

South Gippsland Water : Paper on Proposed New Customer Contributions Charges Framework

Background

ESC has proposed a new framework for charging New Customer Contributions (NCCs). SGW submitted a proposal to the Essential Services Commission (ESC) on the 19th December 2012 in relation to NCC's requesting that the NCC be charged under the current framework for Water Plan 3 and a new model be developed for Water Plan 4 providing time for proper consultation, model development and proper understanding of the impacts on pricing and revenue.

Since that paper was submitted SGW has, in consultation with the ESC, revisited models and developed a Corporation Wide NCC proposal as detailed below.

South Gippsland Water has run the model promulgated by the ESC and arrived at varying results including:

Model Developed	Proposed NCC
Corporation Wide 30 Year Model NCC – Water & Waste Water	\$4,575
Corporation Wide 30 Year Model NCC – Water & Waste Water (excluding Poowong Loch Nyora)	\$2,020
Poowong Loch Nyora 30 Year Model - Waste Water	\$28,042
Corporation Wide 30 Year Model NCC – Water	\$0
Corporation Wide 30 Year Model NCC – Waste Water	\$6,455

South Gippsland Water currently charges NCCs based on the previously approved framework as below:

Lot Size	Water	Sewerage	Recycled
< 450 sqm	\$ 608	\$ 608	\$ 608
450 - 1350 sqm	\$1,217	\$1,217	\$1,217
> 1350 sqm	\$2,434	\$2,434	\$2,434

SGW currently receives around \$730,000 per annum in NCCs and needs to also consider the level of impact on the revenue and finance costs of the corporation under proposed changes to these current rates. Any changes to the new NCC rates would require a transition plan.

SGW Proposed Framework Going Forward:

Developers to provide

- 1) All reticulation Assets (per definition below); and
- 2) Incremental costs for any larger assets required (per schedule of rates); and
- 3) NCC per lot (as proposed in this paper); and
- 4) Bring forward charge (if development not in sequence with logical and cost effective expansion)

Definition of Reticulation Assets

South Gippsland Water agrees with the industry proposal on this front. Reticulation Asset to be defined as - Water of 150mm or less, Sewer of 225mm or less and all pump stations to service these associated sizes and valves associated.

SGW proposes that it will contribute the incremental costs over and above these definitions when a larger sized pipe or pumps are required as part of design. The developer is to contribute up to the cost of the above definition. SGW will look to develop a schedule of rates for these so there is clear costing available for any additional incremental costs.

Charges

SGW proposes to adopt a region wide NCC (except PLN) in order to keep the system simple. Assessing the models run, SGW proposes to adopt the Corporation Wide 30 Year Model for Water and Waste Water (excluding PLN) , which sets the NCC at \$2,020. This would be split into:

- Water \$1,010 ;
- Waste Water \$1,010

This results in cross subsidisation between Water and Waste Water, however SGW believes this outcome results in a fairer and more bearable charge for Waste Water compared to the model of \$0 for Water & Waste Water \$6,455.

One issue that arose in developing the model was the large growth capex program occurring in PLN during WP3 of \$29.2m. When running the model including all Growth Capex across the region this resulted in a NCC of \$4,575 (Water & Waste Water) which is significantly higher than the current charge and resulted in significant increased revenue from NCC's for the Corporation. As a result SGW proposes to remove PLN from the Corporation Wide charge and charge a separate NCC for the PLN area. Using the NCC model for PLN, the charge determined is \$28,042. This charge is untenable for the corporation and would likely result in stifling development in the Northern Region of the Corporations Service area.

SGW proposes to charge:

- \$5,000 for Waste Water in Poowong Loch Nyora region

Further, given the \$29.2m is being spent in WP3, once we enter WP4 there is concern that a recalibration of the model will result in \$0 NCC (Waste Water) in the PLN area. SGW suggests that carried forward capex needs to be considered in WP4 given the model developed is a 30 year model. If we reassess in developing WP4 in 5 years time and are not allowed to carry forward capex then the model results in significant variations in NCC's calculated each Water Plan period.

Transition Plan

SGW NCC charges are proposed to reduce from an average of \$2,434 (Water & Waste Water) to average of \$2,010 over the WP3 period (with the exception of PLN). In addition the current charge is based on lot size and SGW propose to remove this regime and move to a flat charge for Water and Waste Water. As a result SGW request a transition plan to be phased in over WP3 as tabled below:

Type	Size	Existing	Yr1	Yr2	Yr3	Yr4	Yr5
Water – ALL	< 450 sqm	\$613	\$800	\$1,010	\$1,010	\$1,010	\$1,010
	450 – 1350 sqm	\$1,217	\$1,100	\$1,010	\$1,010	\$1,010	\$1,010
	>1350 sqm	\$2,434	\$2,000	\$1,500	\$1,010	\$1,010	\$1,010
Waste Water All (exclude PLN)	< 450 sqm	\$613	\$800	\$1,010	\$1,010	\$1,010	\$1,010
	450 – 1350 sqm	\$1,217	\$1,100	\$1,010	\$1,010	\$1,010	\$1,010
	>1350 sqm	\$2,434	\$2,000	\$1,500	\$1,010	\$1,010	\$1,010
Waste Water PLN	< 450 sqm	n/a	n/a	n/a	n/a	\$5,000	\$5,000
	450 – 1350 sqm	n/a	n/a	n/a	n/a	\$5,000	\$5,000
	>1350 sqm	n/a	n/a	n/a	n/a	\$5,000	\$5,000
Recycled Water	< 450 sqm	\$613	\$800	\$1,010	\$1,010	\$1,010	\$1,010
	450 – 1350 sqm	\$1,217	\$1,100	\$1,010	\$1,010	\$1,010	\$1,010
	>1350 sqm	\$2,434	\$2,000	\$1,500	\$1,010	\$1,010	\$1,010

Consultation with Developers

This has not occurred to date due to timing of the framework implementation. Developers were sent a letter in December inviting them to attend round table sessions on the framework and proposed SGW charges going forward.

To date no responses have been received and SGW proposes to directly notify developers of the new proposed charges and transition plan and invite comment by end of February 2013.

Summary

SGW proposes the following NCC framework for WP3.

- Corporation Wide NCC of \$2,020 for all areas excluding Poowong Loch Nyora.
- Charge be split into Water \$1,010 & Waste Water \$1,010.
- Poowong Loch Nyora Charge of \$5,000 per lot for Waste Water.
- Transition plan of phasing charges over WP3 as per table attached above.
- Allowable Capex rollover for WP4 or future NCC model development.