

The Water Team  
Essential Services Commission, Victoria  
(via Email: water@esc.vic.gov.au)

## Feedback on your **Draft New Customer Contributions Framework**

Dear Water Team

Thank you for the opportunity to comment on your Draft Framework. The paper is comprehensive and well explained, so thank you.

My suggestions for your further consideration are:

### Directors' attestation

1. You clarify that the attestation of the Board as to the quality of its price submission and compliance with ESC guidelines includes NCCs.
2. In the context of your earlier paper which stated the "decline in sector knowledge contributed to the inadequate implementation of NCCs", it might be prudent for a Board to engage an independent auditor to provide them with comfort to give the attestation you require.
3. Would the ESC consider producing a 'model' audit scope for NCCs that a Board could adopt/modify and issue to its internal auditor? Presumably the audit would encompass documented policies and procedures, and sampling of staff practices.

### A negative NCC?

4. If the added revenue from new customers exceeds the costs associated with new customers, should the resulting negative NCC be set to zero?
5. If set to zero, existing customers will be better off than would have been the case if there was no growth. Alternatively, subsequent new customers in that same zone over which averaging occurs will receive the benefit, provided a standard NCC is recalculated, or that subsequent developers ask for a negotiated NCC.
6. Despite your example in section 6.3 which says NCCs cannot be negative, it may be less distortionary to use a negative NCC, which in essence would mean a water corporation would reimburse a developer for some of the expense of the gifted assets it has required the developer to build and gift. It could be like developers being reimbursed for upsized reticulation assets.

### Transitioning to cost (and benefit) reflective NCCs

7. Section 4.5 of your paper refers to transitioning to higher NCCs and the customer bill impact of any glide path transition.
8. Transparently quantifying the bill impact seems a good initiative, but it focusses on the case of an increasing glide path.
9. If it is a decreasing glide path from current NCCs, revealing the impact between developments (and their fair treatment) would appear to be equally desirable.
10. Likewise, and discounts or offsets offered should be explained and published, to avoid any perceptions of arbitrariness.

## Scalability

11. Your paper seems to avoid prescription of what is a reticulation asset and instead relies on each water corporation preparing a transparent description of their approach.
12. I suggest if this remains the approach, section 8 on “monitoring NCC implementation” could be expanded to include a section 8.3 on “comparative policy commentary”.
13. That said, ESC guidance on what is expected in a policy would be beneficial, such as:
  - a. How fairness between developments of different sizes is addressed
  - b. How works outside the developer’s land are treated
  - c. How upsizing within the developer’s land is defined and treated, and its consistency with the incremental cost principle
  - d. What assets are included or excluded – pipes and sizes; pump stations and sizes; pressure reducing stations; pressure and flow telemetry equipment; sewer sentinels; etc

## Annual disclosures section 8.1

14. Your list appears to have omitted ‘number of cases referred to independent commercial dispute resolution’ mentioned in section 4.7.
15. Also, the list appears to have omitted the number of requests for internal review or independent commercial resolution that were denied.

## Long run marginal cost

16. In table 6.1, long run marginal cost is described as an example of unitised costings that can be used for some aspects of service provision.
17. Depending on the profile of expenditure, could this lead to a loss of nexus between the cost attributable to a development in the nearer term (say 5 to 10 years)?
18. Also, are you referring to the present value of “incremental” costs, consistent with the NCC pricing principle, or capital costs; divided by the present value of the number of new lots?

Thank you for a comprehensive paper on your draft NCC framework.

David Heeps