



28 November 2024

The Water Team, PMaR  
Essential Services Commission  
Level 8, 570 Bourke Street  
Melbourne 3000

Dear Water Team,

### **Review of New Customer Contributions**

Thank you for the opportunity to provide feedback on the review of the New Customer Contributions (NCC) framework. We agree that the framework's principles-based objectives remain sound, balancing the recovery of costs between those connecting to our services and our broader customer base, helping to achieve affordable bills for all.

The implementation issues highlighted in the review were not raised in our 2023 Price Submission. While we adopted an Average Incremental Cost (AIC) approach, the ESC supported our methodology and the transparency of our model and data set.

Below, we outline our response to the consultation paper and provide insights into our approach to NCC development regarding the identified implementation issues.

- *Inconsistent and unjustified cost attribution for growth and non-growth assets*

As outlined in our 2023-28 Price Submission, the core expenditure driving the AIC calculation is growth related capital expenditure (capex). The data used to determine our NCCs aligns with our proposed capital program and the ESC's regulatory accounts definition of regulated capex and the 'growth' driver. Growth capex includes costs for increasing the capacity of assets or constructing new ones to meet growth or provide additional supply security.

Our assumption is that all growth capex benefits both new and existing customers. Therefore, growth capex is apportioned based on the number of connections.

- *Apparent preference for standard pricing approaches*

Our NCC methodology reflects the need for cost reflectivity at a system level, considering variations in growth and expenditure across our water and wastewater systems.

We calculated NCCs for the five water systems with the highest forecast growth, ensuring charges were cost reflective in these regions.

The ESC acknowledged this approach in its final decision noting that it '*sends signals to developers about the costs of developing in different locations*'.

- *Negotiating framework requirements inadequately met*

Our negotiating framework for NCCs was accepted in both the draft and final decisions of our 2023 Price Submission. It complies with the ESC's NCC pricing principles. The framework is publicly available on our website and has recently been incorporated into our Land Development Manual, which details our processes and approaches for development. We shared this manual with the local Association of Land Development Engineers (ALDE) chapter and received constructive feedback, which we are addressing. The feedback has been largely positive and aimed at improving stakeholder interactions.

- *Engagement issues*

During our price submission development, we engaged with tariff paying customers, developers and the Urban Development Institute of Australia (UDIA).

Our tariff-paying customers supported the principle that *“the maximum percentage that is fair to charge a developer for their contribution towards the water and wastewater infrastructure needed to service and connect a block of land is 100%”* in the theme of fees and charges should be attributed to those who use them.

We also consulted six major development groups, including local and Melbourne-based entities.

Through this consultation, we shared the AIC model, regional NCC charges and transitional options. Developers recommended NCCs apply only to allotments from subdivision where deeds were signed on or after 1 July 2023. We adopted this recommendation. For 'out of the ordinary' developments, we have adopted our negotiation framework.

- *Uncertainty around gifted and reticulated assets*

Our framework defines 'reticulation' and 'shared' assets. Reticulation assets must be constructed and gifted to us, while shared assets are reimbursement contributions based on out of sequence timing calculations. We do not deviate from these definitions.

To clarify asset requirements, we provide detailed information in planning application responses and invite applicants to meet with us to discuss responsibilities.

- *Timing of development and development servicing plans*

We prepare and publish annual Infrastructure sequence plans (ISP) on our website. The existing ISP remains in effect until a new plan is adopted and published.

- *Application of an average incremental cost approach to calculate customer contribution charges*

Our AIC methodology is based on the average incremental costs of connection, and includes:

- Standard NCCs for high growth water and wastewater systems, with separate NCCs for each;
- An incremental finance charge for out-of-sequence developments; and
- Negotiated NCCs for non-standard charges.

AIC approach provides:

- Sending developers efficient pricing signals that incentivise locational and timing decisions. AIC is a stronger approximation of the marginal cost of connection. It clearly aligns the charge to the incremental costs associated with the connection and excludes sunk assets from the calculation of the charge;
- Simplicity, enhancing the charge's effectiveness;
- Demand risk management, aligning risk with those who influence outcomes.

Before adopting AIC, we engaged Utilities Regulation Advisory to review our approach to ensure alignment with ESC's principles and our customer expectations.

- *Guidance for new customer contributions*

We recommend including worked examples and case studies in the guidance materials for water businesses. Workshops following the release of these materials would promote collaboration and shared learning across the sector.

- *Change in terminology to 'developer charges'*

We support changing 'New Customer Contributions' to 'Developer Charges' to reduce confusion, as these fees are primarily levied on developers.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Sarah Cumming', with a stylized flourish at the end.

**Sarah Cumming**  
Managing Director