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Mr B. Koizumi-Smith

20 August 2008

Mr James Cox
Chief Executive Officer and Full Time Member
Independent Pricing and Regulatory Tribunal
PO Box Q290
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DRAFT REPORT AND DETERMINATION ON REVIEW OF DEVELOPER CHARGES FOR METROPOLITAN WATER AGENCIES

Dear Mr Cox

I refer to the release for review of the draft Report and Determination on Review of Developer Charges for Metropolitan Water Agencies. I am pleased to provide the following comments for the Tribunal's consideration.

Council supports the Tribunal's objectives of reviewing and updating the *2000 Determination* to reflect changes in the water industry and in response to concerns raised by stakeholders. Council also supports the objective of making the process simpler and clearer for customers.

In summary, Council believes the draft determination and report represent significant progress towards these objectives and should improve consistency in the application of the methodology between the metropolitan water agencies. It is noted that the Tribunal continues to support the principle of full cost recovery and that developer charges provide appropriate economic signals to mitigate against the development of marginal areas at the cost of the wider community.

Council provides the following specific comments for the Tribunal's consideration:

Draft Decision 1: Assets that will be more than 30 years old at the date of review of a DSP or the introduction of a new DSP must be excluded from the capital charge.

Council supports the principle that assets should be excluded as capacity is exhausted

Council is however concerned with the arbitrary 30 year rolling forward of the assets to be included. Head and tail works infrastructure, such as dams and treatment facilities, are often.



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constructed with capacity designed to meet future demand. The rate of development, and thus demand, is outside of the control of the water agencies and under the draft principle, the water agency could be penalised if demand, and therefore developer charges, do not materialise at the intended rate and the capacity to recover costs is lost as the asset falls outside of the 30 years timeframe.

Council suggests that where assets have been designed with a known capacity, agencies can continue to recover a developer contribution until the capacity is exhausted, even where it may be beyond the 30 years timeframe.

Draft Decision 2: Only future assets to be constructed within five years of the commencement of a DSP are to be included in the capital charge, and in order to gain an exemption from this five year rule, water agencies must demonstrate to the satisfaction of IPART when forecast.

Future assets within the higher growth areas and also the headworks and tailworks are currently included where identified. The timeframes substantially exceed five years and are viewed as realistic.

Under the draft decision, agencies could chose to avoid optimising systems to accommodate growth in the short term fearing the risk of missing developer charges. This could potentially increase operating costs for the wider community as new assets are brought online sooner rather than optimising the operation of existing systems until such times as the additional capacity is required.

The removal of assets beyond five years has the potential to produce lumpy changes in developer charges between Developer Servicing Plan reviews. Council believes this uncertainty will not provide customers with sufficient clarity in considering investments decisions.

As its stands, the Tribunal's draft decision requires the Tribunal's agreement to include assets beyond the five year window. Further information on the process and the nature of information required is needed.

Alternatively, Council argues that the cost of identified future assets to accommodate development be included in the developer charges where these assets identified in its servicing strategies and augmentation plans and a clear nexus is substantiated.

Council thanks the Tribunal for the opportunity to participate in the review and provide comment on its draft report and determination. I would be pleased to discuss any aspects of the comments provided.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Brett Koizumi-Smith', with a long horizontal stroke extending to the right.

Brett Koizumi-Smith
Manager Regulatory Services