

Central Highlands Water

New Customer Contribution Framework – 2013-2018

1.0 Introduction

1.1 Purpose

The purpose of this document is to detail Central Highlands Water's (CHW) approach to New Customer Contributions (NCC) for the third regulatory period, from 2013/14 to 2017/18. NCC's are the charges levied by CHW for new connections to the CHW water and sewer networks.

1.2 Background

For the second regulatory period, 2008/09 to 2012/13, the Essential Services Commission (ESC) set uniform NCC charges for all water corporations across Victoria. For the third regulatory period the ESC has reverted to a pricing principles approach whereby the NCC charges are formulated by the water corporations having regard to the incremental costs to provide services to new customers, less incremental revenues to be earned.

1.3 Regulatory Instruments

CHW's new NCC process is required to have regard to a number of regulatory instruments, including:

- ESC's "Guidance Paper – New Customer Contributions – August 2012"
- The Water Industry Regulatory Order (WIRO)
- The Water Act (1989) – Section 145 – Control Over Connections

The NCC process developed by CHW also requires final approval by ESC as part of the Water Plan process as NCC charges are prescribed and declared under the WIRO.

2.0 NCC Definition & Principles

2.1 ESC NCC Definition

For the purposes of this document, CHW has adopted the ESC's definition of an NCC service, as per their guidance paper.

The NCC service is defined as:

“Infrastructure and associated activities to connect an un-serviced property to the water or sewer services networks”, or

“Infrastructure and associated activities required to increase services to a serviced property”

2.2 ESC NCC Pricing Principles

ESC have set the pricing principles by which CHW's NCC process will be evaluated, these are:

NCC's must:

- i. Have regard to the incremental infrastructure and associated costs in one or more of the statutory cost categories attributable to a given connection**
- ii. Have regard to the incremental future revenues that will be earned from customers at that connection**
- iii. Be greater than the avoidable cost of that connection and less than the stand alone costs of that connection**

These pricing principles represent the minimum requirements that the ESC would expect to see an NCC comply with, in order to confirm that the charge is fair and reasonable as required by the Water Act.

3.0 NCC Negotiating Framework

3.1 Purpose of Framework

CHW intends to adopt the ESC's negotiating framework, as outlined in the ESC guidance paper, as the standard framework by which NCC's will be negotiated with connection applicants. CHW will apply the framework to 'Greenfield' and significant in-fill developments within CHW's area of operations.

This negotiating framework forms a part of CHW's approved Water Plan for the 2013- 2018 water plan period.

This framework sets out the procedural and information requirements relevant to services to which NCC charges apply, as defined by the WIRO. It requires CHW 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 CHW.

The requirements set out in this framework are in addition to any requirements or obligations contained in the ESC's Final Pricing Determination (the Determination). In the case of inconsistency between the Determination and this negotiating framework, the relevant Determination will prevail.

This negotiating framework does not alter the rights of a connection applicant to seek a review of CHW's decision by the Victorian Civil and Administrative Tribunal (VCAT).

3.2 Application of the Framework

This negotiating framework applies to CHW and to any property owner – generally a property developer – that is a connection applicant who requests connection to CHW's works in accordance with section 145 of the Water Act (1989). It also applies to CHW in responding to such requests from a connection applicant.

3.3 No obligation to provide service, good faith obligation

Nothing in the negotiating framework imposes an obligation on CHW to allow the connection applicant to connect to CHW's works or provide services to the connection applicant. CHW can refuse its consent, consent, or consent subject to any terms and conditions that CHW thinks fit, as provided under section 145(3) of the Water Act.

However, CHW and the connection applicant must negotiate in good faith the price, terms and conditions for services sought by the connection applicant.

