ESSENTIAL SERVICES COMMISSION

New Customer Contributions Framework

22 January 2026

Acknowledgement

We acknowledge the Traditional Owners of the lands and waterways on which we work and live.

We acknowledge all Aboriginal and Torres Strait Islander communities, and pay our respects to Elders past and present.

As the First Peoples of this land, belonging to the world's oldest living cultures, we recognise and value their knowledge, and ongoing role in shaping and enriching the story of Victoria.

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Contents

Executive summary iii

1. Overview 1

- 1.1 Introduction 1
- 1.2 Our 2024 to 2025 NCC review outcomes 2
- 1.3 Scope and application 3

2. New customer contributions and the regulatory framework 4

- 2.1 About new customer contributions 4
- 2.2 Legal and regulatory framework 5

3. Our principles-based NCC Framework 9

- 3.1 NCC pricing principles 9
- 3.2 Types of New Customer Contributions 10
- 3.3 Framework administration improvements 11

4. Clarifying the NCC Framework 13

- 4.1 Using negotiated versus standard New Customer Contributions 13
- 4.2 Incremental costs 15
- 4.3 Incremental benefits and revenues 19
- 4.4 Standalone and avoidable costs 22
- 4.5 Transitioning to cost reflective NCCs 23
- 4.6 Director attestation 24
- 4.7 Access to dispute resolution 25

5. Requiring minimum information disclosures 27

- 5.1 Connection policies 27
- 5.2 Information supporting standard NCC proposals 30

6. Empowering NCC calculations and negotiations 33

- 6.1 New Customer Contribution calculation models 33
- 6.2 Examples of cost estimation methods 33
- 6.3 Including calculation methods and inputs in negotiating frameworks 35

7. Encouraging advanced practice 36

- 7.1 NCCs are an integral part of our PREMO framework 36
- 7.2 Linking PREMO ratings to better NCC practices 37

8. Monitoring NCC implementation 39

- 8.1 Annual disclosure requirements 39
- 8.2 Comparative performance commentary 40

Appendix A – Glossary 41

Appendix B – Suggested minimum content for a Development Servicing Plan 44

Executive summary

About this framework

The *New Customer Contributions Framework* sets out the Essential Services Commission's approach to strengthening the operation, transparency, and governance of new customer contributions (NCCs) across the Victorian water sector. It is designed to help water businesses and connecting parties understand how the commission expects the NCC framework to be applied in practice.

The NCC Framework supports water businesses as they prepare price submissions for the setting and administering NCCs, including those that will apply from 1 July 2028.

This framework is not 'commission guidance' of the kind outlined in the Water Industry Regulatory Order (WIRO).[1] However, consistent with the WIRO, when the commission provides guidance for individual water price reviews, water businesses should expect that guidance, and the commission's assessment of NCC proposals, will be consistent with this framework.

Why did we review the existing New Customer Contributions Framework?

We reviewed the existing *New Customer Contributions Framework* to support our strategic objectives of promoting efficient pricing and maintaining transparency and trust in regulated outcomes. NCCs influence how the costs and benefits of growth are allocated between new and existing customers, the timing of cost recovery, and the transparency of those decisions for developers and customers.

The commission has applied a principles-based NCC Framework since 2013 and considers the core objectives of that framework remain sound. However, experience from the 2023 water price review and subsequent engagement showed that the NCC Framework was not being implemented consistently across water businesses and not consistently with the NCC principles. In particular, we observed weaknesses in:

- the justification and documentation of NCCs
- inconsistent transparency and engagement with connection applicants
- variation in the application of standard and negotiated charging arrangements.

These issues increased the risk of inefficient pricing outcomes, disputes, and reduced confidence in the NCC Framework.

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[1] Clause 13

We also found that we need to strengthen our guidance on implementing NCCS.

In responding to these issues, and in consultation with the water sector, the NCC Framework retains a principles-based approach to NCCs, while placing greater emphasis on transparency, justification and governance in how those principles are applied. Rather than prescribing detailed charging rules, the framework requires water businesses to clearly set out, justify and consistently apply their approaches to NCCs and related connection arrangements, with commission oversight exercised through price review assessment, monitoring and performance reporting.

The *New Customer Contributions Framework 2026* is informed by more than a decade of experience with the framework, benchmarking against good regulatory practice, and extensive consultation with interested parties over 2024 and 2025. It is an update of the existing framework, not a change to the framework. Any further areas requiring clarification can be addressed through industry education and/or consultation on guidance papers for water price reviews, ensuring interested parties have further opportunities to inform the regulation of NCCs.

What are new customer contributions?

New customer contributions (also known as developer charges) are one-off, upfront charges that water businesses may levy when a new property connects to water, sewerage or recycled water services, or when the capacity of an existing connection is increased. The charge reflects a financial contribution toward works that are, or will be, used directly or indirectly to provide services benefiting the connecting property (and any associated fireplugs). The charge may be payable in addition to any assets the applicant constructs and transfers to the water business, known as gifted assets.

NCCs apply to regulated services under the *Water Act 1989* and commonly arise for land subdivisions, redevelopment in established areas, first time connections, or capacity upgrades. The commission regulates NCCs by issuing guidance consistent with the WIRO, which establishes NCCs as a prescribed service and requires water businesses to set or calculate charges following pricing principles approved through the commission's price determinations.

The *New Customer Contributions Framework* provides for two types of charges, standard and negotiated NCCs. Standard NCCs only apply where infrastructure needs and growth are well understood and documented. This allows the commission to approve common charges for eligible connections within defined areas and connection characteristics. Standard NCCs reduce administrative burden and improve certainty, while still preserving applicants' right to negotiate based on their specific circumstances.

Negotiated NCCs may be agreed in any circumstances, including where a standard NCC is applicable. They may also be used where developments fall outside standard eligibility criteria, or where developments are larger or more complex. Any negotiated NCC must comply with the binding NCC pricing principles and be agreed in accordance with a water business' approved negotiating framework set out in its approved connection policy.

Accordingly, the *New Customer Contributions Framework* provides for the commission to approve standard NCCs proposed by water businesses for specific circumstances. For negotiated NCCs, the commission assesses and approves the methodologies and frameworks used to calculate charges on a case-by-case basis. Water businesses may choose whether to include standard NCCs in their price submissions.

A proposed NCC must have regard to the:

- incremental infrastructure and associated costs in one or more of the statutory cost categories attributable to a given connection, which must be greater than the avoidable cost of not servicing the connection and less than the standalone cost of servicing that connection (incremental cost)
- incremental future revenues (or other benefits) that will be earned from customers at that connection.

What are the new requirements?

The *New Customer Contributions Framework* responds to issues the commission observed in how some water businesses implemented NCCs. Over the last two years, interested parties have consistently supported retaining a principles-based approach to NCCs. To complement the principles-based approach, the NCC Framework now requires water businesses to develop a connection policy for commission approval as part of a price review. The connection policy must define how a water business will apply standard and negotiated NCCs, including its approach to asset gifting, rebates, prudential requirements, procedural steps, and dispute resolution processes.

This new connection policy requirement achieves the same outcomes as a more prescriptive regulatory approach. Instead of setting detailed rules in regulation, it requires water businesses to develop clear, comprehensive, and internally consistent connection policies, which are reviewed and approved by the commission through the price review process. This approach promotes transparency and accountability while retaining flexibility to respond to specific circumstances.

The *New Customer Contributions Framework*:

- **Clarifies** aspects of NCC implementation by the water businesses
- **Requires** minimum disclosures that support transparent and efficient NCC administration and negotiations
- **Empowers** suitably informed NCC calculations and negotiations
- **Encourages** leading practice via links to PREMO ambition ratings
- **Monitors** implementation via disclosure of key NCC metrics.

The following table provides an overview of how the *New Customer Contributions Framework* addresses each key issue identified during our NCC review process and engagement.

We CLARIFY the following topics to promote understanding and consistency

Topic or issue	How the NCC Framework addresses it
Applying negotiated vs standard NCCs	Negotiated NCCs are available for all connections whether or not a standard NCC is available. Standard NCCs are available where a water business has met certain preconditions and provided the commission with specified evidence to approve a standard charge. The framework sets out the conditions and required evidence to support standard NCCs. Generally, if a standard NCC is available for a proposed connection, that option will be the timelier and administratively simpler pathway for the applicant. However, the applicant or water business retains the right to pursue a negotiated NCC.
Setting a threshold for small-scale standard NCCs	Water businesses will be required to group small-scale connecting customers together on an economically efficient basis, considering the need to avoid unnecessary transaction costs. Where small-scale standard NCC's are proposed, water businesses' connection policies must define what constitutes a small-scale development and the thresholds that apply to a small-scale standard NCC. Given their scale, average cost assumptions may be used when setting the standard NCC to minimise estimation costs.
Understanding incremental costing	Incremental costs are costs that a business incurs to service one or more additional properties due to growth or expansion, which they would not have incurred in serving the existing customer base, or at least not on the same scale. Specific issues clarified in the framework paper include the treatment of sunk costs, gifted assets, rebates on gifted assets, tax costs, and how to calculate incremental financing costs when an asset is required earlier.
Interpreting incremental benefits	Two types of incremental benefits that must be reflected in NCC calculations include: • incremental revenue benefits, which must always be considered. Incremental revenue is the revenue a water business expects to earn through selling prescribed services to the connecting customer/s. It must be accounted for in NCC calculations. The framework provides key factors businesses should consider when estimating incremental revenue for calculating NCCs.

