

Our Reference: *FIL12/1477*
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13 December 2012

Andrew Chow
Director, Water Regulation
Level 37,
2 Lonsdale Street
MELBOURNE VIC 3000

Dear Andrew,

New Customer Contributions (NCC)

North East Water acknowledges the significant shift from the current arrangements, and supports the proposed "principles based" approach. North East Water continues to analyse the scenarios around new customers and their relationship with existing and future system capacity. The important policy position on who should bear the costs of capacity upgrades, should it be borne by the existing customer base or should new entrants contribute to investments made or required to be made in the future, will be revisited by the Board next week.

Applying the revised principles outlined in accordance with the guidance paper results in a NCC for water of \$2,500 and sewer of \$1,900. North East Water do not currently have recycled water subdivisions however it is proposed that the NCC for recycled water would be 50% of the proposed water NCC, \$1,250.

Included in this document under each option is;

- the revised customer bill based on a standard residential connection
- proposed WP3 revenue based on the implementation of the proposed NCC.

Also included is a Draft Negotiation Framework (Appendix A) and indicative NCC charges based on options currently before our Board and the proposed definition of reticulation and associated assets (Appendix B).

The options and policy considerations regarding NCC will be considered by our Board on 18 December 2012. North East Water will advise the ESC on its position following the Board meeting. Following this a fully revised tariff schedule will be submitted.

Please contact Nicholas Moore on 02 60 220 509 should you have any questions.

Yours sincerely

Craig Heiner
Managing Director

NEW Assessment against the Principles

NCC must:

- i) ***Have regard to the incremental infrastructure and associated costs in on one more of the statutory costs categories attributable to a given connection***
 - Incremental infrastructure for developments has been considered as part of the modelling for water and sewer categories. Our modelling to date has not included any assessment of brought forward requirements.
- ii) ***Have regard to the incremental future revenues that will be earned from customers at that connection.***
 -Incremental revenues have been considered as part of the modelling for water and sewer categories but their inclusion result in a zero NCC. This is not consistent with the third principle to be greater that the avoidable cost. Also charging a zero NCC would significantly impact the price path for all customers across Water Plan 3.
- iii) ***Be greater than the avoidable costs of that connection and less than the standalone costs of that connection.***
 -The avoidable costs for water, used in determining the NCC of \$2,500, is based on the incremental cost of \$576 per customer inclusive of an estimated one-off permanent water purchase so as not to erode the existing customer base water supply security. The avoidable cost for sewer, used in determining the NCC of \$1,900, is \$46.

Existing NCC Revenue and Tariffs

The current tariffs outlined in our submitted WP3 are based on existing revenue based on the current NCC pricing regime as illustrated below.

WP3 Revenue

	2013-14	2014-15	2015-16	2016-17	2017-18	Total
Developer Contributions	\$1,050,000	\$1,050,000	\$1,050,000	\$1,050,000	\$1,050,000	\$5,250,000

WP3 Base level tariffs for water and wastewater based on existing NCC.

Component	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Water Fixed Charge	\$ 194.97	\$ 199.40	\$ 203.93	\$ 208.55	\$ 213.29	\$ 218.13
Water Volumetric Charge	\$ 407.75	\$ 417.00	\$ 426.47	\$ 436.15	\$ 446.05	\$ 456.17
Wastewater Fixed Charge	\$ 223.74	\$ 228.82	\$ 234.01	\$ 239.33	\$ 244.76	\$ 250.31
Total Annual Bill	\$ 826.46	\$ 845.22	\$ 864.41	\$ 884.03	\$ 904.10	\$ 924.61
Total Annual Increase		\$ 18.76	\$ 19.19	\$ 19.62	\$ 20.07	\$ 20.51
% Annual Increase		2.27%	2.27%	2.27%	2.27%	2.27%

Options

The following options are currently being considered by the Board and are in line with the minimum pricing principles outlined in the NCC Guidance paper.

Option 1 – Set NCC’s based on Incremental Costs model irrespective of lot size

Set Water NCC at **\$2,500** and Sewer NCC at **\$1,900** irrespective of lot size. This would result in the Corporation recovering an additional \$1,040,000 per year in cash contributions based on 475 new subdivisional lots per year.

This results in price decrease over WP3 period from proposed 2.27% to 1.66 % or 0.61%.

