



Independent Pricing and Regulatory Tribunal  
New South Wales

# Maximum prices for connecting, or upgrading a connection, to a water supply, sewerage, or drainage system

**Sydney Water, Hunter Water and Central Coast Council**

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# Preliminary

## 1 Scope of this determination

### 1.1 To what services does this determination apply?

This determination sets methodologies for fixing maximum prices for the following services:

- (a) connecting a New Development to a System, as provided for in Schedule 1;
- (b) providing an Existing Property with a New Connection to a System, as provided for in Schedule 2; and
- (c) providing an Existing Property with an Upgraded Connection to a System, as provided for in Schedule 3.

### 1.2 To which Agencies does this determination apply?

This determination applies only to services provided by Sydney Water, Hunter Water and Central Coast Council. In the case of Central Coast Council, it applies only to services provided as a Water Supply Authority (as distinct from services provided as a Council).

### 1.3 Where does this determination apply?

Maximum prices under this determination apply only to DSP Areas and only in:

- (a) Sydney Water's Area of Operations;
- (b) Hunter Water's Area of Operations; and
- (c) Central Coast Council's Area of Operations.

**[Note: A DSP Area is an area where a Development Servicing Plan applies. The Agencies are responsible for defining DSP Areas.]**

### 1.4 There are two exclusions from the scope of this determination

This determination does not apply to services provided:

- (a) pursuant to a Negotiated Services Agreement; or
- (b) in respect of connections to a Recycled Water System.

## 2 Commencement and duration of this determination

- (a) This determination commences on 1 November 2018 or the day that it is published in the NSW Government Gazette, whichever is later.
- (b) This determination continues in force until it is revoked or replaced.

## 3 IPART may make scheme-specific determinations

In addition to this determination, IPART may make further determinations under section 11 of the IPART Act of the pricing for particular Determination Services supplied by an Agency in respect of specific schemes or Developments. Such a scheme-specific determination may:

- (a) replace this determination in part; and
- (b) apply for a term ending on, or before or after, the end date of this determination.

## 4 Replacement of other determinations

This determination replaces the following determinations made under the IPART Act:

- (a) Determination No. 4.1 of 1997 - Sydney Water Corporation, Gosford City Council, Hunter Water Corporation and Wyong Shire Council - Pricing of backlog sewerage services;
- (b) Determination No. 9 of 2000 - Sydney Water Corporation, Hunter Water Corporation, Gosford City Council and Wyong Shire Council - Developer charges;
- (c) Determination No. 1 of 2006 - Gosford City Council - Pricing of backlog sewerage services;
- (d) Determination No. 1 of 2013 - Gosford City Council and Wyong Shire Council - Developer charges; and
- (e) Schedule 8 to Determination No. 5 of 2016 - Sydney Water Corporation - Maximum prices for water, sewerage, stormwater drainage and other services.

## 5 Legislative background

### 5.1 IPART's power to set maximum prices

Section 11(1)(a) of the IPART Act provides IPART with a standing reference for the determination of maximum prices for government monopoly services supplied by a government agency specified in schedule 1 to the IPART Act.



## 5.2 The Determination Services are government monopoly services

The Determination Services are government monopoly services because they fall within the scope of the *Independent Pricing and Regulatory Tribunal (Water, Sewerage and Drainage Services) Order 1997*.

## 5.3 The Agencies are specified in schedule 1 to the IPART Act

- (a) Sydney Water and Hunter Water are each specified by name in schedule 1 to the IPART Act.
- (b) Schedule 1 to the IPART Act also specifies Water Supply Authorities. Central Coast Council is a Water Supply Authority.

## 5.4 IPART has set methodologies, rather than directly fixing maximum prices

This determination sets methodologies for fixing the maximum prices that Agencies may charge for the Determination Services under sections 11 and 13A of the IPART Act. As required by section 13A(3) of the IPART Act, IPART's reasons for setting methodologies for fixing maximum prices are set out in Schedule 8.

## 6 Which parts of this determination apply to each Determination Service?

The table below outlines the contents of each Schedule and the categories of Determination Services to which each Schedule applies.

Schedule	Contents	Determination Service to which the Schedule applies
Schedule 1	Pricing methodology	Connecting a New Development to a System
Schedule 2	Pricing methodology	Providing an Existing Property with a New Connection to a System
Schedule 3	Pricing methodology	Providing an Existing Property with an Upgraded Connection to a System
Schedule 4	Requirements for DSPs	All
Schedule 5	Parameters and calculations	All
Schedule 6	Inflation, rounding and zero prices	All
Schedule 7	Definitions and interpretation	All
Schedule 8	Statement of reasons for setting a methodology	All

## 7 Dispute resolution

A customer who is dissatisfied with the way an Agency has applied a methodology set out in this determination may:

- (a) complain to the Agency; and

- (b) if the complaint has been reviewed by the Agency and the customer is still dissatisfied, the customer may request to have the dispute arbitrated under section 31 of the IPART Act.

## **8 This determination fixes maximum prices**

For the avoidance of doubt, this determination fixes the maximum prices that an Agency may charge its customers. It does not oblige any Agency to provide, or any customer to purchase, any Determination Service.

## Schedule 1 Maximum prices for connecting a New Development to a System

[Note: This Schedule sets out the methodology for calculating the maximum price that Sydney Water, Hunter Water and Central Coast Council can charge for connecting a New Development in a DSP Area to a water supply, sewerage or drainage system. For example, this Schedule would apply where Central Coast Council connects a newly developed apartment complex in a DSP Area to its water supply system.]

### 1 Methodology for fixing the maximum price for connecting a New Development to a System

- (a) This clause 1 applies subject to each of the clauses in Schedule 6.

[Note: Schedule 6 provides for inflation adjustments, rounding and zero prices in certain circumstances.]

- (b) The maximum price an Agency may charge for connecting a New Development in a DSP Area to a System is the amount calculated as follows:

$$MP_{Sch1} = \frac{K_1}{L_1} + \frac{K_2}{L_2} - \frac{NPV(R_i - C_i)}{L_3} \text{ for } i = \text{financial years } 1, \dots, n$$

Where:

$MP_{Sch1}$  means the maximum price per Equivalent Tenement to be serviced by the connection;

$K_1$  means the Capital Charge for the Pre-1996 Assets that will serve the relevant DSP Area, calculated in accordance with clause 2.3(a) of Schedule 5 and set out in the relevant DSP;

$K_2$  means the Capital Charge for the Post-1996 Assets that will serve the relevant DSP Area, calculated in accordance with clause 2.3(b) and 2.3(c) of Schedule 5 and set out in the relevant DSP;

$L_1$  means the Agency's estimate of the number of Equivalent Tenements for Pre-1996 Assets, calculated in accordance with clause 3.2(a) of Schedule 5 and set out in the relevant DSP;

$L_2$  means the Agency's estimate of the number of Equivalent Tenements for Post-1996 Assets, calculated in accordance with clause 3.2(b) of Schedule 5 and set out in the relevant DSP;

$L_3$  means the Agency's estimate of the number of Equivalent Tenements for the Reduction Amount, calculated in accordance with clause 3.2(c) of Schedule 5 and set out in the relevant DSP;

$R_i$  means the Agency's estimate of the future periodic revenues to be received from new customers in the DSP Area in each financial year  $i$ , estimated in accordance with clause 4 of Schedule 5 and set out in the relevant DSP;

$C_i$  means the Agency's estimate of the future operating, maintenance and administration costs of servicing all new customers in the DSP Area in each financial year  $i$  (excluding, for the avoidance of doubt, any Capital Costs), estimated in accordance with clause 5 of Schedule 5 and set out in the relevant DSP; and

$n$  is the financial year which is 30 years from the financial year in which the relevant DSP was registered with IPART under clause 2(e) of Schedule 4.

