

29 November 2024

Marcus Crudden

Essential Services Commission
Level 8, 570 Bourke Street
Melbourne, Victoria

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

Dear Marcus,

Greater Western Water's Submission on Review of New Customer Contributions Consultation Paper 2024

Thank you for the opportunity to provide feedback on the consultation paper released on 15 August 2024, as part of the Essential Services Commission's (ESC) review of the New Customer Contributions (NCC) framework.

We welcome this opportunity to engage with the ESC and other stakeholders on a critical framework that underpins Victoria's ability to meet the challenges and opportunities of growth.

As a water corporation servicing one of Victoria's fastest-growing regions, GWW plays an essential role in supporting the provision of infrastructure to meet the state's wider planning objectives. Our work ensures that water, sewerage, and recycled water services are delivered efficiently and reliably, enabling the creation of sustainable, and inclusive communities. A well-designed NCC framework is vital to achieving the objectives the Victorian Government's Housing Statement, which emphasises the urgent need to deliver affordable and accessible housing across the state.

The NCC framework must provide water corporations with the financial and operational capacity to meet the infrastructure demands of growth while maintaining affordable services for all customers. Ideally, the framework will allow businesses to take a holistic approach to NCC charges, ensuring that an equitable charge structures reflect the needs of our business and customers while limiting any unnecessary burden of an overly prescriptive approach.

A well administered principles-based framework will ensure that growth costs are equitably allocated while limiting any barriers to the delivery against broader government planning priorities, such as housing affordability and sustainable urban development, to ensure a cohesive and collaborative approach to addressing Victoria's growth challenges.

Greater Western Water respectfully acknowledges the peoples of the Kulin Nation as the Traditional Owners of the lands and waterways on which our service area lies. We pay our deepest respects to their Ancestors and Elders past and present.



In our submission, we outline opportunities to simplify the application of the NCC framework, enhance transparency and consistency, and ensure that it supports water corporations in fulfilling their essential role. By fostering a framework that balances financial sustainability, operational efficiency, and equity, the ESC can enable water corporations to continue delivering the infrastructure and services that underpin Victoria's future growth.

We would welcome further engagement with the ESC to discuss our feedback and explore how we can collectively advance the objectives of the NCC framework. Should you require additional information or clarification, please do not hesitate to contact Chris Plunkett at [REDACTED]

Yours sincerely,

[REDACTED]

Kessia Thomson
Strategy & Partnerships General Manager



Introduction

In August 2024, the Essential Services Commission (ESC) released a consultation paper as part of its review of the New Customer Contributions (NCC) framework within Victoria's water sector.

Since the adoption of a principles-based NCC framework in 2013, ESC has aimed to support fair cost sharing between new and existing customers, promote transparency in NCC calculations, and provide cost signals to developers based on the location and infrastructure needs of new developments. Recognising the effectiveness of these principles, ESC does not propose fundamental changes but instead seeks to address specific implementation issues highlighted during the 2023 price review, which included concerns around cost attribution, transparency, pricing consistency, and engagement practices.

The ESC's consultation paper invites stakeholder feedback on potential adjustments to the guidance for the 2028 water price review, with the goal of clarifying expectations and promoting alignment with the NCC framework objectives. Greater Western Water (GWW) appreciates this opportunity to provide feedback on the ESC's paper.

In this document, we have identified opportunities to simplify the application of the NCC framework, enhance transparency and consistency, and ensure that it supports water corporations in fulfilling their essential role.



Recommendations to improve the NCC framework

The NCC framework should prioritise fairness, simplicity, and alignment with growth objectives while supporting broader policy goals like housing affordability and sustainable development. This view aligns closely with the PREMO framework, which emphasises customer-centric outcomes such as simplicity, fairness, and efficiency.

Simplicity in application

Aligning with the PREMO objective of simplicity, a good NCC framework must prioritise simplicity for all stakeholders, ensuring that it is:

- **Easy to understand and administer:** Developers, end customers, and water businesses should have a clear understanding of how NCC charges are calculated and applied. This reduces administrative burden and enhances compliance, ultimately benefiting all parties.
- **Standardised across applications:** By introducing standardised pricing based on each business' unique water systems and type of service, the framework can reduce complexity and variability. This promotes greater fairness and trust, while minimising risks of fraud or corruption.
- **Efficient and cost-effective:** Streamlined processes and clear guidelines enable water businesses to efficiently administer the framework, passing on cost savings in the form of lower charges for customers.

Beneficiaries pay for growth

The principle that "beneficiaries pay for growth" ensures fairness by assigning the costs of new infrastructure to those who directly benefit from it. This approach prevents existing customers from subsidising developments that primarily serve new entrants to the system. It also promotes financial sustainability for water businesses by creating a clear link between infrastructure investments and cost recovery.

Growth-driven infrastructure, such as new pipelines, pumping stations, and treatment facilities, can be costly. Ensuring that the net impact of these costs are equitably recovered helps maintain the financial stability of water businesses.

Targeting transparency, simplicity and stability in NCC charges ensures developers plan projects efficiently and sustainably, knowing that their contributions will be directly contribute to the costs of the infrastructure required to service growth.

Flexible approach for standard or location-based pricing

We agree with the ESC that NCCs should account for the geographic scale and nature of the water businesses service area and water systems. This needs to take

into consideration included in the National Water Initiative that location based pricing for water services should only be entered into when the benefits outweigh the costs of implementation.

