

# Review of New Customer Contributions

Report on interested parties' feedback

18 June 2025



## 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

<b>Acknowledgement</b>	<b>i</b>
<b>1. Overview</b>	<b>1</b>
1.1 Our review	2
1.2 What we heard from interested parties	3
1.3 Matters out-of-scope	8
1.4 Overview of the economic regulatory framework	8
1.5 How can you stay involved in our review?	12
<b>2. Supporting better NCC regime administration</b>	<b>13</b>
2.1 Engagement for NCCs	13
2.2 Development servicing plans	14
2.3 Standard vs negotiated NCCs	16
2.4 Monitoring of NCC implementation	19
<b>3. Areas of NCC calculation that would benefit from further guidance</b>	<b>22</b>
3.1 Clarifying the scope of the connection services	22
3.2 Clarifying the scope of recoverable costs	23
3.3 Locational versus network based NCCs: finding the right balance	27
3.4 Clarifying the scope of attributable revenues	29
<b>4. The NCC model</b>	<b>31</b>
4.1 Existing requirements	31
4.2 Challenges with the current NCC model	31
4.3 Response to interested parties' feedback	32
<b>5. Next steps</b>	<b>34</b>
5.1 We want to hear from you	34
5.2 Workshops and training	34
5.3 NCC framework paper and price review guidance papers	34
<b>Appendix A – Supporting documentation</b>	<b>35</b>
<b>Appendix B – Submissions received</b>	<b>39</b>
<b>Appendix C – Standard vs negotiated NCCs</b>	<b>40</b>
<b>Appendix D – Data centre NCC workshop</b>	<b>42</b>
<b>Appendix E – Overarching economic regulatory framework</b>	<b>45</b>

# 1. Overview

New Customer Contributions (NCCs), also known as developer charges, are one-off charges levied by water businesses on a property owner applying to connect to a water business's infrastructure or applying to receive increased services. These charges are a contribution towards the costs of works used directly or indirectly for the provision of the services that will benefit the property.<sup>1</sup>

NCCs establish how much a connecting party pays upfront, versus what will be paid through ongoing charges by the connecting party and all other customers. This latter approach is given effect by the inclusion of relevant costs in a water business's regulatory asset base. Accordingly, as well as determining who pays, this means NCCs also influence when a water business recovers relevant costs.<sup>2</sup>

The water businesses covered by this review have, in recent years, generated around \$200 million in NCC revenue (cash basis) each year, which equates to around 4.8 per cent of their total regulated revenue. This excludes gifted assets provided by developers to support their connection, which have grown by around 14 per cent each year on average over the past 10 years, totalling around \$425 million in the 2023–24 financial year.<sup>3</sup>

The commission's new customer contributions review aims to promote sustainable development while safeguarding the interests and well-being of consumers both now and in the future.<sup>4</sup>

In this paper, we refer to developers or new customers connecting to the water businesses' water, sewer, and recycled water networks as 'connection applicants'.

This paper sets out:

- an overview of our regulatory framework
- the issues identified by interested parties during our consultation in 2024
- our response to this feedback
- the next steps of the review.

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<sup>1</sup> *Water Act 1989*, ss 268–269.

<sup>2</sup> Whether costs are recovered upfront or via the regulatory asset base, the business recovers the same total costs in net present value terms. By including costs in the regulatory asset base, costs are recovered by a water business over a relatively long period, in line with assumptions about asset lives.

<sup>3</sup> Sources: 2023 water price review final decision financial models, water business' annual reports, water business' regulatory accounts 2012–23.

<sup>4</sup> Read more about our review on our [new customer contribution review page](#) on our website.

## Summary of our response to interested parties' feedback and next steps

### Strategic actions

- We will consolidate and update our existing guiding papers on NCCs into one NCC framework paper by the end of 2025.
- The new NCC framework paper will include more direction on approaches to engagement, negotiated NCCs, cost allocation and attributable revenues.
- The new NCC framework paper will set out the required documents for future price reviews.
- On release of the NCC framework paper, we will update our model and associated guidance in 2026.

### Operational actions

In August and September 2025, we will hold workshops with the water sector to explore:

- NCC engagement best practices
- NCC costing and modelling principles
- our response to interested parties' feedback on this paper and discussions in the workshops.

In September 2025, we will hold a forum for developers and interested parties to provide feedback on this report.

## 1.1 Our review

In 2024, we commenced a review of our NCC framework following issues we identified during the 2023 price review. During the 2023 price review, we found the price submissions of some water businesses did not sufficiently justify the costs allocated to NCCs, with many appearing to favour common pricing arrangements even where costs differed significantly across areas or locations. Our *Review of New Customer Contributions: Consultation Paper*, released in August 2024, explored these issues in detail.<sup>5</sup> Table 1.1 outlines the steps in our NCC review process and the timing of each step.

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<sup>5</sup> Essential Services Commission, [Review of New Customer Contributions: Consultation Paper](#), 15 August 2024.

**Table 1.1      Review timeline**

Indicative timeline	Action
Jan to Mar 2024	To understand the problem and help focus our review, we consulted with interested parties including the Department of Energy Environment and Climate Action, the Urban Development Institute of Australia, Independent Pricing and Regulatory Tribunal (NSW), Association of Land Development Engineers, Municipal Association of Victoria, Infrastructure Victoria, Victorian Planning Authority, connection applicants and development bodies.
Aug to Nov 2024	<p>We released our consultation paper and asked for feedback from interested parties by 15 November 2024.</p> <p>We commenced a four-month consultation process and met with all water businesses, with most of the businesses providing us a written submission.</p>
Nov 2024 to Jan 2025	We analysed the feedback we received and continued to meet with other interested parties including the Independent Competition and Regulatory Commission (ACT) and Vic Water.
Jan to June 2025	We developed our preliminary response to the issues we heard and released a report on 18 June 2025.
Aug and Sept 2025	<p>We will hold workshops with the water businesses to outline industry best practices on engagement, approaches to NCC costing and modelling principles, and our next steps.</p> <p>These workshops will allow businesses to share their knowledge and experience and increase their understanding of NCC engagement and other technical issues.</p> <p>Water businesses will have another opportunity to provide written feedback after the workshops.</p>
Sept 2025	Developers and interested parties feedback forum.
End of 2025	We will release an NCC framework paper informed by this review. We will also hold a technical workshop on the NCC model following the release of the NCC framework paper.

## 1.2 What we heard from interested parties

We received 22 submissions on our consultation paper from interested parties, including water businesses, connection applicants, and consultants. Most interested parties support retaining the flexibility of our principles-based NCC framework but sought further guidance and clarity on our requirements.

During our consultation, many water businesses noted a lack of understanding of the legal basis of NCCs and the regulatory framework. Some water business staff were unaware that the *Water Act 1989* requires businesses to ensure NCCs are fair and reasonable, taking into account the benefit to a property relative to the benefit to other properties. A summary of submissions and the key messages from the meetings we held with interested parties in 2024 are outlined in Table 1.2. More detail on each of the issues and our preliminary response is outlined in chapters 2, 3 and 4 of

this report. Our responses aim to balance the flexibility afforded by a principles-based framework with the need for clarity of our requirements to assist water businesses meet the objectives of the regulatory framework.

**Table 1.2 Interested parties' feedback and our response**

Areas for improvement to support better NCC regime administration		
Issues identified by interested parties	What we heard from interested parties	Response to feedback
<b>Engagement</b> (see section 2.1)	Interested parties seek more guidance on the level and nature of NCC engagement required by water businesses before submitting NCC proposals.	We will organise a workshop with water businesses in August 2025 to discuss industry best practices and lessons learnt so far in NCC engagement. We will also seek feedback on the level of guidance the industry is seeking from us and incorporate insights from this workshop into the framework paper.
<b>Development Servicing Plans (DSPs)</b> (see section 2.2)	Some interested parties have requested that the timing of developments be made a mandatory requirement.  They suggest that DSPs should be required to include information that outlines the delivery sequence for water and sewerage infrastructure and clearly identify any developer-funded works.	Our preliminary view is that best practice in regulated negotiating frameworks includes an obligation for water businesses to provide the connecting customer with sufficient information to enable informed negotiations, and negotiations must occur in good faith.  Publishing DSPs would be consistent with better practice. We will specify in the negotiated framework that DSPs should be published.
<b>Standard vs negotiated NCCs</b> (see section 2.3)	Connection applicants seek clarity on when a negotiated NCC applies and how the negotiation process works.  Some connection applicants noted that they were not permitted to initiate negotiations even when a negotiated charge seemed more appropriate.	Our preliminary view is that we will: <ul style="list-style-type: none"> <li>• Specify the information that must be provided in the negotiation framework to include sequencing or strategic servicing plans, service charging model, applicable pricing principles, and the negotiating process.</li> <li>• Describe characteristics that would qualify a development as a standard NCC, outside of which a negotiated NCC would apply.</li> <li>• Request water businesses to outline circumstances where a standard NCC does not apply and its reasons.</li> <li>• Specify that negotiations must be done in good faith.</li> </ul>

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Table 1.2 continued

Areas for improvement to support better NCC regime administration (continued)		
Issues identified by interested parties	What we heard from interested parties	Response to feedback
<b>Monitoring NCC implementation</b> (see section 2.4)	Interested parties consider value in annual reporting of NCC implementation, as opposed to every five years at the conclusion of a price review.	We will consult with interested parties via Engage Victoria and in our workshops in August and September 2025 on the value of annual comparative reporting of NCC implementation.
<b>Training and workshops</b> (see section 5.2)	Decline in sector knowledge has contributed to the inadequate implementation of NCCs.  Submissions from the water sector indicate that various uncertainties and knowledge gaps could be effectively addressed through industry workshops and training sessions.	To uplift the water sector's knowledge and understanding of NCCs, we are hosting a series of workshops for the water industry focusing on engagement, costing and modelling principles in September 2025.
Areas of NCC Calculation that would benefit from further guidance		
<b>Reticulated vs shared assets</b> (see section 3.1)	Interested parties seek clarity around the definition of reticulated vs shared assets. Connection applicants argue that the current guidance is too open to interpretation, allowing water businesses to shift costs onto connection applicants by classifying shared assets as reticulated assets.	We agree that greater guidance around asset allocation will benefit understanding of the framework.  We will develop case studies with the industry to clarify matters such as the definition of reticulated vs shared assets.
<b>Costing</b> (see section 3.2)	Interested parties seek more guidance on cost allocation, including on apportioning costs of new developments and when to recover sunk costs through NCCs.	We have outlined our preliminary views on: <ul style="list-style-type: none"> <li>• cost allocation</li> <li>• treatment of sunk costs</li> <li>• treatment of taxes on gifted assets</li> <li>• treatment of pioneer development.</li> </ul>