**[Note:  $n$  is the end of the forecast period for the assessment of expected revenues and costs.]**

**[Note: Schedule 5 sets out the parameters and calculations that an Agency must use when calculating maximum prices under this clause.]**

- (c) The maximum price under clause 1(b) is to be calculated at the time the relevant DSP is registered with IPART under clause 2(e) of Schedule 4.

## Schedule 2 Maximum prices for providing an Existing Property with a New Connection to a System

[Note: This Schedule sets out the methodology for calculating the maximum price that Sydney Water, Hunter Water and Central Coast Council can charge for connecting an Existing Property in a DSP Area to a water supply, sewerage or drainage system. For example, this Schedule would apply where Hunter Water connects a previously unsewered Existing Property in a DSP Area to its sewerage system.]

### 1 Methodology for fixing the maximum price for providing an Existing Property with a New Connection to a System

- (a) This clause 1 applies subject to each of the other clauses in this Schedule and each clause in Schedule 6.

[Note: Schedule 6 provides for inflation adjustments, rounding and zero prices in certain circumstances.]

- (b) The maximum price an Agency may charge for providing an Existing Property in a DSP Area with a New Connection to a System is the amount calculated as follows:

$$MP_{Sch2} = MP_{Sch1} + \left( \frac{K_4}{L_4} - \frac{NPV(C_i - \hat{C}_i)}{L_4} \right) \text{ for } i = \text{financial years } 1, \dots, n$$

Where:

$MP_{Sch2}$  means the maximum price per Equivalent Tenement for the Existing Property;

$MP_{Sch1}$  means the maximum price per Equivalent Tenement for connecting a New Development to a System for the DSP Area, as calculated in accordance with Schedule 1 (as adjusted in accordance with clause 1 of Schedule 6) of this determination at the time the Extension that enabled the New Connection is completed;

[Note: This variable is the amount calculated under clause 1 of Schedule 1 and specified in the relevant DSP as adjusted for inflation under clause 1 of Schedule 6. For the avoidance of doubt, the maximum price under Schedule 1 is not to be recalculated at the time the Extension that enabled the New Connection is completed. For the avoidance of doubt, while the Nil Developer Charges Policy remains in place,  $MP_{Sch1}$  is zero for Sydney Water and Hunter Water.]

$K_4$  means the Agency's estimate of the efficient capital expenditure required for the Extension, calculated in accordance with clause 2.3(d) of Schedule 5;

$L_4$  means the Agency's estimate of the number of Equivalent Tenements in the DSP Area that will use the Extension (including, for the avoidance of doubt, Existing Properties), calculated in accordance with clause 3.2(d) of Schedule 5;

[Note:  $K_4$  and  $L_4$  are the Present Value of the Agency's estimates (see clauses 2.3(d) and 3.2(d) of Schedule 5).]

$C_i$  means the Agency's estimate of what the future operating, maintenance and administration costs per Equivalent Tenement of servicing all new customers in the DSP Area would have been in financial year  $i$ , had the Extension not been made, estimated in accordance with clause 5 of Schedule 5 and set out in the relevant DSP, multiplied by the Agency's estimate of the number of Equivalent Tenements in the DSP Area that will use the Extension (including, for the avoidance of doubt, Existing Properties) in financial year  $i$ ;

$\acute{C}_i$  means the Agency's estimate of the future operating, maintenance and administration costs of servicing new customers by the Extension in financial year  $i$  (excluding, for the avoidance of doubt, any Capital Costs), estimated in accordance with clause 5 of Schedule 5; and

$n$  is the financial year which is 30 years from the financial year in which the Extension that enabled the New Connection is completed.

[Note: Schedule 5 sets out the parameters and calculations that an Agency must use when calculating maximum prices under this clause.]

- (c) The maximum price under clause 1(b) is to be calculated at the time the Extension that enabled the New Connection is completed.

## 2 Payment by instalments

- (a) This clause 2 applies where an Agency and a customer agree for the customer to pay in annual instalments for the Agency providing an Existing Property with a New Connection to a System.
- (b) Where this clause 2 applies then, notwithstanding clause 1, the maximum price that the Agency may charge per year (for  $N$  years, up to a maximum of 20 years) is the amount calculated as follows:

$$MP_{Sch2Instalment} = \frac{r_4 \times MP_{Sch2}}{1 - (1 + r_4)^{-N}}$$

Where:

$MP_{Sch2Instalment}$  means the maximum price per year (for  $N$  years), per Equivalent Tenement for the DSP Area in which the New Connection is provided;

$MP_{Sch2}$  means the maximum price per Equivalent Tenement that would be payable under clause 1 (as adjusted in accordance with clause 4 and Schedule 6) at the time the customer is provided with the New Connection to the System; and

$r_4$  means the Discount Rate set out in clause 1 of Schedule 5.

- (c) The maximum price under clause 2(b) is to be calculated at the time the customer is provided with the New Connection to the System.

### **3 Grandfathering of Pre-existing Annuity Arrangement**

Notwithstanding clause 1, the maximum price for any Determination Service that is the subject of a Pre-existing Annuity Arrangement is the price that applies under that Pre-existing Annuity Arrangement.

### **4 Maximum price where Extension incorporated into DSP before New Connection occurs**

- (a) This clause 4 applies where an Extension that enables a New Connection to an Existing Property becomes an Asset allocated to a DSP (following the registration of the DSP with IPART under clause 2(e) of Schedule 4) before the Existing Property is provided with the New Connection.
- (b) Where this clause 4 applies, then notwithstanding clause 1 of this Schedule, the maximum price for providing a New Connection to an Existing Property is the maximum price that would apply under clause 1 of Schedule 1 as if the words “connecting a New Development” in that clause were instead “providing an Existing Property in a DSP Area with a New Connection”.

