

Water Plan 3 New Customer Contributions (1 July 2013 to 30 June 2018)

Addendum to Water Plan 3 submission

New Customer Contributions Submission

13/12/2012





Table of Contents

1	Background to New Customer Contributions	2
2	New Customer Contributions Framework	4
3	Forecast Capital Growth	8
4	Forecast New Customer Contributions and Gifted Assets	. 10
5	Standardised New Customer Contributions	. 12
6	Impact on Water Plan 3 Final Submission	. 15
7 I	Customer Consultation	15



1 | Background to New Customer Contributions

All Victorian water corporations levy New Customer Contributions ('NCC') when new connections are made to the water, sewerage or recycled networks.

NCC are levied under the Water Act 1989 to help contribute to the cost of infrastructure needed to service the new connections, either to provide funds to upgrade existing supply networks, to cater for the extra demand on the services, or to service the existing growth capacity in the existing network.

The existing state wide scheduled charges and prescriptive rules will be replaced with pricing principles. The newly developed NCC framework will provide for a more flexible approach to development enabling negotiation between the water corporation and the developer.

The Essential Services Commission ('ESC') has provided a Guidance Paper on NCC to help in the preparation of the framework. (Essential Services Commission 2012, Guidance Paper – New Customer Contributions, August 2012). They have also conducted meetings with water corporations and other members of the development industry to test the framework and the working computer model called the ESCV – Capital Contribution Model.

INTRODUCING WESTERNPORT WATER

Westernport Water is a not for profit corporation whose core function is to provide water and wastewater services wherever economically, environmentally and socially practicable to properties and communities throughout its service district. Westernport Water services more than 17,000 customers (and a peak population of more than 60,000) across an area of 300 square kilometres on Phillip Island and the mainland stretching from The Gurdies to Archies Creek.

Wastewater services are provided to approximately 90% of properties that receive water. Westernport Water has two wastewater treatment plants that process approximately 1,200 ML of domestic wastewater per annum. The principal plant on Phillip Island is the Cowes wastewater treatment plant ('CWWTP'), which treats around 90% of the volume coming from Phillip Island and the township of San Remo.

The secondary plant, King Road Wastewater Treatment Plant ('KRWWTP'), treats approximately 10% of the volume and is located in Coronet Bay, servicing the major townships of Corinella, Coronet Bay and Grantville located on the east coast of Westernport. Wastewater from the townships of Kilcunda and Dalyston is treated under an agreement with South Gippsland Water at their Wonthaggi treatment plant.



KNOWN DEVELOPMENT IN OUR REGION

The following map illustrates our service area and the proposed developments across our region, left of the red boundary line. The proposed development areas are generally contained within the accepted township boundaries, identified in yellow sections of the map, but are distributed throughout many of our small townships in our service area. The light blue lines also show the major components of our water supply system servicing our region.



Map 1 – Major developments in Westernport Water's Area

Wastewater services are provided for Phillip Island and San Remo by the CWWTP located centrally on Phillip Island and the outfall discharges into Bass Strait at the extreme southern end of the island. The smaller centres to the north on the mainland are serviced by KRWWTP by a network of pumping stations and all the effluent is used on the corporations' farm.

The above map illustrates the development is centred on the coastal fringe with majority of the development occurring in the Cowes area on the north shore line of Phillip Island where the main visitor and tourist attractions are located.



2 New Customer Contributions Framework

Westernport Water is adopting a 2 part NCC framework where standardised NCC charges as detailed in Section 5 are to be applied in areas of known and planned development. In other areas a negotiated framework as detailed in Section 2.1 would apply for the developments that are outside the planning area or remote from services.

2.1. NCC NEGOTIATION FRAMEWORK

1. APPLICATION OF NEGOTIATING FRAMEWORK

Westernport Water intends to adopt the ESC's negotiating framework as outlined in the ESC guidance paper. This framework is to negotiate the NCC's for all developments where the standardised NCC are not applicable or for all developments outside the township areas of the designated Planning Structure Plans, as prepared by the Bass Coast Shire Council. This negotiating framework forms part of Westernport Water approved water plan for the 2013-2018 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 Water Industry Regulatory Order ("WIRO"). It requires Westernport Water and any connection applicant to negotiate in good faith to agree the price, standard 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 Westernport Water.