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Table 1.2 continued

Areas of NCC calculation that would benefit from further guidance (continued)		
Issues identified by interested parties	What we heard from interested parties	Response to feedback
<b>Locational vs network based NCCs</b> (see section 3.3)	Some businesses use standard NCC pricing for simplicity (one charge for several locations). This distorts price signals to connection applicants, especially where costs across locations are materially different.	Our preliminary view is that we will maintain efficient pricing bands in our current NCC framework to address cross-subsidisation and provide more guidance on cost allocation to address the over usage of 'standard' NCCs.
<b>Scope of attributable revenue</b> (see section 3.4)	Interested parties seek clarity on how to estimate incremental future revenue from new developments for inclusion in NCC calculations, to ensure alignment with the principles of the current regulatory framework.	<p>Our preliminary view on the scope of attributable revenue is that:</p> <ul style="list-style-type: none"> <li>• When forecasting incremental revenue and costs, water businesses are expected to justify their chosen time horizons by considering factors such as customer connection tenure, development staging strategies, asset lifespans, demand predictability, and the practicality of long-term forecasting.</li> <li>• For large users like data centres, the time horizon may reflect the site lease and asset life, and a conservatively short horizon may be adopted to prevent other customers from bearing revenue shortfalls over the longer term. These risks can be mitigated with credit protections such as security fees or capacity tariffs. This can be addressed through a negotiated NCC.</li> </ul> <p>In projecting pricing for future incremental revenues, businesses should use the 'Standard' regulated rate of return as the discount rate and assume a flat real price path with inflation escalation beyond the current revenue determination period as a default. If escalating by more than inflation, then the business must include a justification for its approach.</p>

[Continued next page](#)

Table 1.2 continued

Calculating NCCs		
Issues identified by interested parties	What we heard from interested parties	Response to feedback
<b>NCC modelling</b> (see section 4.1)	<p>Water businesses highlighted the following concerns:</p> <ul style="list-style-type: none"> <li>• Difficulty understanding how to use the net cashflow model to calculate NCCs.</li> <li>• A lack of flexibility in the current model to accommodate all scenarios.</li> <li>• Instances where the Net Cashflow model appeared to generate unrealistic charges for certain scenarios.</li> <li>• The need to make the model more user-friendly to improve understanding and usability.</li> </ul>	<p>We will hold a workshop in September 2025 to discuss NCC costing and modelling principles, including the basic documentation we expect businesses to be using within their operations to guide NCC cost allocation.</p>

In preparing our response to the feedback received, we have contemplated the pros and cons of a prescriptive approach not only from an assessment perspective but also from the impacts on water businesses and connection applicants.

In assessing the positives of prescription, we have considered that detailed rules provide clear expectations, reduce ambiguity and ensure a more consistent application. Standardised procedures allow for streamlining of processes. This has the potential to reduce administrative costs and make the task of assessing compliance from a regulator perspective also relatively simple.

The one-size-fits-all approach resulting from a prescriptive approach often fails to accommodate the unique circumstances of individual water businesses (metro vs small regional) or developments (boutique, small or large scale). It can stifle innovation and discourage creative problem-solving. The complexities of detailed regulation can lead to higher compliance costs for businesses and may require significant resources to report, monitor and enforce.

The flexibility afforded by a less prescriptive approach allows for more meaningful negotiations between water businesses and connection applicants, fostering collaborative relationships that can lead to more equitable and context-sensitive outcomes.

It is the commission's view that while the principles-based NCC framework offers significant advantages in terms of flexibility and adaptability, there is a need for enhanced guidance to mitigate its drawbacks. To better achieve a balance between principles and prescription, we will revisit our guidance material with a view to expanding on selected areas identified through our consultation and the forthcoming workshops.

### **1.3 Matters out-of-scope**

The review does not cover Melbourne Water as we assess its NCCs under different pricing principles. We will consider Melbourne Water's NCCs at its 2026 price review.

We received feedback on issues that were beyond either the scope of this review or our powers regarding the compliance and enforcement of NCCs. These issues are outlined below.

#### **NCC mediation**

Some submissions suggested that we:

- mediate NCC disputes before cases escalate to the Victorian Civil and Administrative Tribunal (VCAT)
- propose penalties for water businesses that fail to support growth after rezoning.

We do not have the statutory powers to engage in these activities. Instead, water businesses are required to include an independent arbitration step as an option for connecting customers before escalating to VCAT in their negotiation framework.

#### **Coordination of growth and development with the government**

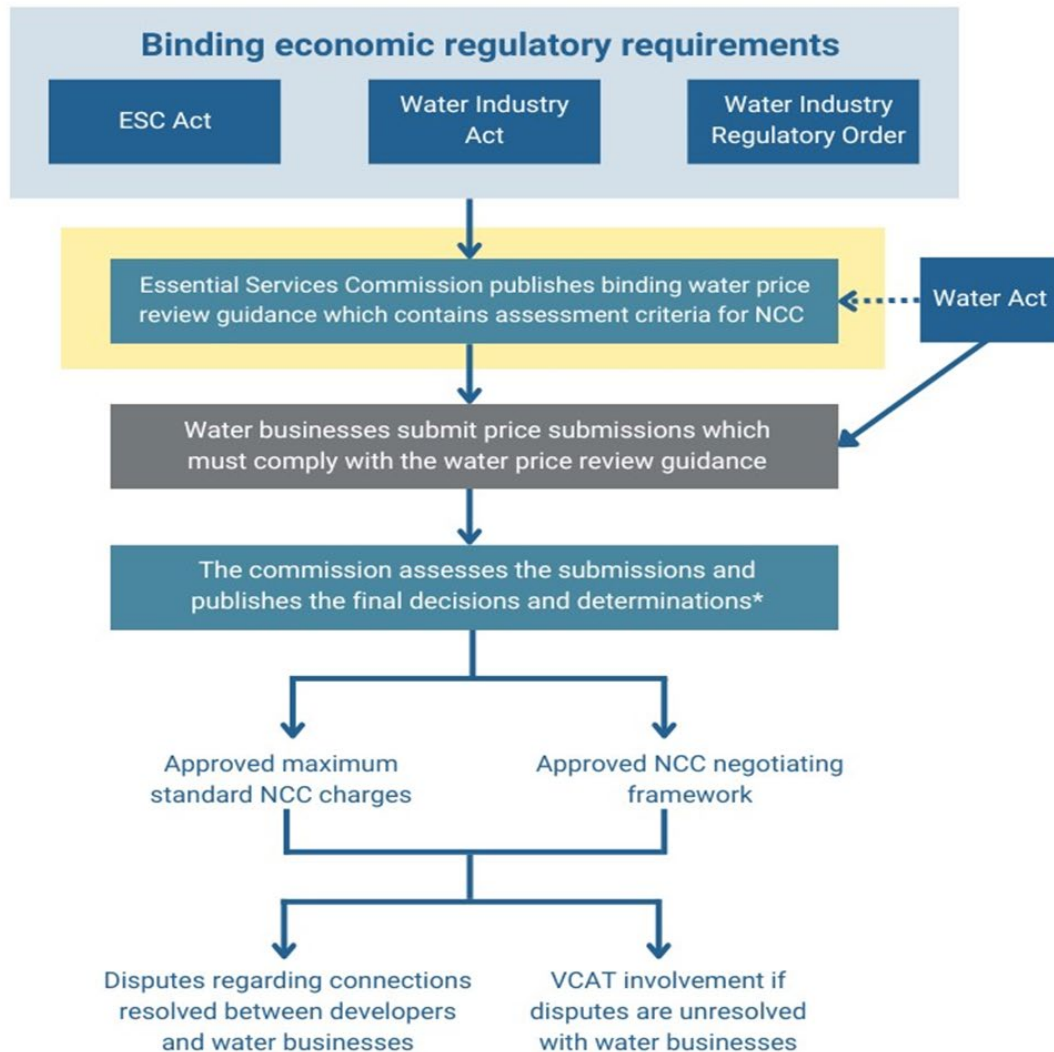
Some interested parties recommended that we align our NCC principles and objectives with the government's housing policy goals. Development coordination falls outside the scope of the relevant Acts governing our role and is beyond the scope of this review. While we do not consider broader planning decisions made by government, our framework is intended to support and be consistent with the principles of orderly, coordinated, and cost-effective development.

### **1.4 Overview of the economic regulatory framework**

The NCC regulatory framework (summarised in Figure 1) sets out the regulatory requirements that apply, and the information to be provided by water businesses, when making NCC charging proposals in their price submission. The framework is set out and explained in Appendix E.

Figure 1 NCC Regulatory framework and process

**Victorian New Customer Contribution Regulatory Framework  
for metropolitan and regional urban water businesses**



*\*A person may apply to VCAT for a review of the commission's decision or determination as per section 55 of the ESC Act 2001.*

### 1.4.1 Commission's guidance

Guidance issued by the commission pursuant to the *WIRO 2014*<sup>6</sup> sets out our regulatory framework for NCCs. The guidance needs to capture the matters we expect water businesses to consider and provide clarity about the information they must provide us in support of their pricing proposals.

Our framework for NCCs was set out in guidance we issued for the 2023, 2024 and 2026 water price reviews.<sup>7</sup> The *2023 Water Price Review: Guidance Paper* also set out pricing principles which we required water businesses to use to calculate their NCCs. It referenced the *New Customer Contributions: Explanatory Note* we released in December 2013 which sets out detail on the types of NCCs (standard or negotiated) and how to interpret and apply the pricing principles. The *New Customer Contributions: Explanatory Note* formed part of the guidance.

The first two principles establish that the cost recovery threshold for determining upfront contributions (versus ongoing recovery through the regulatory asset base) is a net incremental cost approach. The third principle requires that resulting contributions fall within efficient pricing bands.

#### Documentation for a price submission

Many water businesses seem uncertain about the required documentation to support NCC proposals in their price submission and seek more guidance.

Appendix A outlines the level of documentation provided by water businesses during the 2023 water price review that we consider best practice.

Our NCC framework paper will clarify the documents we require businesses to submit during a price review and use internally when allocating costs to NCCs. This will also inform our 2026 guidance for the 2028 water price review.

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<sup>6</sup> *Water Industry Regulatory Order 2014*, cl 13.

<sup>7</sup> Essential Services Commission, [2023 water price review: Guidance paper](#), October 2021, p. 58. For simplicity, throughout this report, we have referenced the 2023 Water Price Review Guidance Paper to represent the guidance papers we issued for the 2024 and 2026 water price reviews. The NCC guidance has remained largely consistent over this time, with the exception of emphasising our expectation of the use of the commission's NCC model and early notification if a water business is considering using a different model or approach.

