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Independent Pricing & Regulatory Tribunal
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Dear Sir

Submission on IPART Review of DEUS Developer Charges Guidelines for Water Supply, Sewerage and Stormwater

The Shoalhaven Water Group of Shoalhaven City Council is a Local Water Authority operating under the Local Government Act and thus regulated by the Department of Energy Utilities and Sustainability, now renamed the Department of Water and Energy.

Shoalhaven Water is the largest LWA in NSW with some 45,000 connections and growing at approximately 1½% -2% per annum. Water supply and sewerage services are provided to approximately 40 towns and villages from Berry in the north to Tabourie Lake in the south, a distance of over 100 kilometres. There are three water supply schemes – two schemes serving 98% of the area are interlinked in a way that is quite complex. There are 12 sewerage schemes with an additional 2 schemes that will be developed in the next few years.

The Council has implemented Developer Charges undertaken in accordance with the guidelines with phasing in over a 3 year period. The Council applied a single Developer Charge across the City (by agglomeration). The Council saw advantage in agglomeration for a single charge across the City and provide consistency and certainty to the development industry, particularly where excessive calculated charges would have serious consequences on Developers previous investment decisions.

The following comments are provided in response to the Water – Issues Paper April 2007:

1.1 Impetus for the review

It is obvious that the Issues Paper has been developed by pressure from the development industry, understood to be from a particular conflict with the DEUS guidelines. The guidelines have been developed for LWA's operating under the Local Government Act and understanding the variability of the 100 plus Councils in New South Wales. These vary from very small to 45,000 connections, all in various stages of development (e.g. Shoalhaven has a large percentage of new sewerage infrastructure with high levels of debt), asset capacity and condition, economies, growth, climate and topography. This

operating environment is totally different to the IPART regulated areas from Sydney to Newcastle being totally metropolitan, unlike the rural and coastal nature of LWA's.

The guidelines provide a flexibility that is essential to LWA's operating in this climate and it is essential to maintain flexibility to accommodate this. Notwithstanding, there is opportunity to improve the consistency of applying the guidelines and will be the main impetus of this submission.

3.1 Simplicity

The various methods permitted within the guidelines can add unnecessary complexity. Section 2.4.1 dot point 2 states LWA's must "apportion assets that service more than one DSP area". This can be difficult as in Shoalhaven's case with the water supply system is substantially interlinked. Trying to break down different components for different areas can make the calculation of the capital charge very difficult. In Shoalhaven's case it would be more appropriate to keep it as one system supplying all the DSP areas and "share" the capital across all the DSP areas.

The simplicity of agglomerated DSP's does provide certainty and consistency to developers and ease of administration.

3.2 Transparency

Shoalhaven has provided all data requested by developers and their consultants for review. However time and resource constraints may have lead to some LWA's not being able to provide their information for comment by the development industry or providing incomplete/inaccurate information.

3.3 Consistency of charging across NSW

A common approach will provide consistency, but there will be cases where this may not be appropriate and such areas will need to justify any deviation. One area which needs to be consistent is in the calculation of the loading on the system, ie the calculation of the ET's by a specific development. The NSW Water Directorate has prepared guidelines for the calculation of an ET for a range of development types. This document should be considered by DWE for implementation with the guidelines.

The guidelines could also provide details of design parameters for various assets where they are not readily available. Perhaps the Water Services Association of Australia design codes could be a starting point.

3.4 Cost reflectivity

Shoalhaven Council's full DC is in similar order to DC's by the surrounding LWA's. Council's main reason for phasing in the DC's was to lessen the impact on developers. LWA's should have the opportunity to balance developer and periodic charges for the reasons of variability across NSW LWA's as previously commented.

3.5.1 Treatment of cross-subsidies from existing development

The extent of cross-subsidies should be disclosed to ensure transparency for the developer, local residents and future users.

3.5 Regulatory oversight

More information needed. What is the problem? Some examples would assist.

3.6 Developer Charges for Non-Residential Development

The Water Directorate has prepared guidelines for the calculation of an ET for a type of development. This document should be considered by DWE for implementation with the guidelines.

4.1 Which assets should be included in developer charges?

4.1.1 Pre-1970 assets

Cost of pre-1970 assets should be permitted to be included as long as the cost of the asset has not been fully recovered. Where there is available capacity and the cost of the asset has not been fully recovered then that portion of the cost should be included. If MEERA is used for post-1970 assets then why should it not be used for pre-1970 assets?