The requirements set out in this negotiating 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 Westernport Water's decision by the Victorian Civil and Administrative Tribunal

1.2 WHO THIS NEGOTIATING FRAMEWORK APPLIES TO

This negotiating framework applies to Westernport Water and to any property owner - generally a property developer – that is a connection applicant, who requests connection to Westernport Water's network in accordance with section 145 of the *Water Act (1989)*. It also applies to Westernport 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 Westernport Water to allow the connection applicant to connect to Westernport Water's works or provide services to the connection applicant. Westernport Water can refuse its consent, consent, or consent subject to any terms and conditions that Westernport Water think fit, as provided under section 145(3) of the Water Act.

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

2. TIMEFRAMES

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

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

Table 1 – Indicative timeframes for negotiating connection

Step	Action	Timing
1	Receipt of written application for connection	Х
2	Parties discuss:	X + 5 Business Days
3	Connection applicant provides information to Westernport Water Westernport Water may request additional information	X + 20 Business days Additional 20 Business Days
4	Where required, Westernport Water consults with others potentially affected	X + 45 Business Days
5	All necessary information is received by Westernport Water, including: • the completed application; • the Connection Applicant's information; and • consultation feedback where required.	Υ
6	Westernport Water provides Commercial Information and makes offer (in form of Notice).	Y + 30 Business Days
7	Parties finalise negotiations	Y + 80 Business Days



3. PROVISION OF INFORMATION BY CONNECTION APPLICANT

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

Both Westernport Water and the connection applicant will maintain information as "Commercial in Confidence" as agreed.

4. PROVISION OF INFORMATION BY WESTERNPORT WATER

Westernport Water has an obligation to provide relevant information to the connection applicant to assist in filling out the application and to provide cost information including asset provision to enable the connection applicant to either proceed / not proceed with the application.

5. PRICING PRINCIPLES

The Westernport Water's charges will:

- 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; and
- be greater than the avoidable cost of that connection and less than the standalone cost of that connection.

In setting charges, Westernport Water also complies with:

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

6. CONSULTATION WITH AFFECTED PARTIES

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

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

7. PAYMENT OF WESTERNPORT WATER'S COSTS

The connection applicant will be required to pay Westernport Water the applicable application fee and charges as per Westernport Water's approved list of tariffs and any other fees pursuant to the development agreement.



8. TERMINATION OF NEGOTIATIONS

The connection applicant may elect not to continue with an application for a service to which a developer charge applies, and may terminate the negotiations by giving Westernport Water written notice of its decision to do so.

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

- Westernport Water believes on reasonable grounds that the Connection Applicant is not conducting the negotiation under this negotiating framework in good faith;
- Westernport Water reasonably believes that the Connection Applicant will not acquire any Negotiated Distribution Service; or
- An act of insolvency occurs in relation to the Connection Applicant.

9. DISPUTE RESOLUTION

Dispute resolution relating to the application of Westernport Water's NCC Negotiation Framework will be by referral to Victorian Civil and Administration Tribunal (VCAT).

10. GIVING NOTICES

Address for notices:

Westernport Water
2 Boys Home Road
Newhaven VIC 3925
westport@westernportwater.com.au
http://www.westernportwater.com.au/ContactUs



3 | Forecast Capital Growth

Capital expenditure is a key element of the annual revenue requirement proposed in our Water Plan.

Our capital expenditure is driven by growth, compliance, improvements in services, and renewals (replacements). A summary of our proposed capital expenditure as shown in Water Plan 3 is reproduced in the table below.



Capital Expenditure (\$m, Jan 2013)	2013/14	2014/15	2015/16	2016/17	2017/18	Total
Net capital expenditure - renewals	0.74	1.34	1.12	0.68	2.06	\$5.93M
Net capital expenditure - growth	2.09	0.25	-	4.28	2.63	\$9.25M
Net capital expenditure - improved service	0.83	0.33	0.13	0.31	0.13	\$1.71M
Net capital expenditure - compliance	2.55	1.42	1.99	0.34	0.31	\$6.60M
Total prescribed Capex	\$6.21M	\$3.34M	\$3.24M	\$5.61M	\$5.13M	\$23.53M

Definition of expenditure drivers:

- Renewal projects are identified asset replacement projects due to age or condition.
- **Growth** projects are capital investments required to meet growth and forecast demand for our products and services.
- **Compliance** projects are required to meet regulatory and statutory obligations.
- **Improved service** projects required to continually improve asset performance, quality of our produces and deliver improved service to our customers.

Only projects identified as *growth* projects required to increase our network(s) to support our additional customer base has been included in the development of the NCC, in addition to the future growth capital projects not identified in the summary above.

