As a public-private partnership (PPP) AquaSure has fully financed the Victorian Desalination Project (VDP), which is paid back over the 30-year contract period by the State Government. PPPs are service-based contracts. The private sector invests its capital in return for payment for the delivered service. AquaSure financed the $3.5 billion design and construction and will provide operation services until 2039.

AquaSure is paid by the State Government over the life of the contract for the service of building the project, operating and maintaining it so that it is capable of producing water and delivering high-quality drinking water if it is ordered. All the costs have been forecasted and fixed payments for the entire contract period budgeted for.

**Capital cost - $3.5 billion**

Capital cost is the cost of design and construction. It represents the scale of the project and is the best indicator to compare different projects across the range of project delivery methods, e.g. PPPs and State Government-built projects.

The VDP contract has a fixed capital cost of $3.5 billion (net present cost $AUD 2009). AquaSure’s contractors experienced increased costs for design and construction, however, this did not increase costs for the State Government or water customers because of the fixed capital cost in the contract.

**Net present costs**

Under the Partnerships Victoria policy, a Project Summary is published following contract award and it includes the cost of the contract payments in net present cost (NPC) terms. NPC is the value, in dollars of the day, of a stream of costs over the contract period.

The term NPC is generally only used for PPP projects, as these identify and allocate all costs associated with the project over the contract term. A project-specific and government approved rate is used to convert future payment streams into present day costs.

**Total maximum cost - $5.7 billion NPC**

The maximum total cost of the VDP over the 30-year contract published in the Project Summary is $5.7 billion (NPC 2009 when the contract was signed).

This includes the capital cost of $3.5 billion as well as the ongoing operating costs for each year and annual maximum water orders of 150 billion litres for 27.75 years (the initial full contract operation period).

This cost has already reduced because water has not been ordered and savings have been made (details on following page).
$5.7 billion NPC = $23.9 billion nominal cost
Nominal terms are another way of expressing costs. The $5.7 billion total maximum NPC in nominal terms is $23.9 billion. The nominal cost is the sum of the same costs but with future payments escalated on an annual basis to account for inflation. For example, a payment of $600 in 2014 with inflation costs of 2.5% would be escalated to $1112 if paid in 2039 (i.e. 25 years later $600 x 1.025^{25} = $1112).

In February 2011 the annual payments for each water order scenario were released, showing the $5.7 billion total NPC is $23.9 billion in nominal terms.

Payments
The payment structure was strategically designed to minimise costs to the State Government and water customers. The two part payment mechanism enables the State Government to only order water when it is required. The costs involved in producing water are not incurred unless water is ordered, limiting the costs to water customers and giving the State Government flexibility to order water only if it wants to.

Payments are made monthly in two components:

Water security payment: reflects the security of having the desalination plant built and maintained so that it is capable of producing water. It includes the cost of design and construction and ongoing operational and maintenance costs that are incurred regardless of whether water is ordered or not.

Water usage payment: reflects the variable costs of producing water, if required. Flexible water orders of 0, 50, 75, 100, 125 and 150 billion litres per year are available under the contract.

The water security payment is paid on the condition that AquaSure is capable of delivering the water that is ordered, to the required quantity and quality. If no water is ordered, AquaSure must demonstrate that the VDP could have responded to a water order. The water usage payment is made only if water is ordered and delivered. Both payments are at risk if there is a failure to perform to the required standards.

Water orders are made by the Minister for Water by 1 April each year. The plant produced 23GL during commissioning. No water has been ordered since commissioning.

Payments to AquaSure began only when water was produced to the quantity and quality required during commissioning in late 2012.

Water bills and $1.2 billion saving
The cost of the VDP is paid for by water customers in the Melbourne area.

The overall cost of the project has reduced by $1.2 billion (nominal) since 2009 with $419 million of withheld payments due to late completion, $625 million saved predominantly from negotiation of the VDPs power supply operations contract and $187 million saved due to strategic early refinancing of the debt AquaSure's incurred for fully financing the project.

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