WENTWORTH TO BROKEN HILL PIPELINE

IPART PUBLIC HEARING 20 NOVEMBER

1. Government Direction

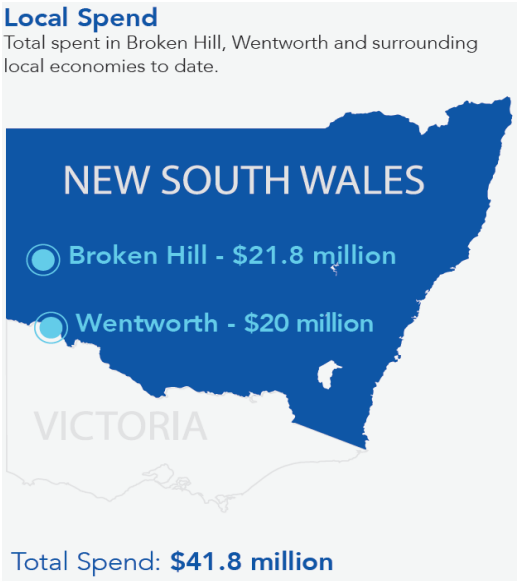
- On 21 November 2016 WaterNSW was directed by the NSW Government to build the Wentworth to Broken Hill Pipeline
  - along the Silver City Highway
  - to meet peak daily demand of up to 37.4 mega-litres of water per day
  - to use best endeavours to make the pipeline operational by December 2018
- On 31 August 2017 WaterNSW was directed by the NSW Government to use predominantly Australian steel pipe and meet skills targets in the construction of the pipeline
- WaterNSW was pleased to be selected by the NSW Government to deliver such a critical piece of water supply infrastructure in rural/ regional NSW
- The Pipeline will transport raw water from the River Murray to Essential Water and other, smaller offtake customers

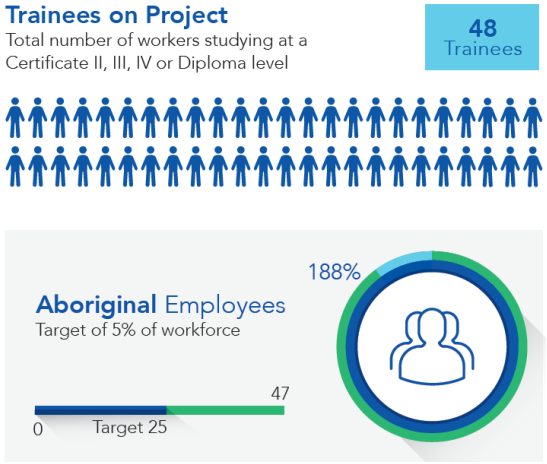
2. Construction Progress

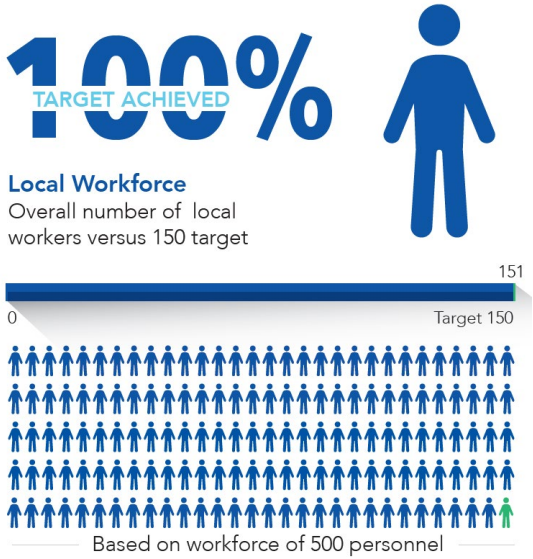
– WaterNSW is pleased to report that the project is on track to be delivered within its scheduled timeframe and forecast cost

3. Community Benefits

- Secure water supply to Broken Hill
- We are pleased to have delivered real benefits to the local communities of Broken Hill and Wentworth through the build phase of the project







4. Our IPART Pricing Submission

- Legislative frameworks set out that **IPART determines the prices that we can charge** our customers for monopoly services such as the Pipeline

- Our inaugural submission to IPART for a 4-year pricing period proposed prices for two categories of **customers**:
  - the Local Water Utility (distributor), ie Essential Water
  - landholder offtake customers