## Schedule 3 Maximum prices for providing an Existing Property with an Upgraded Connection to a System

[Note: This Schedule sets out the methodology for calculating the maximum price that Sydney Water, Hunter Water and Central Coast Council can charge for providing an Existing Property in a DSP Area with an Upgraded Connection to a water supply, sewerage or drainage system. For example, this Schedule would apply where Sydney Water agrees with a customer to improve the flow or pressure of a connection to an Existing Property for firefighting purposes.]

### 1 Methodology for fixing the maximum price for providing an Existing Property with an Upgraded Connection to a System

- (a) This clause 1 applies subject to each of the other clauses in this Schedule and each clause in Schedule 6.

[Note: Schedule 6 provides for inflation adjustments, rounding and zero prices in certain circumstances.]

- (b) The maximum price an Agency may charge for providing an Existing Property in a DSP Area with an Upgraded Connection to a System is the amount calculated as follows:

$$MP_{Sch3} = \frac{K_5}{L_5} - \frac{NPV(C_i - \hat{C}_i)}{L_5} \text{ for } i = \text{financial years } 1, \dots, n$$

Where:

$MP_{Sch3}$  means the maximum price per Equivalent Tenement for the Existing Property;

$K_5$  means the Agency's estimate of efficient capital expenditure required for the Upgraded Connection, calculated in accordance with clause 2.3(e) of Schedule 5;

$L_5$  means the Agency's estimate of the number of Equivalent Tenements in the DSP Area comprised in New Developments that will use the Upgraded Connection and Existing Properties that will agree to contribute to the costs of the Upgraded Connection, calculated in accordance with clause 3.2(e) of Schedule 5;

[Note:  $K_5$  and  $L_5$  are the Present Value of the Agency's estimates (see clauses 2.3(e) and 3.2(e) of Schedule 5).]

$C_i$  means the Agency's estimate of what the future operating, maintenance and administration costs per Equivalent Tenement of servicing all new customers in the DSP Area would have been in financial year  $i$ , had the Upgraded Connection



not been made available, estimated in accordance with clause 5 of Schedule 5 and set out in the relevant DSP, multiplied by the Agency's estimate of the number of Equivalent Tenements that will use the Upgraded Connection (including, for the avoidance of doubt, Existing Properties) in financial year  $i$ ;

$\hat{C}_i$  means the Agency's estimate of the future operating, maintenance and administration costs of servicing customers by the Upgraded Connection in financial year  $i$  (excluding, for the avoidance of doubt, any Capital Costs), estimated in accordance with clause 5 of Schedule 5; and

$n$  is the financial year which is 30 years from the financial year in which the Upgraded Connection becomes available for the customer to take up.

**[Note: Schedule 5 sets out the parameters and calculations that an Agency must use when calculating maximum prices under this clause.]**

- (c) The maximum price under clause 1(b) is to be calculated at the time the Upgraded Connection becomes available for the customer to take up.

## 2 Payment by instalments

- (a) This clause 2 applies where an Agency and a customer agree for the customer to pay in annual instalments for the Agency providing an Existing Property with an Upgraded Connection to a System.
- (b) Where this clause 2 applies then, notwithstanding clause 1, the maximum price that the Agency may charge per year (for  $N$  years, up to a maximum of 20 years) is the amount calculated as follows:

$$MP_{Sch3Instalment} = \frac{r_5 \times MP_{Sch3}}{1 - (1 + r_5)^{-N}}$$

Where:

$MP_{Sch3Instalment}$  means the maximum price per year (for  $N$  years), per Equivalent Tenement for the DSP Area in which the Upgraded Connection is provided;

$MP_{Sch3}$  means the maximum price per Equivalent Tenement that would be payable under clause 1 (as adjusted in accordance with Schedule 6) at the time the customer is provided with the Upgraded Connection to the System; and

$r_5$  means the Discount Rate set out in clause 1 of Schedule 5.

- (c) The maximum price under clause 2(b) is to be calculated at the time the customer is provided with the Upgraded Connection to the System.

## Schedule 4 Requirements for DSPs

### 1 Minimum content for each DSP

At all times, each Agency must be reasonably satisfied that it has in place a sufficient number of DSPs, and DSPs that cover a sufficient aggregate area, to meet present demand for Determination Services and expected medium-term growth in demand for Determination Services. Each DSP must contain the following, at a minimum:

- (a) a summary of the contents of the DSP;
- (b) a statement specifying the System (or Systems) to which the DSP relates;
- (c) a clear and accurate description of the DSP Area to which the DSP applies, including:
  - (1) its size;
  - (2) the basis for defining its boundaries; and
  - (3) reference to other DSPs where there is an overlap or co-usage of Assets;
- (d) demographic and land use planning information including:
  - (1) the current residential population in the DSP Area;
  - (2) the estimated Equivalent Tenements in the DSP Area as at 1996;
  - (3) the projected population over a period of 30 financial years starting from the financial year in which the DSP was registered with IPART under clause 2(e) of this Schedule 4; and
  - (4) the projected Equivalent Tenements in the DSP Area for each financial year over a period of 30 financial years starting from the financial year in which the DSP was registered with IPART under clause 2(e) of this Schedule 4;

**[Note: See clause 7 of Schedule 5 for demographic assumptions.]**
- (e) timing of works in the DSP Area including:
  - (1) completed capital works; and
  - (2) proposed capital works;
- (f) the standards of service to be provided to customers in the DSP Area and design parameters of Assets;
- (g) the calculated maximum price under clause 1 of Schedule 1 ( $MP_{Sch1}$ ), and the information used to calculate that price, including:

- (1) the future periodic revenues expected to be received from new customers in the DSP Area each financial year;
  - (2) the charges used for the calculation of those revenues;
 

**[Note: The charges used should be consistent with the Prevailing Periodic Determination.]**
  - (3) average water usage figures used for the calculation of those revenues;
  - (4) the future expected annual operating, maintenance and administration costs of providing services to new customers in the DSP Area in each financial year; and
  - (5) indexation principles and parameters used for that calculation;
- (h) a description, or reference to a background document containing the description, of Pre-1996 Assets and Post-1996 Assets in the DSP Area including:
- (1) the date (or forecast date) of the commissioning of each Asset;
  - (2) the size/length of each Asset;
  - (3) the actual efficient cost of each Asset (where applicable);
  - (4) the unit cost of each Asset (if applicable);
  - (5) the MEERA valuation of each Asset (if applicable);
  - (6) the total capacity of each Asset expressed in Equivalent Tenements (if applicable); and
  - (7) the details of the number of Equivalent Tenements served by each Asset in each DSP Area, where that Asset serves more than one DSP Area; and
- (i) a comparison of the maximum price for connecting a New Development to a System calculated under clause 1 of Schedule 1 ( $MP_{Sch1}$ ) with the Comparison Price, but only where the DSP:
- (1) is a DSP that has been remade following a review under clause 3 of this Schedule (as opposed to a DSP made for the first time); and
  - (2) in the case of a DSP made by Sydney Water or Hunter Water, is a DSP that has been remade more than once since the Commencement Date.