Topic or issue	How the NCC Framework addresses it
	• cost-related connection benefits, which must be considered when gifted assets are upsized or form part of the shared system. They may also be considered for other incremental benefits, such as avoided bulk water costs from recycled water connections.
Interpreting and applying standalone and avoidable cost	The *New Customer Contributions Framework* sets out that the incremental costs attributed to proposed NCCs (standard or negotiated) must be greater than the avoidable cost of not servicing the connection, and less than the standalone cost of servicing that connection by itself. It also explains some of the different ways a business can estimate avoidable and standalone costs to service a given development.
Transitioning to cost reflective NCCs	In future guidance we will specify that if a water business proposes a glide path transition to cost reflective NCCs, our guidance will require businesses to: • transparently quantify any customer bill impact of subsidising these developments • justify the length of the transition period, consult representatives of both connecting customers and existing customers about the reasonableness of the above points. We will consider approving proposals that provide for a transition to cost reflective NCCs, to enable a water business to manage price increases. Water businesses should engage with us if their proposed NCCs involve cost attributes that are outside of the efficient pricing bounds before a price review commences.
Understanding that the scope of director attestation includes NCCs too	Water businesses pricing proposals made under our NCC Framework must be supported by the directors' attestation we require in our water price review guidance papers. That is, an attestation to the quality of its price submission and its compliance with our guidance (in all material respects), includes standard NCCs proposals and proposed connection policies and negotiating frameworks. This promotes board involvement and ownership of businesses' proposals regarding NCCs.
Understanding access to dispute resolution	The process for dispute resolution must be included in the connection policy each water business submits to the commission for approval. The following options must be provided: • an internal review by the water business • a provision for independent commercial dispute resolution • a reminder to connection applicants of their rights to challenge a decision through VCAT including the appeal process.

We will REQUIRE 'minimum disclosures' to address identified issues and support better NCC implementation

Topic or issue	How the NCC Framework addresses it
Inadequate information provided to connection applicants	Water businesses must prepare a connection policy which addresses the minimum required content, submit it for approval with their price proposals, publish their approved connection policy on their website, and comply with that policy when administering connections and NCCs. The connection policy must clearly state the types of connection services it covers, the processes for connecting, charges payable during connection processes and arrangements for disputes. The policy must also include what constitutes a reticulation asset for the purpose of identifying asset gifting requirements and any thresholds for small-scale standard NCCs.
Lack of transparency around how proposed NCC charges have been derived, both in standard and negotiated NCCs	The NCC Framework lists the minimum information businesses must provide to support their standard NCC proposals including: • modelled NCC calculations and justified inputs for each standard NCC • Development Servicing Plans (DSPs) for the service areas that will be eligible for each standard NCC (with specific exceptions) • costs and benefits attribution policies • evidence of assessment of incremental benefits • evidence of compliance with the 'avoidable cost' efficient pricing bound within our NCC pricing principles. Water businesses are expected to make an equivalent set of information available to connection applicants seeking negotiated NCCs subject to the circumstances of those negotiated connections.

We will EMPOWER businesses with tools to aid NCC calculations and negotiations

Topic or issue	How the NCC Framework addresses it
Reported difficulty in using the commission's net cashflow NCC model template and a lack of flexibility in the model to accommodate all scenarios	The commission commits to providing water businesses with an illustrative working model and model user guides, which will be optional for any business to use. The model can be used in calculating NCCs in a range of circumstances, and by connection applicants seeking to perform due diligence on the reasonableness of proposed NCC charges.

We want to ENCOURAGE advanced practice by linking PREMO ratings to NCC better practice to lift engagement and commitment

Topic or issue	How the NCC Framework addresses it
Lack of, or poor, engagement with relevant parties for NCCs by water businesses	The *New Customer Contributions Framework* establishes that NCC assessment should be linked to our PREMO rating to lift engagement and commitment from businesses. Various elements of PREMO have direct relevance to how businesses explain, justify and administer their NCCs. For example: • Risk - NCCs and asset gifting practices inherently involve trading off risk by water businesses and connection applicants. • Engagement - given the above risk trade-offs, engagement with both connection applicants and ongoing water service customers in managing those risks is essential.
Inadequate service performance commitments in connection processes with a lack of transparency of connection service outcomes	Connection services should be subject to clear performance commitments from water businesses. They should set targets and disclose their actual performance against those targets.

We will MONITOR NCC implementation to ensure our requirements are met

Topic or issue	How the NCC Framework addresses it
We need to track how businesses implement NCCs and ensure it meets requirements over time	The commission will monitor how businesses administer NCCs to ensure both new and existing requirements are met and track performance within the price determination periods, not just during price reviews. To facilitate this, the commission will: • impose minimum annual disclosure requirements on water businesses for key NCC performance metrics in Annual Performance Reporting • consider publishing comparative performance commentary where we are concerned about aspects of NCC administration from the disclosed data.

1. Overview

1.1 Introduction

The Essential Services Commission reviewed Victoria's New Customer Contributions (NCC) Framework in 2024 and 2025 to strengthen the way water businesses plan for, calculate and administer NCCs. We developed the *New Customer Contributions Framework* following extensive consultation with the water sector, developers and other interested parties.

The *New Customer Contributions Framework* will continue to be guided by three objectives:

administer new customer contributions in a transparent way
share the costs and benefits of growth between new and existing customers
send signals to connection applicants about the costs of developing in different locations.

Purpose of the New Customer Contributions Framework

The *New Customer Contributions Framework* outlines the regulatory arrangements for NCCs and sets out the commission's expectations and requirements for how water businesses will manage NCCs from the 2028 water price review onwards.

The framework will help water businesses to engage effectively with their customers and connection applicants. It will also help them implement and comply with the relevant requirements of the Water Act 1989, the Water Industry Regulatory Order 2014 (WIRO) and our future water price review guidance papers.

The *New Customer Contributions Framework* is designed to:

- inform water businesses' NCC planning and decision-making
- improve the efficiency and transparency of connection processes and pricing of NCCs for both water businesses and connection applicants.

Development of the New Customer Contributions Framework

To better understand the issues and focus our review, we met with water businesses and other interested parties.[2] Following these discussions, we released a paper seeking feedback on the issues found and potential ways to address them.

[2] Some of the issues raised related to unjustified cost attributions, a preference for standard NCC pricing, inadequate negotiating frameworks, poor engagement, inconsistent application of methodologies and uncertainty in the treatment of gifted/reticulation assets.

In June 2025, we published a report summarising what we heard and set out our preliminary responses. We also held workshops with water businesses in August to September 2025 to share industry better practices on engagement, and NCC costing and modelling principles. In addition, we hosted a public forum to hear directly from connection applicants and other interested parties.

The *New Customer Contributions Framework* incorporates feedback from workshops, surveys, and meetings during our 2024 and 2025 NCC review, and the previous NCC Framework, including:

- the 2013 New Customer Contributions: Explanatory Note
- aspects of prior water price review guidance papers since 2013
- prior key NCC precedents from draft and final determinations made since 2013
- the issues in our 2024 Review of New Customer Contributions: Consultation Paper, and our 2025 *Review of New Customer Contributions: Report on interested parties' feedback*
- submission and feedback from interested parties on our *Draft New Customer Contributions Framework.*

Upon release of the *New Customer Contributions Framework*, and in preparation for the 2028 water price review, all legacy documents from the current framework will be retired.

1.2 Our 2024 to 2025 NCC review outcomes

During consultation, some interested parties called for more detailed guidance to help ensure calculated NCCs meet the NCC pricing principles. However, others stressed the need to avoid overly prescriptive requirements, recognising the different operating environments of metropolitan, urban and regional water businesses.

As a result, the commission is:

- keeping the flexible NCC pricing principles (section 3.1.)
- keeping a provision for standard NCCs in suitable circumstances, alongside negotiated NCCs (section 3.2.)
- introducing measures to:
  - clarify aspects of NCC operation (section 4.)
  - require minimum disclosures that support transparent and efficient NCC administration and negotiations (section 5.)
  - empower suitably informed NCC calculations and negotiations (section 6.)
  - encourage advanced NCC practice with link to PREMO ratings (section 7.)
  - monitor and show key NCC metrics (section 8.)

1.3 Scope and application

The *New Customer Contributions Framework* addresses key elements of the NCC process, including:

- consultation and engagement
- negotiation protocols
- documentation and transparency
- work planning
- benefit recognition
- costing and calculation methods
- dispute resolution
- monitoring and disclosures.

The *New Customer Contributions Framework* provides guidance for setting NCCs and managing connection processes administered by Victoria's metropolitan and regional urban water businesses (excluding Melbourne Water).

This framework is made available to water businesses to assist with their preparatory work for upcoming price reviews. This framework is not 'commission guidance' as outlined in the WIRO.[3] However, water businesses can expect when guidance is provided for their individual price reviews that guidance will be consistent with this framework.[4]

[3] Clause 13

[4] Following publication of this *New Customer Contributions Framework*, the commission will work with industry to develop case studies and update the NCC modelling templates in 2026. We will then hold training workshops on costing and modelling NCCs.

2. New customer contributions and the regulatory framework

2.1 About new customer contributions

What are new customer contributions?

Developer charges, also known as new customer contributions, are a one-off, upfront charge that a water business may levy when a new connection is made to its water, sewerage or recycled water network, or when a customer seeks to expand the capacity of an existing connection.

A new customer contribution is a financial payment made to a water business for works that are used or will be able to be used directly or indirectly for the provision of services that will benefit the connecting property, and any fireplugs attached to those works.[5]

Water businesses may charge NCCs in addition to the assets that connection applicants build and transfer to them, to own and operate, also known as gifted assets or reticulation assets.