- IPART will assess and determine:
  - "***has WaterNSW delivered the project efficiently?***"

    by assessing and determining the prudent and efficient cost of designing, constructing, operating and maintaining the Pipeline
  - "***what prices can WaterNSW charge its customers?***"

    by determining the maximum prices to be paid by Essential Water and the landholder offtake customers

5a. Our Proposed Prices

- **Our proposed prices reflect the prudent and efficient cost of designing, constructing, operating and maintaining the Pipeline**
  - **fixed charges** reflect fixed costs such as recovery of construction capital
  - **variable charges** reflect variable costs such as electricity to power pump stations
- We proposed prices for **Essential Water** at **full cost recovery** of our efficient costs
- We proposed prices for all **landholder offtake customers** at the **incremental cost** of the offtakes with only a small contribution to the efficient cost of the mainline pipeline
  - installing each individual offtake at the request of landholders was an additional cost to the project to benefit the individual landholder(s)
- We proposed the **same variable charges** for pumping the water to landholder offtake customers and Essential Water

5b. Our proposed prices (in real 18-19$)

- **Essential Water** average proposed prices over the 4 years, assuming an opening RAB of $458 million and 5,746 ML p.a., totals $30.8 million p.a., comprising:
  - base charge = $26.7 million p.a.
  - fixed operating charge = $1.6 million p.a.
  - variable electricity charge $288 per ML = $1.7 million p.a.
  - other electricity charges = $0.8 million p.a.

- **Offtake customer** average proposed prices over the 4 years of $12,700 p.a., assuming 10 ML p.a., comprising:
  - fixed charge (for the offtake) = $7,300 p.a.
  - fixed charge (contribution to the pipeline) = $2,500 p.a.
  - variable electricity charge $288 per ML = $2,900 p.a.

6a. Prudent and Efficient System

- The “system” was end-to-end workshopped with Essential Water to determine the optimal “system” and who is best placed to undertake which functions in order to deliver water most efficiently to the household
- Decisions made include:
  - WaterNSW will deliver raw water, Essential Water will treat water via the modern Mica Street Water Treatment Plant
  - Essential Water seasonal raw water demand profile
  - Clear responsibility for water quality management
  - EW participated in tender panel evaluations
- In order to continue to ensure whole of “system” efficiency Essential Water participated in bi-weekly design
  - Rep on Engineering Design Committee

6b. Prudent and Efficient Cost

- Our processes and decisions enabled us to achieve efficient project cost
- We made a **strategic decision that a 20 year (10+5+5) DBOM model of contract** would lead to the most efficient project cost:
  - the D&C contractor is incentivised to design and construct an asset which minimises whole of life costs as they also bear the responsibility for operating costs and risks
  - our 10+5+5 term optimally balances:
    - the benefit of a (20 year) longer term contract to achieve minimised whole of life cost; and
    - the risk of not maintaining competitive pricing as the market moves over time with market testing of the price at years 10 and 15 (ie 10+5+5)
- Our **DBOM procurement process was competitive** and structured to deliver the most efficient whole of life cost for the project and the optimal design:
  - pre-qualification/EOI phase structured to **maximise competition** during the RFT stage, four proponents with the highest EOI evaluation scores were shortlisted to RFT stage
  - our RFT required tenderers to complete a detailed pricing pro-forma which provided a high level of transparency which encouraged **competition and efficiency in all aspects of pricing** and constrains the contractor's ability to seek future price increases

7. Efficiency Sharing

- Our O&M contract is structured to motivate the contractor to find efficiency gains throughout the 20 year term with **improved operating efficiencies found by the contractor shared 50/50**
- **Energy cost savings realised by the contractor are shared 50/50**
- Our O&M contract includes an **efficiency saving factor that reduces fixed and variable costs by a percentage year on year**, reflecting the contractors assumed ability to improve operating efficiency throughout the term