## 2 Consultation and registration requirements for DSPs

- (a) Following preparation of a draft DSP, an Agency must:

- (1) publicly exhibit, on the Agency's website, the draft DSP at least 30 working days prior to the Agency adopting that DSP (the **Exhibition Period**);
- (2) prepare and make available on the Agency's website all of the critical data behind the draft DSP, including the models used to calculate the prices for the Determination Services, so that interested parties can assess the draft DSP and make informed written submissions on that draft DSP to the Agency; and
- (3) advertise in a manner likely to get the attention of interested parties, the start date of the Exhibition Period, the length of the Exhibition Period and that written submissions on the draft DSP can be made to the Agency during the Exhibition Period.

**[Note: This could include, for example, advertising in a local newspaper with circulation covering the draft DSP Area and placing a notice on the home page of the Agency's website.]**

- (b) At least 10 working days before the start date of the Exhibition Period, an Agency must inform the following stakeholders of the start date of the Exhibition Period, the length of the Exhibition Period and that written submissions on the draft DSP can be made to the Agency during the Exhibition Period:
  - (1) the Urban Development Institute of Australia;
  - (2) the Housing Industry Association;
  - (3) any other relevant association representing Developers active in the draft DSP Area; and
  - (4) any Developers who, in the 6 months prior to the commencement of the Exhibition Period, have applied to the Agency for Planning Approval.
- (c) In finalising a draft DSP, the Agency must consider all submissions made by interested parties on the draft DSP.
- (d) Once the Agency has adopted the draft DSP, the Agency must forward the draft DSP to IPART for registration. At the time of forwarding the draft DSP, the Agency is to inform IPART of any submissions lodged during the Exhibition Period and the Agency's responses to the submissions.
- (e) IPART may register and publish on its website a draft DSP forwarded to it under clause 2(d).
- (f) A DSP comes into effect upon registration by IPART.

### 3 Review of DSPs

- (a) Subject to clause 3(b), an Agency is to complete a review of each DSP before the 5 year anniversary of the commencement of the most recent revisions to that DSP.
- (b) Despite clause 3(a), IPART may, on the application of an Agency or on its own initiative, direct an Agency, in writing, to commence, and complete, a review of a DSP within the timeframe specified by IPART. An Agency must comply with any such direction.
- (c) A direction under clause 3(b) may exempt an Agency from complying with clause 3(a) to the extent specified in the direction.

## 4 Suspension of requirements under this Schedule

- (a) Subject to clause 4(b), Sydney Water and Hunter Water are not obliged to comply with the requirements of clauses 1, 2 and 3 of this Schedule until 18 months after the Nil Developer Charges Policy Change Day.
- (b) Notwithstanding clause 4(a), within 12 months of the Nil Developer Charges Policy Change Day, Sydney Water and Hunter Water must commence a review of all existing DSPs, such that Sydney Water and Hunter Water are in a position to comply with the requirements of this Schedule no later than the first day after 18 months elapse from the Nil Developer Charges Policy Change Day. Each review must be completed within 6 months.

**[Note: Sydney Water and Hunter Water are encouraged to update existing DSPs and create new DSPs, as required, as soon as practicable after the Nil Developer Charges Policy Change Day and notify IPART when they are prepared to comply with the maximum prices determined according to the methodologies set out in Schedules 1, 2 and 3.]**

## 5 Saving of existing DSPs

- (a) Despite any other provision of this Schedule, a DSP registered by IPART pursuant to IPART's Determination No. 9 of 2000 (Sydney Water Corporation, Hunter Water Corporation, Gosford City Council and Wyong Shire Council - Developer Charges) is deemed to continue in force from the Commencement Date as a DSP registered by IPART under clause 2(e) of this Schedule.
- (b) An Agency is not required to comply with clauses 1 and 2 of this Schedule in respect of a DSP continued in force by clause 5(a) until the date on which the Agency is required to complete a review of that DSP under clause 3 of this Schedule.
- (c) For the avoidance of doubt, despite clause 5(b), where an Agency conducts a review of a DSP continued in force by clause 5(a) and that review is completed after the Commencement Date, the Agency must conduct the review in accordance with clause 2 of this Schedule.

## 6 Implementing a DSP

In implementing maximum prices under Schedule 1 of this determination, Agencies must use a calculation spreadsheet that has been approved by IPART.

**[Note: IPART has released a template spreadsheet that Agencies can use to calculate maximum prices, which is available on IPART's website. Agencies can either use IPART's template, or request that IPART approves a different calculation spreadsheet.]**

## Schedule 5 Parameters and Calculations

### 1 Discount Rates

- (a) The Discount Rates to be used in the calculation of Present Values in this determination are set out in the table below:

Agency	r1	r2	r3	r4	r5
Sydney Water	3%				Real Pre-tax WACC
Hunter Water	3%				Real Pre-tax WACC
Central Coast Council	0%				Real Pre-tax WACC

- (b) An Agency's Real Pre-tax WACC is that set out in the Final Report accompanying that Agency's Prevailing Periodic Determination.

### 2 Recovery of capital expenditure

#### 2.1 Valuation of Assets

- (a) In calculating Capital Charges, an Agency must apply the valuation method in the right-hand column of the table below to the categories of Assets specified in the left-hand column.

Asset	Valuation Method
Pre-1996 Asset as at 1 January 1996	MEERA
Post-1996 Asset already commissioned	MEERA
Post-1996 Asset yet to be commissioned	Estimated efficient costs

- (b) The efficient cost of all Assets must be taken from an asset register or other source acceptable to IPART.

#### 2.2 Apportionment of Assets

- (a) If an Asset services more than one DSP Area, an Agency must apportion the Capital Charge for that Asset across multiple DSPs according to expected utilisation.
- (b) An Agency is to calculate the portion of the Capital Charge attributable to a particular DSP as follows:

$$\frac{\text{Expected utilisation of the Asset by the relevant DSP (in Equivalent Tenements)}}{\text{Total expected utilisation of that Asset (in Equivalent Tenements)}}$$

#### 2.3 Calculation of $K_1$ , $K_2$ , $K_4$ and $K_5$

An Agency must calculate  $K_1$ ,  $K_2$ ,  $K_4$  and  $K_5$  as follows:

