



Western Water Guide to New Customer Contributions

**Western Water
January 2013**



Table of Contents

1.	Introduction	3
2.	Western Water Overview	3
3.	New Customer Contribution Framework	6
3.1	Introduction	6
3.2	Pricing Principles.....	6
3.3	Charging Units	6
3.4	Bring Forward Calculations.....	7
4.	Land Development Process	7
5.	Western Water NCC Definitions & Assumptions.....	7
5.1	Western Water’s Standardised New Customer Contributions.....	7
5.2	Assumptions / Definitions	8
5.2.1	Reticulation (or gifted) Asset Definition	8
5.2.2	Growth Rates	9
5.2.3	Areas eligible for application of Standardised NCCs	9
5.2.4	Development Servicing Plans	9
5.2.5	NCC Charging Unit Definition.....	10
6.	Negotiation Framework.....	10
7.	Transitional Arrangements	10
	Appendix A: Development Industry Consultation.....	12
	Appendix B: Development Servicing Plans.....	13
	Appendix C: Proposed Negotiating Framework.....	14

1. Introduction

Western Water's Guide to New Customer Contributions (NCC) has been prepared to:

- Outline Western Water's methodology for calculation and implementation of NCC, and
- Provide information and seek feedback from the land development industry.

New Customer Contributions are an upfront payment to recover the cost of major water, sewerage and recycled water infrastructure required to service new development. The basis for NCC is provided in the Water Act Section 268 and 269. The Water Act requires NCC to be assessed as "fair and reasonable" with review by the Victorian Civil and Administrative Tribunal (VCAT).

The Essential Services Commission (ESC) is the economic regulator of the Victorian Water sector. The ESC regulates all water corporation prices, including NCC, as well as monitoring service standards and market conduct. In August 2012 the ESC released a Guidance Paper on NCC. (See <http://www.esc.vic.gov.au/Water/New-Customer-Contributions>)

The ESC Guidance Paper is a "principles based" approach which enables the water industry to prepare standard NCC and a Negotiating Framework with the development industry to ensure flexibility in complex / non-standard development proposals.

The approach undertaken for determining NCC for Water Plan 2013 - 2018 has involved significant consultation. Western Water has welcomed the opportunity to be involved in the consultation process undertaken which has included VicWater the UDIA (Urban Development Industry Association) Government agencies and the development industry.

Western Water will continue to consult with the development industry in finalising and implementation of the Guide to New Customer Contributions.

For further information on the Guide please contact Administrative Officer Gloria Jackson at Western Water on telephone 9218 5407.

2. Western Water Overview

Western Water is one of Victoria's thirteen regional urban water corporations. It provides water, recycled water and sewerage services to 57,000 properties over an area of 3,000 square kilometres and a population of 155,000.

Western Water supplies more than 11 billion litres of clean, healthy drinking water to customers each year. Around 8 billion litres of sewage is processed each year to produce around 7.5 billion litres of recycled water. Class A recycled water is piped to homes in new developments for uses including toilet flushing and garden watering. Other recycled water classes are used for irrigating parks and sports grounds, industry and agriculture.

Western Water has seven Water Filtration Plants which treat water from local catchments. In addition Western Water is also able to access water from the Melbourne System and supply to the majority of



the Western Water region. Western Water also has seven Recycled Water Plants which treat all the regions sewage and supply recycled water to the region.

Western Water's service area (as shown in Figure 1 below), which includes Melton, Bacchus Marsh, Sunbury, and towns in the Macedon Ranges, is one of the fastest growing regions in Victoria. Rapid housing development is contributing to an average population growth of 4.8% per year over Water Plan 2013 - 2018, with the region's population expected to triple in the next 20 years. The rapid population growth within Western Water's region has been influenced by the revision to Melbourne's Urban Growth Boundary (UGB). The revised UGB was approved by Parliament in July 2010 and significantly expanded land for Melbourne's growth in the Melton and Sunbury corridors.

In Water Plan 2013 – 2018 Western Water is \$252 million in its capital program, the majority of which is for expected population growth in our region.

DRAFT

Service Area



Figure 1: Western Water’s service area.

3. New Customer Contribution Framework

3.1 Introduction

Under the ESC NCC framework:

- Water corporations are required to negotiate New Customer Contributions in accordance with Pricing Principles and Negotiating Frameworks approved by the ESC;
- Developers will negotiate with water corporations and have recourse to the Victorian Civil and Administrative Tribunal (VCAT) for dispute resolution;
- The ESC, through the 5 yearly water price review, will approve:

- Any supplementary pricing principles;
- Negotiating Framework;

A Negotiation Framework is to be developed by water corporations and approved by the ESC setting out the procedural and information requirements relevant to services to which NCCs apply.

