

INDEPENDENT PRICING AND REGULATORY TRIBUNAL

REVIEW OF DEVELOPER CHARGES AND BACKLOG SEWERAGE CHARGES  
FOR METROPOLITAN WATER AGENCIES

Tribunal Members

Dr Peter Boxall AO, Chairman  
Mr Ed Willett and Ms Deborah Cope, Members

Members of the Secretariat

Mr Hugo Harmstorf, Mr Matthew Edgerton,  
Ms Alexandra Sidorenko, Ms Syvilla Boon and Ms Erin Cini

At the Adina Apartment Hotel Sydney Central  
2 Lee Street, Haymarket NSW 2060

On Tuesday, 6 March 2018, at 9.30am

1 THE CHAIRMAN: Good morning, everyone. I would like to  
2 welcome you to this public hearing. We are conducting a  
3 review of developer charges, backlog sewerage charges, and  
4 other related charges that can be levied by Sydney Water,  
5 Hunter Water and the Central Coast Council.  
6

7 My name is Peter Boxall and I am Chair of the New  
8 South Wales Independent Pricing and Regulatory Tribunal -  
9 IPART. I am joined today by my fellow tribunal members,  
10 Ed Willett and Deborah Cope. Assisting the tribunal today  
11 are members of IPART's secretariat, Hugo Harmstorf, who is  
12 the CEO, Matthew Edgerton, Erin Cini, Alexandra Sidorenko  
13 and Syvilla Boon.  
14

15 I would like to begin by acknowledging that we are  
16 meeting on the Gadigal land of the Eora people and wish to  
17 pay my respect to the traditional custodians of that land  
18 and elders both past and present.  
19

20 Also I would like to thank those who provided a  
21 written submission in response to our issues paper for this  
22 review, which we released in October 2017. Our issues  
23 paper set out the key matters we will consider as part of  
24 the review.  
25

26 Our issues paper and the submissions to the paper are  
27 available to the public on our website.  
28

29 This public hearing is a very important part of our  
30 consultation process for this review. In addition to the  
31 views expressed in written submissions, we will consider  
32 the views you provide today in making our decisions on  
33 developer charges, backlog sewerage charges and other  
34 related charges.  
35

36 Following this public hearing, we will release a draft  
37 report and draft determination for public comment in June  
38 2018. Stakeholders will then have about four weeks to make  
39 further written submissions for consideration by the  
40 tribunal before we make our final decision. A final report  
41 and determination will be released in September 2018.  
42

43 Since 2008, water, sewerage and stormwater development  
44 charges for Sydney Water and Hunter Water have been set to  
45 zero, in line with a decision by the then New South Wales  
46 government.  
47

1           This review provides us with an opportunity to review,  
2 and, where necessary, update the current "active" developer  
3 charges determination for the Central Coast Council, which  
4 was not subject to the government's 2008 decision to set  
5 developer charges to zero.

6  
7           At the same time, as a housekeeping measure, we will  
8 also review and, where necessary, update Sydney Water and  
9 Hunter Water's developer charges determinations. This will  
10 mean that these determinations are up to date and  
11 consistent with the Central Coast determination, in the  
12 event the government were to change the 2008 decision.

13  
14           This review also allows us to update our  
15 determinations on backlog sewerage charges. These charges  
16 recover the capital costs of supplying reticulated sewerage  
17 services to existing properties in previously unsewered  
18 areas.

19  
20           We are also reviewing a number of other capital  
21 charges that relate to or use similar methodologies to  
22 developer charges including Hunter Water's potential major  
23 service connection charge, Sydney Water's minor service  
24 extension charge, and Sydney Water's "Developer Direct"  
25 charge.

26  
27           As part of this particular investigation, we will not  
28 review Sydney Water, Hunter Water and Central Coast's  
29 developer charges for recycled water. Rather, we plan to  
30 review these recycled water developer charges - along  
31 with our approach to regulating public water utilities'  
32 recycled water prices in general - after the government has  
33 completed its review of the barriers to cost-effective  
34 recycled water initiatives.