- (a) An Agency must calculate a Capital Charge for Pre-1996 Assets ( $K_1$ ) as follows:
  - (1) Estimate the value of the relevant Assets in accordance with the valuation methodology specified in clause 2.1, as at 1 January 1996;
  - (2) Convert that estimated value to Real Terms; and
  - (3) Convert the value of those Assets in Real Terms to Present Values using the Discount Rate ( $r_1$ ), from 1 January 1996 only.
- (b) An Agency must calculate a Capital Charge for Post-1996 Assets commissioned on or after 1 January 1996 (a component of  $K_2$ ) as follows:
  - (1) Estimate the value of the relevant Assets in accordance with the valuation methodology specified in clause 2.1;
  - (2) Convert that estimated value to Real Terms; and
  - (3) Convert the value on those Assets in Real Terms to Present Values using the Discount Rate ( $r_2$ ), from the date the Asset was commissioned.
- (c) An Agency must calculate a Capital Charge for Post-1996 Assets yet to be commissioned (a component of  $K_2$ ) as follows:
  - (1) Estimate the value of the relevant Assets in accordance with the valuation methodology specified in clause 2.1;
  - (2) Convert that estimated value to Real Terms; and
  - (3) Convert the value of those Assets in Real Terms to Present Values using the Discount Rate ( $r_2$ ), from the expected date of commissioning.
- (d) An Agency must calculate the efficient capital expenditure required for an Extension ( $K_4$ ) as follows:
  - (1) Estimate the efficient costs required for the Extension;
  - (2) Convert that estimated value to Real Terms; and
  - (3) Convert the value of the Extension in Real Terms to Present Values using the Discount Rate ( $r_4$ ), from the date the Extension that enabled the New Connection is completed.
- (e) An Agency must calculate the efficient capital expenditure required for an Upgraded Connection ( $K_5$ ) as follows:
  - (1) Estimate the efficient costs required for the Upgraded Connection;
  - (2) Convert that estimated value to Real Terms; and
  - (3) Convert the value of the Upgraded Connection in Real Terms to Present Values using the Discount Rate ( $r_5$ ), from the date the Upgraded Connection becomes available for the customer to take up.

## 2.4 Capital Charge principles

An Agency must calculate the Capital Charges under clauses 2.3(a) - 2.3(c) according to the following principles:

- (a) All Assets must be included for the purposes of the calculation.

**[Note: The definition of “Assets” under clause 1 of Schedule 7 excludes certain assets, called “Excluded Assets”. For example, Pre-1970 Assets are Excluded Assets.]**

- (b) Once an Asset is commissioned, an Agency must calculate the Capital Charge for that Asset in accordance with clause 2.3(b) of this Schedule 5 at the next DSP review provided for in Schedule 4 to this determination.
- (c) When estimating the efficient costs of Assets yet to be commissioned, an Agency must examine all available options and choose the option that is the most efficient.
- (d) Where:
- (1) an Agency temporarily supplies services to a Development from an existing Asset; and
  - (2) the Agency transfers the supply of services to the Development from the existing Asset to the new Asset that has just been commissioned;
- then only the costs of the new Asset may be included in calculating maximum prices under this determination.
- (e) Where a proposed Development influences the timing of an Agency's anticipated expenditure on an Asset, that anticipated expenditure must be included in the calculation of Capital Charges by:
- (1) Estimating the extent to which the proposed Development would bring forward the timing of the anticipated expenditure, as compared with the timing of the anticipated expenditure if that Development did not proceed;
  - (2) Calculating the difference in the Net Present Value between the anticipated expenditure that may arise due to that change in timing; and
  - (3) Including the cost calculated under clause 2.4(e)(2) as a cost to the Development only if that cost exceeds the cost of any comparable existing Assets used by the Development.

**[Note: Where the costs calculated under clause 2.4(e)(2) are included in the Capital Charge, the cost of the comparable existing Assets are not to be included in the calculation of the Capital Charge.]**

### 3 Equivalent Tenement

#### 3.1 Meaning of Equivalent Tenement

**Equivalent Tenement** means:

- (a) the Equivalent Tenement value specified in the Final Report accompanying the Prevailing Periodic Determination for the relevant Agency; or
- (b) where the Final Report accompanying the Prevailing Periodic Determination for the relevant Agency does not specify an Equivalent Tenement value, that Agency's estimate of the total demand that an average residential dwelling places on the relevant System.

#### 3.2 Calculation of Equivalent Tenements ( $L_1$ , $L_2$ , $L_3$ , $L_4$ and $L_5$ )

An Agency must calculate Equivalent Tenements as follows:



- (a) An Agency must calculate the Equivalent Tenements for Pre-1996 Assets ( $L_1$ ) as follows:
- (1) estimate the number of new Equivalent Tenements in the DSP Area that utilise, or will utilise, the Asset in each financial year during a period of 30 financial years starting from the 1995-96 financial year; and
  - (2) convert the number of Equivalent Tenements to Present Values using the Discount Rate  $r_1$ .
- (b) An Agency must calculate the Equivalent Tenements for Post-1996 Assets ( $L_2$ ) as follows:
- (1) estimate the number of new Equivalent Tenements in the DSP Area that utilise, or will utilise, the Asset in each financial year during a period of 30 financial years starting from the financial year in which the Asset was, or is expected to be, commissioned; and
  - (2) convert the number of Equivalent Tenements to Present Values using the Discount Rate  $r_2$ .
- (c) An Agency must calculate the Equivalent Tenements for the Reduction Amount [ $NPV(R_i - C_i)$ ] ( $L_3$ ) as follows:
- (1) estimate the number of new Equivalent Tenements in the DSP Area that will be serviced in each financial year during a period of 30 financial years starting from the financial year in which the DSP is registered with IPART under clause 2(e) of Schedule 4; and
  - (2) convert the number of Equivalent Tenements to Present Values using the Discount Rate  $r_3$ .
- (d) An Agency must calculate the Equivalent Tenements for an Extension ( $L_4$ ) as follows:
- (1) estimate the number of new and existing Equivalent Tenements in the DSP Area that will utilise the Extension in each financial year during a period of 30 financial years starting from the financial year in which the Extension that enabled the New Connection is completed; and
  - (2) convert the number of Equivalent Tenements to Present Values using the Discount Rate  $r_4$ .
- (e) An Agency must calculate the Equivalent Tenements for an Upgraded Connection ( $L_5$ ) as follows:

- (1) estimate the number of new and existing Equivalent Tenements in the DSP Area comprised in New Developments that will use the Upgraded Connection and Existing Properties that will agree to contribute to the costs of the Upgraded Connection in each financial year during a period of 30 financial years starting from the financial year in which the Upgraded Connection became available for the customer to take up; and
- (2) convert the number of Equivalent Tenements to Present Values using the Discount Rate  $r_5$ .

[Note: An Agency must estimate  $L_1$ ,  $L_2$  and  $L_3$  as part of a DSP review and specify these figures in a DSP. An Agency must estimate  $L_4$  at the time the Extension that enabled the New Connection is completed and  $L_5$  at the time the Upgraded Connection became available for the customer to take up.]