What is the basis for the charge?

New customer contributions apply to regulated services provided by water businesses under Division 6 of Part 13 of the Water Act. These charges typically apply when connection applicants subdivide land on the urban fringe or redevelop sites within built-up areas. They may also apply when an existing property owner connects to a service for the first time or increases the capacity of an existing connection.

What is the commission's role in NCC regulation?

The WIRO establishes NCCs as a 'prescribed service' and the commission's periodic price determinations for water businesses set or approve a price level for NCCs or the way the NCCs are to be calculated. The commission publishes guidance in line with the WIRO that water businesses must comply with, which includes NCC pricing principles designed to implement the Water Act requirements. The *New Customer Contributions Framework* will inform the guidance the commission publishes for water price reviews.

The commission has made price determinations since 2013 approving:

- prices for standard NCCs in select situations

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5 See *Water Act 1989*, s. 268(2).

- negotiating frameworks with binding principles for the manner in which water businesses must calculate price levels for negotiated NCCs in all other circumstances.

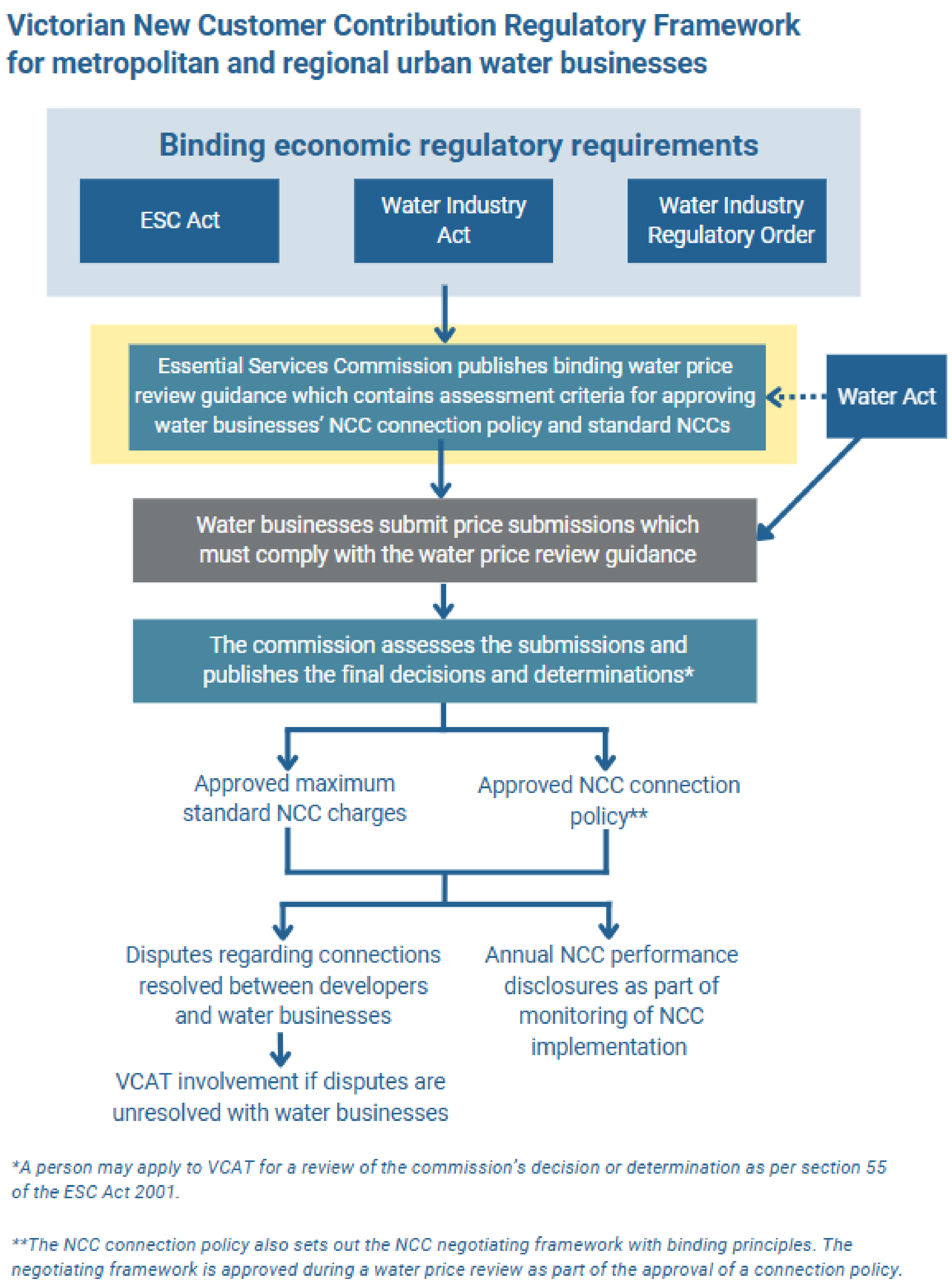
2.2 Legal and regulatory framework

The relevant NCC regulatory framework includes elements of the:

- Essential Services Commission Act 2001
- Water Industry Act 1994
- Water Industry Regulatory Order 2014
- Water Act 1989.

Each of these instruments have key provisions that are relevant for NCCs. They form the basis of the requirements water businesses must comply with (see Figure 2.1).

Figure 2.1 New customer contributions regulatory framework and process



The Water Act 1989

The Water Act governs water businesses' rights and obligations in relation to NCCs and new connections. It requires that:

> The amount of payment required from an owner must be assessed by the Authority to be fair and reasonable, taking into account the benefit to that property relative to the benefit to other properties.[6]

The Water Industry Regulatory Order 2014 (WIRO) specifies the prescribed services subject to price regulation including those to which NCCs apply.[7] It sets out the commission's objectives in performing functions and exercising powers in relation to the regulated water industry as well as the matters we must have regard to when seeking to achieve these objectives and when making price determinations.[8, 9]

The WIRO also requires the commission to provide guidance to water businesses setting out matters, before making a price determination.[10] Water businesses must comply with this guidance and have regard to the matters in clause 11 of the WIRO when making a price submission to the commission.[11]

Commission's water price review guidance

The guidance issued under the WIRO sets out the commission's regulatory framework for NCCs.[12] It identifies the matters we expect water businesses to consider and the information they must provide to support their pricing proposals. Our guidance also incorporates the requirements of the Water Act for payment of a NCC from new connection applicants.

If the commission considers that a water business's price submission does not comply with the guidance or have adequate regard for the matters specified in clause 11 of the WIRO, the commission may specify the maximum prices or the manner in which the prices are to be

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6 See *Water Act 1989*, s. 268(3).

7 Water Industry Regulatory Order (WIRO), cl. 7(b) identifies services to which developer charges apply: defined as '(a) contributions to the costs of works imposed under Division 6 of Part 13 of the Water Act 1989; or (b) contributions to the cost of works imposed under section 196 and 197 of the *Water Act 1989*.'

8 WIRO, cl. 8.

9 WIRO, cl. 11.

10 WIRO, cl. 13.

11 WIRO cl. 14(b)(i).

12 WIRO, cl. 13.

calculated.[13] Before doing so, the commission will publish a draft decision explaining the reasons for rejecting the water business's proposal and provide the water business an opportunity to submit a revised proposal addressing those reasons. If the commission does not approve the proposed standard NCCs, the water business must negotiate all its NCCs during the price determination period under the approved negotiation framework.

13 This may also apply if a water business fails to submit a price submission within the time period specified by the commission.

3. Our principles-based NCC Framework

The *New Customer Contributions Framework* reflects the statutory requirements set out in section 2, retains the objectives from the prior NCC Framework and incorporates feedback from our 2024 to 2025 NCC review. Interested parties emphasised the need for a framework that provides both flexibility and clarity, enabling consistent application of NCCs while accommodating the differing circumstances of new connections across metropolitan, urban and regional areas.

In response to this feedback, the *New Customer Contributions Framework*:

- Maintains flexible NCC pricing principles, allowing water businesses to adjust pricing to local circumstances while ensuring charges stay fair and reasonable.
- Retains provision for standard NCCs in suitable circumstances, alongside the negotiated NCCs which will be available in all cases. This approach supports a more targeted application of NCCs, ensuring charges reflect the specific costs and benefits with different connection types.

3.1 New customer contribution pricing principles

The following pricing principles apply to all NCCs and will be included in our future water price review guidance papers.

A proposed NCC must have regard to the:

- incremental infrastructure and associated costs in one or more of the statutory cost categories attributable to a given connection, which must be greater than the avoidable cost of not servicing the connection and less than the standalone cost of servicing that connection (incremental cost) [14]
- incremental future revenues (or other benefits) that will be earned from customers at that connection.

See section 4.3 for examples of benefits (incremental revenue) and section 4.4 for efficient pricing bounds.

We acknowledge the interaction between gifted assets and the treatment of benefits or rebates. Where a developer provides assets that exceed the requirements of a standalone solution, those assets may deliver incremental benefits that are recognised through rebate or other arrangements. While gifted assets may be excluded from incremental cost calculations, they must still be

[14] Statutory cost categories mean costs for works imposed under Division 6 of Part 13 of the *Water Act 1989.*

considered in relation to incremental benefits where relevant. The treatment of gifted assets is addressed in section 4.2.[15]

Separately, NCCs are subject to a zero floor. Where applying efficient pricing principles would otherwise indicate that no contribution is required, the NCC should be set to zero (i.e. <0). In some situations, taking account of extra revenue and benefits from new customers can mean the calculated NCC is zero or even less than the cost the business avoids by not providing the connection. This does not mean that new customers are unfairly subsidising existing ones. It simply means the extra revenue from new customers helps cover shared costs and can lead to lower average prices for everyone.