35  
36           Before we commence proceedings today, I would like to  
37 say a few words about the process of this hearing.

38  
39           We will commence today with three short presentations  
40 from the water utilities - Sydney Water, Hunter Water and  
41 the Central Coast Council. The hearing will then be  
42 divided into three sessions.

43  
44           The first session will address the developer charges  
45 methodology and procedural requirements.

46  
47           The second section session, which is scheduled to

1 occur after the tea break, will consider the backlog  
2 sewerage methodology.

3  
4 The third session will consider other capital charges  
5 and related issues including Sydney Water's minor service  
6 extension charge and Hunter Water's proposed major service  
7 connection charge, Sydney Water's Developer Direct charge,  
8 and the impact of developments on water pressure and  
9 firefighting capacity.

10  
11 There will also be an opportunity to hear your views  
12 on any other issues you wish to raise that are relevant in  
13 this review.

14  
15 Within each section, we will discuss several topics.  
16 A member of the IPART secretariat will give a brief  
17 presentation introducing each topic. I will then invite  
18 participants at the table to provide comments on those  
19 topics. Following discussion by those around the table,  
20 I will then invite comments from those in the general  
21 audience.

22  
23 Today's hearing will be transcribed. Therefore, to  
24 assist the transcriber, I ask that you please identify  
25 yourself and, where applicable, your organisation, before  
26 speaking. I also ask that you please speak clearly and  
27 loudly. A copy of the transcript will be made available on  
28 our website.

29  
30 We commence today with short presentations from the  
31 water utilities - Sydney Water, Hunter Water, and Central  
32 Coast Council. First, Sydney Water.

33  
34 MR PHILIP DAVIES (Sydney Water): Thank you, Mr Chairman.  
35 I am going to make some fairly high-level opening comments  
36 by way of starting proceedings.

37  
38 I think our overall sentiment on the IPART  
39 consultation is that the developer charging methodology you  
40 have presented and the suggestions you make about it are  
41 broadly sound and we do not see a need for fundamental  
42 reform.

43  
44 Having said that, we think there may, at the margin,  
45 be scope to simplify some aspects of the methodology and  
46 perhaps think about a methodology that moves somewhat  
47 towards a more zonal approach to charging. There is

1 often, we think, a trade-off between simplicity in the user  
2 experience and charging versus achieving accuracy and  
3 sending a precise economic signal.  
4

5 Thinking back to when we last did have developer  
6 charges, we recognise that developers did not like the  
7 outcomes from that methodology. There was a perception  
8 that they were unfair and arbitrary and not easily  
9 understood. In the event that there were to be charges  
10 again in the future, it may be possible to achieve most of  
11 the benefits of cost-reflective charging without some of  
12 those perceived downsides of apparent unfairness -in other  
13 words, to gain the benefits of price signalling but without  
14 some of the perceptions about arbitrary prices.  
15

16 If that were to happen, if we were to move back to  
17 that world of charging, then there might be better  
18 aligned developer charging. For example, there might be  
19 scope to look at how cost-reflective charging aligns with  
20 preferred growth areas and government plans for expansion  
21 of housing and infrastructure.  
22

23 We agree that the charging for recycled water and  
24 charging for stormwater should be reviewed together as part  
25 of a more holistic review of the infrastructure.  
26

27 On the current policy, we recognise that government  
28 has a range of social, economic and infrastructure policies  
29 in place to support growth and promote housing  
30 affordability, and that's zero developer charges. In that  
31 light, we support the government's drive to improve housing  
32 affordability. We recognise this consultation is not about  
33 that principle. This is a sort of policy matter for  
34 government to decide, and the current policy is no charges.  
35

36 Having said that, developers charges do exist in some  
37 form in most parts of Australia, and there are some  
38 arguments, but it is generally a good thing. We do  
39 understand that different costs will be incurred in  
40 different locations, and this can, in some circumstances,  
41 help get a better outcome for the customers. Customer  
42 bills will be higher without those developer charges,  
43 and it might also lead to the better cost-reflective  
44 delivery of growth over time in certain locations. Those  
45 are just some opening points and ---  
46

47 MR KESSEN: Could I comment that the people at the back

1 cannot hear.