## 4 Operating revenues ( $R_i$ )

An Agency must estimate the future periodic revenues expected to be received from new customers in a DSP Area according to the following principles:

- (a) An Agency must project the operating revenues arising from a DSP Area on the basis of the efficient operation of the Assets used to provide Determination Services in that DSP.
- (b) An Agency's projection of operating revenues arising from a DSP Area must be formulated to best meet the needs of its users, including Developers, based on the service standards set out in the relevant DSP.
- (c) An Agency must assume that residential prices are uniform across that Agency's Area of Operations unless IPART, by determination, has approved differential prices.
- (d) An Agency must estimate future revenues using the relevant periodic charge in that Agency's Prevailing Periodic Determination applied to the consumption of an average customer in the relevant customer class.
- (e) Future operating revenues arising from a DSP Area must be projected over a 30 year period from the date a DSP is registered with IPART under clause 2(e) of Schedule 4.

## 5 Operating costs ( $C_i$ , $\hat{C}_i$ and $\hat{C}_i$ )

An Agency must estimate operating, maintenance and administration costs according to the following principles:

- (a) The operating, maintenance and administration costs (excluding, for the avoidance of doubt, any Capital Costs) to an Agency of providing Determination Services to new customers in a DSP Area ( $C_i$ ), new customers in an area serviced by an Extension ( $\hat{C}_i$ ) or customers in an area serviced by an Upgraded Connection ( $\hat{C}_i$ ) should, wherever possible:

- (1) be based on the most efficient and lowest cost means of providing the Determination Services;
  - (2) assume the continuation of the service standards set out in the DSP; and
  - (3) reflect costs associated with the specific Determination Services provided.
- (b) An Agency should use system-wide averages for operating, maintenance and administration costs only where it is infeasible or inappropriate to apply the principles set out in clause 5(a).
- (c) Future operating, maintenance and administration costs must be projected over a 30 year period from:
- (1) in the case of  $C_i$ , the date on which the DSP was registered with IPART under clause 2(e) of Schedule 4;
  - (2) in the case of  $\hat{C}_i$ , the date on which the Extension is completed; or
  - (3) in the case of  $\hat{C}_i$ , the date on which the Upgraded Connection becomes available for the customer to take up.

## 6 Reduction Amount

**Reduction Amount** means, for the purposes of Schedule 1, the Net Present Value of the Agency's estimate of the future periodic revenues to be received from new customers in the relevant DSP Area in each financial year  $i$  and the Agency's estimate of the future operating, maintenance and administration costs of servicing all new customers in the DSP Area in each financial year  $i$ , calculated using  $r_3$ :

$$NPV(R_i - C_i)$$

## 7 Demographic assumptions

Demand for the Determination Services arises from, in part, population growth and changes in urban density. An Agency's forecasts of population and densities must have regard to the latest demographic statistics published by the NSW Department of Planning and Environment for the Area of Operations of the relevant Agency or a comparable area. For local works, the demographic statistics used must be locality specific, that is, at the local government level. For system-wide works, such as headworks, the demographic statistics used must be for the Area of Operations of the relevant Agency.

[Note: These demographic assumptions are a key factor in estimating  $L_1$ ,  $L_2$ ,  $L_3$ ,  $L_4$  and  $L_5$ .]

## 8 Present Value

An Agency is to calculate the Present Value (PV) of an amount of money or a number of Equivalent Tenements as follows:

$$PV = FV(1 + r)^{-k}$$

Where:

*PV* means the Present Value of an amount of money or a number of Equivalent Tenements;

*FV* means the future value of an amount of money or a number of Equivalent Tenements;

*r* means the applicable Discount Rate set out in clause 1(a) of this Schedule 5; and

*k* means the number of periods to apply the applicable Discount Rate.

## Schedule 6 Inflation, rounding and zero prices

### 1 Inflation

- (a) Maximum prices calculated under this determination are to be adjusted for inflation by multiplying the maximum price calculated under Schedule 1, Schedule 2 or Schedule 3 by:

$$\frac{CPI_{y_{0+k}}}{CPI_{y_0}}$$

Where:

$CPI_{y_{0+k}}$  means CPI for the March quarter of the financial year immediately preceding the financial year in which the maximum price calculated is to apply; and

$CPI_{y_0}$  means CPI for the March quarter of the financial year immediately preceding the financial year specified for the relevant maximum price in the table below.

Maximum price	Financial year
Schedule 1, clause 1	The financial year in which the relevant DSP was registered with IPART under clause 2(e) of Schedule 4
Schedule 2, clause 1	The financial year in which the Extension that enabled the New Connection is completed
Schedule 2, clause 2	The financial year in which the customer is provided with the New Connection to the System
Schedule 3, clause 1	The financial year in which the Upgraded Connection became available for the customer to take up
Schedule 3, clause 2	The financial year in which the customer is provided with the Upgraded Connection to the System

### 2 Rounding

- (a) The CPI multiplier calculated under clause 1(a) is to be rounded to three decimal places before adjusting the relevant maximum price for inflation.
- (b) For the purposes of rounding the CPI multiplier under clause 2(a), any amount that is a multiple of 0.0005 (but not a multiple of 0.001) is to be rounded up to one decimal place.
- (c) Any maximum price calculated in accordance with this determination is to be rounded to the nearest whole cent.
- (d) For the purposes of rounding a maximum price under clause 2(c), any amount that is a multiple of 0.5 cents (but not a multiple of 1 cent) is to be rounded up to the nearest whole cent.

[Example: This example demonstrates how a maximum price calculated under clause 1 of Schedule 1 ( $MP_{Sch1}$ ) and set out in a DSP registered with IPART under clause 2(e) of Schedule 4 in the 2016-17 financial year is adjusted for inflation and rounded in accordance with clauses 1 and 2 of this Schedule to produce the maximum price to apply for a Schedule 1 Service in that DSP in the 2018-19 financial year.

The base year for the maximum price ( $MP_{Sch1}$ ) set out in the DSP is  $y_{0+1}$  and expressed in \$2016-17.

In this example:

$$\begin{aligned} MP_{Sch1} &= \$100.56 \text{ at time } y_{0+1} \\ CPI_{y_{0+k}} &= CPI \text{ for the 2018 March quarter} = 112.6 \\ CPI_{y_0} &= CPI \text{ for the 2016 March quarter} = 108.2 \end{aligned}$$

The CPI multiplier under clause 1(a) of this Schedule is:

$$\frac{CPI_{y_{0+k}}}{CPI_{y_0}} = \frac{112.6}{108.2} = 1.040665$$

After applying the rounding rule in clause 2(a) and 2(b) of this Schedule, the CPI multiplier is:

$$\frac{CPI_{y_{0+k}}}{CPI_{y_0}} = \frac{112.6}{108.2} = 1.041$$

The maximum price at time  $y_{0+3}$  in \$2018-19 after adjusting for inflation under clause 1(a) of this Schedule is:

$$MP_{Sch1} = 100.56 \times 1.041 = \$104.68296$$

After applying the rounding rule in clauses 2(c) and 2(d) of this Schedule, the maximum price is \$104.68.]