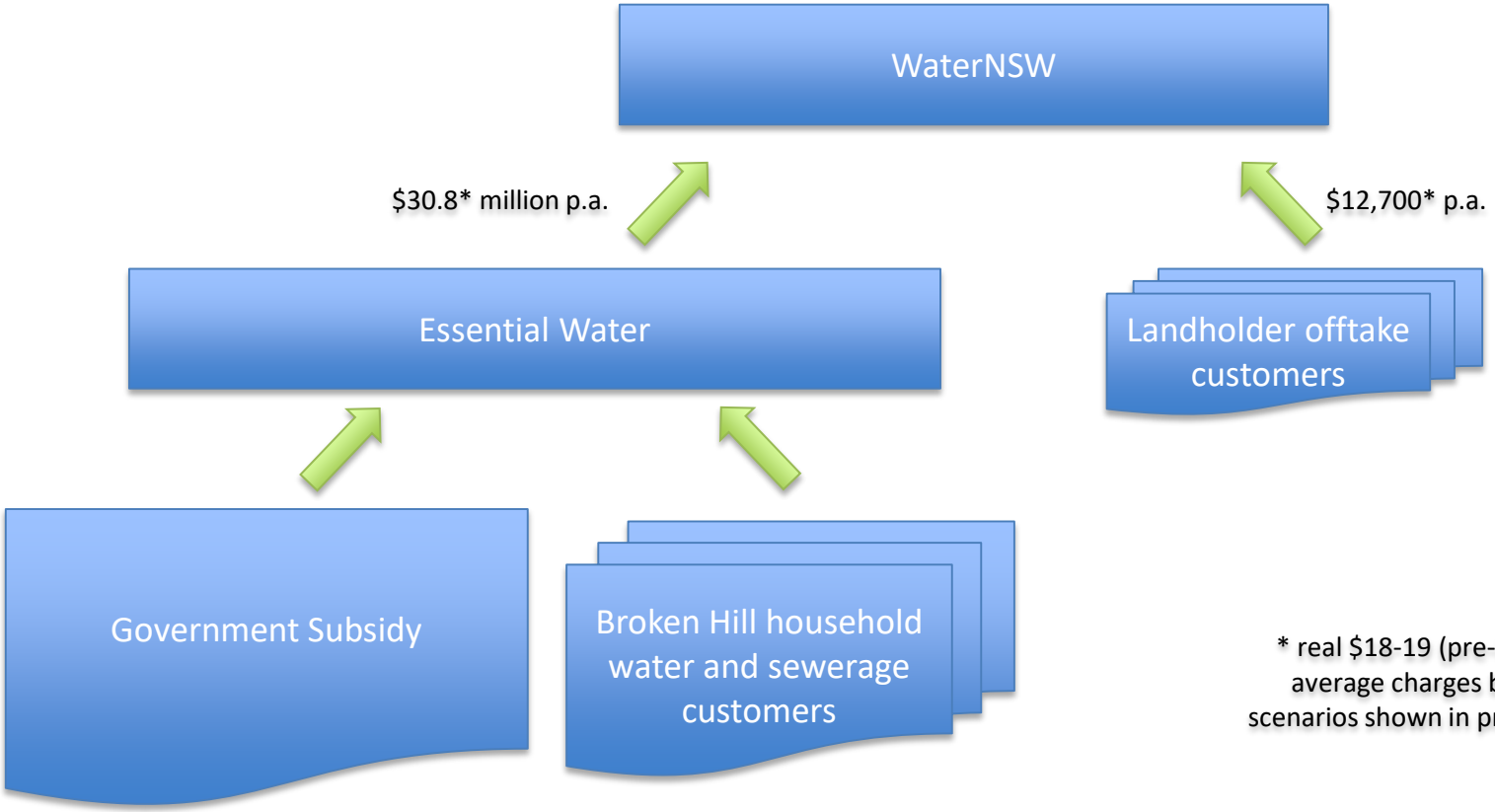
8a. Customer Bills

- IPART will determine the maximum price that we can charge our customers:
  - Essential Water (which may include a Government Share of the costs)
  - landholder offtake customers
- The NSW Government has confirmed its decision to subsidise:

  "the costs of construction and the efficient operation and maintenance costs required for the pipeline for the next four years from 2019-20 to 2022-23 to ensure that prices for end use customers do not rise in real terms as a result of the pipeline."
- The NSW Government has additionally stated its intention that:

  "IPART assess the efficient costs of the pipeline in its WaterNSW Pipeline review and apply the subsidy in the review of Essential Energy's water and sewerage prices."

8b. Customer Bills - Diagrammatically



* real $18-19 (pre-inflation), average charges based on scenarios shown in previous slide

Thankyou