### 1.4.2 Objectives of the current NCC framework

The current NCC framework aims to:

1. send signals to connection applicants about the costs of developing in different locations
2. share the costs and benefits of growth between new and existing customers
3. administer new customer contributions in a transparent way.<sup>8</sup>

There are two types of NCCs available under our current framework:

1. **Standard NCCs** apply where infrastructure requirements and growth rates are relatively well known, and common across a group of connections, to reduce administrative burden and improve the timeliness and predictability of costs faced by connection applicants.
2. **Negotiated NCCs** apply where standard NCCs are not fair and reasonable or where a new connection is outside the areas designated as eligible for standard NCCs. The current NCC framework is flexible and allows water businesses and connection applicants to negotiate site-specific arrangements that reflect the NCC pricing principles.<sup>9</sup>

### 1.4.3 New NCC framework paper

We will develop a new NCC framework paper by the end of 2025, which will be a consolidation of:

- the 2013 *New Customer Contributions: Explanatory Note*<sup>10</sup>
- the issues in our 2024 *Review of New Customer Contributions: Consultation Paper*<sup>11</sup>
- our response to interested parties' feedback on this consultation paper and industry workshops.

The new NCC framework paper will set out the objectives of NCCs, the NCC pricing principles and direction on how to implement NCCs. It will also include case studies to assist in clarifying key concepts.

The framework paper will balance the flexibility of the current principles-based NCC framework, with sufficient direction to assist interested parties implement NCCs to meet the framework objectives.

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<sup>8</sup> Essential Services Commission, [New Customer Contributions: Explanatory Note](#), December 2013, p. 5, cl 1.2.

<sup>9</sup> Essential Services Commission, [New Customer Contributions: Explanatory Note](#), December 2013, p. 2.

<sup>10</sup> Essential Services Commission, [New Customer Contributions: Explanatory Note](#), December 2013.

<sup>11</sup> Essential Services Commission, [Review of New Customer Contributions: Consultation Paper](#), August 2024.

## 1.5 How can you stay involved in our review?

We are seeking feedback on our preliminary views in response to the issues raised by interested parties to help us further consider how we will update our NCC framework.

Feedback on this report can be made via Engage Victoria by 22 July 2025. The submissions received will be published on the commission's website, except for any information deemed commercially sensitive or confidential. This is in accordance with our submissions policy. Submissions should clearly identify which information you consider sensitive or confidential, and the basis for your assertion.

Alternatively, you may send feedback to:

- [water@esc.vic.gov.au](mailto:water@esc.vic.gov.au)
- The Water team, Price Monitoring and Regulation, Essential Services Commission, Level 8, 570 Bourke Street, Melbourne Victoria 3000

We will make future announcements on NCC workshops that will be organised for the water sector and interested parties. Details will be published on our website and social media channels.

## 2. Supporting better NCC regime administration

This chapter explores the key challenges for water businesses and connection applicants in relation to NCC administration. We provide our views on engagement, standard vs negotiated NCCs, administering a negotiated NCC and information disclosures to aid NCC negotiations.

### 2.1 Engagement for NCCs

#### 2.1.1 Existing requirements

Our *2023 Water Price Review: Guidance Paper* sets out our requirements for water businesses regarding customer and community consultation in developing their price submissions.<sup>12</sup> Water businesses are required to set out how connection applicants' views have informed their proposed charges, particularly if proposed standard NCCs are significantly higher than the existing NCCs.<sup>13</sup> This engagement enables water businesses to understand the priorities of their interested and affected parties, including connection applicants, and to provide these parties with an opportunity to provide input into a water business's NCC proposals. Early engagement also improves transparency and provides clarity of the outcomes and charges.

Each business is best placed to design and undertake engagement to suit its circumstances and those of its customers and interested parties. The commission has developed five key principles for good customer engagement:<sup>14</sup>

- The form of engagement by a water business should be tailored to suit the content on which it is seeking to engage, and to the circumstances facing its customers and community, including First Nations people and people experiencing vulnerability.
- A water business must provide participants in its engagement process with appropriate information, given the purpose, form and content of the engagement, and a reasonable and fair opportunity to participate in the process.
- A water business's engagement process should give priority to matters that have a significant influence on the services provided and prices charged by the business.

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<sup>12</sup> Essential Services Commission, [2023 water price review: Guidance paper](#), October 2021, p. 20.

<sup>13</sup> Essential Services Commission, [2023 water price review: Guidance paper](#), October 2021, p. 60.

<sup>14</sup> Essential Services Commission, [Water Pricing Framework and Approach: Implementing PREMO from 2018](#), October 2016, p. 16.



- A water business should start engagement early in its planning. The engagement should be ongoing to keep testing proposals with customers.
- A water business should demonstrate in its price submission how it has taken into account the views of its customers and other key interested parties.

### **2.1.2 Call for greater clarity around engagement**

While water businesses value a principles-based approach, some seek clearer guidance on NCC engagement. For example:

- Lower Murray Water wanted the commission to define fit-for-purpose engagement requirements
- Central Highlands Water sought minimum engagement requirements with connection applicants and customers
- South East Water called for updated engagement guidance.

We received one confidential submission encouraging us to review in detail the engagement by water businesses.

### **2.1.3 Response to interested parties' feedback**

Our preliminary view is that our NCC framework paper will maintain our approach of not prescribing how water businesses engage with their customers. We consider that each water business is best positioned to develop the engagement strategy that works best for it and its stakeholders.

Importantly, NCCs determine the division of growth costs between new and existing customers/connection applicants, so fit-for-purpose engagement is needed to ensure both these groups are engaged.

We will hold a workshop with key water sector stakeholders in August 2025 to promote industry-best practices on engagement. The workshop will provide a platform for water businesses to share their knowledge and experience, and also lift their understanding of NCC engagement practices.

We will develop the NCC framework paper based on the discussions in the workshop to set out how the principles and guiding questions can apply in the context of NCCs.

## **2.2 Development servicing plans**

### **2.2.1 Existing requirements**

Development servicing plans are not regulated or approved by us. However, we are aware that some water businesses use development servicing plans as a basis for developing their standard NCCs. Our expectation is that development servicing plans are to be made publicly available and

that they describe the expected timing and sequencing of development and infrastructure by water businesses.<sup>15</sup> Publishing development servicing plans also encourages water businesses to consult with interested parties and review their development servicing plans regularly as a reasonable practice.<sup>16</sup>

### 2.2.2 Call for more prescriptive guidance for development servicing plans

In its meeting with us, the Urban Development Institute of Australia (Victoria), called for more prescriptive guidance on development servicing plans.<sup>17</sup> It sought:

- greater transparency from water businesses regarding the costs included and the reasons for cost increases
- a requirement for engagement with connection applicants when changes are made to development servicing plans.<sup>18</sup>

In its submission, the Urban Development Institute of Australia argued that water businesses should take a more proactive role in supporting development. It believes the current ‘hands-off’ approach adopted by most water businesses has contributed to higher costs in the development sector. It suggested water businesses include documentation in their development servicing plans that:

- identifies the delivery sequence for water and sewerage infrastructure
- identifies developer funded works
- clearly outlines growth assumptions
- clearly outlines the process for gifting assets.<sup>19</sup>

A consultant’s submission also supported more prescriptive guidance and raised the question of whether aligning plan details with development timelines would be beneficial.<sup>20</sup>

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<sup>15</sup> Essential Services Commission, [New Customer Contributions: Explanatory Note](#), December 2013, p. 11.

<sup>16</sup> Ibid.

<sup>17</sup> UDIA Victoria is a not-for-profit advocacy, research and educational organisation and peak body representing the urban development industry.

<sup>18</sup> UDIA Victoria’s meeting with the Essential Services Commission on its Review of New Customer Contributions, 11 October 2024.

<sup>19</sup> [UDIA submission](#) to the Essential Services Commission’s *Review of New Customer Contributions: Consultation paper*, 15 November 2024, p. 3.

<sup>20</sup> [David Heeps submission](#) to the Essential Services Commission’s *Review of New Customer Contributions: Consultation Paper*, 14 November 2024, p. 5.

In its meeting with us, Central Highlands Water recommended that we require rather than encourage water businesses to implement version control and make updated development servicing plans publicly available whenever changes occur.<sup>21</sup>

### 2.2.3 Response to interested parties' feedback

While development servicing plans are not regulated by the commission, we regulate the negotiating frameworks for NCCs. Best practice in regulated negotiating frameworks includes an obligation for water businesses to provide the connecting customer with sufficient information to enable informed negotiations. Publishing development servicing plans would be consistent with meeting such a requirement. We discuss this further in section 2.3.4.

## 2.3 Standard vs negotiated NCCs

### 2.3.1 Existing requirements

Our *2023 Water Price Review: Guidance Paper* provides that NCCs will be either standard NCCs or negotiated NCCs.<sup>22</sup> Our expectation is that:

Negotiated charges may apply where standard charges would not be fair and reasonable or where a new connection is outside the areas or connection conditions eligible for standard charges.<sup>23</sup>

Standard charges apply to new connections in areas where infrastructure requirements and growth rates are relatively well known and designated by the water business. The purpose of standard new customer contributions is to reduce the administrative burden as well as improve the timeliness and predictability of costs faced by developers.

Negotiated charges allow water businesses and developers to negotiate a site-specific arrangement where standard charges are not fair and reasonable or where a new connection is outside the areas eligible for standard charges.

Connection applicants have the right to request a negotiated NCC.

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<sup>21</sup> Central Highlands Water's meeting with the Essential Services Commission on its Review of New Customer Contributions, 17 October 2024.

<sup>22</sup> Essential Services Commission, [2023 water price review: Guidance paper](#), October 2021, p. 58.

<sup>23</sup> Essential Services Commission, [New Customer Contributions: Explanatory Note](#), December 2013, p. 3.