2

3 THE CHAIRMAN: Is there anything in particular you'd like  
4 Philip, to recapture now that he has the microphone?

5

6 SPEAKER FROM THE FLOOR: We could not hear him.

7

8 THE CHAIRMAN: It was quite a good argument. I am sure we  
9 will get another opportunity, but thank you very much.  
10 Thanks, Philip. Now we will move on to Hunter Water,  
11 Peter.

12

13 MR PETER SHIELDS (Hunter Water): With developer charges,  
14 our starting point was to go back to the 2008 review. Some  
15 things have changed, but many of the key parts of the  
16 regulatory framework haven't. Overall, we support IPART's  
17 general approach as it exists in the 2000 determination,  
18 the methodology, IPART's guidance and the key process  
19 steps.

20

21 We do have people in the organisation who are involved  
22 in implementing the developer charges determination and  
23 implementing the treasurer's direction, so we do have some  
24 lessons learnt. The key one is those people do not want to  
25 be involved in any reintroduction of developer charges.  
26 The key thing is that granularity leads to complexity, and  
27 it leads to costs with little offsetting benefit.

28

29 I will also touch on backlog schemes. Unlike the  
30 Central Coast and Sydney, we do have a long list of  
31 outstanding backlog schemes.

32

33 Hunter Water agrees that the methodology is the best  
34 practical means of calculating charges. We support IPART's  
35 incremental approach that places a value on past investment  
36 plans with growth in mind. We support the steps in the  
37 process, with IPART setting principles for these key areas,  
38 allowing each utility to exercise engineering judgment, the  
39 public exhibition and comments stage, and the complaints  
40 resolution process. We also support IPART's position on  
41 most of the parameters - the historic period, the WACC, the  
42 customer consumption and the like.

43

44 Not to be outdone on the planning front, there is now  
45 the Greater Newcastle Metropolitan Plan that largely covers  
46 our area of operation. It projects population growth and  
47 identifies growth settings and urban renewal corridors. At

1 the start of this year, Hunter Water published its  
2 inaugural growth plan. We have mapped the likely locations  
3 of approved new development in both residential and private  
4 land, showing the likely timing of that development. The  
5 key point to note is that 40 per cent of the new growth in  
6 Lower Hunter is happening in greenfield areas.

7  
8 We know where the development is likely to occur. We  
9 have a good understanding of the likely costs and those  
10 costs vary materially. It is almost always about the cost  
11 of sewerage services.

12  
13 Hunter Water always recovers its prudent and efficient  
14 costs in some way, but we do see benefit in encouraging  
15 efficient development by signalling the location of the  
16 cost of service provision. The method does place a value  
17 on the existing systems and it does signal the additional  
18 cost of augmenting the system to cater for further growth.

19  
20 The New South Wales government has made a policy call  
21 on the distribution of sharing of infrastructure costs and  
22 the treasurer's direction stands. The point to note is  
23 that the developer charges regime, by netting contributions  
24 from the RAB, does place downward pressure on retail prices  
25 for existing customers.

26  
27 We can say that some developers were not opposed to  
28 the developer charges regime in the Hunter, as these fees  
29 gave them information about our system and our investment  
30 plan, and the payment of a developer charge gave them  
31 assurance on capacity. In effect, developers saw the  
32 payment of a developer charge as purchasing a right to  
33 access our system at a point in time.

34  
35 The other key feedback we got from developers was  
36 stability in charges. That was important for them,  
37 particularly given the long lead times - seven, ten-year  
38 lead times - in planning major urban developments.