When showing that a proposed standard NCC meets the efficient pricing bounds requirement, a water business should look at the costs of serving the whole group of customers covered by the eligibility criteria, not just an individual connection.

3.2 Types of new customer contributions

The *New Customer Contributions Framework* and future water price review guidance provide for two types of NCCs, which operate alongside each other:

- **Standard NCCs** apply only where infrastructure requirements and growth rates are relatively well known and are documented in a Development Servicing Plan (as described in section 5.2). Standard NCCs are common across a defined group of connections within a clearly specified area and any specified criteria for connection characteristics. In these circumstances, the commission may approve standard NCCs, which water businesses may offer to connection applicants. Standard NCCs are intended to reduce administrative burden and improve the timeliness and predictability of costs in clearly defined development areas. Even where we approve a standard NCC and its eligibility criteria, a connection applicant and a water business retain the right to negotiate.
- **Negotiated NCCs** may be agreed between water businesses and connection applicants in any circumstances, including where a standard NCC is available, where a connection falls outside areas or connection criteria eligible for a standard NCC, or where a development is larger-scale or more complex. Negotiated NCCs allow parties to agree site-specific arrangements, provided that any agreed NCC complies with the binding NCC pricing principles.

Accordingly, the *New Customer Contributions Framework* supports commission approval of:

- standard NCCs for specific eligible circumstances (standard)
- the methodology for calculating NCCs on a case-by-case basis for negotiated NCCs, consistent with the NCC pricing principles (negotiated).

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[15] See page 16.

Water businesses are not required to make standard NCCs available for particular areas. However, if proposing to use a standard NCC in a price period, a water business must include it in its price submission for the commission to assess.

Section 4.1 clarifies when each type of NCC may apply, and the box below provides examples of when negotiated NCCs typically apply.

Examples of circumstances where water businesses may negotiate NCCs because a standard charge would not fairly reflect the costs, risks or benefits of a particular connection include:

- Large or complex developments – such as major residential subdivisions, industrial parks or mixed-use developments, where the scale, staging or bespoke infrastructure differs from standard assumptions.
- Non-standard assets or design – where the connection requires unusual design, higher specifications, or assets that are not part of the utility's standard network.
- Capacity-driven works – when a connection triggers significant upstream augmentation, shared assets, or early investment ahead of broader demand.
- Timing or staging differences – where the developer requests accelerated delivery, staged connections, or deferral of works that affect costs and risks.
- Location-specific factors – such as remote, constrained or high-cost areas where construction costs differ materially from standard charges.
- Customer-funded or gifted assets – where ownership, handover conditions, rebates, or future recoveries need to be agreed and benefits accounted for.
- Risk allocation issues – including demand risk, future connections, oversizing, or uncertainty about future use of the assets.
- Commercial or revenue impacts – where expected future revenues from the connection materially affect the efficient charge.

In these cases, negotiation allows NCCs to better reflect efficient costs and benefits while remaining consistent with regulatory principles and approved connection policies.

3.3 Framework administration improvements

New and expanded measures have been introduced to improve administration processes. The new measures will:

- **clarify** key aspects of the NCC Framework
- **require** minimum disclosures that water businesses must provide to support transparent and efficient NCC administration and negotiations
- **empower** suitably informed NCC calculations and negotiations

- **encourage** advanced practice by reflecting aspects of good NCC practice into our PREMO ambition ratings
- **monitor** and show key NCC outcomes.

The remaining sections of the *New Customer Contributions Framework* outline these new and expanded measures. In 2026, we will consult with interested parties to develop supporting materials to further aid in NCC administration, including case studies and proforma NCC calculation models, as well as definitions and measurement details for annual NCC disclosure requirements.

4. Clarifying the NCC Framework

This section clarifies key elements of the NCC Framework including:

- applying negotiated versus standard NCCs
- interpreting incremental cost and incremental benefits when calculating NCCs
- interpreting and applying standalone and avoidable cost-efficient pricing bounds
- conditions where a business proposed to transition standard NCCs to cost reflective levels over a defined period
- the scope of director attestation
- access to dispute resolution.

4.1 Using negotiated versus standard new customer contributions

Our *New Customer Contributions Framework* provides for two types of NCC: negotiated and standard.

When negotiated NCCs apply

NCCs can be negotiated between the connection applicant and the water business, with dispute resolution available if needed.

Even where a standard NCC and its eligibility criteria have been approved, a connection applicant may request to negotiate. Whether negotiations go ahead will depend on if, in the circumstances, the benefits of negotiation outweigh the associated transaction costs. This involves assessing whether negotiation would better support compliance with the Water Act NCC requirements—particularly the assessment of relative costs and benefits—compared with the costs of undertaking updated calculations and conducting negotiations for that specific connection. The water business should inform the connection applicant of the likely negotiation costs, after which the applicant can decide whether to proceed with a negotiated process.

Negotiated NCCs can:

- apply to both new connections and existing connections looking to increase the capacity of services at that property
- be higher or lower than standard NCCs depending on the circumstances of the connections being negotiated, and should be used where they better meet the Water Act's relative cost and benefit requirements
- be instigated by either the developer or water business where it meets the NCC Framework requirements.

When standard NCCs may apply

Through their pricing proposals, water businesses may seek our approval of standard NCCs that set the approved standard price for NCCs in specified connection circumstances (the standard NCC eligibility criteria).

We will only approve standard NCCs if we are satisfied that the water business:

- has provided evidence of attributed costs and benefits and that the proposed standard NCCs meet the eligibility criteria, and
- is complying with the NCC pricing principles set out in the commission's guidance, or
- is applying it to a small-scale development, discussed below.

Standard charges will apply only to new connections in areas where infrastructure requirements and growth rates are relatively well known and forecasted by the water business. In these circumstances, standard NCCs reduce administrative burden and improve the timeliness and predictability of costs faced by connection applicants.

Section 5.2 outlines the preconditions for proposing a standard NCC and the evidence a water business must provide to the commission to show compliance with the NCC pricing principles. A new requirement is that a water business must publish a Development Servicing Plan that covers the locations and connection types that are eligible for the proposed standard NCC.

Setting small-scale standard NCCs

For some small-scale developments, such as small infill subdivisions, the administrative cost of separate incremental costings or transaction costs of multiple location-based standard NCCs may be inefficient. In these circumstances, we may allow water businesses to propose small-scale standard NCCs. This is subject to the water businesses showing consideration of the following small-scale customer segmentation principles:

- the need to group small scale connecting customers together on an economically efficient basis
- the need to avoid unnecessary transaction costs.

Where small-scale standard NCCs are proposed, a water business' connection policy must define what constitutes a small-scale development and the thresholds below which a small-scale standard NCC would apply (that is, the eligibility criteria).

Given their scale, averaged cost assumptions may be used when setting the standard NCC to efficiently minimise estimation costs for these small connections.

4.2 Incremental costs

What incremental costs may include

When charging NCCs, the Water Act provides that a water business may:

> require the owner of the property to meet or contribute to the present day cost of any works that are used or will be able to be used directly or indirectly for the provision of services that will benefit the property, and any fireplugs attached to those works.[16]

In practice, this requires water businesses to identify the incremental costs of the work. In this context, incremental costs are costs that a water business incurs to service one or more added properties because of growth or expansion. These costs would not have arisen if the water business were only serving the existing customer base.

Such costs may include:

- capital expenditure to invest in plant and equipment
- operating and maintenance expenditure
- taxation costs and financing costs associated with constructing an asset sooner than planned in a Development Servicing Plan.

Incremental costs should be calculated over a period that aligns with the water business's growth planning and asset service life and use horizons. For operating costs, this period should be the same as the revenue assessment period.

At the time of a connection application these incremental costs may have been incurred by the water business in prudent anticipation of growth (sunk costs) or to service expected future growth (forecast costs).

This means incremental cost can include an allocation for costs of assets the water business prudently built in expectation of future growth.

While there is broad discretion in the costs that may be attributed to connection applicants in the calculation of NCCs, the Water Act requires that water businesses identify these when charging an NCC.[17] Connection applicants should have clear visibility of the costs they are contributing to.

We set out a range of methods that water businesses may use when seeking to estimate incremental cost in section 6.2.

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16 See *Water Act 1989* s.268(2).

17 *Water Act 1989* s268(4)(c) requires that a notice imposing an NCC 'must specify any works or services that have been or will be provided' among other things.

Gifted assets

For some connections or augmentations, the water business may require a connection applicant to build certain assets and gift those assets to the water business for its ongoing ownership and operation. Water businesses do not incur capital expenditure to acquire these gifted assets.[18] Therefore, these assets are not included in the regulated asset base.

Where the connection arrangement requires assets to be gifted, the value of those gifted assets is excluded for the purposes of calculating incremental capital costs.

While gifted assets may be excluded from incremental costs, this does not mean that they should be excluded from consideration of incremental benefits or other rebate arrangements in cases where they involve design or capacity requirements that are greater than the standalone solution for servicing just that development.[19] Where a rebate is paid on upsized or shared gifted assets, it is reported as capital expenditure by the water business for recovery in its regulated asset base.

Where a water business must recognise gifted assets as assessable income for tax equivalence purposes, it may cause that water business to have a calculated tax liability. Such tax costs are incremental costs for the purpose of calculating NCCs. The section below clarifies the circumstances where these costs would be included in an NCC calculation and where it would be funded through service charges rather than NCCs.