Regardless of a chosen type of NCC, the *2023 Water Price Review: Guidance Paper* sets out pricing principles which we require water businesses to use to calculate their NCCs. It states that standard and negotiated NCCs will:

- have regard to the incremental infrastructure and associated costs in one or more of the statutory cost categories attributable to a given connection
- have regard to the incremental future revenues that will be earned from customers at that connection
- be greater than the avoidable cost of that connection and less than the standalone cost of that connection.<sup>24</sup>

The *2023 Water Price Review: Guidance Paper* referenced the *New Customer Contributions: Explanatory Note* we issued in December 2013, which sets out the types of NCC (standard or negotiated) and how to interpret and apply the pricing principles.<sup>25</sup>

The *New Customer Contributions: Explanatory Note*, which forms part of the 2023 water price review guidance, encourages water businesses to have negotiation protocols, and to make information available to connection applicants, to inform negotiations and decisions regarding NCCs. It considered that reasonable industry practice will also see water businesses prepare and publish:

- negotiation protocols including references to pricing principles and dispute resolution details
- explanations of where and when standard NCCs apply, and circumstances in which a developer or water business may introduce a negotiated NCC.<sup>26</sup>

The *New Customer Contributions: Explanatory Note* requires that water businesses negotiate in good faith to arrive at NCCs and conditions for a new connection that satisfy the pricing principles.<sup>27</sup> It further requires that the arrangements of water businesses for NCC negotiation must be clear and transparent, and consistent with statutory rights, obligations and procedures under the Water Act.<sup>28</sup>

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<sup>24</sup> Essential Services Commission, [2023 water price review: Guidance paper](#), October 2021, p. 58.

<sup>25</sup> Essential Services Commission, [2023 water price review: Guidance paper](#), October 2021, p. 58.

<sup>26</sup> Essential Services Commission, [New Customer Contributions: Explanatory Note](#), December 2013, pp. 3–4.

<sup>27</sup> Essential Services Commission, [New Customer Contributions: Explanatory Note](#), December 2013, p. 7 (see cl 2.6).

<sup>28</sup> Essential Services Commission, [New Customer Contributions: Explanatory Note](#), December 2013, p. 7 (see cl 2.6).

## 2. Supporting better NCC regime administration

### 2.3.2 Right of review (section 271 of the Water Act)

The *New Customer Contributions: Explanatory Note* also provides that where negotiations between a water business and a developer or connection applicant fail to reach agreement (whether in relation to a standard or negotiated NCC), the water business's arrangements for NCCs should provide for the concerned developer or connection applicant to seek internal review by the water business, and to request independent commercial dispute resolution.<sup>29</sup> Consistent with this, all water businesses currently include an independent arbitration mechanism in their NCC negotiation arrangements.

Importantly, dispute resolution under a water business's NCC negotiating framework is separate from, and in addition to, the dispute resolution mechanism set out in the Water Act.<sup>30</sup>

The Water Act provides processes and timelines for resolving disputes between a water business and a connection applicant if the connection applicant objects in writing to a notice requiring payment of an NCC on any of the grounds specified in the Water Act.<sup>31</sup> If the connection applicant does not accept the water business's decision on the objection, the connection applicant may apply to have the decision reviewed by the Victorian Civil and Administrative Tribunal.<sup>32</sup>

### 2.3.3 Clarifying when a negotiated NCC applies

Interested parties seek clarity on when a negotiated NCC is applicable. There is uncertainty about whether a developer or water business can request negotiation for a particular development application. If a non-standard development is not subject to negotiation, the resulting NCC charge may not reflect actual costs.

Connection applicants observe that water businesses take differing approaches to negotiated NCCs, with some limiting connection applicants' ability to initiate negotiations.<sup>33</sup> They argue that water businesses seek to narrow the criteria for negotiations to reduce administrative burdens.

#### Lack of transparency and consistency

Interested parties reported inconsistencies in negotiation frameworks across water businesses, with some frameworks lacking key information to guide applicants. Some suggested water

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<sup>29</sup> Essential Services Commission, [New Customer Contributions: Explanatory Note](#), December 2013, p. 3 (see cl 1.4), read with p. 8 (see cl 2.6).

<sup>30</sup> *Water Act 1989*, s 271.

<sup>31</sup> *Water Act 1989*, s 271(1)(a) to (f).

<sup>32</sup> *Water Act 1989*, s 271(3).

<sup>33</sup> [MG Estates, UDIA submissions](#) to the Essential Services Commission's *Review of New Customer Contributions: Consultation paper*, 15 Nov 2024.

businesses' NCC charges do not accurately reflect the commission's pricing principles, and that many negotiation frameworks are not publicly available as is required.

#### **2.3.4 Response to interested parties' feedback**

Our preliminary view is that our 2026 NCC Framework will:

- specify the information that must be provided in the negotiation framework, including sequencing or development servicing plans, service charging model, applicable pricing principles, and the negotiating process
- describe characteristics that would qualify a development as within a standard NCC, outside of which a negotiated NCC should apply
- specify that negotiations must be done in good faith and businesses must make the necessary information available to a developer requesting a negotiated charge.

We have also developed case studies outlined in Appendix C on standard vs negotiated NCCs.

## **2.4 Monitoring of NCC implementation**

### **2.4.1 Existing requirements**

Our *2023 Water Price Review: Guidance Paper* does not include any provision for monitoring the implementation of NCCs. Hence, after approving NCCs during a price review, we do not publish an annual report on NCC implementation, and we do not compare the performance of water businesses in this area.

### **2.4.2 Call for monitoring of NCC administration and comparative performance**

Interested parties have noted that without regular monitoring, it can become challenging to identify when water businesses are not correctly applying NCCs. Additionally, they state that the lack of ongoing oversight makes it difficult to evaluate whether the NCC framework remains fit-for-purpose.

One submission on our consultation paper criticised our principles-based regulatory approach to NCCs, arguing that it was too light-handed.<sup>34</sup> The interested party suggested that this approach should have been supplemented by a public comparative reporting regime on water businesses performance, which could have helped identify NCC-related issues earlier.

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<sup>34</sup> [David Heeps submission](#) to the Essential Services Commission's review of New Customer Contributions consultation paper, 14 Nov 2024, p. 8.

The submission called for the introduction of an auditing, monitoring, and public comparative reporting framework covering all components of NCCs and their application. Additionally, it suggested that the reporting regime extend to monitoring NCC negotiation frameworks and growth projects.

The proposed key components for monitoring include:

- cost allocation models
- development servicing plans
- accuracy of capital expenditure and timing estimates
- per lot incremental operating costs applied in NCC calculations
- per lot incremental revenues applied in NCCs
- number of standard NCC zones
- number of negotiated NCC cases
- number of disputed cases referred to a higher level in the water corporation
- number of disputed cases referred to an independent arbiter
- number of VCAT cases
- cumulative income over multiple pricing periods from NCCs compared to price submission estimates
- performance statistics such as processing time and timeliness of infrastructure provision.<sup>35</sup>

The submission suggested that implementing a comparative monitoring and reporting regime would provide a stronger foundation for future NCC consultations. It could help us more effectively identify NCC related issues, quantify differences between water businesses, pinpoint areas for improvement, and refine the focus of future workshops. According to the submission, the proposed comparative reports would be valuable during dispute resolution processes, whether that be for internal reviewers at a higher level in a water business, independent arbiters or VCAT.<sup>36</sup>

### **2.4.3 Response to interested parties' feedback**

Our preliminary view is that introducing more structured monitoring and reporting could enhance transparency and ensure that NCCs are applied compliantly, consistently and effectively. Having measures in place to quickly identify and address any emerging issues may also be appropriate given the critical role NCCs play in supporting economic growth in Victoria. However, the necessity

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<sup>35</sup> Ibid. p. 1.

<sup>36</sup> Ibid. p. 4.

of a monitoring framework would need to be weighed against the additional administrative burden this may place on water businesses and the regulator.

We will engage with interested parties to assess the potential costs and benefits of a comparative reporting regime for NCC implementation. We will seek feedback on this via Engage Victoria and will also discuss this in our NCC Engagement workshop in August 2025, noting no changes would come into effect until the next regulatory period.



## 3. Areas of NCC calculation that would benefit from further guidance

This chapter outlines the key issues water businesses and connection applicants raised in relation to NCC calculation. We address issues related to reticulated and shared assets, scope of recoverable costs, treatment costs, treatment of pioneer developments, locational vs postage stamp (network-wide) NCC pricing, and the scope of attributable revenues.

### 3.1 Clarifying the scope of the connection services

#### 3.1.1 Reticulation vs shared assets

##### Existing requirements

Our *2023 Water Price Review: Guidance Paper* did not provide definitions for reticulation or shared assets. Instead, we encourage industry collaboration to develop these standards.

##### Classification challenges

There remains ongoing uncertainty among interested parties regarding the distinction between reticulation and shared assets. Connection applicants suggested that certain water businesses are classifying shared assets as reticulation assets to transfer costs to connection applicants.

##### Call for clearer guidance

Interested parties want clearer guidance on reticulation and shared assets to enhance transparency. Connection applicants specifically request:

1. That asset classification considers location and infrastructure type, not just pipe size. For example, metropolitan developments typically require larger pipes than regional ones.
2. Clearer guidance on the inclusion of non-pipe infrastructure within reticulation assets, as some water businesses classify additional assets as part of the reticulation network, (for example, pump stations).

##### Response to interested parties' feedback

To address these concerns, we will work with the industry to develop case studies on matters such as the definition of reticulated vs shared, to be included in the framework. We consider providing case studies supports the principles-based approach of the NCC framework and preserves the flexibility both connection applicants and water businesses value.

## 3.2 Clarifying the scope of recoverable costs

### 3.2.1 Cost allocation

#### Existing requirements

Our *2023 Water Price Review: Guidance Paper* set out that water businesses must use our approved pricing principles to calculate the net incremental cost of new connections.<sup>37</sup> This ensures they have regard to the incremental infrastructure and associated costs in one or more of the statutory cost categories attributable to a given connection.<sup>38</sup>

#### Call for clarity

Several interested parties, including Central Highlands Water, Coliban Water, Lower Murray Water, MG Estates, South East Water, and the Urban Development Institute of Australia, called for clearer guidance on cost apportionment. We observe that water businesses adopt different approaches, with some lacking transparency—particularly when assumptions are not clearly explained.

Some interested parties, including Greater Western Water, emphasised the ‘beneficiaries pay for growth’ principle and requested clearer guidance on cost allocation for new infrastructure.

#### Response to interested parties’ feedback

Our preliminary view is that our NCC framework paper will request water businesses address the following in their price submissions:

1. *Costs by service type* – costs attributable to a particular service (water, sewer or recycled water) should be allocated to that service when calculating cost by service type.
2. *Costs by location* – recoverable costs should consider costs relevant to the location of the connection service. Areas with sufficiently different costs to supply would not comply with the efficient price signal objective if their costs were not separately treated when calculating contributions for those areas. For example:
  - separate water and sewerage systems that are not interconnected or have materially different costs to supply services
  - greenfield versus infill areas
  - gravity fed versus pumped areas
  - connections to low pressure versus high pressure water infrastructure.

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<sup>37</sup> Essential Services Commission, [2023 water price review: Guidance paper](#), 26 October 2021, p. 59.

<sup>38</sup> Statutory cost category means costs for works imposed under Division 6 of Part 13 of the Water Act 1989.