39  
40 This is just a quick snapshot of the developer charges  
41 as they existed in 2008. You had the single headworks  
42 charge covering raw water sources, water treatment and  
43 headworks; delivery, 18 network supply charges based on the  
44 nexus with the development, so 18 developer charges at an  
45 average of about \$900 to \$1,000 and a maximum of \$3,500 -  
46 that is, 2018 dollars. You can see on this slide that  
47 there are a couple of developer charges on the extremes of

1 our system that were well higher than the average.

2  
3 There a lot more wastewater DSPs. There were 59 DSPs  
4 that were combined with the 37 developer charges - an  
5 average of \$6,500 and a maximum of \$34,000 in today's  
6 dollars. That one is Karuah. That is a good example. It  
7 is on the Karuah River. There are oyster leases. Again  
8 that was signalling the cost of meeting DAs in that  
9 location.

10  
11 Hunter Water's previous approach was to bundle water  
12 in operational zones and wastewater sub-catchments with  
13 charges for relevant treatment plants, headworks and  
14 tailworks DSPs. In all, we have more DSPs than Sydney  
15 Water has. Smaller DSP areas lead to a tighter asset nexus  
16 and more cost-reflective charges, but they are also more  
17 sensitive to changes in developer-related capital  
18 expenditure and development rates, and this undermines the  
19 call for stability and simplicity for developers.

20  
21 WSAA makes a number of good points in its submission;  
22 namely, that methodologies that relies on specifying  
23 exactly what infrastructure will be built at what time in a  
24 defining area are more open to challenge by developers as  
25 future forecasts will never be completely accurate. Again  
26 there is little gain from the decision and little impact on  
27 the overall signal for investment decisions or on the  
28 quantum of cost sharing.

29  
30 We thought about some ways of rationalising the DSPs,  
31 one for the water supply zone, one for the wastewater  
32 treatment plant, and we think we could probably half them  
33 if the strategy was reintroduced.

34  
35 The backlog sewer map, which is on the right of this  
36 slide, shows the 18 towns and villages across our area of  
37 operation that do not have a reticulated sewerage service.  
38 There are 2,500 properties, about \$55,000 per lot. We  
39 currently have an environmental improvement charge that  
40 raises \$7.5 million to \$8 million per annum and we have a  
41 \$40 levy against all customers.

42  
43 IPART's 1997 determination caps the customer  
44 contribution at \$3,000. Hunter Water sees that it has a  
45 challenge to look at ways or new technologies to enable us  
46 to bring down that \$55,000 per lot number. There may also  
47 be opportunities in some areas for customers to pay on a



1 voluntary basis a greater share if it means getting a  
2 reticulated sewerage service sooner.

3  
4 As an overall comment, we would like to see IPART  
5 revisit the 1997 determination, make it more flexible and  
6 provide the option for all parties - potential customers  
7 and Hunter Water - to mutually agree funding arrangements  
8 potentially under some form of payment arrangement that  
9 enables recovery of costs through time.

10  
11 Our submission sets out detailed responses to most of  
12 IPART's 28 questions in the issues paper and we would be  
13 pleased to participate in discussions today.

14  
15 THE CHAIRMAN: Thank you very much, Peter. Now we move on  
16 to the Central Coast Council, thanks.

17  
18 MR TASS MELI (Central Coast Council): Good morning to the  
19 panel and to members of the public.

20  
21 Firstly, we want to give you a little bit of an  
22 overview of the Central Coast area for those who are not  
23 quite as familiar with us.

24  
25 We provide water, sewer and drainage services to over  
26 320,000 people in the region. That is our Mangrove Creek  
27 Dam, on the left on the slide, and the Wyong South sewerage  
28 treatment plant. We will give you an overview on what we  
29 have prior to getting into the detail of our submission.  
30 We have focused very much on the methods of calculation and  
31 what changes we would like to see there and what we feel is  
32 appropriate.

33  
34 As I have said, there are 320,000 people in the  
35 region. Ours is the thirteenth largest water business in  
36 Australia and the fourth largest regional business. We are  
37 processing something like 2,500 development applications a  
38 year.