WP3 Revenue – Option 1

	2013-14	2014-15	2015-16	2016-17	2017-18	Total
Developer Contributions	\$2,090,000	\$2,090,000	\$2,090,000	\$2,090,000	\$2,090,000	\$10,450,000

WP3 Proposed tariff based on new NCC charge of \$2,500 water and \$1,900 sewer – Option 1

Component	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Water Fixed Charge	\$ 194.97	\$198.21	\$201.50	\$204.84	\$208.25	\$211.70
Water Volumetric Charge	\$ 407.75	\$ 414.52	\$421.40	\$428.40	\$435.50	\$442.73
Wastewater Fixed Charge	\$ 223.74	\$227.45	\$231.23	\$235.07	\$238.97	\$242.94
Total Annual Bill	\$ 826.46	\$840.18	\$854.13	\$868.31	\$882.72	\$897.37
Total Annual Increase		\$13.72	\$13.95	\$14.18	\$14.41	\$14.65
% Annual Increase		1.66%	1.66%	1.66%	1.66%	1.66%

Option 2 – Set NCC’s based on glide path.

Set water and sewer charges based on 60% of calculated charge increasing to 100% by 2017/18. The proposed charge for 2013-14 equates closely to the average charge based on total connections divided by total cash contribution revenue.

	2013-14	2014-15	2015-16	2016-17	2017-18
% of calculated fee	60%	70%	80%	90%	100%
Water	\$1,500	\$1,750	\$2,000	\$2,250	\$2,500
Sewer	\$1,140	\$1,330	\$1,520	\$1,710	\$1,900

This approach would result in the recovery of an additional \$3.39 million over the WP3 period. This would allow a reduction in current proposed tariff of 2.27% to 1.91% or 0.36%.

Although the ESC have recommended that a transition plan be included in submissions in the event that NCC charges calculated under the new regime are materially higher than those than those calculated under the existing framework, NEW regard this process complicated and difficult to implement.

WP3 Revenue – Option 2

	2013-14	2014-15	2015-16	2016-17	2017-18	Total
Developer Contributions	\$1,254,000	\$1,463,000	\$1,672,000	\$1,881,000	\$2,090,000	\$8,360,000

WP3 Proposed tariff based on new NCC charge of \$2,500 water and \$1,900 sewer (Glide Path) – Option 2

Component	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Water Fixed Charge	\$ 194.97	\$198.70	\$202.49	\$206.36	\$210.30	\$214.32
Water Volumetric Charge	\$ 407.75	\$415.53	\$423.48	\$431.56	\$439.81	\$448.21
Wastewater Fixed Charge	\$ 223.74	\$228.01	\$232.37	\$236.81	\$241.33	\$245.94
Total Annual Bill	\$ 826.46	\$842.24	\$858.34	\$874.73	\$891.44	\$908.47
Total Annual Increase		\$15.78	\$16.10	\$16.39	\$16.71	\$17.03
% Annual Increase		1.91%	1.91%	1.91%	1.91%	1.91%

APPENDIX A - DRAFT NEGOTIATING FRAMEWORK

1. Application of Negotiating Framework

This Negotiating Framework forms a part of NORTH EAST WATER'S (NEW) 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 North East 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 decisions made by the Corporation.

The requirements set out in this negotiating framework are in addition to any requirements or obligations contained in the

In the case of inconsistency between the Water Act 1989 (Vic) and this negotiating framework, the relevant Act will prevail.

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

1.2 Who this negotiating framework applies to

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

It also applies to the Corporation 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 the Corporation to allow the Connection Applicant to connect to the Corporations works or provide services to the Connection Applicant.

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

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

2. Timeframes

NEW 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 [5] days of Water Business's receipt of an application;
- (b) Adhere to any timetable established for negotiations, and progress negotiations in an expeditious manner; and
- (c) Finalise negotiations within [135] business days of the initial application subject to the Corporation having the required information.

2.1 Commencing, progressing and finalising negotiations

Table 1 – Indicative timeframes for negotiating connection

1	Receipt of written application for connection	X - Day One
2	Parties discuss: <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 	X + 5 Business Days
3	Connection Applicant provides information to NEW [NEW may request additional information]	X + [20] Business Days [Additional 20 Business Days for further request]
4	Where required, NEW consults with others potentially affected	X + [40] Business Days
5	All necessary information is received by NEW, including: <ul style="list-style-type: none"> • payment of required fees; • design plans approved; and • completion of Developer Agreement • completion of service connection applications 	Y
6	NEW provides Commercial Information and makes offer (in form of Notice).	Y + [20] Business Days
7	Parties finalise negotiations on construction timelines with all works to be completed in accordance with NEW satisfaction.	Y + [80] Business Days
8	Confirmation that all Lots services as required and all as constructed plans are checked and approved.	Z
9	All conditions of permit are met. North East Water consents to Council granting statement of compliance to the subdivision.	Z + 15 Business Days

3. Provision of information by Connection Applicant

To satisfy the conditions of an applicant's *Planning Approval* the connecting applicant has the obligation of providing North East Water (NEW) with the correct information on a 'design application' that will allow NEW to assess;

1. the potential impact and comparability with the Corporations Assets; and
2. compliance with relevant standards / codes and regulations;

Only once this information is made available will NEW be in a position to approve the *concept plan* subsequently, allowing them to become *Design Approved Plans*.