Treatment of tax costs

There are two methods for recovering the incremental tax costs that water businesses may incur from receiving NCC revenues and gifted assets. These methods must be applied consistently to prevent double recovery of tax or inappropriate deductions from a water business's regulated asset base.

[18] Other than costs associated with connecting them into the existing system and any required capacity expansion upstream or downstream of the connection point. Such costs would be included in a water business's incremental costs.

[19] Section 4.3 discusses treatment of incremental benefits and section 5.1 explains how connection policies must explain how gifting arrangements account for incremental benefits in these circumstances.

Our default treatment of forecast tax liabilities

The commission supports including a tax allowance in the pricing model to determine required revenue. Taxes are calculated on gifted assets and NCC revenues, as these are treated as revenue within the pricing model. As a result, taxes on the gifted assets and NCC revenues are reflected in water and sewerage prices and are ultimately paid for by customers. Where these tax costs have been forecast, the incremental taxation costs of NCCs and gifted assets should not be included in a water business's assessment of incremental cost.

Alternative treatment of NCC and gifted asset tax liabilities

The commission currently allows for an alternative approach to the current treatment of NCC and gifted asset tax liability in two circumstances:

- **Recovering tax liability solely from connecting or augmenting customers**
  A water business that receives consistently high NCC revenues and large amounts of gifted assets may face upward pressure on its water and sewerage tariffs. Where supported through its engagement, the business may propose in its pricing proposal to exclude these costs from the water and sewerage pricing model. The water business may instead recover them through its calculated NCCs (either standard or negotiated) to account for the tax liabilities with NCC revenues and gifted assets.
- **Recovering unforeseen tax costs from connecting or augmenting customers**
  A water business that receives material NCC revenues and gifted assets, that were not forecast in the water and sewerage pricing model, may propose to include these unforeseen tax costs in the calculation of negotiated NCCs during the regulatory period.

Any proposed alternative to the current treatment of tax in the pricing model must be agreed with the commission before the next pricing proposal. Where an alternative approach is adopted, the part of incremental NCC revenue collected to fund tax costs must be separately reported to the commission. That element of NCC revenues should not be deducted from gross capital expenditure when calculating the water business's regulated asset base. This requirement ensures that inappropriate deductions from the regulated asset base are avoided.

We intend to include these two options in our future water price review guidance papers and will provide financial templates for their application.

Calculating incremental financing costs when an asset is needed earlier

In cases where a development requires an asset to be built sooner than planned, the water business can recover any incremental financing costs (IFC) that it incurs using the following formula:

$$\mathrm{IFC} = \left(1 - \left[\frac{1}{(1+r)^n}\right]\right) \times \text{cost of capital expenditure being incurred sooner than planned}$$

where:

r = estimated pre-tax[20] 'standard' regulatory rate of return (i.e. pre-tax regulatory rate of return) from our relevant guidance

n = the number of years the capital expenditure is required sooner than planned.

Water businesses can recover incremental financing costs whenever an asset is provided sooner than planned, regardless of whether development is in an area covered by a Precinct Structure Plan.[21] Water businesses will need to provide evidence to support the bring-forward costs. This may be in the form of a Development Servicing Plan or Asset Management Plan.

Nevertheless, incremental financing costs should be offset against revenues earned earlier than expected, consistent with our NCC pricing principles.

While our determinations specify a post-tax regulatory rate of return, the implied pre-tax regulatory rate of return can be derived using the following general formula:

$$\text{Pre-tax regulatory rate of return} = \frac{\text{post-tax regulatory rate of return}}{1-T(1-\gamma)}$$

Where:

T = corporate tax rate

γ = value of imputation credits.

20 While our pricing model uses a post-tax return to set service prices as those prices are inclusive of allowances for tax costs, a pre-tax return is used here to calculate incremental financing costs before accounting for any tax payable on the NCC revenues.

21 The Precinct Structure Plan is a long-term plan for urban development. It describes how the land is expected to be developed.

Present day costs

The incremental costs should be assessed as their net present value using the 'standard' regulatory rate of return from our applicable guidance paper as the discount rate.

Period of incremental cost assessment

The NCC Framework requires choice of a period over which incremental costs will be assessed. This may differ for different connection types.[22] Water businesses can choose and justify these time horizons by considering the:

- length of development staging strategies
- business's growth planning horizon and life of assets involved in service provision
- practicality of developing reliable forecasts for longer horizons
- level of demand predictability.

4.3 Incremental benefits and revenues

When assessing NCCs, it is important to consider not only the incremental costs of servicing new connections but also the incremental benefits that may arise. These benefits can take various forms, such as more revenues, avoided costs, or other financial or service-related advantages, and must be appropriately reflected in NCC calculations to ensure charges remain fair and reasonable in accordance with the Water Act.

What incremental benefits may include

When charging NCCs, the Water Act provides that:

> The amount of payment required from an owner must be assessed by the Authority to be fair and reasonable, taking into account the benefit to that property relative to the benefit to other properties.

Our *New Customer Contributions Framework* recognises two types of incremental benefits that must be reflected in NCC calculations:

- Incremental revenue benefits: must always be considered.
- Cost-related connection benefits: must be considered when gifted assets are upsized or form part of the shared system and may also be considered for other benefits, such as avoided bulk water costs from recycled water connections.

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[22] For example, Australia's national electricity distribution connections regime provides guidance that this period be 30 years for a residential connection and 15 years for a business connection, although it affords businesses the ability to depart from this for business customers with reasons.

Other incremental benefits

Other incremental benefits will arise where a water business expects to avoid costs or receive other financial benefit because of a connection or augmented connection.

The Water Act and our NCC pricing principles mean such benefits must be accounted for in NCC calculations.

Water businesses can identify, estimate and justify the inclusion of these other benefits in the calculation of NCCs by considering factors such as:

- upsizing of gifted assets required to service subsequent customers
- the nature of a large customer's service usage, for example:
  - the customer's usage profile and whether this is likely to improve asset utilisation (a benefit) or drive high instantaneous loads (a cost)
  - the customer's willingness to accommodate interruptability or curtailment where water availability or system incidents would otherwise drive reliability issues for other water users
- the avoided costs in provision of that service – for example, where a business upgrades the capacity of an asset it would have otherwise replaced soon
- avoided costs in provision of a different service – for example, having a recycled water connection may avoid bulk water costs or provide other benefits of integrated water management.

Incremental revenue

Incremental revenue is the revenue the water business expects to earn through selling prescribed services (for example, water and sewerage services) to the connecting customer or customers. Our NCC pricing principles mean that incremental revenue must be accounted for in NCC calculations.

Estimating incremental revenue for calculating NCCs requires a water business to address the factors in Table 4.1.

Table 4.1 Elements of forecasting incremental revenue

Element	Consideration
Price of prescribed services	Forecasting incremental revenue requires an assumed prescribed service price for the forecasting period, which will be longer than a water business's price determination period. Prices used for the projected revenues beyond the current price determination period should use a flat real price path with only inflation escalation. If a water business uses a prescribed service price which is greater than the inflation escalation, then it must justify this approach in its price submission.
Forecast customer demand	Forecasting incremental revenue requires water businesses to forecast expected customer demand for all NCCs, and customer connection numbers for standard NCCs. Water businesses can forecast and justify their incremental customer demand by considering: • the likely nature of the connecting customers (residential or business, and form of business involved for large users) • trends in service usage • locational factors affecting water usage levels (for example, access to recycled water).
Forecasting period	Incremental revenues should generally be forecast over the same period as is used to assess incremental costs. However, some connection circumstances may warrant shorter periods. Water businesses can choose and justify their time horizons by considering the: • expected tenure of the customer's connection point • length of development staging strategies • life of the plant invested in by large commercial and industrial customers • practicality of developing reliable forecasts for longer horizons • level of demand predictability.
Discount rate	Incremental revenues should be assessed as their net present value using the 'standard' regulatory rate of return from our applicable guidance paper as the discount rate.

4.4 Standalone and avoidable costs

Our NCC Framework includes the NCC pricing principle that a water business calculating an NCC based on the incremental infrastructure and related costs of a connection must ensure those costs are:

- greater than the avoidable cost of not servicing the connection
- less than the standalone cost of servicing that connection.

These are called the efficient pricing bounds.

What are standalone and avoidable costs and why they apply

Water businesses provide services that involve shared use of large-scale assets with significant fixed costs, often requiring substantial but infrequent investments in growth and capacity. In practice, this means:

- estimating marginal costs for efficient price bounds will require judgment and assumptions
- recovering shared and fixed costs is necessary to ensure the water business recovers total costs and stays financially viable.

This means both upfront NCCs and ongoing service prices are based on assessments of customers' (connection applicants' and water and sewerage customers') share of fixed versus variable costs. To address this inherent judgment and broad range of possible outcomes, our NCC pricing principle sets up efficient pricing bounds as an additional customer protection to prevent uneconomic levels of cross-subsidy.

Pricing within the efficient pricing bounds avoids inefficient economic cross-subsidies for the following reasons:

- **Above standalone costs**
  Charging more than the standalone cost could incentivise customers to seek alternative service solutions, potentially leading to inefficient bypass of the existing water infrastructure.
- **Below avoidable cost**
  Charging less than the avoidable cost would make it economically beneficial for the water business to stop supplying the customers. This is because the associated costs would exceed the revenue obtained from the customers, meaning other customers would effectively be subsidising them at inefficient levels.

Standalone and avoidable costs applicable to a connection

The efficient pricing bounds NCC pricing principle applies to assessing the adequacy of incremental costs included in an NCC calculation, not the net incremental cost NCC after accounting for incremental revenues or other benefits.