Details of our key growth projects over a 30 year planning horizon included in the development of the NCC pricing structure are provided below:

WASTEWATER FUTURE – COWES RETICULATION

Westernport Water has completed a number of studies into the existing performance and future demands on the wastewater reticulation systems across Phillip Island, San Remo and Corinella/Coronet Bay. For Water Plan 3 it is proposed to progressively implement upgrades in the Cowes area. The upgrades will continue through Water Plan 4 depending on the actual growth of development within the Cowes area. Upgrades in the San Remo, Corinella and Coronet Bay area will be implemented as required in Water Plan 4.

Options for the provision of long term wastewater services to Cowes have been assessed. It has been determined that the provision of a new regional outfall pump station and diversion of flows from east and west Cowes is the preferred long term strategic action. The overall cost of the project is estimated at \$15.7M of which \$6.0M is proposed to be expended over Water Plan 3.



WASTEWATER FUTURE – SAN REMO RETICULATION

Options from the consultants studies (as per above) ensure the continued growth of San Remo in Water Plan 4 and include upgrades of the main pump station, upgrading of sections of the outfall sewers to allow for larger flows, relieving works augmentation of sections of sewers and upsizing of outlet sewers as required for various development catchments. The exact timing of these upgrades are dependent on the timing of the development in this area, but has been included in the development of NCC's for total cost of 1.7M.

RECYCLED WATER CLASS TREATMENT PLANT

The design and installation of the Class A Recycled Water Treatment Plant and Supply Mains Project from Water Plan 2 is a major project to provide Class A recycled water to the new developments in Cowes. The advent of Class A recycled water allows Westernport Water to mandate the use of recycled water throughout new developments in the Cowes, Ventnor and other areas of Phillip Island. The use of recycled water in these new developments relieves the demand in the potable water system. This allows deferment of upgrading to major water supply mains, treatment plants and new sources of water. In Water Plans 3 and 4 an allowance has been made of \$1,100,000 to extend the recycled water system to provide improved pressure and flow and to extend the network to future developments.

CANDOWIE UPGRADE PROJECT

The Candowie Upgrade Project from Water Plan 2 is a major project to secure the water supply sources of Tennent Creek, Bass River and the bore fields of Corinella. The Candowie upgrade project including ancillary works is included in the calculation of NCC. Growth across our service area is the key driver for increasing the storage capacity, but also allows Westernport Water to efficiently utilise and store the various sources of water available, especially during low rainfall periods. This project will ensure growth in water demand can be supplied in the future. Total costs included \$16M.

KING ROAD WWTP UPGRADE PROGRAMS

Due to the development in the King Road WWTP catchment there are projects in Water Plan 3 and 4 to provide additional winter storage for the treated wastewater, provide buffer distances to new developments and to improve the capacity of the plant. The current irrigation system and storage lagoon cannot accommodate the increasing flow through the plant. Total costs included \$3M.

WATER MAINS EXTENSION PROJECT

To provide and maintain customer service levels in the water supply system providing link or ring mains to maintain pressure and flow to all customers. As development increases in the peak areas the additional load on the system from new development exceeds the capacity of the supply main and alternative mains or augmented mains are required to be built. The new or enlarged water supply mains provide minimum pressure and flows to all areas of the reticulation system. Total costs included \$1.2M.



4 | Forecast New Customer Contributions and Gifted Assets

The key assumption for NCC revenue is based on growth in residential lots, and applying the standard NCC charge levied on all newly created connections, as well as, to a lesser extent, the re-subdivision of larger lots known as infill.



The expected growth residential lots to be connected to our water, sewerage and reuse networks is based on the Bass Coast Shire forecasts (refer to graph below), which has been used as a basis for all Water Plan 3 growth and demand assumptions. The average growth in development is 2% per year.

The estimated NCC revenue is calculated at \$0.9M per year based on an average of 250 newly created connection per year.

The key assumption used in determining the value of gifted assets recognised as revenue in Water Plan 3 is based on the number of newly created connections (as per above) with an *average cost of works* required to service the newly connected residential lots. The cost of works has been calculated using an average rate per metre for the designated service (water, waste, reuse) and is based on historic costs over the previous 5 years. The forecast gifted asset value is calculated as:

Average cost of works X frontage (in meters) of average residential lot X 250 new connections per year.

