

In reply please quote: C2012/14086

7 December 2012

Essential Services Commission
Level 2, 35 Spring Street
MELBOURNE VIC 3000

via email: water@esc.vic.gov.au

Dear Sir

NEW CUSTOMER CONTRIBUTIONS – SUPPLEMENTARY INFORMATION

Wannon Water submitted its Water Plan 2013-2018 to the Essential Services Commission (“the Commission”) on 28 September 2012. This Plan included the forecast revenue derived from the existing New Customer Contributions (“NCC”) price framework.

Wannon Water submits the following supplementary information in accordance with the Commission’s NCC Guidance Paper released in August 2012.

Forecast growth capital expenditure and gifted assets:

No change to the growth capital expenditure and gifted assets to that already included in the Water Plan 2013-2018 submitted to the Commission.

Revised NCC revenue forecasts:

Based on the Commission’s Water Plan 3 NCC Framework, Wannon Water has increased its NCC revenue forecast from \$0.54M to \$1.47M per year.

No adjustment of Wannon Water’s tariffs for other services is required as a consequence of the increased NCC revenue as the Water Plan price model (i.e. the Net Present Value of Revenue to be raised compared with the Revenue Requirement) remains within the ‘price control’ limits.

Standardised charges:

Wannon Water has consulted with local Developers on the indicative standardised NCC charges set out in the table below. Subject to the outcome of further consultation with Developers, Wannon Water intends to submit the following standardised NCC charges to the Commission for authorisation in compliance with the NCC pricing principles:



Standard Connection	Residential	Water Lot >= 450sqm	Sewer Lot >= 450sqm	Water Lot < 450sqm	Sewer Lot < 450sqm
Warrnambool, Koroit, and Port Fairy	Allansford, Portland, Hamilton	\$4,000	\$1,500	\$2,000	\$750
All other areas		\$1,000	\$1,000	\$500	\$500

Subject to:

- A reduction of \$2,200 in the NCC for Water for lots equal to or greater than 450sq m in area included within the Warrnambool water roof harvesting scheme catchment
- A reduction of \$1,100 in the NCC for Water for lots less than 450sq m in area included within the Warrnambool water roof harvesting scheme catchment
- Residential equivalent methodology will be used to determine NCC's for higher density developments such as caravan parks, motels, apartments etc.

The Wannon Water modelling produced:

- A lower bound incremental cost of \$0 for both water and sewerage
- A combined minimum upper bound stand alone cost for water and sewerage services of \$40,000.

The indicative standardised NCC's were calculated based on the following pricing principles:

"NCCs must:

- have regard to the incremental infrastructure and associated costs in one or more of the statutory cost categories 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."*

The indicative Water and Sewerage NCCs for Warrnambool, Allansford, Koroit, Portland, Hamilton and Port Fairy were set using average cost and are within the range of the incremental infrastructure and associated costs and the avoidable standalone costs.

Nominal indicative NCC charges of \$1000 and \$500 were set for lots in other towns with low growth.

Negotiating Framework:

The Negotiating Framework set out in **Attachment 1** has been the subject of consultation with Developers and the initial feedback was positive. Further feedback is expected from Developers.



Transition Plan:

Wannon Water has held initial consultation with Developers regarding the Transition Plan to mitigate the impact of the increased NCCs. The initial feedback on the Transition Plan from Developers was overall positive. The key elements of the Transition Plan are:

1. Where Wannon Water has provided the Developer with a Letter of Offer prior to 30 November 2012, Wannon Water will adhere to the NCC charges listed in that Letter of Offer should development occur after 1 July 2013. (Ordinarily, if the development occurred after 1 July 2013, the Developer would be required to pay NCCs at the 2013/14 price not at the current NCC price); and
2. Wannon Water will retain in its Water Plan 2013-2018 the growth assets to be funded by Wannon Water that would otherwise now be funded by Developers (Approximately \$4.614M of Assets funded by Wannon Water).

Wannon Water has conducted initial meetings with Developers and their consultants and the feedback at those meetings was positive. Wannon Water has requested that Developers provide further feedback to Wannon Water by 15 February 2013 and as such considers the information set out in this letter to be indicative only at this stage. Wannon Water will finalise its NCC framework submission after feedback has been received from developers and their consultants.

Yours sincerely



Grant Green
Managing Director

Copy to:

- Danni Addison (PCA), e-mail daddison@propoertyoz.com.au
- Martin Musgrove (UDIA), e-mail martin@udiavic.com.au



New Customer Contributions Negotiating Framework

1. Application of Negotiating Framework

This negotiating framework forms part of Wannon Water's approved water plan for the period 2013/18.

1.1 Purpose

This negotiating framework sets out procedural and information requirements relevant to services to which developer charges apply. It requires Wannon Water and connection applicants 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 Wannon Water.