In some cases, including incremental revenues and benefits may result in a calculated NCC that is zero or lower than the avoided costs of servicing a connection. This does not indicate inefficient cross-subsidisation, but rather it reflects that added revenue from new customers offsets shared costs, benefiting existing customers through lower average service prices.[23]

When demonstrating compliance with the efficient pricing bounds aspect of our incremental cost NCC pricing principle for a proposed standard NCC, a water business should consider the costs of servicing the collective customer group specified in the proposed eligibility criteria.

What is involved in estimating standalone and avoidable cost

Avoidable cost

The avoidable cost is the cost that would be avoided if the water business did not provide any service to a new or expanded customer or group of new customers, and it is forward-looking only.

This can be estimated by assessing a water business's costs with and without the new or expanded customer or group of new customers.

Some economic cost estimates such as long run marginal cost or average incremental cost (discussed in section 6.2) may be used as proxies for avoidable cost for the purpose of proving compliance with this pricing bound.

Standalone cost

The standalone cost is the cost of the lowest cost, technically efficient servicing solution (the optimised cost) to service the new or expanded customer or group of new customers. A water business can estimate the standalone cost in different ways, including by:

- allocating the share of existing assets needed to service just the new or expanded customer or group of new customers and then adding the cost of new assets required to service just the new or expanded connection(s)
- estimating an entirely new servicing solution that is independent of the existing network.

The water business should use whichever of the above methods provides a lesser cost estimate for the connection(s) being assessed.

4.5 Transitioning to cost reflective NCCs

In future guidance we will specify that if a water business proposes a glide path transition, our guidance will require businesses to:

[23] Refer to section 4.2 Gifted Assets for further information

- transparently quantify the customer bill impact of subsidising these developments
- justify the length of the transition period
- consult representatives of both connecting customers and existing customers about the reasonableness of the above points (see section 7.2).

We will consider approving proposals that provide for a transition to cost reflective NCCs, to enable a water business to manage price shocks. Water businesses should engage with us if their proposed NCCs involve cost attributes that are outside of the efficient pricing bounds before a price review commences.

4.6 Director attestation

Our NCC Framework is supported by the director attestation required by our water price review guidance papers. Our guidance requires the board of a water business to attest to the quality of its price submission and its compliance with our guidance (in all material respects). This promotes board involvement and ownership of the proposals in the business's price submission. This attestation, endorsed by a resolution of the board of directors, must be included in the price submission.

The form of the required attestation set out in our 2023 guidance was:

> The directors of [name of water business] having made such reasonable inquiries of management as we considered necessary (or having satisfied ourselves that we have no query), attest that, to the best of our knowledge, for the purpose of proposing prices for the Essential Services Commission's 2023 water price review:
>
> information and documentation provided in the price submission and relied upon to support [name of water business]'s price submission is reasonably based, complete and accurate in all material respects;
>
> financial and demand forecasts are the business's best estimates, and supporting information is available to justify the assumptions and methodologies used; and
>
> the price submission satisfies the requirements of the 2023 water price review guidance paper issued by the Essential Services Commission in all material respects.[24]

[24] Essential Services Commission, *2023 water price review: Guidance paper,* 26 Oct 2021, p.62.

4.7 Access to dispute resolution

There are three sections of the Water Act that are relevant for NCC negotiations.[25] The sections ensure both parties negotiate in good faith. Where negotiations between a water business and developer do not reach agreement, provision should be made for the concerned developer or connection applicant to:

- seek an internal review by the water business
- request independent commercial dispute resolution
- be informed of their rights to challenge a decision through the Victorian Civil and Administrative Tribunal (VCAT), including a brief description of the VCAT process and timing.

It is the commission's view that offering an internal dispute resolution process reduces costs to both parties and improves timeliness, by minimising the likelihood of disputes going to VCAT. This must be included in a water business's connection policy – see section 5.1.

To aid dispute resolution for NCCs, a water business must:

- Provide an internal review process as part of its negotiating framework, which will be subject to commission review and approval.
- Specify the information required of the water business and of connection applicants in its negotiating framework to enable connection applicants to assess grounds for appeal.
- Ensure that the information required to be compiled and shared during negotiations pursuant to an approved negotiating framework will align with categories or grounds for appeal to VCAT.
- Provide calculations to help inform the decisions of a dispute resolution body or VCAT, if needed.

Process of appeal

The process for appealing against a charge is as follows:

- **Notice** – The clock runs from the time the water business **gives notice of a charge**.
- **Objection** – Then the developer/property owner has **one month** to object to the water business to that notice (the contents of which are specified in s268(4)(a) to (g) and 270(3) of the Water Act)
    - OPTIONAL – The water business has discretion to specify in the notice of charges a longer time than 1 month to allow objections (s271(1)).

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[25] Sections 268, 269 and 270 of the *Water Act 1989* require water businesses to ensure charges are fair and reasonable. Section 145 of the Water Act states that a connection applicant must apply for consent from a water business to connect to their service, and that the water business may consent, refuse to consent, or consent subject to any terms and conditions it thinks fit.

- **Decision on objection** – The water business has **2 months** following receipt of an objection to notify the developer/property owner of its decision on the objection (s271(2))
    - **Optional step under VCAT Act** – The developer/property owner can request a **statement of reasons** from the water business (s46 of the *Victorian Civil and Administrative Tribunal Act 1998* (Vic)).
- **Appeal to VCAT** – After the later of the water business's decision on the objection, or receipt of a statement of reasons, or advice that a statement of reasons will not be given, the developer/property owner has **28 days** to appeal the water business's response to the objection to VCAT (s271(4)(b) of the Water Act).

5. Requiring minimum information disclosures

This section outlines the requirements our future water price review guidance papers will set. Water businesses must:

- prepare connection policies that meet our minimum content requirements
- provide certain information to the commission if they choose to propose standard NCCs.

5.1 Connection policies

Connection policy requirement and minimum content

In future price determination periods water businesses must prepare a connection policy, submit it for approval with their price proposals and publish their approved connection policy on their website. This requirement builds on the existing requirement on water businesses to have a negotiating framework approved by the commission, which will become part of the new connection policy.

Connections policies will:

- ensure sufficient and transparent connection process and pricing
- support well informed connection applications and negotiations.

An approved and published connection policy should serve as a comprehensive guide for connection applicants. It should clearly outline the types of connection services and customers covered, eligibility criteria and thresholds for standard NCCs, the connection processes, charges payable and dispute resolution arrangements.

A connection policy must address the minimum content set out in Table 5.1.

Table 5.1 Required contents of connection policies

<table>
<tr><th>Element</th><th>Content required</th></tr>
<tr><td>Connection services</td><td>Definitions of each connection service, the customers to whom they apply, details for when standard charges apply and the eligibility criteria for each approved standard NCC, including thresholds for small-scale standard NCCs.</td></tr>
<tr><td>Processes</td><td>Details of the application processes, contact details, information and documentation needed, and timeframes for assessing applications/enquiries and progressing these through stages of the application and connection process.

Where water businesses propose service level commitments for the response timeframes to steps in their connection process, those would be included here too (see section 7.2).</td></tr>
<tr><td>Negotiations</td><td>Sets out the water business's negotiating framework including addressing our minimum requirements for negotiating frameworks discussed below.</td></tr>
<tr><td>Fees and charges</td><td>A comprehensive schedule of fees and charges that may be payable during a connection process, or the method through which charges will be calculated and relevant inputs to those calculations. This may include details of:
• standard charges and charge setting methods for negotiated NCCs
• schedule of rates for miscellaneous charges (for example, for charges payable to recover the cost of preparing and administering negotiated NCCs or for assessing designs for gifted assets and auditing their construction quality before interconnection)
• approach(es) to incremental cost estimation in negotiated NCCs
• approach(es) to incremental demand forecasting
• circumstances where tax may be payable on the incremental costing or gifting
• approach to bring forward costs
• operation of any pioneer scheme.</td></tr>
<tr><td>Asset gifting and rebates</td><td>The water business's arrangements for asset gifting, including:
• circumstances where gifting will be required
• circumstances where upsizing may be required
• how incremental benefits are assessed and where and how rebates are applied
• arrangements for approving designs, auditing assets before connection, providing plans and installation maps
• circumstances where incremental tax costs may be charged.</td></tr>
</table>

Element	Content required
Terms	Connection application and connection agreement terms and conditions. Requirements for security fees.
Dispute resolution	Rights to and processes for dispute resolution, including internal escalation and external dispute resolution pathways.

The following sections elaborate on some of the specific content requirements.

Gifted assets

In its connection policy, a water business must explain:

- what constitutes a reticulation asset and what constitutes a shared asset for the purpose of identifying asset gifting requirements on either type of asset
- the treatment of upsizing gifted assets
- the treatment of incremental benefits (e.g. from upsizing reticulation assets or gifting shared assets) including when connection applicants are entitled to rebates when the upsizing cost is greater than the standalone cost of servicing just that development
- operation of any pioneer scheme
- any interplay between the calculation of NCC charges, gifting, gifting rebates or rebateable works.

Negotiating framework

A water business's connection policy must include its negotiating framework, covering:

- application and purpose of negotiating framework
- timeframes for negotiation
- provision of information by connection applicant
- provision of information by water business
- how the NCC pricing principles will be applied and the information to be provided to demonstrate their application
- consultation with affected parties
- payment of water business's costs
- termination of negotiations.