To ensure the right information is presented by the applicant, a Development Application Checklist (*Still in DRAFT form*) is to be completed and included with the design application.

As a statutory corporation created under conditions listed in the Water Act 1989, North East Water (NEW) recognises that any personal information presented to the Corporation is for the primary purpose of approving an application to connect to NEW's Water or Sewer Assets.

Additionally, NEW may share applicant's personal information with service providers and other external organisations in limited circumstances, such as to;

- Government or Regulatory Authorities;
- Any Company in which NEW has entered into a contract arrangement for the purpose of distributing statements of accounts and handling mail; and
- Any Company in which NEW has entered into a contract arrangement for the purposes on maintaining / storing or operating a data base or Information Technology system.

4. Provision of information by North East Water

4.1. Initial Inquiry:

North East Water will provide general servicing advice about providing water supply, sewerage and/or recycled water facilities to a subdivision, development and/or individual property.

4.2. Customer Information Request:

Once a customer is in a position to consider designing the internal infrastructure (ie: House drainage) to connect to North East Waters (NEW's) Water and Sewer Assets, then consideration must be given to the relevant asset details, these details are to include but are not limited to;

- Pipe depths;
- Pie size /class / age;
- Sewer manhole depths /capacity;
- Fall (ie: is their adequate fall to install a gravity sewer system);
- Pressure; and
- Proximity.

In the event that services are available but do not front the property then consideration must be given to presenting NEW with a *design application* to extend the main (s).

So that the applicant has the most relevant and up to-date details as it applies to their proposed development, customers are required to complete and submit a *Digital Data Request* form. This form can be found by following this link:

<http://www.newater.com.au/customer/forms.asp>

As a statutory corporation under conditions listed in the Water Act, North East Water (NEW) recognises that any personal information presented to the Corporation is for the primary purpose of approving an application to connect to NEW's Water or Sewer Assets.

Additionally, NEW may share applicant's personal information with service providers and other external organisations in limited circumstances, such as to;

- Government or Regulatory Agencies;
- Any Company in which NEW has entered into a contract arrangement for the purpose of distributing statements of accounts and handling mail; and
- Any Company in which NEW has entered into a contract arrangement for the purposes on maintaining / storing or operating a data base or Information Technology system.

5. Pricing Principles

NEW 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 that connection; and
- (c) be greater than the avoidable cost of that connection and less than the standalone cost of that connection.

In setting charges, NEW will also comply with:

- (a) the regulatory principles set out in clause 14 of the WIRO; and
- (b) [Incorporate here any specific pricing principles approved by the Essential Services Commission as part of in Water Business's water plan]

6. Consultation with affected parties

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

- subject to reasonable confidentiality requirements, NEW will share any necessary information with others potentially affected to assess impacts
- parties will allow sufficient time for reasonable consultation with affected parties to occur.

7. 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 NEW written notice of its decision to do so.

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

1. NEW believes on reasonable grounds that the Connection Applicant is not conducting the negotiation under this negotiating framework in good faith;

2. NEW reasonably believes that the Connection Applicant will not acquire any Negotiated Distribution Service; or
3. an act of insolvency occurs in relation to the Connection Applicant.