The table below details the forecast gifted asset revenue and NCC revenue per year and the total forecast for Water Plan 3:

Forecast Gifted Assets	Avg Per year	Total 5 years
Water	\$0.2M	\$1.0M
Wastewater	\$0.2M	\$1.0M
Recycled Water	\$0.05M	\$0.25M
Total	\$0.45M	\$2.25M
Forecast NCC	Avg Per year	Total 5 years
Water (*)	\$0.4M	\$2.0M
Wastewater	\$0.3M	\$1.5M
Total	\$0.7M	\$3.5M

^(*) Reuse included in Water NCC

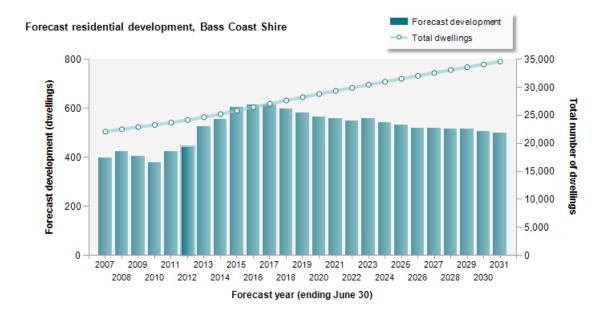


POPULATION AND DEMOGRAPHIC CHANGES

Westernport Water covers an area of 300 square kilometres including Phillip Island and the mainland stretching from The Gurdies to Dalyston. Westernport Water's district can be characterised as a unique mix of rural farmland, small coastal townships and tourist destinations. Many of the townships, particularly on Phillip Island, are dominated by large numbers of holiday homes, and as a result have very low occupancy rates. The population swells significantly during holiday periods to well over 60,000 compared to normal population levels of 17,000.

GENERAL AND LOCAL ECONOMIC CONDITIONS

The expected growth of the property subdivisions and the revenue received from New Customer Contributions has been based on the historical growth in our region and forecasts from Bass Coast Shire Council as highlighted by the chart below:



Source: Bass Coast Shire Council http://forecast2.id.com.au/Default.aspx?id=344&pg=5530

(Note – this chart also includes development that falls in areas outside of our district e.g. Wonthaggi and Inverloch).

The expected growth in major new housing estates is between 70 to 120 lots per year, and redevelopment of existing land will provide for additional lots per year between 150 to 200. In total, a conservative average growth of 250 lots per year has been included in our NCC assumptions for revenue received for new customer contributions.

The growth of our recycled water Class A market is also linked to the number of new developments occurring over the Water Plan 3 period. It is expected that 70 newly developed lots per year will be connected to the recycled water reticulation system.



Our Class A recycled water plant was commissioned in July 2012 and we are now supplying one estate of 200 properties with recycled water through the dual pipe system. This will be followed by two new housing estates, currently under construction, adding a further 550 lots. It is our policy to mandate all new estates in the Cowes area and in selected other locations to provide dual pipe to achieve our ultimate target of 1,400 residences in a 10 year period.

5 | Standardised New Customer Contributions

Westernport Water has based the standardised NCC on the ESC model. The ESC model has undergone several recalculations to provide an acceptable contribution from the new connection, having regard to cost of augmenting our networks to accommodate growth, operation and maintenance costs, and incremental revenue, without any financial impact on the existing customers. The model planning time frame chosen to best reflect the development in Westernport Water's area is the 30 year time period, this allows time for the particular development or subdivision to be fully developed and to utilise the capital works provided for the development.

INCREMENTAL REVENUE

The incremental revenue is the tariffs received from the new connections once they have a service to the new property. It is assumed in the model that every lot when it is created is connected to the service and pays the appropriate tariff for that service. For some developments it may take years for the lot to be developed or a building located on the lot that will use the service. For water and recycled water this would mean that no usage charges would be received for this lot. The model assumes that once the lot is created all tariffs are received. It is acknowledged that this will overstate the revenue received in the model but no alternative is offered at this time.

AVERAGE COSTS

The ESC recommended that incremental costs would be used to ascertain the cost of the new connection. The ESC defines Incremental Coats as costs that would not have been incurred to serve the existing customer base, or not incurred to the same scale. Incremental costs may include capital, operating, financing and tax costs attributable to the new connection.

Westernport Water has chosen to use average costs instead of incremental cost for the operation and maintenance costs in the model. The average cost per megalitre or per property provides a fairer way to apportion costs between the new connections and the existing customers. These costs are taken from the 2011-12 Regulatory Accounts submitted to the ESC and include all overheads. The main cost groups in these accounts are operations and maintenance, treatment, customer service and billing, corporate, licence fees and environmental contribution. The existing customers pay to cover all these costs and the new customers should pay their share of these costs.

The main assumption used by Westernport Water in using the model was that an average cost of operation and maintenance was used instead of the incremental cost.