- Standardised NCC charges;

Water corporations may develop standardised NCCs consistent with the pricing principles and submitted by the water corporations in their Water Plan's. These can be a single standardised charge for each service applicable for an entire water corporation's service area or several geographically based standardised charges.

3.2 Pricing Principles

The ESC requires that NCC charges will:

- Have regard to the incremental infrastructure and associated costs 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.

3.3 Charging Units

Water corporations shall have the flexibility to choose the charging units for NCCs (e.g. lots, equivalent tenements, fixtures units etc.). The charging units should provide a 'fair and reasonable' charge for each 'occupancy' based on the capacity utilisation of that occupancy.

This is further detailed below in Section 5.2.5.



3.4 Bring Forward Calculations

Financing costs relating to bring forward connections should be calculated as the financing costs on the connection capital expenditure for the number of years that the expenditure is brought forward. That is, the product of the capital expenditure, the post-nominal WACC and the number of years.

The ESC requires that water corporations intending to levy 'bring forward' charges will have prepared up to date Development Servicing Plans that show the timing of when assets were otherwise expected to be constructed.

4. Land Development Process

The calculation of NCC and application of the negotiating framework fall within Western Water's Land Development process between the "Request for Conditions" made by the Customer / Developer and the resulting "Letter of Offer" issued by Western Water in accordance with Sections 268 to 271 of the Water Act 1989.

5. Western Water NCC Definitions & Assumptions

This section outlines how Western Water proposes to implement the new framework and includes:

- Standardised NCC for nominated areas within Western Water's service area.
- A Negotiation Framework for New Customer Contributions that integrates with Western Water's Land Development Processes.
- Development Servicing Plans that are used as the baseline for calculating standardised NCC and for determining the magnitude of 'bring forward charges' that may be applicable to new connections.

5.1 Western Water's Standardised New Customer Contributions

Western Water has developed standardised New Customer Contributions (NCC) in accordance with the ESC's pricing principles.

For simplicity, Western Water proposes a single standardised charge for each water, sewerage and recycled water connection as shown in Table 1 below. Standardised NCC are applicable only to new connections in eligible areas.

Table 1 – Standardised New Customer Contributions (for eligible areas)

Service	New Customer Contribution (In 2012 dollars)
Sewerage	\$3,700
Water (Non Class A Recycled Water areas)	\$3,100
Water (Class A Recycled Water areas)	\$1,550
Recycled Water	\$2,400

As indicated in Table 1 above, a 50% discount applies to the water NCC where lots are also provided with Class A recycled water. It is also noteworthy that the provision of Class A recycled water provides an alternative to rainwater tanks included in the Building Commission's Residential Sustainability measures for 6 star rating requirements.

Following consultation with the development industry (refer to Appendix A) uniform NCCs independent of lot size are to be applied. This is favoured as:

- Lots sizes are reducing and lots above 1,350 m² will be rare;
- Commonly house sizes are the same regardless of lot size;
- A common NCC is simpler for the development industry to model; and
- The industry considers NCCs should not be used as proxy for planning lot size.

An annual indexation using CPI will be applied to the NCCs at the start of each financial year.

5.2 Assumptions / Definitions

The standardised charges have been developed based on assumptions including:

1. Definition of reticulation assets funded by New Customers and vested to Western Water.
2. Growth rates and distribution of growth.
3. Definition of areas eligible for standardised NCC.
4. Development Servicing Plans.
5. Charging Unit definition.

5.2.1 Reticulation (or gifted) Asset Definition

Considerable uncertainty and inconsistency has existed in the past in relation to the definition of assets that are funded by developers and vested to water corporations.

The following definition has been utilised by Western Water in the development of the Standardised NCCs. This definition was favoured due to its simplicity and the fact that it is independent of whether the asset serves more than one development or not.

Reticulation (or gifted) Asset Definition

When connecting to a water corporation's sewerage, water or recycled water network, a developer is required to provide:

- All Reticulation Assets, and
- New Customer Contributions (NCC's).

A **Reticulation Asset** is defined as, "A water main or recycled water main that is DN150mm or less in diameter and gravity sewerage main that is DN225mm or less in diameter, and all associated assets." It is to be fully funded by the developer and vested to the water corporation, regardless of whether it is required to be sized or positioned to service other developments.

