Jeremy Loftus-Hills

Sunday, January 3, 2016

Essential Services Commission
Level 37 / 2 Lonsdale Street Melbourne
Victoria
3000
water@esc.vic.gov.au.

Dear Sir or Madam:

Thank you for the opportunity to participate in the upcoming public hearing in respect of your Water Price Review 2016 - Melbourne Water. I write as an interested citizen, water consumer, educator and filmmaker.

I note that 60% of Melbourne Water's budget is allocated to the Victorian Desalination Plant (VDP) in 2016/17 against 0.3% for recycling, and that these proportions are expected to remain fairly constant during the review period. We understand that VDP payments are passed through Melbourne Water to Aquasure for the operation and maintenance of the VDP, and that Aquasure in turn contracts Watersure to perform that function. We have so far been unable to find out how the VDP payments are budgeted by Aquasure, and put the following questions to the Essential Service Commission in the interests of transparency and public confidence:

1. Of the three Aquasure entities registered with the Australian Investment and Securities Commission (Aquasure Finance Pty Ltd, Aquasure Holdings Pty Ltd, Aquasure Pty Ltd), which receives the payments?
2. Who are the beneficial owners of this company?
3. What payments are made to the beneficial owners and to consortium members and on what basis?
4. The following is an extract from a Bloomberg story published September 23 2013. It concerns the refinancing by Aquasure of a $3.7 billion debt. *'The refinancing will cut interest margins to about 135 basis points more than the bank bill swap rate on three-year debt and about 165 basis points on money with a five-year maturity, said the person, asking not to be identified because the details are private. That compares with 350 basis points on a five-year loan AquaSure arranged in 2009 to build the plant, according to data compiled by Bloomberg. John Ridley, a Melbourne-based spokesman for AquaSure, declined to comment on the financing today.'*
    a. Can the ESC provide the details of the refinancing arrangements and the impact on Aquaure's profit margins
    b. In principle, what is the ESC's position on these variations – should any benefits be shared with water consumers?

5. What is the corporate structure of Watesure, how does it relate to Aquasure and what actual operating and maintenance costs does it face. Are these audited to the satisfaction of ESC? What margins does it enjoy and who is the beneficiary of the margins?
6. The following is an extract from a submission to the Independent Pricing and Regulatory Tribunal in NSW from Neil Palmer Chief Executive Officer, National Centre of Excellence in Desalination: *'If there is certainty of shut down for a significant length of time, say greater than five years, then an operator may consider mothballing the plant and maintaining it with a skeleton crew. In this instance they may consider disposal of the membranes rather than continue the effort to preserve them. As this practice is extremely rare, it is not well understood how long membranes can be preserved and re-preserved without loss of salt rejection capacity.'* I submit that taxpayers are entitled to know
    a. what strategies are being used by operators at the VDP in respect of shutdown,
    b. the costs and risks associated with these strategies,
    c. options in case of catastrophic failure and
    d. details of the timing and cost of start up, including staff recruitment and consumable's purchase.

    What is the ESC's position?
7. What is Melbourne Water's outlay on the operation and maintenance of the North South Pipeline (NSP)?
8. Can the ESC confirm that the NSP can deliver water to Melbourne at a lower unit cost than the VDP (and detail these unit costs), and that it is in the best interests of taxpayers and water consumers that, in the event either is called upon to supplement Melbourne's supply, the NSP water should be purchased as a priority?
9. Can the ESC confirm Aquasure's equity to debt ratio is in the vicinity 20:80, and that the only asset it has is its contract with the State Government.
10. Given that Melbourne Water did not initiate the VDP, that the DSE (now DEPI) oversaw its construction and drew up the PPP contract, and that Treasury advised on the financial arrangements and risk management, why does the VDP debt appear as a Melbourne Water operating expense?
11. To what extent does the resulting risk profile (from 9 & 10 above) impede the organisation's capacity and propensity to invest in long term average cost reductions by continuing its long held position of investing in water recycling projects.

Thank you for taking the time to process my submission. Well in advance of the public hearing could you please tell me the media access policy for the event – will (internal) video and/or audio recording be permitted prior to or during the proceedings. In the meantime I would appreciate being kept apprised of other submissions to the hearing.

Yours truly,

Jeremy Loftus-Hills