### 3 No negative prices

If a maximum price calculated in accordance with a methodology provided for in this determination would be less than zero, that maximum price is taken to be zero.

### 4 Nil price for Sydney Water and Hunter Water during 18 month transition after the Nil Developer Charges Policy is undone

Despite any other provisions in this determination, the maximum price for any Determination Service covered by the Nil Developer Charges Policy, of a type for which Sydney Water or Hunter Water was charging a zero price immediately before the Commencement Date, is zero from the Commencement Date until the earlier of:

- (a) the date, being after the Nil Developer Charges Policy Change Day, in respect of which an Agency has notified IPART that it is prepared to charge non-zero prices in a specified DSP Area or DSP Areas; and
- (b) a period of 18 months has elapsed from the Nil Developer Charges Policy Change Day.

[Note: The maximum prices in this determination apply only to DSP Areas, with the result that they have no application to services provided outside DSP Areas.]

## Schedule 7 Definitions and interpretation

### 1 Definitions

In this determination:

**Agency** means:

- (a) Sydney Water;
- (b) Hunter Water; and
- (c) Central Coast Council, only to the extent that it provides services as a Water Supply Authority (as distinct from a Council).

**Area of Operations** means:

- (a) in respect of Sydney Water, its area of operations under the Sydney Water Act;
- (b) in respect of Hunter Water, its area of operations under the Hunter Water Act; and
- (c) in respect of Central Coast Council, its area, within the meaning of the *Local Government Act 1993* (NSW).

**Assets** means all assets or parts of assets, apart from Excluded Assets, allocated to a DSP where there is a nexus (close connection) to the Development they are intended to serve and includes assets that:

- (a) were commissioned prior to the Commencement Date;
- (b) were commissioned after the Commencement Date but before the Development commenced; and
- (c) are commissioned, or are to be commissioned, after the Development commences.

**Capital Charge** means the Present Value of Assets.

**Capital Costs** means the return on and of capital (depreciation).

**Central Coast Council** means the Council by that name under the *Local Government Act 1993* (NSW).

[Note: The former Gosford City Council and Wyong Shire Council were amalgamated to form Central Coast Council in 2016.]

**Commencement Date** means the date on which this determination commences, under clause 2 of the Preliminary section of this determination.

**Comparison Price** means the maximum price for connecting a New Development to a System that applied immediately prior to the commencement of a remade DSP.

**Council** has the meaning given under the *Local Government Act 1993* (NSW).

**CPI** means the consumer price index, All Groups index number for the weighted average of eight capital cities as published by the Australian Bureau of Statistics; or, if the Australian Bureau of Statistics does not publish or ceases to publish the index, then CPI will mean an index determined by IPART.

**Determination Services** means the services set out in clause 1.1 of the Preliminary section of this determination.

**Development** has the meaning given under section 1.5 of the *Environmental Planning and Assessment Act 1979* (NSW).

**Development Servicing Plan** or **DSP** means a document registered by IPART under clause 2(e) of Schedule 4.

**Developer** means a person carrying out, or intending to carry out, Development.

**Discount Rate** means a discount rate specified in clause 1 of Schedule 5.

**DSP Area** means, in relation to a DSP, that part of an Agency's Area of Operations that is covered by that DSP.

**Equivalent Tenement** has the meaning given in clause 3 of Schedule 5.

**Excluded Assets** means:

- (a) that part of an asset provided for a reason other than to service a growth area;
- (b) that part of an asset that services other DSP Areas;
- (c) the capacity of an asset that was made available by changes in land use patterns, or by changes in average demand;
- (d) any asset or part of an asset that was unreasonably oversized relative to system and capacity requirements, based on available demographic data at the time it was commissioned;
- (e) any Pre-1970 Assets; and
- (f) any asset or part of an asset funded by Developers and transferred free of charge to the Agency.

**Exhibition Period** means the period of at least 30 days prior to an Agency adopting a DSP, as referred to in clause 2(a)(1) of Schedule 4.

**Existing Property** means a property which requires a New Connection or an Upgraded Connection to a System, otherwise than because of New Development in respect of it.



**Extension** means the construction of an additional component, or components, of a System.

**GST** means goods and services tax payable under the *A New Tax System (Goods and Services Tax) Act 1999* (Cth).

**Hunter Water** means the Hunter Water Corporation constituted under the Hunter Water Act.

**Hunter Water Act** means the *Hunter Water Act 1991* (NSW).

**IPART** means the Independent Pricing and Regulatory Tribunal of New South Wales established under the IPART Act.

**IPART Act** means the *Independent Pricing and Regulatory Tribunal Act 1992* (NSW).

**MEERA** means Modern Engineering Equivalent Replacement Asset, which is an asset value calculated on the basis that the asset is constructed at the time of valuation in accordance with modern engineering practice and the most economically viable technologies, which provides similar utility functions to the existing asset in service.

**Negotiated Services Agreement** means a written agreement between an Agency and a Schedule 1 Customer:

- (a) under which that Agency agrees to supply a Schedule 1 Service to that Schedule 1 Customer at a price that is not a maximum price fixed in accordance with the methodology for fixing a maximum price set out in Schedule 1 of this determination for that Schedule 1 Service; and
- (b) which is entered into after the Commencement Date.

**Net Present Value** or **NPV** means the difference between two Present Values (for example, the difference between the Present Value of revenue and the Present Value of costs).

**New Connection** means:

- (a) a connection of a property to a System enabled by an Extension, where that property was previously not connected to that System; and
- (b) for the avoidance of doubt, excludes a reconnection of an existing service, for example (and without limitation) after a period when a service is disconnected or restricted by an Agency due to non-payment.

**New Development** means a property which requires connecting to a System, because of new Development in respect of it, but excludes any Development in respect of which Planning Approval has been issued before the Commencement Date.

**Nil Developer Charges Policy** means the NSW Government's December 2008 decision to abolish Sydney Water and Hunter Water's developer charges for water,

wastewater and stormwater services, implemented by the Treasurer's directions dated 18 December 2008 under section 18(2) of the IPART Act.

[Note: Under this policy, Sydney Water and Hunter Water retain the ability to recover from developers the cost of servicing development that is not consistent with planning policies of NSW's development program.]

**Nil Developer Charges Policy Change Day** means the date in respect of which the NSW Government notifies IPART that it has altered its Nil Developer Charges Policy to allow non-zero developer charges by Sydney Water and Hunter Water.