3. *Attributable benefits* – are there cost-related connection benefits that should be considered?  
For example:

- assets constructed by a connection applicant and gifted to the business
- upsizing of gifted assets required to service subsequent customers
- avoided costs – for example, where a business upgrades the capacity of an asset it would have otherwise replaced soon, should the connection applicant only pay the difference to what the business would have otherwise incurred?

### 3.2.2 Treatment of sunk costs

#### Existing requirements

Our *New Customer Contributions: Explanatory Note*, which formed part of our 2023 price review guidance, states:

Incremental cost can include an allocation of costs of assets that the business had prudently built in expectation of future growth. If such costs are included, they should be explicitly revealed.<sup>39</sup>

#### Call for clarity

Submissions from Central Highlands Water, Lower Murray Water, MG Estates, South East Water, and the Urban Development Institute of Australia called for clearer guidance on:

- the documentation businesses are expected to provide
- materiality thresholds
- asset type and age considerations.

Coliban Water and Gippsland Water noted the difficulty in accurately capturing sunk costs attributable to NCCs as this requires value judgements and investments can be lumpy. Both businesses expressed a preference for the average incremental cost model partly because it excludes sunk costs.

#### Response to interested parties' feedback

We recognise that there may be valid reasons for businesses to include sunk costs in some circumstances, and that there is difficulty in assessing the level of sunk costs to attribute to NCCs.

Our preliminary view is that our NCC framework paper will set out the below guidance.

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<sup>39</sup> Essential Services Commission, [New Customer Contributions: Explanatory Note](#), December 2013, p. 5. Prior to 2014, we did not allow for the inclusion of sunk costs into NCCs. In practice, most businesses have not included sunk costs into the calculation of NCCs since 2014.

Businesses in their cost estimates will need to specify:

- Incremental cost customer specific – costs associated with a specific connection. For example, reticulated assets and network extensions to connect out of sequence developments.
- Incremental cost shared network – costs related to augmentation of network-wide capacity. These costs are related to pre-building excess capacity into the system to manage future growth. This is captured in the long-run marginal cost of supplying the service, which water businesses should already be developing in their long-term forward plans. We consider businesses should be able to estimate the additional burden on customers using reasonable estimates of future demand.

Our preliminary view is that water businesses should only consider the inclusion of sunk costs from the prior regulatory period as it is difficult to allocate historic costs to current development. It is not a requirement that businesses include sunk costs, and when they are included, the business should clearly articulate how sunk costs directly relate to the proposed future development. For example, the inclusion of costs a business recently incurred to upgrade the capacity at a treatment plant to service future growth.

This approach aims to improve consistency, transparency, and fairness in the treatment of sunk costs across the industry.

### **3.2.3 Treatment of taxes on gifted assets**

#### **Existing requirements**

Our *2023 Water Price Review: Guidance Paper* supports the inclusion of a tax allowance for the purposes of determining required revenue in the pricing model.<sup>40</sup> Taxes are calculated on gifted assets, as these assets are treated as revenue in the pricing model. Hence, the taxes on these gifted assets are reflected in water and sewerage prices and paid for by customers.

#### **Call to address the impact of growth on water and sewerage customers**

Some water businesses experiencing sustained high growth raised concerns that their water and sewerage customers may be unfairly bearing the burden of the tax arising from significant volumes of gifted assets, resulting in higher water and sewerage tariffs.

#### **Response to interested parties' feedback**

We believe the current approach to calculating taxes in the pricing model does not place an undue load on water and sewerage customers for most businesses. However, we understand that there may be unique circumstances where a business experiencing ongoing high growth combined with

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<sup>40</sup> Essential Services Commission, [2023 water price review: Guidance paper](#), October 2021, p. 47.

large amounts of gifted assets may experience upward pressure on their water and sewerage tariffs.

The current framework allows the flexibility to address the impact on existing customers. For example, an alternative treatment may mean the taxes on gifted assets related to growth are not included in water and sewerage charges, but in the NCC. Any proposed alternative to the current treatment of tax must be agreed upon with the commission in advance of the next price submission.

### 3.2.4 Treatment of pioneer development schemes

#### Existing requirements

Our *New Customer Contributions: Explanatory Note*, which forms part of our 2023 price review guidance, recommends that a developer only pays for the minimum servicing solution for a development. In the case that a developer is required to provide assets that have excess capacity to service future developments, they may negotiate with the water business to be reimbursed a portion of the financing costs when other developers connect to the asset that was brought forward.<sup>41</sup> The negotiation and agreement must comply with the requirements of the regulatory framework that applies to NCCs. The principal requirement is that arrangements are fair and reasonable, as required by the Water Act.<sup>42</sup>

#### Call to formalise a rebate scheme for pioneer developments

Interested parties argued that without formalising an arrangement that allows for reimbursement, a pioneer developer may be paying for infrastructure that is used by future connection applicants, which would have been provided by the water business if the developer had waited or timed their development with the water business's development servicing plan.

They suggested we develop guidance for a rebate scheme to compensate a pioneer developer to remove first mover disadvantage.<sup>43</sup> For example, a rebate could be granted to the pioneer developer at the time of one of the following (whichever comes first):

- the water business was originally due to bring infrastructure to the area based on its development servicing plan or
- other developments have connected to the provided infrastructure.

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<sup>41</sup> Essential Services Commission, [New Customer Contributions: Explanatory Note](#), December 2013, p. 11.

<sup>42</sup> Ibid.

<sup>43</sup> The Australian Energy Regulator has a policy that supports these types of schemes in the energy sector.

## Response to interested parties' feedback

We understand that pioneer schemes may be difficult to achieve in practice and are not aware of examples of this type of scheme being used in the water sector.

Our preliminary view is that our NCC framework paper will:

- require that a developer only pays for the minimum servicing solution for a development
- encourage both parties to negotiate financing costs using an approved negotiating framework where a developer is required to provide assets with excess capacity to service future developments
- recommend that negotiations be done in good faith and parties agree upfront on any portion of the financing cost the water business can reimburse the developer when subsequent developments connect, including how the rebate can get to the developer in due course.

## 3.3 Locational versus network based NCCs: finding the right balance

### 3.3.1 Existing requirements

Our *2023 Water Price Review: Guidance Paper* states:

Postage stamp pricing should be applied when water supply is predominately interconnected and/or is more equitable and administratively simple. Locational pricing should be applied when water supply is less integrated and where there are material differences in cost between water networks.<sup>44</sup>

We encourage water businesses to consider our tariff principles in proposing new tariffs, but it is up to them to make the best case for which charge is most appropriate.<sup>45</sup> This is because our preference is to provide water businesses with the discretion to structure their tariffs to best reflect the efficient costs of service provision.

### 3.3.2 Interested parties' perspectives

Interested parties generally agree that locational differences should be reflected in NCCs to ensure a 'beneficiaries pay' approach. This prevents existing customers from over-subsidising new developments that primarily serve new connections.

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<sup>44</sup> Essential Services Commission, [2023 price review: Guidance paper](#), October 2021, Table 3.5, p. 52.

<sup>45</sup> The WIRO does not specify whether a business should use locational or postage stamp pricing.

While some interested parties support system-based NCCs for their simplicity and price stability, connection applicants and industry groups objected to their inequities, particularly due to potential cross-subsidisation.<sup>46</sup> System-based pricing may also result in:

- distorted development patterns by failing to signal true infrastructure costs
- inefficiencies in cost recovery, making growth less sustainable
- violating the efficient pricing bands principle outlined in our guidance, particularly regarding avoidable costs.

Locational NCCs better reflect the actual infrastructure costs required to connect a development. They consider factors such as proximity to existing infrastructure, available capacity in nearby systems and additional system components needed, for example, new pipes or pump stations.

Several respondents advocated for a hybrid approach to NCCs, which would:

- retain the simplicity and stability of network-based charges, particularly in areas where:
  - infrastructure requirements and growth rates are relatively well known
  - water systems will become more interconnected due to supply augmentations
- improve equity and cost-reflectivity through locational pricing, including signalling to connection applicants the cost of development in different areas
- allow flexibility for water businesses to apply discretionary charges in areas where costs are not uniform.

### 3.3.3 Response to interested parties' feedback

We will continue with our current NCC framework's efficient pricing bounds to address cross-subsidisation. This approach restricts efficient prices to fall between:

- a lower pricing bound of avoidable cost
- an upper pricing bound of standalone cost.

Pricing within the standalone and avoidable cost band ensures prices do not reflect inefficient economic cross-subsidies because:

- If customers were to pay above the standalone cost, it would be in those customers' interests to find an alternative service solution. It would also be economically feasible for an alternative service provider to operate. This creates the possibility of inefficient bypass of the existing infrastructure.

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<sup>46</sup> Cross-subsidisation occurs when higher charges are accrued by customers in one area to offset the lower costs accrued by customers in another area. This distorts important price signals to connection applicants about the cost of developing in different locations and can lead to both over-and under-investment in particular areas.

- If customers were to pay below the business's avoidable cost, it would be economically beneficial to stop supplying those customers because costs would exceed the revenue, and other customers would be subsidising them at inefficient price levels.

As set out in our sections on costings, we will provide more guidance on the treatment of cost allocation in the NCC framework paper, which should improve an overuse of existing 'standard' NCCs. Our NCC framework will continue to encourage water businesses to make the best case for which charge is most appropriate.<sup>47</sup> This upholds our preference for water businesses maintaining the flexibility to implement efficient discretionary charges in areas where costs are likely to be uniform.

## 3.4 Clarifying the scope of attributable revenues

### 3.4.1 Existing requirements

Our *2023 Water Price Review: Guidance Paper* states that water businesses' revenue requirement is net of any additional revenue earned from regulated assets outside of scheduled tariffs and any revenue earned from non-prescribed services.<sup>48</sup> Since we do not regulate prices for non-prescribed services, we require water businesses to use our approved pricing principles to ensure they have regard to incremental future revenues earned from customers at each connection.

We found that some water businesses have not factored incremental revenues into their NCC calculations, potentially leading to inflated contributions.

### 3.4.2 Call for clarity

Submissions from MG Estates and the Urban Development Institute of Australia called for clearer guidance on calculating incremental revenues. Additionally, it was questioned how the average incremental cost methodology accounts for revenues from new connections.

During the 2023 water price review, several businesses used the average incremental cost model to calculate NCCs, which does not explicitly incorporate incremental revenues.

### 3.4.3 Response to interested parties' feedback

Our preliminary view is that our NCC framework paper will set out that:

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<sup>47</sup> The WIRO does not specify whether a business should use locational or postage stamp pricing.

<sup>48</sup> Essential Services Commission, [2023 water price review: Guidance paper](#), October 2021, p. 28.