4.1.2 Future Assets

Where an LWA has undertaken in-depth planning assessment of areas for future development and has taken into consideration economic, social and environmental impacts and has robust growth forecasts, then a 20 or 30 year planning horizon is appropriate. One of the reasons for having such a planning horizon is that future development areas need to be rezoned and such processes can take between 5 to 10+ years to achieve and a similar time for planning and creation of infrastructure to serve this. This scenario provides a degree of certainty to the development industry, contrary to the perceived view of some. Also bearing in mind the DSP is reviewed every 5 years that can adjust to the most recent census, infrastructure and valuation data.

4.1.3 Definition of system assets

It is necessary to take into consideration what the main purpose of the infrastructure is at the time of investigation/planning. If its main reason is to support a specific development and no other then their may be grounds not to include it in the DSP.

Where infrastructure is at the time of investigation/planning proposed to support more than one development area then it should be included in the DSP. Relying on asset size may distort the intention of the asset.

4.1.4 Assessing the capacity of assets

a) A single set of design parameters throughout the state would provide consistency of charging across NSW. Local design parameters should also be permitted where local conditions dictate that these parameters are more appropriate.

A single set of design parameter would allow a common starting point for all LWA's.

b) In respect of unoccupied dwellings and vacant lots Shoalhaven's position is to include such developments as the assets have been designed to cater for them.

c) Certain infrastructure is designed and built for 'ultimate' capacity such as the civil works for sewage pumping stations and trunk pipelines. This is necessary as it would become a very expensive exercise to site and construct further works in the future or be totally impractical.

Where a LWA has spent funds on infrastructure that has spare capacity and alternative staging options were/are not appropriate then the full cost needs to be included.

These assets are reviewed every 5 years to keep currency.

4.2 Valuation of Assets

More clear information on how to calculate using the MEERA method is necessary.

It is not believed that LWA's are using unreasonable contingency allowances in calculating the cost of an asset. In many cases future works are undertaken through existing developed areas and the need to consider other assets and method/s of works does increase the estimated cost of the infrastructure. It does come down to supply and demand (contract rates), in some instances especially when development is at a high or infrastructure market rates dictate, as is the current scenario in Australia.

As an aide, using local or regional contracts rates can support future estimates, particularly for smaller contracts such as distribution pipelines.

None the less, the asset valuation is review every five years with the review of the DSP's.

4.3 Agglomeration of DSP's

The aim of the agglomeration of the capital charge was so that the number of DSP areas could be reduced. There is merit in this as it gives an even balance for development to take place over the areas that have been agglomerated, and ensures past investment by developers and LWA's is not compromised. For example some areas may become un-affordable in which to develop.

See earlier comments regarding local economic, social and environmental conditions over the 100+ LWA's across the state.

Also the scale of the Non Metropolitan water industry is small in comparison with the IPART regulated Metro's.

4.4 Calculation of the capital charge where lot take up is non-uniform

Lot take up is always non-uniform. Shoalhaven has used a ROI approach in 5 year and 10 year increments to reflect this. The uniform lot take up and ROI approach is an easier method to understand and calculate.

There is no reason to change the guidelines in line with the IPART methodology.

4.5 Calculation of the reduction amount

It is very difficult to understand the IPART methodology described in the Issues Paper. It appears that changing the calculation of the reduction amount under the guidelines to the Tribunal's methodology will **substantially** increase the complexity of the calculation and thereby do away with simplicity.

4.6 Equivalent Tenements

The NSW Water Directorate has prepared guidelines for the calculation of an ET for a type of development. The guidelines also define what an ET is. This document should be considered by DWE for implementation with the guidelines.

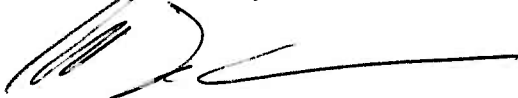
Council's Planning Department has responsibility for forecasting of new development across the city in collaboration with the NSW Department of Planning.

Summary

There are opportunities to simplify the DWE Guidelines particularly using common design and ET parameters. Consistency and simplicity is essential but not at the expense of flexibility and practicability for the highly variable non metropolitan LWA's.

Shoalhaven looks forward to discussing these issues at the public workshop in Nowra.

Yours faithfully



Bill Tomkinson
Acting Director Shoalhaven Water