39  
40 This slide provides some details on our  
41 infrastructure. I suppose the main point to note there is  
42 that we have something like \$4 billion in water and sewer  
43 assets and \$1.4 billion in drainage assets, and that is a  
44 separate part of the council business. For those who are  
45 not familiar, the water and sewer is done separately from  
46 drainage because that comes under our roads, transport and  
47 drainage area.

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We have grouped the following slides on the categories that IPART put together in the submission with the relevant issue numbers quoted there for clarity.

I suppose the other comment to make is that we are part of an organisation which has a wider responsibility for economic growth in the area. That is probably where we differ a little, strictly speaking, from Sydney Water and Hunter Water. That gives us a little bit more different consideration of the process and where it is currently applying to our area.

We conceptually support the current methodology. We would be in favour of some changes that simplify and improve the transparency and the methodology for all concerned. Some of those suggestions will come through the review presentation.

Firstly, on the issue of capital costs included in the developer charges, it is appropriate that apportionment of the capital costs continues to be included in the calculation of developer charges. I think, also as Peter from Hunter Water mentioned, the methodology should allow us some flexibility to alter that capital cost by periodic reviews. If the need for the infrastructure changes, it will allow some flexibility in the sizing of assets where developments proceed slower or faster than expected, so it will possibly aid in the construction of optimum-sized assets in that case.

All productive assets, regardless of age should be included. We would not support the exclusion of assets over 30 years old. The current methodology, excluding pre-1970 assets, we estimate excludes about 25 per cent of our asset base. If we were to extend this methodology to just 30 years, it would increase that figure to a little over 50 per cent of our asset base. We would concur that assets which are even temporarily or permanently stranded be excluded from the calculations. Given that we also own our headworks assets, we see those things being included as appropriate.

For further assets, we see a ten-year rolling time frame for inclusion of future capital costs as being appropriate. Adding 30 years on top of that just decreases the accuracy, and we see that as having a minimal impact on

1 the overall calculations. To simplify things, we would  
2 like to see that as a ten-year time frame, and we see the  
3 MEERA still as an appropriate basis for inclusion in the  
4 calculation of developer charges.

5  
6 If we had some defined basis for calculating MEERA, we  
7 would see that as an improvement and adding transparency.  
8 We currently use our own budgeting costs plus reference  
9 rates from the former NSW Office of Water to calculate our  
10 MEERA.

11  
12 With regard to the reduction amount, the current  
13 approach is supported. For operating and revenue costs, we  
14 would like to see limited to a ten-year forecast as well,  
15 for similar reasons that we mentioned for capital costs,  
16 just to reduce the administrative burden and keep it to a  
17 time frame which is more definable.

18  
19 In terms of any gifted or third-party funded assets  
20 that we have, whilst the capital costs we accept can be  
21 excluded, we would obviously like the operating costs  
22 associated with those assets to continue to be included.

23  
24 On the issue of discount rates, we support the use of  
25 the pre-tax WACC applied only to the post-1996 assets. We  
26 further support flexibility to adjust the pre-tax WACC in  
27 line with any revisions that IPART conducts in its reviews.  
28 We would support that flexibility.

29  
30 On the issue of equivalent tenements and consumption  
31 forecasts, we see the ET as an appropriate basis for  
32 calculations, and where there are calculations involving  
33 sewerage usage, a discharge factor being applied towards  
34 water usage just to calculate sewer demand, we see as  
35 appropriate.

36  
37 We would support the introduction of a standardised  
38 method for calculating the ETs and the discharge factors.  
39 That would aid consistency and transparency. At the moment  
40 those calculations are left to definitions, as we see it.