3.4 Timeframes

CHW and the connection applicant will use their reasonable endeavours to achieve the following timeframes:

1. Agree the milestones, information requirements and any other relevant issues within [5] days of CHW's receipt of an application;
2. Adhere to any timetable established for negotiations, and progress negotiations in an expeditious manner; and
3. Finalise negotiations within [120] business days of the initial application

Step	Actions	Timing
1	Receipt of written application for connection	X
2	Parties discuss: The nature of the services required; <ul style="list-style-type: none"> 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 + 5 Business Days
3	Connection applicant provides information to CHW [CHW may request additional information]	X + [20] Business Days [Additional 20 Business Days]
4	Where required, CHW consults with others potentially affected	X + [40] Business Days
5	All necessary information is received by CHW, including: <ul style="list-style-type: none"> the completed application; the Connection applicant's information; and consultation feedback where required 	Y
6	CHW provides Commercial Information and makes offer (in form of Notice).	Y + [20] Business Days
7	Parties finalise negotiations	Y + [80] Business Days

3.5 Provision of information by connection applicant

The connection applicant must provide sufficient information, as required by CHW, to enable the proper assessment of the application. The connection applicant also has an obligation to provide additional information if requested by the CHW.

Both CHW and the connection applicant will maintain information as 'Commercial in Confidence' as agreed.

3.6 Provision of information by CHW

CHW has an obligation to provide relevant information (including cost information) to the connection applicant in order for the connection applicant to either proceed / not proceed with the application.

3.7 Pricing Principles

CHW'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 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, CHW will also comply with:

- a. The regulatory principles set out in clause 14 of the WIRO; and
- b. The ESC's Pricing Determination

3.8 Consultation with affected parties

If the CHW considers that persons other than the connection applicant may be affected by proposed connection services, then:

- Subject to reasonable confidentiality requirements, CHW 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

3.9 Payment of CHW's Costs

The connection applicant will be required to pay to CHW the proper application fees and charges, as per CHW's approved list of tariffs, and any other fees that may be payable pursuant to CHW's Land Development Manual.

3.10 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 CHW written notice of its decision to do so.

CHW may terminate a negotiation under this negotiating framework by giving the connection applicant written notice of its decision to do so where:

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

3.11 Dispute resolution

Dispute resolution for disputes relating to the application of the CHW NCC Framework, will be via referral to the Victorian Civil and Administrative Tribunal (VCAT)