Proposed negotiating frameworks must set out the information the water businesses will provide during negotiations to ensure connection applicants are suitably informed for the negotiation and meet the relevant requirements of Water Act s.268(4). They must seek to ensure negotiations are clear and transparent, and consistent with NCC principles, statutory rights, obligations and relevant provisions in the Water Act (Division 6 of Part 13).

5.2 Information supporting standard NCC proposals

Our future water price review guidance papers will set out that water businesses proposing standard NCCs must provide certain information for the commission to assess and approve them, including:

- modelled NCC calculations and justified inputs for each standard NCC
- Development Servicing Plans for the service areas that will be eligible for each standard NCC
- their policies for attributing costs and benefits to the incremental cost calculations underpinning their NCC calculation models
- evidence of assessment of incremental benefits.
- evidence of compliance with the avoidable cost-efficient pricing bound in our NCC pricing principles.

Modelled NCC calculations and justified inputs

A price submission must provide the model(s) used to calculate the standard NCC charges including accompanying notes describing the data sources and input assumptions used. The model(s) must use the same financial parameters as in the commission's Financial Model Template.

If a water business develops and submits a bespoke NCC model instead of using one of our illustrative working models, we expect comprehensive documentation to help the assessment of the model used. The water business must demonstrate to our satisfaction that this model meets the requirements of our guidance and the Water Act and delivers against the NCC pricing principles.

Section 6.1 explains how we will empower improved compliance with this requirement by developing and publishing user guides for an expanded suite of illustrative working models that:

- can be used to calculate NCCs in a range of circumstances
- comply with the NCC pricing principle required to calculate net incremental cost.

Development Servicing Plans

Where a water business is proposing standard NCCs we will require that Development Servicing Plans are published, describing the expected timing and sequencing of development and infrastructure for the services and locations that will be eligible for the standard NCCs.

The commission requires that Development Servicing Plans should meet the following conditions:

- are made publicly available on the water business's website and given during price reviews
- describe the expected timing and sequencing of development and infrastructure delivery to various locations

- provide the connection applicant with sufficient information to enable informed negotiations and transparent assessment of bring forward costs
- are reviewed regularly and updated whenever changes occur.

The minimum content we require in a Development Servicing Plan is set out in Appendix B.

A Development Servicing Plan is not required where a:

- proposed standard NCC relates to an infill area that is not the subject of a Development Servicing Plan
- proposed standard NCC is for a small-scale connecting customer NCC
- regional water business relies upon local government plans rather than its own Development Servicing Plans. It should provide these plans and demonstrate how its forecast incremental costs are consistent with those plans.

Cost and benefit attribution policies

Water businesses proposing standard NCCs must keep and submit a cost and benefit attribution policy. This policy must clearly explain the incremental cost estimation approach used and the underlying assumptions. This approach should be applied consistently over time and enable replicable cost estimates and benefits assessments based on the information in the policy.

The cost and benefit attribution policy should address (where relevant) the:

- types of attributed assets and costs
- allocators used
- treatment of sunk costs
- consideration of avoided cost benefits.

Although this is not a requirement for negotiated NCCs, under the Water Act such information should be made available during a negotiation to support any proposed NCC.[26]

Assessment of incremental benefits

Water businesses proposing standard NCCs must provide evidence that they have considered incremental benefits in calculating standard NCCs. One way to do this will be to include the present day value of incremental revenues in their NCC calculations. Our preferred NCC calculation illustrative working models discussed in section 6.1 will support compliance with this requirement.

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[26] The *Water Act 1989* s2.6.8(4)(c) requires that a notice imposing an NCC 'must specify any works or services that have been or will be provided' among other things.

Water businesses proposing standard NCCs must show that their incremental cost assessment complies with the avoidable cost bounds set out in our NCC pricing principles. This ensures that standard NCCs do not create uneconomic subsidies that would affect the broader customer base.

Section 6.2 outlines cost estimation methods for assessing avoidable cost compliance. We will include the avoidable cost compliance tests in our illustrative working NCC calculation models discussed in section 6.1.

6. Empowering NCC calculations and negotiations

6.1 New Customer Contribution calculation models

We will empower improved transparency in and compliance of NCC calculations by developing and publishing illustrative working models and model user guides. These models will:

- be our preferred models for water businesses to use when calculating NCCs in a range of circumstances
- support water businesses to provide compliant calculations for a range of circumstances
- provide a resource to connection applicants looking to perform due diligence on the reasonableness and likely compliance of NCCs proposed by water businesses.

6.2 Examples of cost estimation methods

Water businesses have broad discretion for choosing how they estimate incremental costs. We have set out a range of possible estimation methods for water businesses to support transparency and ease of NCC administration and compliance demonstration.

These methods can be used in combination and allow water businesses to specify:

- Customer specific incremental cost
- The costs associated with a specific connection. For example, reticulated assets and network extensions to connect out of sequence developments.
- Shared network incremental cost

  The costs related to augmentation of local network or system-wide capacity. These costs are related to pre-building or planning sufficient system capacity to manage expected growth. This can be captured in the long-run marginal cost of supplying the service, which water businesses should already be developing in their long-term forward plans.

Table 6.1 provides a non-exhaustive list of estimation methods and how they can be used. This includes how the methods can help show compliance with the avoidable cost-efficient pricing bound in our NCC pricing principles.

Table 6.1 Examples of incremental cost estimation methods

Method	Description	Possible use cases		
		Standard NCCs	Negotiated NCCs	Avoidable cost compliance
Full ESC financial template alignment	• Add worksheets into the financial templates. • Link to relevant capital expenditure projects and input transparent attribution assumptions. • Link to opex related to customer growth and input transparent attribution assumptions.	✓		
ESC template hybrid	Use a combination of water price review projects, updated project cost estimates and developer/water system specific project costs.		✓	
Activity based costing	Drawing from the water businesses' work estimation practices or quantity surveyors.	✓	✓	
Unitised costings	Drawing from estimated or benchmark unitised costs. Employing economic cost estimates such as long run marginal cost or average incremental cost which can be for different aspects of service provision – for example, shared water system augmentation, bulk water augmentation, sewerage pumping or treatment augmentation. These could also be geographic to account for locational cost differences – for example, infill vs greenfield, gravity fed vs pumped.	✓	✓	✓
Bespoke costings	Use actual works costings for specific planned projects – for example, specific developer or water system project and opex costings.		✓	✓

6.3 Including calculation methods and inputs in negotiating frameworks

We will empower water businesses to include calculation formulae and calculation inputs in their proposed negotiating framework for our approval. Such formulae can aid transparency in negotiations and reduce the administrative burden of conducting negotiations. A water business may include different formulae and inputs for different services.

Example formula

An example formula could be:

NCC = ICCS + ICSN – IR(n=X)

Where:

NCC = New Customer Contribution for the relevant prescribed service.

NCC ≥ 0 (NCCs cannot be negative).

ICCS = Incremental Cost Customer Specific – the incremental costs incurred by the water business which are used solely by the connection applicant. This may include extensions and augmentation of premises connection assets at the customers' connection point, or the costs of connecting gifted reticulation assets into the existing system. This can be net of benefits accounted for by the water business (for example, upsizing of gifted assets).

ICSN = Incremental Cost Shared Network – the costs incurred by the water business which are not used solely by the connection applicant. This may include any shared system augmentation whether prebuilt or planned to provide sufficient capacity for the connecting customer.

IR(n=X) = Incremental Revenue expected to be received from the new connection – the present value of a X year revenue stream directly attributable to the new connection and discounted using the 'standard' regulated rate of return from our applicable guidance paper.

7. Encouraging advanced practice

We will continue to incentivise advanced practice in NCC administration via our PREMO approach. This section explains:

- how NCCs interact with our PREMO approach
- where we will issue PREMO ratings guidance to incentivise better NCC practices.

7.1 NCCs are an integral part of our PREMO framework

The PREMO incentive framework includes financial, reputational and procedural incentives to align the interests of water businesses and the customers they serve, which includes connecting or augmenting customers.

PREMO stands for Performance, Risk, Engagement, Management and Outcomes. Water businesses must demonstrate their level of ambition in delivering value-for-money for customers in their price submissions across the five elements:

Performance – have the performance outcomes to which the water business committed in the previous regulatory period been met or exceeded?

Risk – has the water business sought to allocate risk to the party best positioned to manage that risk? To what extent has the water business accepted risk on behalf of its customers?

Engagement – how effective was the water business's customer engagement to inform its price submission?

Management – is there a strong focus on efficiency? Are controllable costs increasing, staying the same, or decreasing? Is the price submission succinct and free of material errors?

Outcomes – do proposed service outcomes represent an improvement, the status quo, or a reduction of service standards?

Various elements of PREMO have direct relevance to how water businesses explain, justify and administer their NCCs. For example:

Risk

NCCs and asset gifting practices inherently involve trading off the risk of:

- prudently foreseeing and building for growth between connection applicants and water businesses
- asset utilisation and forecast incremental revenue realisation risks
- cost recovery consequences for growth investment between connection applicants and ongoing water service customers.

Engagement

Given the above risk trade-offs, engagement with both connection applicants and ongoing water service customers on the risk trade-offs and adequacy of growth planning, Development Servicing Plans and NCC pricing in managing those risks is essential.

Performance

Connection services, like any regulated service, should be subject to clear performance commitments from water businesses and businesses should set targets for such performance and disclose their actual performance levels against those.

7.2 Linking PREMO ratings to better NCC practices

Our future water price review guidance papers will require consideration of NCCs in water businesses' self-assessments for their PREMO ratings. Specific examples of this are discussed below.