The requirements set out in this negotiating framework are in addition to any requirements or obligations contained in the *Water Act 1989*. In the case of inconsistency between the *Water Act 1989* and this negotiating framework, the *Water Act 1989* will prevail.

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

1.2 Who this negotiating framework applies to

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

It also applies to Wannon 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 Wannon Water to allow the connection applicant to connect to Wannon Water's works or provide services to the connection applicant.

Wannon Water can refuse its consent, or consent subject to any terms and conditions that Wannon Water thinks fit, as provided under section 145(3) of the *Water Act 1989*.

However, Wannon Water and the connection applicant must negotiate in good faith the price, standards and conditions for services sought by the connection applicant.

2. Timeframes

Except where timeframes are otherwise provided for in the *Water Act 1989*, Wannon Water and the connection applicant will use reasonable endeavours to agree mutually acceptable timeframes for the provision of information. Wannon Water and the connection applicant will adhere to any timeframes established for negotiations and agree to progress negotiations in a timely manner.

Wannon Water is required to meet the following timeframes:

- (a) Provide an initial response to a service advice request within 28 days, subject to all necessary information being provided by the connection applicant; and
- (b) Within 28 days of receipt of a compliant application to connect, provide notice to the connection applicant of the conditions of connection in accordance with the requirements set out in the *Water Act 1989*.

3. Provision of information by the connection applicant

The connection applicant is required to provide sufficient information to enable Wannon Water to assess servicing requirements. Additionally, the connection applicant is required to provide additional commercial information if requested by Wannon Water.

Wannon Water and the connection applicant are required to maintain confidentiality at all times.

4. Provision of information by Wannon Water

Wannon Water is required to provide the following information to the connection applicant in accordance with section 268(4) of the *Water Act 1989*:

- (a) the amount of the payment required;
- (b) the reason why the payment is required;
- (c) any works or services that have been or will be provided;
- (d) the property in relation to which payment is required;
- (e) if payments are required in relation to a group of properties, the amounts required in relation to each property;
- (f) the right of the owner to object and apply for a review under section 271 of the *Water Act 1989*; and
- (g) that details of the proposed services and the costs are available for inspection, free of charge, at Wannon Water's office during normal business hours.

5. Pricing principles

Wannon Water's new customer contribution 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 new customer contribution charges, Wannon Water will comply with:

- (a) the regulatory principles set out in clause 14 of the Water Industry Regulatory Order; and
- (b) any specific pricing principles approved by the Essential Services Commission as part of Wannon Water's water plan.

6. Consultation with affected parties

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

- (a) subject to reasonable confidentiality requirements, Wannon Water will share any necessary information with others potentially affected to assess impacts; and
- (b) the connection applicant will allow sufficient time for reasonable consultation with affected parties to occur.

7. Developer processing fees

The connection applicant is required to pay developer processing fees as set from time to time by Wannon Water. Developer processing fees include, but are not limited to, application fees, infrastructure processing fees, construction fees, auditing fees and bonding works fees.

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 Wannon Water written notice of its decision to do so.

Wannon Water may terminate a negotiation under this negotiating framework by giving the connection applicant written notice of its decision to do so where Wannon Water believes on reasonable grounds that the connection applicant is not conducting the negotiation under this negotiating framework in good faith.

9. Dispute resolution

In accordance with section 145 of the *Water Act 1989*, a connection applicant may apply to VCAT for a review of a decision made by Wannon Water to refuse consent, or to consent subject to any terms and conditions Wannon Water sees fit.

In accordance with section 271 of the *Water Act 1989*, a connection applicant required to make payment to Wannon Water in accordance with Section 268, 269 or 270 of the *Water Act 1989*, may, within one month of receipt of notice from Wannon Water, object in writing to Wannon Water on any of the following grounds:

- (a) in the case of a notice under section 268 (provision of new services), that the property of the owner will not benefit from the provision of the services;
- (b) if there are several properties that will benefit, that the basis of distribution of the cost between the owners of those properties is unreasonable;
- (c) that the amount is excessive;
- (d) if there are several properties that will benefit, that any owner who has been required to pay should not be required to do so, or that any owner who has not been required to pay should be required to do so;
- (e) in the case of a notice under section 269 (increased services), that the use of the services has not increased, or will not increase, as the case requires;
- (f) that the payment was not set in accordance with an Order under section 4D(1)(a) of the *Water Industry Act 1994* or in accordance with the *Essential Services Commission Act 2001*;
- (g) in the case of a notice under section 268(1), any other grounds.

Wannon Water will, within two months after receipt of an objection, notify the connection applicant of its decision on the objection.

The connection applicant may apply to the Victorian Civil and Administrative Tribunal within 28 days in accordance with Section 271(4) of the *Water Act 1989* for review of Wannon Water's decision.

The indicative process is set out in Attachment 1.

Attachment 1