Associated Assets that are deemed to be reticulation assets include, but are not limited to:

- Sewer Pump Stations, emergency storages and rising mains (where the gravity sewer inlet to sewer pumping station is less than or equal to DN225mm diameter)
- Water or recycled water Pump Stations (where the pump discharges into water or recycled water mains of DN150mm diameter or less)
- Pressure Reducing Valves (where connected to water or recycled water mains of DN150mm diameter or less)
- Water and Recycled Water Tanks (where outlet main is DN150mm diameter or less).
- Freehold land, reserves and or easements required to accommodate Reticulation Assets

Other growth related assets and associated land tenure requirements will be provided by the water corporation, the incremental cost of which is recovered through the New Customer Contributions Charge and the Bring Forward Charge (if applicable).

5.2.2 Growth Rates

Western Water's past annual growth in residential assessments has been as high as 4-5% in some areas. Growth forecasts anticipate over 130,000 residential properties will be built in Western Water's service area over the next 20 years. Western Water has engaged expert Consultants to conduct an extensive detailed review of growth predictions and identify impacts and timing on demand and infrastructure. This work has been the basis for demand forecasting adopted in Water Plan 2013-2018.

Western Water's derived population figures were determined from individual water supply systems and, hence, provide individual growth rates per system. The extensive customer growth review incorporated results from the Melbourne @ 5 Million report developed by the Victorian Government's Growth Areas Authority (GAA). In particular this review focused on the large exceptional growth occurring in the Sunbury, Melton and Toolern. The simple average growth over the 5 years of Water Plan 2013 - 2018 is predicted to be in excess of 4.8% pa (initial average growth as low as 4.40% to a high of 5.10% by the end of the Water Plan 2013-18).

5.2.3 Areas eligible for application of Standardised NCCs

All suitably zoned land across Western Water's region at the time of preparation of this document (including the approved urban growth areas of the Toolern, Rockbank North and Diggers Rest Precinct Structure Plans) will be eligible for application of the Standardised NCC charge.

Any proposed new connection outside of these areas will be subject to a negotiated charge utilising the ESC pricing principles.

5.2.4 Development Servicing Plans

Refer to Appendix B for Western Water's "Development Servicing Plans".



5.2.5 NCC Charging Unit Definition

The payment of a standardised New Customer Contributions for each additional connection includes the following:

- Any new lot on a plan of subdivision;
- Any new separate premises that is or can be metered;
- Any apartment, unit, or premises within a multi-story development that is or can be separately metered (regardless of whether or not it is subdivided)
- Specialised, non-subdivisional or higher water usage developments*

* Specialised, non-subdivisional or higher water usage developments will be considered on a case-by-case basis with NCC calculated on either a pro-rate approach and/or “fixture units”. These include but are not limited to:

- Commercial developments
- Industrial developments
- Nursing homes
- Private hospitals
- Schools or other non-rateable properties
- Caravan parks
- Public open space
- Sports grounds

For multi-unit developments a “credit” will be provided for the existing lot and then standard NCCs applied per unit.

6. Negotiation Framework

Western Water’s proposed Negotiation Framework for New Customer Contributions is provided in Appendix C.

The proposed Negotiation Framework outlines the connection applicant’s rights and obligations, the negotiation process and indicative timeframes.

7. Transitional Arrangements

It is proposed to implement the new framework and charges on 1st of July 2013. The full values of the NCC payable are to be progressively phased in across Water Plan 3 as per Table 2.

Table 2 – % of full NCCs payable across Water Plan 3

WP3 Year	Start Date	% of Full NCCs Payable
1	1 July 2013	70%
2	1 July 2014	77.5%
3	1 July 2015	85%



4	1 July 2016	92.5%
5	1 July 2017	100%

The value of NCC payable by Customers / Developers will be that applicable at the date that payment is made regardless of any previously formal Letters of Offer issued by Western Water with different charges stated.

DRAFT

Appendix A: Development Industry Consultation

Vicwater on behalf of the water industry formed a working group with representatives from Water Corporations both Metropolitan and Regional to assist with developing a revised methodology for NCC's. The working group has already conducted various consultations with the development sector and key stakeholders regarding the proposed changes. Further meetings and consultation is planned over the coming months with the next scheduled meeting with UDIA 10 December 2012.