8. Dispute resolution

Subdivisions Dispute Internal Resolution Process

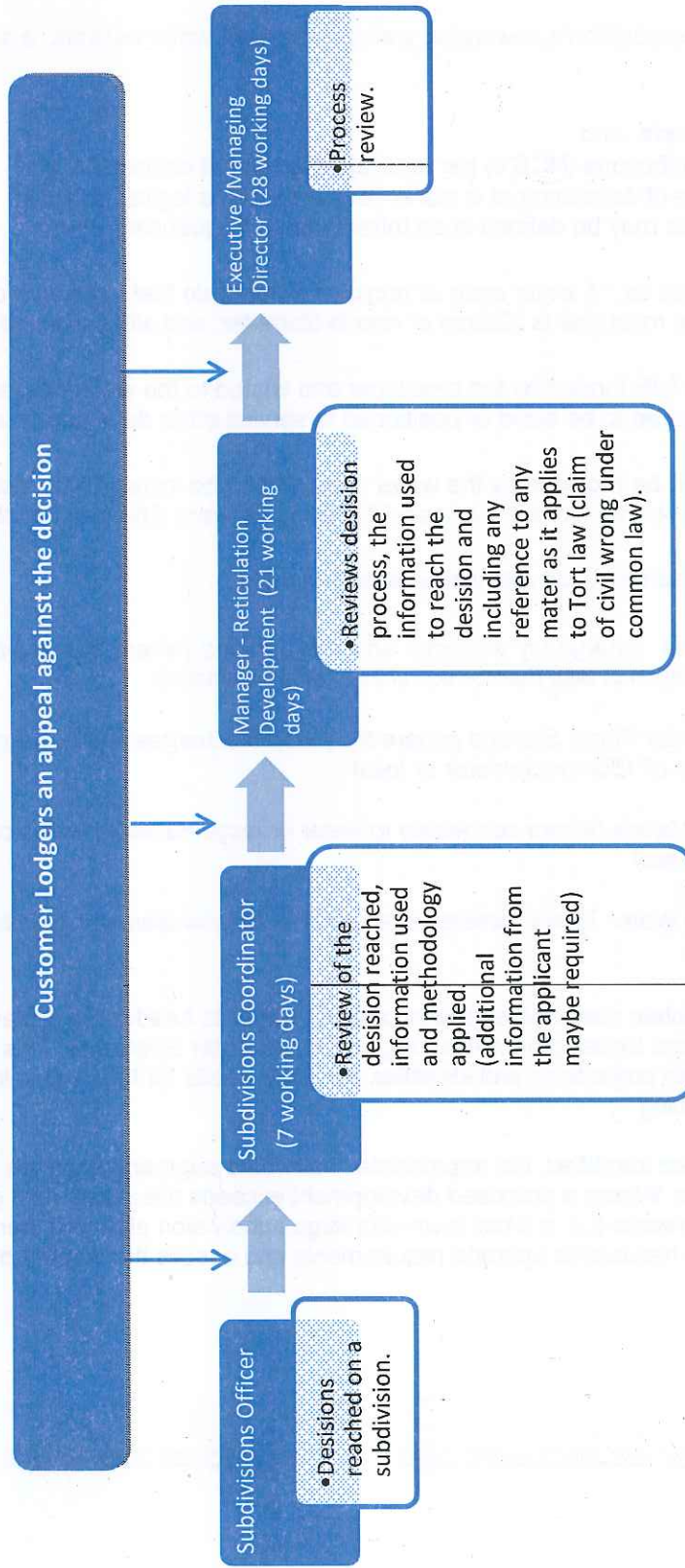
The Subdivisions Coordinator is responsible for working with customers who have been unable to reach a satisfactory resolution or believe their complaint should be escalated. The coordinator is also authorised to objectively review the internal handling of complaints.

The subdivision Coordinator is the first point of contact if a decision pertaining to subdivisions is being challenged.

In the event that a dispute (as it applies to an application to subdivide under conditions listed in the subdivision act) is not able to be resolved using the internal review process.

The application may apply for an independent hearing from VCAT. Subject to conditions listed in the Subdivision Act 1988 (as amended by the Owners Corporation Act 2006)

Internal Resolution Process Flow Diagram.



Appendix B - Definition of Reticulation Asset

The following definition has been provided in order to distinguish between growth assets (funded by Water Corporations) and Reticulation Assets (funded by developers).

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) per equivalent tenement connected, and
- Bring forward charge (if development is not in-sequence with a logical and cost efficient network expansion as may be defined in an Infrastructure Sequencing Plan)

A **Reticulation Asset** is defined as, "A water main or recycled water main that is 150mm or less in diameter and gravity sewerage main that is 225mm or less in diameter, and all associated assets."

A **Reticulation Asset** 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.

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

Associated assets that are deemed to be reticulation assets include:

- *Sewer Pump Stations, emergency storages and rising mains (where the gravity sewer inlet to sewer pumping station is less than or equal to 225mm diameter)*
- *Water or recycled water Pump Stations (where the pump discharges into water or recycled water mains of 150mm diameter or less)*
- *Pressure Reducing Valves (where connected to water or recycled water mains of 150mm diameter or less)*
- *Water and Recycled Water Tanks" (where outlet main is 150mm diameter or less)*

The Corporation aims to maintain reasonable growth capacity within its headworks systems as established through its Forward Development Planning and Wastewater Strategies. This planning establishes reasonable growth projections and identifies servicing needs for future development areas and planned development timing.

Where capacity constraints are identified, the appropriate headworks augmentations are included within future capital programs. Where a proposed development exceeds the reasonable growth capacity of the systems headworks (i.e. a small town with large subdivision planned) then the Corporation will consider the headworks upgrade requirements and assess the viability of investing in the upgrade works.