Connection process timing commitments and performance disclosures

For example, we will include in our PREMO rating guidance that:

- water businesses with Standard PREMO ratings should show average timeframes for negotiating connections
- water businesses with Advanced PREMO ratings should set performance targets aligned with connection timeframes, and show actual performance against these targets, with these targets informed through engagement.

Clear and authorised cost attribution policies

For example, we will include in our PREMO rating guidance that:

- water businesses with Standard PREMO ratings should keep and provide to the commission NCC cost and benefit attribution policies
- water businesses with Advanced PREMO ratings should provide evidence of suitable governance arrangements of NCC cost and benefit attribution policies. This includes board endorsement where forecast NCC revenues represent material forecast growth capex.

Adequate New Customer Contribution engagement

We recognise that each water business is best placed to design and undertake engagement to suit its circumstances and those of its customers and interested parties. However, our guidance will set out our expectations for water businesses with Standard PREMO ratings. For example:

- Water businesses should start engagement early in their planning for growth investment, Development Servicing Plans, standard NCCs and their negotiating framework. The engagement should be ongoing to keep testing proposals with customers.
- Water businesses must actively engage with customers in specific areas impacted by infrastructure costs, upgrades, or the addition of new connections within that location.
- Fit-for-purpose NCC engagement is needed to ensure both existing and new or expanded customers/connection applicants are consulted to ensure a fair and reasonable division of growth costs and benefits between the groups.
- If proposed NCCs are not cost reflective, water businesses must engage with their existing water and sewerage customers on how they plan to recover their growth costs. They must explain the scale of any subsidy and the timeframe to remove it.

8. Monitoring NCC implementation

We will monitor how the NCC Framework is administered to promote compliance and track performance throughout the price determination periods, not just at price reviews.

In doing so, we will:

- require water businesses to provide minimum annual disclosures of NCC performance metrics in Annual Performance Reports
- consider publishing comparative performance commentary where disclosed data show potential issues in NCC administration.

8.1 Annual disclosure requirements

We will require the following annual disclosures in Annual Performance Reports from water businesses:

General disclosures

- number of published current Development Servicing Plans
- number of published Development Servicing Plan (DSP) zones
- number of disputed connections elevated to senior management
- number of disputed connections elevated to independent commercial resolution
- number of Victorian Civil and Administrative Tribunal cases related to connections
- number of terminated connection negotiations

Water businesses should inform the commission of any disputed cases escalated for internal review before they go to VCAT in annual disclosures on NCCs.

New Customer Contribution charges or pricing disclosures

- number of subdivisions within regions
- number of standard and negotiated zones
- number of postage stamp and locational pricing zones
- number of greenfield/infill developments
- number of rebates approved for connection applicants.

Water businesses should also show the average timeframe for negotiating a connection.

The above disclosures will be supported by definitions and measurement requirements in our determinations for each water business.

8.2 Comparative performance commentary

We may publish a comparative performance report or commentary on aspects of performance where disclosed data suggests that NCCs are not being administered in line with our NCC Framework objectives (see section 1.1.).

Appendix A – Glossary

Term	Definition
Average incremental cost	The average incremental cost calculates the attributable incremental costs by dividing the capital and operating cost of a growth area by the number of connections in that area.
Bills (prices and charges)	Bills reflect the actual amount that water and sewerage end users pay. It includes the breakdown of various fixed and variable charges (each charge has a price) plus any government fees or rebates. Different user groups may have different combinations of charges on the bill. Bills will also vary based on the volume measured.
Building block	The allowed revenue of the regulated water business is equal to the sum of underlying components or 'building blocks' consisting of the return on capital, the return of capital (also known as depreciation), the operating expenditure, and various other components such as taxes and incentive mechanisms.
Bulk water	Water supplies between water businesses.
Capital expenditure	Investments in water and sewerage supply network. That is, pipelines pumps, meters, treatment plans, and storage systems.
Consumer price index (CPI)	The consumer price index (all groups Australia) published by the Australian Bureau of Statistics.
Development Servicing Plan (DSP)	A publicly available plan prepared by a water business that describes the expected timing and sequencing of developments and infrastructure provision. DSPs can be used as a basis for deriving standard NCCs during price reviews.
Efficient pricing bounds	Are defined in section 4.4.
Greenfield development	A development that requires new infrastructure on previously undeveloped or vacant land outside of an urban area.
Gifted assets	Assets, such as pipe infrastructure, gifted by the connection applicant to the water business for ongoing operation and maintenance.
Guidance paper	Issued to water businesses under clause 13 of the WIRO 2014. This paper sets out the manner the commission will regulate prices, governing criteria for each component of the building blocks method, and other matters that should be included in the price submission by a water business.
Headworks	Dams, weirs and associated works used for the harvest, storage and supply of water.

Term	Definition
Infill development	A development that uses existing infrastructure on underutilised land within an existing urban area.
Negotiated NCC charge	Negotiated charges allow water businesses and connection applicants to negotiate a site-specific arrangement where standard charges would not be fair and reasonable, or where a new connection is outside the areas eligible for standard charges. See section 3.2.
Net incremental cost	The net incremental cost approach uses incremental costs less incremental revenue (or other benefits) to estimate the new customer contribution charge.
New Customer Contributions (NCCs)	Charges connection applicants pay water businesses for extending water infrastructure to new (greenfield) and established (brownfield) areas in the water service area.
Operating expenditure	The costs incurred by a water business for its normal operational activities, including expenses such as rent, payroll and utilities.
Potable water	Water treated to a drinkable standard.
PREMO	Comprises five elements: Performance, Risk, Engagement, Management and Outcomes. It forms part of the commission's incentive framework that links reputation and financial reward for water businesses to the quality of outcomes they deliver to customers.
Precinct Structure Plan	The Precinct Structure Plan is a long-term plan for urban development. It describes how the land is expected to be developed.
Price determination	A determination applies for a regulatory period and sets the manner in which prices are to be calculated for a water business. It is made by the commission under section 33 of the *Essential Services Commission Act 2001* and clause 10 of the WIRO 2014.
Price submission	A price submission is a set of documents prepared by a water business, which sets out the services, key projects and prices it proposes to deliver over the next regulatory period. The price submission is written for the regulator and is informed by a water business's engagement with its customers.
Recycled water	Wastewater that is treated to a standard appropriate for its intended use. Class A: Recycled water treated to a level that allows it to be used for residential uses such as toilet flushing, washing machines and gardens. Not fit for human consumption.
Regional water businesses	Barwon Water, Central Highlands Water, Coliban Water, East Gippsland Water, Gippsland Water, Goulburn Valley Water,

Term	Definition
	North East Water, South Gippsland Water, Wannon Water, Westernport Water, GWMWater (urban services) and Lower Murray Water (urban services).
Regulated asset base (RAB)	The value of water business assets for regulatory purposes. These values were set initially for the water businesses by the Minister for Water and are adjusted on an ongoing basis to account for new investments, asset disposals, depreciation and inflation.
Reticulation assets	Local supply pipes providing water and sewer services to individual properties.
Metropolitan retailers	Greater Western Water, South East Water and Yarra Valley Water.
Revenue requirement	The revenue needed by each water business to cover operating costs and taxes and provide a return on assets and a return of assets (depreciation).
Rural water businesses	GWMWater, Lower Murray Water and Southern Rural Water.
Sewage	Liquid waste discharged into the sewerage system.
Sewerage	A physical arrangement of pipes and plant for the collection, removal, treatment and disposal of liquid waste.
Shared assets	Assets which are not used solely by the connection applicant. This may include any shared system augmentation whether prebuilt or planned to provide sufficient capacity for the connecting customer. It may also include assets upsized from the most cost-efficient servicing solution for an individual connection or development to serve multiple subsequent connections or developments.
Standard NCC charge	Standard charges apply to new connections in areas where infrastructure requirements and growth rates are relatively well known and designated by the water business. See section 3.2.
Sunk cost	Costs, typically for infrastructure, that a water business has already incurred to service future growth.
Water business	The 18 Victorian water businesses are State Government Business Entities. The Minister for Water is the portfolio minister for the Victorian water industry.
Water storage	A space to hold water, such as a dam or reservoir.
Water Industry Regulatory Order (WIRO)	The 2014 legislative instrument governs the commission's pricing power and functions for the Victorian water sector.

Appendix B – Suggested minimum content for a Development Servicing Plan

At a minimum, Development Servicing Plans must provide content that:

- Clearly demonstrates the **location** of existing and proposed assets in high-growth areas. The related service and types of existing and proposed assets should be clearly differentiable.
- Describes the **forecast timing** of infrastructure delivery to service new customers.
- Describes the **forecast sequencing** of infrastructure delivery to service new customers.

In providing this content, water businesses should include:

- The Development Servicing Plans' date of issue.
- The date of the Development Servicing Plans most recent update.
- The water businesses' contact information.
- A clear title of the development area represented in the Development Servicing Plan.
- A detailed map of development area.
- A clear geographical outline of the development area.
- The proposed construction year of each proposed asset included in the Development Servicing Plan.
- A clear outline of the growth assumptions used when developing the Development Servicing Plan.
- A clear outline of the scope of investments underpinning the costs involved with making connection within that development area.
- Information that describes the size of the assets included in the Development Servicing Plan.
- Labelling of any developer funded works. If the Development Servicing Plan includes assets that are expected to be funded by connection applicants, information on the gifting process, or notice of where more information can be found, should be provided.

We encourage water businesses to include the following in their Development Servicing Plans:

- Notice of where any relevant additional information can be found.
- The orientation and scale of the Development Servicing Plan to improve clarity and readability.
- Labels for any major roads/landmarks in the development area the Development Servicing Plans focuses on.