announced only two days before the draft determination), it does include a similar provision. The draft determination removes the nil price for any water SDP supplies to Sydney Water outside the 60/70 rule for exceptional circumstances outlined in the Water Supply Agreement between Sydney Water and SDP. This agreement provides that Sydney Water can request water to mitigate the effect of a public health incident or to ensure security of supply or network stability during periods of outages, unavailability or maintenance on any water industry infrastructure in Sydney Water's area of operations. DPE supports the removal of the nil price in these circumstances and notes that this provision of the draft determination is consistent with the provision for exceptional circumstances in the 2017 MWP.

14-month minimum run time

The 2017 MWP also provides SDP with the option of running the plan for a minimum period of 14 months from the commence date of its drought response obligation (when dam levels reach 60 per cent), even if storage levels return to 70 per cent during that 14 months. The objective of this provision is to address some of the risk and potential inefficiencies associated with the restart of the desalination plant and possible anomalies in the operation of the trigger levels, including:

- mitigating uncertainty for SDP in staff recruitment by providing a minimum period of operation (and need for staff) after restart,
- avoiding unnecessary transition costs in the event of a drought response trigger day (60 per cent), cease day (70 per cent) and subsequent trigger day occurring over a short period of time,
- managing reputational risks that could arise in the event of a drought response trigger day and cease day occurring over a short period of time, with the result that transition costs are incurred with the desalination plant having produced little or no water.

DPE recommends that the final determination include provision for the nil price to be removed for the 14-month minimum run time.

To the extent that the desalination plant is operating in a drought response period (under the 60/70 rule) during the initial 14 months, there is no need for different pricing

arrangements for the minimum run period (i.e. drought response period arrangements apply).

However, if the plant is operating outside the 60/70 rule, DPE recommends that the abatement mechanism should not apply. This is because operating the plant during this period (outside the 60/70 rule but within the 14 months) is at SDP's discretion.