41  
42 On the issue of DSP areas, the Central Coast Council  
43 has gone through a process recently to agglomerate those  
44 areas, which now leaves us with just the three DSP areas -  
45 the Gosford CBD; Gosford redevelopment area, which is all  
46 areas of the former Gosford Council excluding the CBD; and  
47 the Wyong DSP, which takes in the former Wyong Shire

1 Council areas. The recent consolidation of the DSPs  
2 provides a fairer contribution structure and is easier to  
3 understand for both the council and the developers.  
4

5 With regard to procedural requirements, we consider  
6 the current DSP procedural requirements are appropriate.  
7 We would not wish to see an increase in administrative  
8 requirements and see no driver for such a change. Any  
9 additional administration could only result in additional  
10 costs, which is probably undesirable for developers,  
11 customers and the council itself.  
12

13 In relation to the backlog sewerage charges methodology,  
14 we have the two current schemes - Cockle Bay and Mooney  
15 Mooney Cheero Point. Current methodologies are  
16 appropriate, but we would suggest that a change to the use  
17 of cost per ET, rather than cost per lot, would be more  
18 consistent with other developer charges that we calculate.  
19

20 As a general principle, the cost to the individual is  
21 providing a barrier to new backlog schemes, which prevents  
22 realisation of wider environmental benefits for the  
23 community.  
24

25 We have had three proposed schemes - at Patonga Creek  
26 Little Wobby and Bar Point - which did not go ahead  
27 recently due to lack of resident support, and that mainly  
28 comes from the cost that is associated there.  
29

30 If there were measures introduced to increase the  
31 affordability of schemes, we would favour those. We say an  
32 up-front payment or annual charge options should be  
33 retained. The discount factor for calculating annuities  
34 could be at the lower figure, which is the nominal debt  
35 rate adopted in the WACC of the prevailing retail price  
36 review, and we would see that as a step towards improving  
37 affordability as we calculate the annual charges.  
38

39 The only other general matter we had to raise is that  
40 we would support alignment of IPART price determinations  
41 and DSP submissions. That way we could use a single common  
42 set of operating and capital costs forecasts, in both the  
43 developer charges calculations and the price  
44 determinations. We realise that might be a challenge, but  
45 it would be a logical step to reduce some of the  
46 administrative burden.  
47

1           Perhaps just to summarise, these are some of the key  
2 points where we propose some changes. We would call for  
3 available standard external sources to be used to set  
4 parameters such as the equivalent tenements, discharge  
5 factors and the use of engineering standards. We would  
6 support changes to the asset base, based upon the DSP  
7 charges calculated, as we previously outlined, limiting  
8 those to ten years.

9  
10           The discount rate used in the net present value  
11 calculations should allow for changes where there is a  
12 material change in our fiscal environment. Again, we feel  
13 there could be some changes when IPART review their WACC,  
14 and we would support that flexibility to have change.

15  
16           DSPs should be reviewed in parallel with IPART's  
17 pricing reviews, and on backlog sewerage schemes, the  
18 implementation of changes, as we have outlined above, would  
19 improve the viability of such schemes.

20  
21           That's it. Thank you very much.

22  
23 THE CHAIRMAN: Thank you, Tass. Now we have Alexandra,  
24 from the secretariat, to give a short presentation before  
25 we move in to discussion.

26  
27 Session 1: Developer charges, methodology and procedural  
28 requirements

29  
30 MS SIDORENKO: Thank you, Mr Chairman. We are reviewing  
31 developer charges as part of this review.

32  
33           This slide tries to make more understandable what  
34 developer charges are. Developer charges are up-front  
35 charges that water utilities levy on developers to recover  
36 the costs of providing or upgrading infrastructure for new  
37 developments. Basically, the top flow is water supply to  
38 new development, and the bottom flow is the sewerage coming  
39 into the system - sewerage treatment and disposal. New  
40 developments, effectively, have to contribute part of the  
41 capital costs of existing assets and also contribute to the  
42 capital costs of new assets.

43  
44           There is also an additional component in the developer  
45 charges that reflects the difference between average  
46 operating costs, which is embedded in postage stamp prices,  
47 and the operating cost of servicing this specific

1 development area, and those costs vary by area.

2  
3 The aim of developer charges was to ensure that there  
4 was no cross-subsidy between existing customers and new  
5 development. Developer charges aim to signal the costs of  
6 extending services to different locations, and also they  
7 enhance the potential for competition in the supply of  
8 water and sewerage services to new developments.