The reasons for using this assumption is:

- The actual cost of operation and maintenance based on last year's costs (Year 2011-2012) averages the cost between the existing customers and the new customers.
- The difficulty of determining the actual incremental cost of operation and maintenance.
- The costs were obtained from the report to ESC on the 2011-2012 Regulatory Accounts and included all costs associated with that particular service for water, wastewater and recycled water.

The water costs were based on the total cost attributable to water of \$6,891,000 for the amount of water used for this year of 1,767 ML giving an average cost of \$3,899 per ML. The recycled water costs were similarly calculated on a per ML value. The costs for the wastewater were based on average cost per property as there is no volume tariff applicable to our wastewater. The average cost per property is based on the average wastewater consumption which is calculated from the average water consumption. The following table shows the amounts used.

	Water	Wastewater	Recycled Water
Operating costs	\$6,891,000	\$6,658,000	\$75,000
Consumption (ML)	1,767	1,552	130
Average Cost per ML	\$3,899	\$4,290	\$577
Average consumption per property (kL)	75	67.5 = 75 x 0.9*	15
Average cost per property		\$290	

^{* 0.9} is the reduction factor for the average estimated wastewater flow based on the average water consumption.

MODEL OUTCOMES FOR STANDARD NCC:

	Water	Wastewater	Recycled Water
Standard NCC	\$1,939	\$830	\$5,981

Westernport Water has decided to combine the water and recycled water NCC due to:

- The benefit of recycled water is a benefit to new water customers as the increased use of recycled water will reduce the use of potable water;
- Reduce the need for extra water supply sources;
- Reduce the need to construct further major capital works for the water supply system;
- Reduce the need to provide augmentation to the water reticulation system;
- Reduce the WTP augmentation works;
- Large recycled water NCC would be a disincentive for new developments to connect with the gifted assets from recycled water reticulation;
- Large recycled water NCC would be contrary to Government policy of encouraging recycled water to be used to replace potable water use; and
- Large recycled water NCC would encourage developers to not install recycled water resulting in worse outcomes for the environment due to increased wastewater flow into ocean outfall.



PROPOSED STANDARD NCC

	Water	Wastewater
Standard NCC per lot	\$2,500	\$850

Westernport Water proposes to retain the standard NCC, as shown, with no allowance for increases over the Water Plan 3 period, including CPI for the duration of Water Plan 3. This means that the NCC will remain fixed at Water \$2,500 and Wastewater \$850 for the period 2013- 2018.

The proposal for the application of NCC is

- NCC will be charged for every new connection at the rate shown in the table no matter the area of the lot as a standard lot.
- NCC will apply to all lots connected including all new developments or infill.
- NCC will apply to all townships within Westernport Water's area.
- NCC will be applied to non-standard lots based on the size of the water tapping required to service the development compared to a standard lot that requires a 20mm tapping. The extra charge will be calculated based on the flow available in the larger tapping compared to a 20mm tapping.

CHARGING UNITS

Westernport Water has chosen to charge on a per lot basis based on the standard lot at a nominal size tapping of 20 millimetres as the service capacity. This shall be the basis to calculate the NCC for larger sized developments, typically industrial or multiunit developments, which will need a larger sized tapping to accommodate the increased flows required that will impose an added service capacity on the reticulation system. The charge will be based on a 20mm tapping and factored for larger sizes.

DEFINITION OF RETICULATION ASSETS

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 Westernport Water, 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)

A reticulation asset is to be fully funded by the developer and is further defined as all assets required to adequately service the development.

Other growth related assets required by the development will be funded by the developer to the equivalent sized reticulation asset with the incremental cost of the asset to be funded by Westernport Water.

6 | Impact on Water Plan 3 Final Submission

The *additional* revenue generated from the new NCC pricing framework of \$0.1M average per year presents a marginal impact on the proposed pricing path of 3% per year, included in the Final Submission to ESC (September 2012).

7 | Customer Consultation

Westernport Water has not yet engaged with our developers and consultants on the change to NCCs. This is due to the tight timeframes to complete the [updated] NCC model and propose the new charges *before* the ESC's deadline for submission (Dec 2012).

It is proposed that Westernport Water will facilitate consultation forums and presentations to the local developers, contractors and consultants that operate within our area early in 2013 to gauge their reaction to the proposed changes, and to seek feedback on the ESC's final decision.

Providing feedback on the NCC proposals in our Water Plan

We welcome feedback from individuals and organisations on our Water Plan.

Feedback may be provided:

- Via post 2 Boys Home Road, Newhaven VIC 3925
- In person at our Corporate Office (at above address)
- Online via our 'Contact Us' page on our website www.westernportwater.com.au
- Email westport@westernportwater.com.