Incremental cost should be calculated over a period that aligns with the water business's growth planning or asset utilisation horizons, and for operating costs this should be the same as the regulatory period.

In relation to incremental revenue and cost forecasting, we would expect water businesses to justify these time horizons by addressing the:

- expected tenure of the customer's connection point
- length of development staging strategies
- businesses' growth planning horizon and life of assets involved in service provision
- life of the plant invested in by large commercial and industrial customers
- practicality of developing reliable forecasts for longer horizons
- level of demand predictability.

For example, when a large data centre is seeking connection, the appropriate time horizon for assessing incremental revenues could be informed by their site tenure (that is, lease duration) and the expected lifespan of the data centre infrastructure (that is, the timing of major asset renewal, which may trigger a decision to decommission).

In such a case, a negotiated NCC could adopt a conservatively short connection tenure to mitigate the risk that other customers are left to cover a shortfall if the forecast incremental revenues are not realised. These arrangements can be further strengthened through appropriate credit protections for large users – such as security fees or take or pay capacity tariffs.<sup>49</sup>

We held a workshop on 1 May 2025 with water businesses most affected by the demand for water by data centres. A summary of the workshop is outlined in Appendix D.

In terms of projecting pricing for the purpose of assessing the present value of future incremental revenues, we would expect water businesses to use:

- the 'standard' regulated rate of return as the discount rate
- prices used for the projected revenues beyond the current revenue determination period based on a flat real price path with only inflation escalation from the final year of the current determination as the default. If a business uses greater than the inflation escalation, then it must justify this approach in its price submission.

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<sup>49</sup> Essential Services Commission, [Review of New Customer Contributions: Consultation Paper](#), 15 August 2024, Appendix A.

## 4. The NCC model

This chapter addresses the challenges water businesses have faced in relation to using the commission's illustrative working NCC model (the net cashflow model), which has led some businesses to adopt alternative methodologies for calculating NCCs. We will explore options for simplifying a specific model for use by water businesses, providing adaptable models for different scenarios, developing a more user-friendly model and releasing simple guidance on how to use and populate the model.

### 4.1 Existing requirements

Our *2023 Water Price Review: Guidance Paper* states that water businesses must use approved pricing principles to calculate the net incremental cost of connections.<sup>50</sup> A price submission must provide the model(s) used to calculate the maximum NCC charges including accompanying notes describing the data sources and input assumptions used.<sup>51</sup> The model(s) must use the same financial parameters as in the financial model template.

If a water business develops and submits a bespoke NCC model instead of using the commission's illustrative working model, we expect comprehensive documentation to facilitate the assessment of the model used. The responsibility is on the submitting business to demonstrate how this model meets the requirements of our guidance and the Water Act and delivers against the pricing principles of standard NCCs.

### 4.2 Challenges with the current NCC model

The current NCC net cash flow model was developed in 2012 after extensive consultation and engagement with the sector. At this time there was a high level of understanding across the sector and agreement that the model was only required to serve as a prompt to further expand and customise based on individual business requirements and circumstances.

During the 2023 price review, we observed frustration with the illustrative model mainly due to high levels of staff turnover and subsequent loss of business knowledge. We found a lack of understanding from many water businesses on how to use the illustrative net cashflow NCC model provided by the commission. This led some water businesses to use another NCC pricing approach altogether (average incremental costing) in the 2023 water price review.

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<sup>50</sup> Essential Services Commission, [2023 water price review: Guidance paper](#), October 2021, p. 59.

<sup>51</sup> Ibid.

#### 4.2.1 Models for different scenarios

Interested parties also suggested that the current illustrative net cashflow NCC model sometimes produces charges that seem unrealistically high or low, failing to reflect the true cost of servicing new developments.

As with all modelling, the outputs are driven by the inputs used and assumptions made in the model. Nonetheless, we acknowledge we need to work with the industry to educate and establish clear guidance on assumptions and inputs required by businesses to produce a transparent and logical output.

Some interested parties argued that the one-size-fits-all approach lacks flexibility and does not adequately account for different development scenarios. Interested parties suggested that we should consider tailored NCC models to account for key factors, such as:

- **Regional vs metropolitan areas** – different cost structures exist between regional and metropolitan developments
- **Residential vs commercial developments** – the infrastructure demands vary significantly between residential and commercial developments
- **Standard vs negotiated NCCs** – some projects require individualised cost structures
- **Infill vs greenfield developments** – infill projects often use existing infrastructure, while greenfield sites require new connections
- **Location-based costs** – costs differ based on factors like proximity to treatment plants, precinct structure plans/development zones, or local government areas
- **Geological and environmental factors** – soil type, development challenges (for example, rocky terrain), and other conditions impact costs.

### 4.3 Response to interested parties' feedback

#### 4.3.1 Potential challenges of having multiple models

While multiple illustrative models could improve cost reflectiveness, we consider that:

- larger models with extensive macros could become cumbersome to manage
- excessive complexity could make the model difficult to use
- a lack of understanding of the basic model has led to misinterpretations
- the model itself is not necessarily the problem — better guidance is needed.

We observe that all the circumstances above can be addressed by modelling multiple separate connection types or locations with incremental cost and incremental revenue assumptions for each scenario.

### 4.3.2 Developing a more user-friendly net cashflow NCC model

Our key finding is that water businesses' forecast of the impact of growth on costs requires more work and understanding.

In response to the feedback from interested parties, we will develop a more user-friendly net cashflow NCC model and handbook on the NCC model. In addition, we consider further guidance, and workshops may be needed to improve understanding and application of the model.

Our preference is that businesses should use the net cashflow approach. However, we would consider the use of an alternative approach such as average incremental cost if the businesses can clearly demonstrate that it meets the principles and provides a better outcome for customers during this review phase. If businesses are considering using a different approach, they must advise us as early as possible. If the need for an alternative approach can be demonstrated, we will develop an appropriate model in response to this review that provides consistency and ease of assessment.

We consider the additional guidance we will provide to assist calculation of NCCs and better support NCC administration will improve the inputs into the NCC modelling and contribute to addressing the issues identified in the 2023 review.

## 5. Next steps

This chapter outlines our planned work to improve the future implementation of NCCs. We will be seeking feedback on this paper's proposals, hosting workshops and training, and updating guidance to promote a better understanding of the NCC framework and its implementation.

### 5.1 We want to hear from you

We are seeking feedback on our preliminary views in response to the issues raised by interested parties to help us further consider how we will update our NCC framework. You may participate by sending comments and submissions to our Engage Vic site, or alternatively via email or mail:

- [water@esc.vic.gov.au](mailto:water@esc.vic.gov.au)
- The Water team, Price Monitoring and Regulation  
Essential Services Commission  
Level 8, 570 Bourke Street  
Melbourne Victoria 3000

### 5.2 Workshops and training

In response to interested parties' feedback, we will hold workshops with the water sector in August and September 2025. The workshops will focus on effective and inclusive engagement, high-level approaches to costing and modelling, and future guidance. In September 2025, we will also hold a dedicated forum for developers and interested parties. These workshops will also serve as opportunities for businesses to provide feedback on our response to issues raised.

Following the release of our new NCC framework paper, we will also hold a technical workshop on the NCC model.

Insights gained from these workshops will inform the development of training videos that will be available on our website.

### 5.3 NCC framework paper and price review guidance papers

We acknowledge that strengthening sector capability and providing updated direction in a consolidated framework with clearer processes and requirements will support a more consistent and effective application of the NCC framework. Therefore, we will consolidate the existing NCC guiding documents into a NCC framework paper informed by insights from this review.

We look forward to receiving your feedback on this report.

## Appendix A – Supporting documentation

**Case Study:** Supporting documentation - good examples from the 2023 water price review: Barwon Water and Gippsland Water.

Our current guidance for NCCs states that water businesses should provide supporting information to justify proposed NCC charges and how they are to be applied.

Our requirements are set out in the *2023 Water Price Review: Guidance Paper*, which outlines the documentation requirements that water businesses must meet.<sup>52</sup> Under the guidance, a price submission must:

- Specify the proposed NCCs and how they are to be applied – for example, by customer class (water, sewerage, recycled water), location or development type (infill, greenfield).
- Provide the model(s) used to calculate the maximum NCCs, including accompanying notes describing the data sources and input assumptions used in order for us to assess that proposed NCC charges have been established in accordance with the NCC pricing principles. The model(s) must use the same financial parameters as in the financial model template.
- Provide evidence of consultation with connection applicants and how their views have informed the proposed charges, particularly if proposed standard NCCs are significantly higher than the existing NCCs.
- Provide details about how the forecast developer contributions in the financial model template have been derived and explain how past outcomes for contributions have been considered, and assumptions about future connections growth.
- Provide a copy of the negotiated NCC framework to be applied for the forthcoming regulatory period, including any proposed changes in track changes.<sup>53</sup>

Additionally, if water businesses develop and submit bespoke NCC models instead of using our illustrative working model, we expect comprehensive documentation to facilitate the assessment of the model(s) used.<sup>54</sup>

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<sup>52</sup> Essential Services Commission, [2023 water price review: Guidance paper](#), 26 October 2021.

<sup>53</sup> Essential Services Commission, [2023 water price review: Guidance paper](#), 26 October 2021, pp. 59–60.

<sup>54</sup> Ibid.

## A.1 Background information

As part of the 2023 water price review, Barwon Water proposed to increase its NCC charges, while Gippsland Water proposed to reintroduce NCC charges for the upcoming regulatory period. Barwon Water also submitted its NCC model and negotiating framework for us to review.

### Barwon Water

In support of its price submission, Barwon Water provided a detailed paper outlining its proposed NCC tariff structures and pricing approach. The paper included an explanation of the proposed NCC charges and how they are intended to be applied. The paper covered each of the topics outlined below.

#### NCC model inputs and assumptions

Key data sources and assumptions underpinning the model, including:

- methodology used to forecast NCC revenue
- consideration of historical contribution outcomes
- assumptions around future growth
- financial and economic parameters.

#### NCC calculation approach

Insights into the process for determining NCCs, including:

- structure and design of the NCC model
- model iterations conducted
- observations and outcomes from the current regulatory period.

#### Forecasting methodology

A detailed breakdown of how forecast NCCs were developed, incorporating:

- growth assumptions for water and sewer connections
- operating expenditure, including bulk water supply, sewerage treatment, and asset maintenance
- capital expenditure (Capex), including the 10-year Capital Works Investment Plan (CWIP), CWIP apportionments, and Capex projections for years 11–30
- other financial inputs such as gifted assets, regulatory rate of return, tariffs and revenue, tax settings, value of franking credits, and the distinction between greenfield and infill developments.