Western Water conducted a NCC forum with the development industry which it services. This forum was held on the 12 November 2012. A total of 32 invitations were sent out with 10 industry representatives attending including representatives from key developments within the Western Water region including;

- Victoria Investments and Properties (Rockbank North),
- Lendlease (Atherstone – Toolern), and
- Investa (Diggers Rest).

The key points from the forum were as follows;

- Developers want certainty (for future planning)
- Impacts of changes significant due to budgeting constraints
- Phasing of NCC increases preferred – certainty is important
- VCAT is last resort due to time delay and cost
- Disputes are inevitable, but negotiation with flexibility is preferred over VCAT
- Lot sizes are shrinking, lot sizes above 1350m² will be rare
- Price gap between lot sizes should be small or nothing – commonly the house size is the same regardless of lot size
- A standard rate for all lot sizes is also easier for the industry to model
- Developers consider NCC should not be used as a proxy for planning lot size
- Generally speaking, infill and greenfield development should be charged consistently
- Bring forward principle – transparency is essential – need to know what Western Water development schedule, so developers know what is out of sequence.

In addition to the above Western Water has undertaken consultation with it's customers on the Water Plan – details of which have previously been provided. An important issue in our customer consultation was how funding of new growth should be provided. Western Water customers in this consultation were very clear that developers should fund this growth with consideration of an "offset" for future tariff reductions.

Appendix B: Development Servicing Plans

⇒ Not yet attached.

DRAFT

Appendix C: Proposed Negotiating Framework

WESTERN WATER NEGOTIATING FRAMEWORK

1. Application of Negotiating Framework

This Negotiating Framework forms a part of Western Water approved Water Plan for the 2013-2018 water plan period.

1.1 Purpose

This Negotiating Framework sets out procedural and information requirements relevant to *services to which developer charges apply*, as defined in the WIRO. It requires Western Water and any Connection Applicant to negotiate in good faith to agree the price, standards and conditions of services to be provided. It also provides for transparent information to enable the Connection Applicant to understand the reasons for decision made by Western Water.

The requirements set out in this negotiating framework are in addition to any requirements or obligations contained in or imposed under the Water Act 1989, the Planning & Environment Act 1987 (including under any planning scheme or permission), the Subdivision Act 1988 and Western Water's Land Development Process (the "Regulatory Instruments").

In the case of inconsistency between the Regulatory Instruments and this negotiating framework, the Regulatory Instruments will prevail.

This Negotiating Framework does not alter the rights of a Connection Applicant to seek a review of Western Water's decision by the Victorian Civil and Administrative Tribunal.

1.2 Who this negotiating framework applies to

This Negotiating Framework applies to Western Water and to any property owner – generally a property developer – that is a Connection Applicant who requests connection to Western Water's works in accordance with section 145 of the *Water Act 1989* (Vic).

It also applies to Western Water in responding to such requests from a Connection Applicant.

1.3 No obligation to provide service, good faith obligation

Nothing in the negotiating framework imposes an obligation on Western Water to allow the Connection Applicant to connect to Western Water's works or provide services to the Connection Applicant.

Western Water can refuse its consent, consent, or subject to any terms and conditions that Western Water thinks fit, as provided under section 145(3) of the Water Act.

However, Western Water and Connection Applicant must negotiate in good faith the price, terms and conditions for services sought by the Connection Applicant.



2. Timeframes

Western Water and the Connection Applicant will use their reasonable endeavours to achieve the following timeframes:

- (a) Agree the milestones, information requirements and any other relevant issues within fifteen (15) business days of Western Water’s receipt of an Application. An application, under Section 145 of the Water Act 1989, for connection means a formal request for servicing conditions made to Western Water.
- (b) Respond to the Applicant giving details of the terms and conditions of the Offer to allow connection:
 - Within forty five (45) business days where a Standardised NCC Charge applies; and
 - Within one hundred and twenty (120) business days where a Negotiated NCC Charge applies.
- (c) Adhere to any timetable established for negotiations, and progress negotiations in an expeditious manner; and
- (d) Finalise negotiations within one hundred and twenty (120) business days of the initial application.

