

9 May 2008

Essential Services Commission
Level 2, 35 Spring St
Melbourne VIC 3000
Email: water@esc.vic.gov.au

Dear Sir,

RE: *Water Price Review, Regional and Rural Businesses Water Plans 2008-2013 — Draft Decision, March*

INTRODUCTION:

I make this submission in regards to the “*Water Price Review, Regional and Rural Business Water Plans 2008-2013 – Draft Decision, March*” in the hope that a flaw in the existing method of charging / providing water infrastructure for new residential developments which also provides capacity for adjacent properties will be corrected.

EXAMPLE:

For the purposes of this submission I will outline an example which will be used to explain my submission.

Developer A:

- Developer A is developing a residential subdivision which requires an upgrade to the sewer system.
- Assume that the infrastructure required to be installed is a pump station with a rising main.
- For the purpose of this example, assume that the cost of these works is \$1,000,000 and the pump station also has capacity to provide for the surrounding land, which is suitable to be developed in the future and is not in common ownership with developer A.
- Fifty per cent of the capacity of the pump station and rising main caters for Developer A’s land and the balance provides for the surrounding properties.

Consumer:

- The consumer is the person who purchases the residential lot or the industrial lot for either private use or for a commercial enterprise.

Neighbouring Developer:

- The neighbouring developer abuts Developer A’s land and will benefit from the installation of this infrastructure.

EXISTING METHOD:

Under the existing system, Developer A must pay the full cost of the pump station and recoup it from the sale of his lots. No contribution is required from the neighbouring developer – ie the additional \$500,000 is spread over the number of lots developed.

I will now explain the impacts of this method to each of the different parties:

Developer A:

The developer is hesitant to install this infrastructure unless it is economical and the additional \$500,000 can be absorbed by the development. This can leave many developments unviable until an agreement is made with neighbouring parties. If the neighbouring parties are in no hurry to develop then they can simply wait and Developer A has to make a decision: either install the infrastructure and commence development or wait until all parties agree. If the decision is to wait, it means that the land will not be usable and the holding costs associated with this (*Interest, Land Tax, Council Charges, and Insurance*) greatly increase the end cost to develop the land in the future. It also means unnecessary delay in the developable land coming on to the market.

Consumer:

- The consumer is the biggest loser. If the consumer purchases a residential lot from Developer A, then he is paying an additional cost and subsidising his neighbours.
- If Developer A is first developer to develop the area, then the prices of those lots set the valuations for the residential lots on the neighbouring properties. If the consumer purchasers from the neighbouring developer, then this can still push up the price of the neighbouring lots.

This situation runs counter to the user pays principle. It can inflate the price of residential lots and creates uncertainty in the market. It will also impact adversely on land supply if Developer A decides to wait until the neighbouring developer is in agreement.

PROPOSED METHOD:

I wish to propose that both major infrastructure and sewerage and water infrastructure should be funded by the different property owners when the owners develop their land. Prior to July 2005, the “*pioneer developer*” would fund and build the project and the authority would then reimburse the pioneer developer on a pro-rata rate basis. As other parts of the catchment were developed, these funds would be recouped by the Water Authority.

This method was fair to the pioneer developer and the subsequent developers. It also enabled easy analysis of the costs to provide services to a site that was being investigated for a potential development.

Regards,

Richard Bisinella