## **Stakeholder engagement**

A description of how Barwon Water engaged with connection applicants to inform its proposed charges, including key steps of the engagement strategy and how feedback was captured, considered, and reflected in the final proposal.

## **Gippsland Water**

Gippsland Water's NCC proposal included a description of the proposed NCC charges and the manner in which they will be applied. The proposal covered each of the topics outlined below.

### **Rationale for change**

Gippsland Water outlined several key drivers behind the proposed changes, including:

- increased demand risk arising from the recent development boom
- the need for cost-reflective pricing at the system level
- lack of transparency in the rationale and calculation of existing NCCs.

### **NCC reform process**

Details of the reform process, including the adoption of a new NCC structure following engagement with the Utilities Regulation Advisory.

### **Customer engagement**

An overview of how customer feedback informed the proposed charges, including insights from the customer engagement process.

## **Stakeholder engagement**

A summary of engagement activities with key stakeholders—including connection applicants, design consultants, the Urban Development Institute of Australia, and government agencies—and how their feedback influenced the proposal.

### **NCC model**

An outline of the inputs and considerations included in the estimating model, such as:

- growth-related capital expenditure
- growth-related operating expenditure
- forecasts of connection growth rate
- treatment of tax allowances and gifted assets



## **A.2 Why we consider these water businesses provided good documentation**

We assessed the supporting documentation provided by Barwon Water and Gippsland Water as representing industry best practice. Both businesses submitted comprehensive, transparent and well-structured proposals. Their NCC submissions were well justified and underpinned by robust modelling.

We found their proposed implementation of NCCs to be consistent with our guidance, the objectives of the NCC framework, and the NCC pricing principles.

Barwon Water and Gippsland Water met the requirements of our guidance by:

- clearly specifying their proposed NCC charges and how they will be applied
- submitting their NCC models, along with detailed descriptions of data sources and input assumptions
- providing evidence of consultation with stakeholders and explaining how the feedback informed their proposed charges
- explaining how forecast NCCs were developed, including consideration of past outcomes and assumptions about future connection growth
- supplying copies of their negotiated NCC frameworks.

Additionally, their proposals included:

- estimates of growth-related capital expenditure
- estimates of gifted assets
- forecasts of NCC revenue
- evidence of compliance with the NCC pricing principles.

## Appendix B – Submissions received

Name or organisation	Date received
Confidential Submission	15 August 2024
Confidential Submission	18 August 2024
Confidential Submission	19 August 2024
Confidential Submission	5 October 2024
Confidential Submission	9 October 2024
Lower Murray Water	30 October 2024
MG Estates	15 November 2024
Coliban Water	15 November 2024
Wannon Water	15 November 2024
Dr Richard Tooth	15 November 2024
David Heeps	15 November 2024
Concerned Waterways Alliance	15 November 2024
UDIA Victoria	15 November 2024
Barwon Water	19 November 2024
Central Highlands Water	28 November 2024
Gippsland Water	28 November 2024
JMP Developments	29 November 2024
Ben Fryer	29 November 2024
South East Water	29 November 2024
Yarra Valley Water	29 November 2024
Greater Western Water	29 November 2024
Prof Peter Coombes	6 January 2025

## Appendix C – Standard vs negotiated NCCs

### C.1 Case Study: Standard NCC charges vs Negotiated NCC charges

#### Case Study 1 – Standard NCC charges

A developer owns land in a high-growth regional town, located within a designated growth zone. The development site is included in water business A's development servicing plans (DSPs), as shown on their official website. Upon reviewing the DSPs, the developer confirms that their site falls within the identified servicing area. The developer then contacts water business A to obtain the conditions for connection. Water business A confirms that the development is fully covered by its standard NCC charge and that water and sewer infrastructure will be available when needed to service the proposed development. Based on this advice, the developer proceeds with the project and pays the applicable standard NCC charges to water business A.

#### Commission's interpretation

The commission considers the NCC framework to be operating as intended. It has approved a standard NCC charge proposed by the water business that appropriately reflects the efficient cost of servicing developments within a designated growth area. Water business A has demonstrated transparency by publishing its DSPs on its website, enabling connection applicants to identify whether their projects fall within a planned service area and to understand the applicable charges.

#### Conclusion

Standard charges apply to new connections in areas where infrastructure needs and growth rates are relatively well known and formally designated by the water business. The purpose of standard NCCs is to reduce administrative burden and enhance the timeliness and predictability of costs for connection applicants.

#### Case Study 2 – Negotiated NCC charges

A developer owns land on the outskirts of a regional town experiencing low growth. The development is not included in water business B's development servicing plans (DSPs). Due to the low growth and limited system capacity, the water business has low standard developer charges. However, servicing this outlying development requires some unplanned upgrades, including enhancements to treatment plants and construction to dedicated branch systems.

To determine the appropriate servicing costs, water business B must undertake preliminary design work and assess additional costs that are not typically incurred for developments within the existing DSPs. Water business B confirms that a negotiated NCC would apply, which means both the developer and water business B need to collaborate and identify the most efficient servicing

solution. In establishing an appropriate negotiated charge, water business B is required to follow the approved negotiated NCC framework and consider the future benefits of this development.

Given the bespoke nature of this request, water business B has advised it will need extra time (up to 4 months) to provide a formal response.

### **Commission's interpretation**

The commission considers the NCC framework to be operating as intended. As the proposed development falls outside the area identified in water business B's DSPs, the commission recognises that a negotiated charge is required to reflect the cost of servicing the development. It also acknowledges that this tailored assessment will require additional effort, including preliminary design work by the water business, which could lead to a longer response time.

### **Conclusion**

Negotiated charges allow water businesses and connection applicants to negotiate a site-specific arrangement where standard charges are not fair and reasonable or where a new connection is outside the areas eligible for standard charges.

## Appendix D – Data centre NCC workshop

### D.1 Workshop on data centre water connections – 1 May 2025

Since publication of our *Review of New Customer Contributions: Consultation Paper* in August 2024, water businesses have highlighted to commission staff the growing scale and complexity of water system connection requests from data centres.

In response, commission staff held a workshop on 1 May 2025 with affected businesses to:

- share experiences with data centre connection requests
- assess the effectiveness of the NCC framework in supporting these negotiations, including identifying strengths, challenges, and any real or perceived barriers, to inform the commission's NCC review
- discuss how the existing flexibilities within the NCC framework could be utilised to support better outcomes.

The workshop was attended by representatives of Melbourne Water, South East Water, Barwon Water, Yarra Valley Water and Greater Western Water along with commission staff and the commission's NCC advisor from farrierswier.

### D.2 Key themes from the workshop discussion

The discussion highlighted a range of issues currently faced by water businesses in managing data centre connection requests. These challenges broadly fall into four categories:

1. **Cost recovery arrangements** during connection enquiry and option testing phase, ensuring costs are appropriately allocated on a 'causer pays' basis.
2. **Water sourcing considerations**, including water type and coordination across the water business supply chain.
3. **Investment scale, timing and optimisation**, particularly in light of large and potentially uncertain demand.
4. **Cost recovery for connection and augmentation investments.**

Of these, items 1 and 4 were identified as directly relevant to the commission's NCC review. Within these areas, a number of specific issues were explored, and commission staff shared their perspectives – these are summarised items in the table below.

A key message from the workshop was the expectation that water businesses protect the interests of existing water customers when managing data centre connections. This aligns with the *Water Act 1989*, which outlines the rights and obligations of water businesses regarding NCCs and new

connections. Under the Water Act, contributions must be fair and reasonable, taking into account the benefit to that property relative to the benefit to other properties.<sup>55</sup>

Question	Commission's view
<p>Some data centre developments may make multiple connection enquiries and test various connection options.</p> <p>What are the expectations for charging for costs incurred in the connection process – for example, feasibility studies and options costing?</p>	<p>These costs should be recovered on a 'causer pays' basis to ensure that other customers are not subsidising significant connection enquiry activities—particularly in cases where projects do not proceed or where the applicant undertakes multiple rounds of resource-intensive option testing.</p> <p>The costs in relation to the initial enquiry phase can be recovered under the miscellaneous pricing principles and/or the pricing principles where scheduled prices do not apply.</p>
<p>If initial charges are paid for early connection enquiry phases, can initial charges be offset against a subsequent net incremental cost NCC calculation?</p>	<p>Yes, where early-stage costs are related to the incremental costs in an NCC, these costs – along with associated early payments - can be incorporated into the net incremental cost NCC calculation as part of a negotiated NCC process.</p> <p>We expect water businesses to document their approach to this, ensuring that the process is transparent and well understood by applicants engaging in negotiated NCC connections.</p>
<p>The scale of water demanded by some recent data centre connection enquiries may be material at a whole of system perspective.</p>	<p>In principle, water commodity costs – such as incremental costs for water entitlement, recycled water, desalinated water capacity – are considered incremental cost for the purpose of calculating NCCs.</p>
<p>It may be desirable for contributions towards Melbourne Water's bulk water / recycled water / desalination augmentations to be included in the NCC paid by data centres connecting into downstream retailers.</p> <p>How could charging and recouping water commodity cost to Melbourne Water work for retailers?</p>	<p>The commission will examine this issue in the context of water businesses that source water from Melbourne Water. This is to ensure that the intent of the Water Act is upheld, particularly in cases where a single large-scale connection affects multiple water businesses.</p>

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<sup>55</sup> *Water Act 1989*, s 268(3), s 269(2) and s 270(2).

Question	Commission's view
<p>The scale of incremental revenues involved in data centre connection forecasts may be significant.</p> <p>How can water businesses prudently manage the risk that these forecast revenues may not be realised as expected, in order to protect their existing customer base?</p>	<p>As noted throughout the commission's <i>New Customer Contributions: Consultation Paper</i>, there are various options available to water businesses to prudently minimise this risk. These include:</p> <ul style="list-style-type: none"> <li>• Ensuring the incremental revenue forecast period aligns with the expected tenure of the customers' connection point, which could be a function of their lease or ownership, and the expected life of the plant and equipment being installed by the data centre.</li> <li>• Adopting bespoke tariffs calculated in accordance with the commission's pricing principles that include capacity-based charges on a 'booked capacity' or 'take-or-pay' basis.</li> <li>• Charging security fees based on their customer-specific risk assessments to ensure the incremental revenues used in their net incremental cost calculations are earned and the existing customer base is no worse off if a connection has lower usage or is disconnected early.</li> </ul>

# Appendix E – Overarching economic regulatory framework

## E.1 Legislative instruments

Three legislative instruments set out the overarching economic regulatory framework under which the commission operates. A short overview of the key provisions of these instruments is provided for context, noting they are not the focus of this review.