The ESC should consider discretionary implementation of location-based pricing under the principles-based framework, allowing water businesses to justify standard or location-based approaches, including the adoption of defined charging structures across greenfield and infill areas. This flexibility should account for system integration, shared infrastructure benefits, and the complexity of accurately reflecting regional cost differences. This balances transparency for developers with the need to recover infrastructure costs fairly, as well as allowing alignment with government activity zones and PSPs. Overly complex location-based charges may lead to inconsistencies and inefficiencies, particularly attempting to send location price signals within interconnected systems where intricacies and sensitivities of assumptions may deliver perverse outcomes.

Reducing the area that an NCC applies to increases the sensitivity of the price to fluctuations in population growth and asset servicing. Growth predictions beyond five years are known to be uncertain which means there are fluctuations in growth forecasts and asset plans between regulatory periods. Over smaller areas these fluctuations can drive significant changes in the calculation of NCC prices between regulatory periods, reducing transparency of future costs for developers and water corporations.

GWV is concerned with the ESC objective of sending price signals that influence the location of development via new customer contributions. As well as potentially conflicting with Government policy around development locations, we do not consider these granular signals effectively influence the location of development. Given the time frames associated with land sales and development, NCCs need to be known with certainty at least three years in advance of connection in order for price signals to be effective at the point of land sale, which does not occur at most points in the pricing cycle. Further NCCs are only a small fraction of the cost of development, meaning that they do not provide a strong incentive or disincentive. Further, our customers have told us that they do not consider water NCCs when they are making decisions about the location of developments.

These considerations contributed to GWV's proposal to continue the application of a distinct greenfield charge in our rapidly growing and interconnected western region, striking an appropriate balance of charge complexity while equitably recovering the increasing growth costs across the expanding service area.

Harmonising with broader policies

A well-designed NCC framework must align seamlessly with state and local government policies to ensure consistent and cohesive development strategies. Government policies, such as urban planning and housing affordability initiatives, dictate where and how growth should occur. The NCC framework should support these objectives rather than introduce conflicting price signals that could deter development in priority areas.

By harmonising with broader policies, the NCC framework contributes to a unified approach to growth and development, fostering efficiency and predictability for all stakeholders. This alignment reduces friction between water businesses, developers, and policy makers, enabling smoother implementation of housing and urban development plans.

Consistency across Precinct Structure Plans (PSPs) and Local Government Areas (LGAs)

Consistency in the application of NCC charges is critical for promoting fairness, predictability, and efficiency across regions. Variability in charges within PSPs and LGAs can lead to confusion among developers and customers, eroding trust in the framework. A consistent approach ensures that charges are applied equitably, regardless of location, and reflects a fair distribution of costs based on infrastructure benefits.

Consistency also simplifies decision-making for developers who operate across multiple regions, as they can anticipate costs more accurately. For water businesses, it's vital to strike a balance in the application of charges, appropriately accounting for distinct service and infrastructure drivers while limiting ambiguity and administrative complexity, enabling more straightforward compliance with regulatory expectations.

Alignment with the Victoria Housing Statement (VHS)

The Victorian Government's Housing Statement provides a roadmap for addressing housing affordability and availability, emphasising sustainable and inclusive communities. The NCC framework can play a pivotal role in supporting these objectives by influencing development feasibility and cost structures.

Affordable housing depends on minimising unnecessary costs that could deter developers or increase the price of new homes. The NCC framework must carefully balance cost recovery with affordability, ensuring that charges do not become prohibitive, especially in areas prioritised for growth under the VHS.

In addition, the Housing Statement focuses on strategic growth locations, including urban infill and greenfield developments. The NCC framework must reflect these priorities, supporting infrastructure investments that align with the government's vision for sustainable growth. By doing so, the framework ensures that water infrastructure development complements housing initiatives rather than acting as a barrier.

Lastly, the NCC framework must consider the social impacts of its application. Flexible or reduced charges for developments focused on affordable and social housing can encourage projects that align with the VHS's goals. This approach not only supports the government's housing strategy but also promotes community equity and inclusivity.

Alignment with the objectives of the PREMO framework

The NCC framework should closely align with the objectives of Victoria's PREMO framework, as both prioritise customer-focused outcomes, efficiency, and fairness. Simplicity in application, for instance, directly supports the PREMO objective of delivering high-quality **Performance** by reducing complexity in processes and ensuring transparent, predictable interactions for developers, water businesses, and customers.

The principle of "beneficiaries pays for growth" aligns with PREMO's focus on **Risk** management and **Management** excellence. By ensuring that infrastructure costs are borne by the beneficiaries of growth, the framework mitigates financial risks for both new and existing customers. Furthermore, consistent application of NCC charges across regions and alignment with broader government policies enhance resource management and decision-making, reinforcing PREMO's emphasis on operational accountability and sustainability. Importantly, this approach strengthens the financial and operational capacity of water corporations, enabling them to effectively deliver infrastructure to support growth and meet the housing objectives outlined in VHS.

Moreover, the NCC framework's alignment with the VHS reflects the PREMO principles of **Engagement** and delivering valuable **Outcomes**. Actively harmonising with government housing and development policies demonstrates meaningful engagement with stakeholders, ensuring that the framework supports community priorities such as housing affordability and sustainable growth. Water corporations play a central role in servicing growth, as their ability to deliver infrastructure directly impacts the feasibility and affordability of housing developments. A well-designed NCC framework provides the financial and operational support necessary for water corporations to deliver critical infrastructure on time and at scale, aligning with both housing goals and customer expectations.