

Draft Report - Review of developer charges and backlog charges for metro water utilities

25 June 2018



WHAT

IPART is reviewing water, sewerage and stormwater developer charges, backlog sewerage charges and other connection charges for Sydney Water, Hunter Water and the Central Coast Council.

The review excludes developer charges for recycled water.

We have released a Draft Report and Draft Determination and invite stakeholder feedback.



WHY

Through several determinations, IPART has regulated the charges that Sydney Water, Hunter Water and the Central Coast Council can levy for connecting existing or new properties to their supply systems.

- ▼ We set the current **developer charges** methodology for Sydney Water, Hunter Water and the Central Coast Council in our 2000 Determination. We updated elements of the 2000 methodology for the Central Coast Council in our 2013 Determination.
- ▼ We last set the **backlog sewerage charges** methodology in 1997 for Sydney Water, Hunter Water and the Central Coast, and updated it in 2006 for some areas in the Central Coast Council.
- ▼ We set a methodology for **minor service extension charges** in our 2016 Determination of Sydney Water's retail prices.

We have reviewed all these methodologies and combined them in a single Draft Determination.



WHO

Our Draft Determination would regulate the prices that Sydney Water, Hunter Water and the Central Coast Council can charge to developers and existing properties to connect, extend or upgrade a service.

In 2008, the NSW Government set Sydney Water and Hunter Water's developer charges to zero. Our review will not impact this decision, but will impact developer charges on the Central Coast where the Council levies these charges in accord with our determination.



HOW

Our Draft Report explains our draft decisions and our methodology to set maximum prices to connect, extend or upgrade a service for the water utilities.

We seek stakeholder comments on our draft recommendation and decisions.

We will release our Final Report and Determination in October 2018.



WHAT NEXT

Submissions are due by **6 August 2018**.

We prefer submissions via our online [form](#). You can also send comments by mail to:

Review of developer charges and backlog sewerage charges

Independent Pricing and Regulatory Tribunal
PO Box K35
Haymarket Post Shop NSW 1240

Unless identified as confidential, we plan to publish all submissions on our website soon after the closing date.

OVERVIEW OF OUR DRAFT DECISIONS

Single methodology to calculate costs of a new connection

Our draft methodology for new connections to new developments is based on the current developer charges methodology. The methodology remains sound, subject to:

- ▼ updating its parameters to ensure ongoing currency
- ▼ amending it to preclude negative prices, and
- ▼ making its procedural requirements more flexible.

Procedural requirements to be more responsive

The procedural requirements accompanying the developer charges methodology remain largely unchanged, except for:

- ▼ allowing more flexibility in the Development Servicing Plan (DSP) review period
- ▼ suspending DSP review requirement while the zero developer charges policy is in place, and
- ▼ allowing a transition period of up to 18 months, in the event the zero developer charges policy is removed.

Voluntary opt-outs enable win-win agreements

Utilities and developers can opt-out of the determination through bilateral agreements, subject to the utility ring-fencing its unregulated costs and revenues.

Connections to existing properties create similar costs, sometimes shared

The costs of a new connection to a new development and of a new connection to an existing property are similar. The charges under our draft determination would reflect the costs of the utilities providing these connections, however:

- ▼ There may be cases where the cost of connection should be shared between connecting customers and other parties (eg, due to positive environmental or health externalities).
 - We would assess these departures from the standard methodology on a case-by-case basis.
 - This assessment would be proportionate to the size of the scheme.
- ▼ An annuity payment option is provided for connecting an existing property, to address potential affordability concerns.
- ▼ Existing backlog sewerage charges and minor service extension charges are grandfathered.

Upgrade of services to existing properties for firefighting

Our draft decision would set a new charge for a voluntary upgrade of services to existing properties. This is aimed at reducing the costs of meeting fire standards for existing properties. It would:

- ▼ provide a way to fund infrastructure upgrades in built-in areas, to increase water pressure and flow for firefighting, and
- ▼ share upgrade costs between existing properties (on a voluntary basis) and new developments.

SWDD Sydney Water Developer Direct

- ▼ In response to stakeholder submissions, we considered the services provided by Sydney Water through SWDD. Our draft decision is to defer regulating SWDD's construction services until the 2020 Sydney Water periodic price determination.
- ▼ At the next periodic price review in 2019-20, we will review Sydney Water's ring-fencing arrangements to ensure that its wider customer base is not paying for any costs of SWDD.