2.1 Indicative timeframes for Standardised NCC Charge

Step	Actions	Timing
1	Receipt of written application for connection servicing conditions under Section 145 of the Water Act 1989.	X
2	Parties discuss (and meeting if required): <ul style="list-style-type: none"> • the nature of the services required; • any information to be provided by the Connection Applicant; and • notification and consultation with other persons potentially affected Parties agree: <ul style="list-style-type: none"> • timeframes for negotiation and consultation; and • milestones. Connection Applicant pays application fee.	X + 15 Business Days
3	Connection Applicant provides any additional information required by Western Water to enable it to determine the servicing requirements and costing’s for the development.	X + 20 Business Days
4	Western Water investigations completed including, where required, consultation with others potentially affected	X + 35 Business Days
6	Western Water makes Offer including: <ul style="list-style-type: none"> • Terms and conditions of connection • NCC payable. 	X + 45 Business Days

3. Provision of information by Connection Applicant

The Connection Applicant must provide sufficient information to enable Western Water to assess the Application and determine the service requirements and costing's for the development. The information provided by the Connection Applicant will be treated as confidential by Western Water, subject to the various acts and statutes that Western Water operates under.

The level of information required by Western Water and the detail of its response will vary depending on the complexity and size of the development.

4. Provision of information by Water Business

After consideration of requests for servicing conditions Western Water may provide an offer, via letter, draft agreement and/or notice ("Offer"). The Offer will include specific requirements for the particular development and also include various standard conditions and other information including charges (including New Customer Contributions) and fees to achieve connection to Western Water's systems.

The Offer will be provided by Western Water pursuant to the Regulatory Instruments.

5. Pricing Principles

The Western Water's charges will:

- (a) Have regard to the incremental infrastructure and associated costs in one or more of the statutory cost categories attributable to a given connection;
- (b) Have regard to the incremental future revenues that will be earned from customers at the connection; and
- (c) Be greater than the avoidable cost of that connection and less than the standalone cost of that connection

In setting charges, Western Water will also comply with:

- (a) The regulatory principles set out in clause 14 of the WIRO; and
- (b) Any specific pricing principles approved by the Essential Service Commission as part of Western Water's water plan.

6. Consultation with affected parties

If the Western Water considers that persons other than the Connection Applicant may be affected by proposed connection services, then:

- Subject to reasonable confidentiality requirements, Western Water will share any necessary information with others potentially affected to assess impacts; and
- Parties will allow sufficient time for reasonable consultation with affected parties to occur.

7. Payment of Water Business's Costs

All developments requiring new or upgraded connections to Western Water's system will incur associated fees and charges payable to Western Water. These fees and charges levied under the Water Act and subject to approval by the ESC. Details of the fees and charges applicable can be found on Western Water's website (www.westernwater.com.au).

8. Termination of negotiations

The Connection Applicant may elect not to continue with its application for a service to which a developer charge applies, and may terminate the negotiations by giving Western Water written notice of its decision to do so.

Western Water may terminate a negotiation under this Negotiating Framework by giving the Connection Applicant written notice of its decision to do so where:

- (a) Western Water believes on reasonable grounds that the Connection Applicant is not conducting the negotiation under this negotiating framework in good faith;
- (b) Western Water reasonably believes that the Connection Applicant and their development will not be able to receive a service from Western Water's system; or
- (c) An act of insolvency occurs in relation to the Connection Applicant.

9. Dispute resolution

In the event of a dispute between parties, Western Water will continue attempts to resolve the matter by negotiation.

After Western Water provides its Offer, if the Connection Applicant does not accept the Offer, generally the Connection Applicant has particular rights to seek a review in the Victorian Civil and Administrative Tribunal ("VCAT") of the terms and conditions of connection and the NCC charge applied. These VCAT review rights, including the various time lines, rights and processes are set out in the Water Act 1989 and the VCAT Act 1998.

10. Giving notices

The address for correspondence and notices to Western Water is:

Western Region Water Corporation
(36 Macedon Street Sunbury)
PO Box 2371
Sunbury DC VIC 3429

A notice must be:

- (a) In writing and signed by a person duly authorised by the sender.
- (b) If given or received under any Regulatory Instruments or other statute of regulation must be given under the requirements of that relevant instrument, or other statute or regulation.

11. Terms and abbreviations

Connection Applicant – The person making the application to connect to Western Water’s system.

Application – The formal request for servicing conditions made pursuant to Section 145 of the Water Act 1989.

Standardised NCC Charge – This is the standardised charge for Connection Applicants wishing to connect to Western Water’s system.

Negotiated NCC Charge – This charge, derived from NCC principles developed by Western Water, will apply where the Standardised NCC Charge is not applicable due to the nature and/or location of the development and arising out of negotiation with the Connection Applicant.

DRAFT