**Planning Approval** means:

- (a) a compliance certificate, which may be issued by Sydney Water pursuant to section 73 of the Sydney Water Act;
- (b) a compliance certificate, which may be issued by Hunter Water pursuant to section 50 of the Hunter Water Act;
- (c) a certificate of compliance, which may be issued by Central Coast Council under section 307 of the Water Management Act; or
- (d) a development consent, which may be issued by Central Coast Council pursuant to section 4.46 of the *Environment Planning and Assessment Act 1979* (NSW) where that development consent incorporates relevant water and sewerage charges and conditions in accordance with section 306 of the Water Management Act.

**Post-1996 Assets** means Assets that were commissioned (brought into working condition) on or after 1 January 1996 or that are yet to be commissioned.

**Pre-1970 Assets** means Assets that were commissioned (brought into working condition) before 1 January 1970.

**Pre-1996 Assets** means Assets that were commissioned (brought into working condition) before 1 January 1996.

**Pre-existing Annuity Arrangement** means an arrangement under one of the determinations named in clause 4 of the Preliminary section of this determination:

- (a) under which a customer of an Agency is to pay for a Determination Service in instalments; and
- (b) which was in effect immediately before the Commencement Date.

**Present Value** or **PV** has the meaning given in clause 8 of Schedule 5.

**Prevailing Periodic Determination** means:

- (a) in respect of Sydney Water, Determination No. 5 of 2016 or a determination that substantially replaces it from time to time;
- (b) in respect of Hunter Water, Determination No. 4 of 2016 or a determination that substantially replaces it from time to time; and

(c) in respect of Central Coast Council, Determinations No. 2 and No. 3 of 2013 or a determination that substantially replaces them from time to time.

**Real Pre-tax WACC** has the meaning given in clause 1 of Schedule 5.

**Real Terms** means a value of a variable that has been adjusted for change in the purchasing power of money by a CPI adjustment.

**Recycled Water** means water that has been treated to enable its use for certain industrial, commercial and/or household applications, but is not intended to meet the standards for drinking water required by the National Health and Medical Research Council's Australian Drinking Water Guidelines, as amended from time to time.

**Recycled Water System** means a system for the supply of Recycled Water.

**Reduction Amount** has the meaning given in clause 6 of Schedule 5.

**Schedule 1 Customer** means a customer of an Agency in respect of a Schedule 1 Service.

**Schedule 1 Service** means the service of connecting a New Development in a DSP Area to a System.

**Sydney Water** means the Sydney Water Corporation constituted under the Sydney Water Act.

**Sydney Water Act** means the *Sydney Water Act 1994* (NSW).

**System** means any of the following operated by an Agency:

- (a) a water supply system;
- (b) a sewerage system; and
- (c) a drainage system.

**Upgraded Connection** means the replacement or upgrade of an existing connection of a property to a System to improve performance, for example (without limitation) to improve flow or pressure in respect of the connection for firefighting purposes.

**Water Management Act** means the *Water Management Act 2000* (NSW).

**Water Supply Authority** has the meaning given under the Water Management Act.

## 2 Interpretation

### 2.1 General provisions

In this determination:

- (a) headings are for convenience only and do not affect the interpretation of this determination;
- (b) a reference to a schedule, clause or table is a reference to a schedule to, clause of, or table in, this determination unless otherwise indicated;
- (c) a construction that would promote a purpose or object expressly or impliedly underlying the IPART Act is to be preferred to a construction that would not promote that purpose or object;
- (d) words importing the singular include the plural and vice versa;
- (e) a reference to a law or statute includes regulations, rules, codes and other instruments (including licences) under it and consolidations, amendments, reenactments or replacements of them or of the law or statute itself;
- (f) where a word is defined, other grammatical forms of that word have a corresponding meaning;
- (g) a reference to a month is to a calendar month;
- (h) a reference to a financial year is a reference to a period of 12 months beginning on 1 July and ending on the following 30 June;
- (i) a reference to a person includes a reference to the person's executors, administrators, successors, substitutes (including, but not limited to, persons taking by novation), replacements and assigns;
- (j) a reference to a body, whether statutory or not:
  - (1) which ceases to exist; or
  - (2) whose powers or functions are transferred to another body;
 is a reference to the body which replaces it or which substantially succeeds to its powers or functions.

## 2.2 Explanatory notes and clarification notice

- (a) Explanatory notes do not form part of this determination, but in the case of uncertainty may be relied on for interpretation purposes.
- (b) IPART may publish a clarification notice in the NSW Government Gazette to correct any manifest error in this determination. Such a clarification notice is taken to form part of this determination.

## 2.3 Maximum prices exclusive of GST

Prices calculated in accordance with the methodologies set out in the determination do not include GST.

## Schedule 8 Statement of reasons for setting a methodology

### 1 Legislative framework

Under section 13A of the IPART Act, IPART may not choose to make a determination that involves setting the methodology for fixing a maximum price, unless IPART is of the opinion that it is impractical to make a determination directly fixing the maximum price.

If IPART makes a determination that involves setting the methodology for fixing a maximum price then it must include a statement of the reasons why it chose to set a methodology.

### 2 Statement of reasons

In this determination, IPART has set methodologies for fixing the maximum prices that Agencies may charge for Determination Services. IPART's reasons for setting methodologies for fixing the maximum prices for these services, rather than directly fixing maximum prices, are set out in this Schedule.

IPART has determined a methodology for fixing maximum prices because it would not be possible for IPART to cover the required diversity of Determination Services through a fixed maximum price. This is because connection charges are levied to recover water infrastructure costs incurred to service a large variety of developments.

Developers include the prices for Determination Services in their planning and investment decisions and require a rapid response when applying for an assessment of charges. If Agencies had to return to IPART each time they received an application for an assessment of maximum prices for Determination Services, unworkable delays could result as IPART would have to devote considerable time and resources to mechanically calculating such prices. IPART considers it preferable that this work be completed by the Agencies.

In addition, IPART has chosen to set methodologies for fixing maximum prices in order for the prices to more closely reflect the costs of providing the Determination Services. The costs of providing the Determination Services vary between Agencies and within each Agency's Area of Operations. If IPART fixed a single maximum price for each of the Determination Services, then customers may end up paying significantly more than the cost of providing the service in some cases and significantly less than the cost of providing the service in other cases.

Alternatively, if IPART were to determine more specific maximum prices for different areas then it would risk selecting areas that do not result in cost reflective prices. If IPART chose areas that are too small then there may be undue price variations between areas. On the other hand, if IPART were to choose areas that are too large then costs may be inappropriately averaged over disparate areas. We consider that the maximum price for the Determination Services should reasonably reflect the location-specific costs of development. Since Agencies are best placed to determine the appropriate scope of a DSP, we consider that the methodologies employed in the determination are more likely to reflect the cost of providing the service than if IPART determined prices directly.

In addition, costs may change over time and the methodologies and review processes in this determination allow for revisions to the maximum price for Determination Services without requiring changes to the determination. For this reason, we consider that setting methodologies, as opposed to directly fixing maximum prices, is more appropriate in this case.