### Essential Services Commission Act 2001

The *Essential Services Commission Act 2001* (the ESC Act) provides the commission with functions and powers to regulate prices for prescribed goods and services supplied by or within regulated industries.<sup>56</sup> Victoria's 18 water businesses are a regulated industry operating under relevant legislation for the purposes of the ESC Act.<sup>57</sup> The services provided by these water businesses, including developer charges (also known as NCCs), are prescribed services in relation to which the commission has power to regulate prices.<sup>58</sup>

It does so through a price determination made for each water business under the ESC Act.<sup>59</sup> A price determination is binding on the water business specified in the determination.<sup>60</sup>

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<sup>56</sup> *Essential Services Commission Act 2001*, s 10(a) read with s 32.

<sup>57</sup> *Essential Services Commission Act 2001*, s 3, see definition of 'regulated industry', read with *Water Industry Act 1994*, s4B(1)(a) and (b). The 'regulated water industry' referred to in s 4B(1)(b) of the *Water Industry Act 1994* as being a 'regulated industry' for purposes of the ESC Act comprises Melbourne Water Corporation, metropolitan water corporations, Regional Urban Water Authorities and Rural Water Authorities (see definition of 'regulated water industry' in s 4A(1), *Water Industry Act 1994*).

<sup>58</sup> *Essential Services Commission Act 2001*, s 31A, see definition of 'prescribed goods and services', read with the Water Industry Regulatory Order 2014 (WIRO), cl 7(b), which specifies the 'prescribed services' in relation to which the commission has power to regulate prices.

<sup>59</sup> WIRO, cl 10(a).

<sup>60</sup> *Essential Services Commission Act 2001*, s 35(7).



## Water Industry Act (Vic)

The *Water Industry Act 1994* (WI Act) provides the broad enabling framework for price and service standard regulation of Victoria's water industry. It identifies 18 water business as 'regulated entities' for these purposes.<sup>61</sup> It provides for the making of a Water Industry Regulatory Order by the Governor in Council which sets out the detailed framework for the regulation of prices for prescribed services, and the role of the commission.<sup>62</sup>

## Water Industry Regulatory Order 2014

The *Water Industry Regulatory Order 2014* (WIRO), made by Order in accordance with section 4D of the WI Act, specifies the prescribed services subject to price regulation by the commission.<sup>63</sup> These include services to which NCCs apply.

The objectives of the commission when performing its functions and exercising its powers in relation to the regulated water industry are those set out in section 8 of the ESC Act and section 4C of the WI Act.<sup>64</sup> The WIRO specifies several matters that we must have regard to in seeking to achieve these objectives. The WIRO provides the matters the commission must have regard to when making a price determination to include the matters specified in the guidance that we issue under clause 13 of the WIRO.

The WIRO provides a propose-respond model under which a water business must submit a price submission to us. We must then follow a process to make a final decision and issue a price determination. The commission must, in its determination, either:

- approve the maximum prices a regulated entity may charge for prescribed services or the manner in which the regulated entity's prices are to be calculated, determined or otherwise regulated, as proposed by the water business in its price submission;<sup>65</sup> or
- specify the maximum prices or manner for calculating these prices.<sup>66</sup>

The commission may only specify the maximum prices, or manner in which prices are to be calculated, determined or otherwise regulated, if a price submission does not, in the commission's opinion, comply with the guidance it provides under clause 13 of the WIRO or have adequate

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<sup>61</sup> *Water Industry Act 1994*, s4A – see definition of 'regulated entity'.

<sup>62</sup> *Water Industry Act 1994*, s4D.

<sup>63</sup> WIRO 2014, cl 7(b).

<sup>64</sup> WIRO 2014, cl 8.

<sup>65</sup> WIRO 2014, cl 14(a)(i).

<sup>66</sup> WIRO 2014, cl 14(a)(ii).

regard for the matters specified in clause 11 or if a regulated entity has failed to submit a price submission to the commission within the time period specified for this by the commission.<sup>67</sup>

## E.2 Commission's guidance

Guidance issued by the commission pursuant to the WIRO sets out our regulatory framework for NCCs<sup>68</sup>. The guidance needs to capture the matters we expect water businesses to consider and provide clarity about the information they must provide us in support of their pricing proposals. Our guidance also needs to consider the binding requirements that the Water Act imposes on water businesses in relation to new connections requiring payment of an NCC.

Our framework for NCCs was set out in guidance we issued for the 2023 water price review.<sup>69</sup> Under our guidance, NCCs can be either standard or negotiated<sup>70</sup>

- standard charges are proposed by the water business and approved by the commission
- negotiated charges are negotiated between the water business and the connection applicant on a site-specific basis.

Standard charges apply to new connections in areas where infrastructure requirements and growth rates are relatively well known and designated by the water business. Standard charges reduce the administrative burden and improve the timeliness and predictability of costs faced by connection applicants.

Negotiated charges may apply where standard charges would not be fair and reasonable or where a new connection is outside the areas or connection conditions eligible for standard charges. While we do not approve individual negotiated charges, we do approve each water business' framework for negotiating these charges at each price review.

The *2023 Water Price Review: Guidance Paper* also set out pricing principles which we required water businesses to use to calculate their NCCs (see Box E.1 below). It referenced the *New Customer Contributions: Explanatory Note* we issued in December 2013 which sets out detail on the types of NCC (standard or negotiated) and how to interpret and apply the pricing principles and formed part of the guidance.

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<sup>67</sup> WIRO 2014, cl 14(b)(i) and (ii).

<sup>68</sup> WIRO 2014, cl 13.

<sup>69</sup> Essential Services Commission, [2023 water price review: Guidance paper](#), 26 October 2021, p.59.

<sup>70</sup> Ibid.

## Box E.1      New customer contributions pricing principles

Standard and negotiated new customer contributions will:<sup>71</sup>

1. have regard to the incremental infrastructure and associated costs in one or more of the statutory cost categories attributable to a given connection<sup>72</sup>
2. have regard to the incremental future revenues that will be earned from customers at that connection
3. be greater than the avoidable cost of that connection and less than the standalone cost of that connection.

We consider these pricing principles represent the minimum requirements for new customer contributions to be considered fair and reasonable as required by the Water Act.

The first two of these principles establish that the cost recovery threshold for determining upfront contributions (versus ongoing recovery through the regulatory asset base) is a net incremental cost approach, and the third requires that resulting contributions fall within efficient pricing bands.

The *New Customer Contributions: Explanatory Note* also encourages water businesses to have negotiation protocols, and to make certain information available to connection applicants, to inform negotiations and decisions regarding new customer contributions.<sup>73</sup> It considered that reasonable industry practice will also see water businesses prepare and publish:

- Development servicing plans that show the water business's forecast timing and sequencing of infrastructure that will be required to service new customers.
- Negotiation protocols including references to pricing principles and dispute resolution details.
- Explanations of where and when a standard NCC applies, and circumstances in which a developer or water business may introduce a negotiated NCC.

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<sup>71</sup> Essential Services Commission, [2023 water price review: Guidance paper](#), 26 October 2021, p. 59.

<sup>72</sup> Statutory cost categories means costs for works imposed under Division 6 of Part 13 of the *Water Act 1989*.

<sup>73</sup> Essential Services Commission, [New Customer Contributions: Explanatory Note](#), December 2013, pp. 9–12.

## Information requirements

Our price review guidance papers also outline certain information requirements that must be met by water businesses. For example, our 2023 and 2024 price review guidance papers required that water businesses' pricing proposals must:

- Specify the proposed NCCs and how they are to be applied – for example by service (customer class) (e.g. water, sewerage, recycled water), location or development type (e.g. infill, greenfield).
- Provide the model(s) used to calculate the maximum NCCs, including accompanying notes describing the data sources and input assumptions used, in order for us to assess that proposed (standard) NCCs have been established in accordance with the NCC pricing principles and that the same financial parameters have been used as those in the regulatory building block revenue and RAB model (the financial model template).
- Provide evidence of consultation with connection applicants and how their views have informed the proposed charges, particularly if proposed standard NCCs are significantly higher than the existing NCCs.
- Provide details about how the forecast NCCs in the financial model template have been derived and explain how past outcomes for contributions have been considered, and assumptions about future connections growth.
- Provide a copy of the negotiated NCCs framework to be applied for the forthcoming regulatory period, including any proposed changes in track changes from the framework approved in the prior period.

These requirements for information to be provided to us are in addition to those that water businesses are already required to meet for customers when they issue a notice to a connection applicant to charge a contribution. Specifically, the Water Act requires that such notices include:<sup>74</sup>

- the amount of the payment required
- the reason why the payment is required
- any works or services that have been or will be provided
- the property in relation to which payment is required
- if payments are required in relation to a group of properties, the amounts required in relation to each property
- the right of the owner to object and apply for a review by the water business in the first instance and then VCAT if they desire

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<sup>74</sup> Division 6 of Part 13 of the Water Act 1989, section 268(4).

- that details of the proposed services and the costs are available for inspection, free of charge, at the water business' office during normal business hours.

Charging an approved NCC does not remove these statutory obligations on water businesses.

### **E.3 Water Act 1989**

The *Water Act 1989* governs water businesses' rights and obligations in relation to new customer contributions and new connections. It requires that contributions are fair and reasonable, taking into account the benefit to that property relative to the benefit to other properties.<sup>75</sup> As noted above, the pricing principles in our guidance represent what we would expect to see for new customer contributions to be considered fair and reasonable as required by the Water Act.

The Water Act also outlines requirements for information to be provided to connection applicants when issued with a notice by a water business requiring payment of NCCs.<sup>76</sup>

The Water Act further provides a process to resolve disputes between a water business and a connection applicant when any objections raised in relation to NCCs on the grounds specified in the Water Act.<sup>77</sup> This includes a mechanism to have the dispute independently reviewed and decided by the Victorian Civil and Administrative Tribunal.<sup>78</sup>

The Water Act also provides arrangements for control over connections to a water business's works.<sup>79</sup> This is only possible on successful application to and approval by the water business.<sup>80</sup> It is an offence to connect to a water business's works without the required approval.<sup>81</sup> NCCs are often required to be paid when a connection applicant applies to a water business to make a new or augment an existing connection to a water business's works.

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<sup>75</sup> *Water Act 1989*, s 268(3), s 269(2) and s 270(2).

<sup>76</sup> *Water Act 1989*, s 268(4) and s 269(3).

<sup>77</sup> *Water Act 1989*, s 271.

<sup>78</sup> *Water Act 1989*, s 271.

<sup>79</sup> *Water Act 1989*, s 145.

<sup>80</sup> *Water Act 1989*, s 145.

<sup>81</sup> *Water Act 1989*, s 145A.