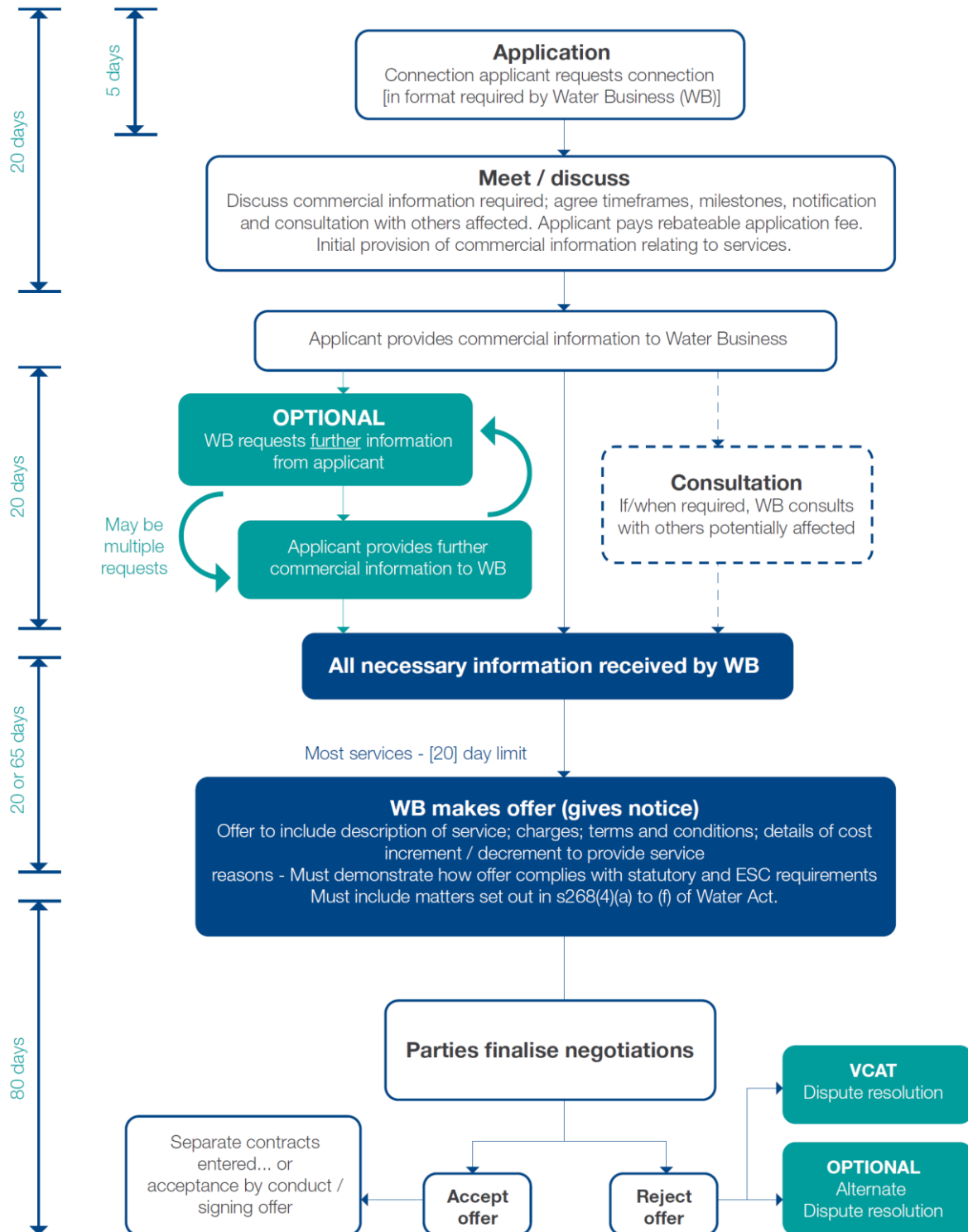
3.12 Giving notices

Address for notices:

Central Highlands Water
PO Box 152
Ballarat, Victoria, 3353

Figure 1 – CHW NCC Negotiating Framework

NEGOTIATING FRAMEWORK FOR NEW CUSTOMER CONTRIBUTIONS
INDICATIVE TIMELINES FOR NEGOTIATING FRAMEWORK



4.0 NCC Charges for Water Plan 2013-2018 Period

4.1 Calculation Methodology for NCC's

In determining the NCC charges for the 2013-2018 Water Plan period, CHW has used the economic model provided by the ESC, to examine both costs and benefits in providing services to new connections.

The model takes into account all costs incurred by CHW associated with servicing new connections, including:

- Capital investment costs for infrastructure – (calculated for a ten year period covering the third and fourth regulatory periods)
 - Trunk water and sewer mains
 - Sewerage pump stations
 - Treatment capacity (water and sewer)
- Operations and maintenance costs
 - Meter reading
 - Billing
 - Routine maintenance of infrastructure
 - 24 hour call out services
 - Power
- Incremental costs to supply and deliver water
- Incremental costs to collect and treat sewerage

Also required for the calculation is the incremental revenues and benefits that result from new connections, these include:

- Gifted assets – the reticulation pipework and associated assets that are installed by developers then gifted to CHW
- Incremental revenue from each lot

Noting that the current gifted asset process, where developers install reticulation assets (to approved standards) to new developments, will continue to apply. Reticulation assets may be 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. These sizes are for guidance purposes only and sizing requirements for reticulation assets will be determined for particular developments. 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)

All costs and benefits for the model were calculated across the ESC stipulated 30 year time period, excluding the capital expenditure which was projected over the initial ten year period.

4.2 CHW proposed NCC charges for Water Plan 2013-2018

When factoring in all associated costs and benefits, CHW's modelling returns a net \$0 / lot NCC charge. This means that for the 2013-2018 regulatory period, the standard NCC charge will be set at \$0 / lot for both sewer and water services.

An NCC may still be applicable in certain instances where significant additional expenditure is required by CHW to service a new development or in the case of out of sequence development. CHW will, in these instances, use the ESC's financial model to determine if an NCC charge is applicable. The negotiating framework will then be used to work through this process with the connection applicant.

CHW currently does not provide recycled water services for reticulation applications, but will investigate the opportunities and demand for these services during the Water Plan 3 period. If recycled water services are to be provided, an NCC will be calculated using the methodology outlined in this framework.

5.0 ESC Approval Process

CHW will submit this NCC process to the ESC by the 7th of December 2012 as part of the 2013-2018 Water Plan process. The ESC will then assess the proposed process against the guiding principles in its guidance paper and those contained in the WIRO. The final approval for this process will be included in the ESC's final pricing determination for CHW, due to be released in May 2013.