9  
10 Currently the developer charges are set to zero since  
11 the 2008 government decision. Our 2000 determination set  
12 developer charges for Sydney Water, Hunter Water and  
13 Central Coast Council in most part of the 2000  
14 determination. However, in 2013, we replaced some sections  
15 of the 2000 determination for the Central Coast Council  
16 updating the parameters to make them current. Basically,  
17 the 2013 determination replaced the hard-coded consumption  
18 average for the Central Coast by the average consumption taken  
19 from the final report of the prevailing price  
20 determination.

21  
22 It also replaced the discount rate for post-1996  
23 assets and for reduction amounts, by the post-tax WACC  
24 taken from the prevailing price review, and also it updated  
25 the CPI indexation by our standard price determination  
26 March-on-March CPI index.

27  
28 The current determination is based on NPV - net  
29 present value - methodology and the procedural requirements  
30 that water agencies must use to calculate developer  
31 charges.

32  
33 This is the NPV methodology. I suppose the technical  
34 audience know what to look at, and for the non-technical  
35 audience, I suppose what is important is to know that this  
36 is the sum of capital cost components for old assets  
37 between 1970 and 1996 allocated on an equivalent tenement  
38 basis, which is like a multiple standard of average  
39 residential consumption for everyone who has a draw on  
40 those assets. So this is your K1 formula. The K2  
41 component is the post-1996 assets, more recent assets  
42 including the new assets to be attributed to this  
43 particular development, and that minus bit is the reduction  
44 amount, which actually means that if there are any profits  
45 earned by these facilities on charging the postage stamp  
46 price, however, bearing in mind the actual cost of  
47 servicing this development, then these profits are offset.

1 So they are taken off the developer charge.

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Current procedural requirements require that, first, a development servicing plan be established, developed basically for each service area. You have to have information on capital works, on standards of service and actually calculate the developer charges per equivalent tenement.

Once the DSP is developed, the utilities have to advertise - including to developer bodies and to all developers who make a development application with them in the past year. The utilities have to exhibit the draft DSP for at least 30 days and consider stakeholder submissions.

Once all this process is followed, the DSP is forwarded to IPART for registration and we are also to be informed about submissions made during this DSP review time. IPART then registers the DSP.

The current determination and particular requirements envisage a DSP review once every five years or a review of charges once every five years, or as required by IPART. The use of a calculation spreadsheet approved by IPART is also required.

In the issues paper we were seeking comments on the following questions:

Does the current NPV methodology remain fit for purpose?

Should we update key parameters for Sydney Water and Hunter Water just as we did for the Central Coast determination in 2013?

Does our method to calculate the capital cost component remain appropriate?

Does our reduction amount remain appropriate?

What discount rates should apply, mentioning that there were three discount rates applied in the formula?

Is our measure of equivalent tenements appropriate?

Are there any other issues for us to consider, such as implications for wholesale customers, stormwater, and anything else that we should be looking at?

We received the utilities' submissions, and basically I think the agreement that we heard around the table today

1 is that the current methodology is sound, subject to  
2 updating parameters in line with our 2013 determination for  
3 the Central Coast Council - that is, the discount rate for  
4 post-1996 assets and future revenue and costs set to the  
5 pre-tax WACC in the prevailing price determination. The  
6 pre-1996 discount rate probably could be adjusted, but we  
7 didn't receive any other submissions on that. They were  
8 set at a fixed level - zero per cent for the Central Coast  
9 Council and 3 per cent for Sydney and Hunter, in real  
10 terms.

11  
12 The utilities were of the view that the average  
13 consumption ought to be set to the average  
14 residential consumption in the prevailing retail price  
15 determination in the final report and also that the  
16 indexing factor for DSP charges in between the reviews of  
17 the DSP charges be set to the March-on-March CPI.

18  
19 Also we summarised the utilities' views as "Procedural  
20 requirements continuing to be adequate". However, some  
21 improvements can be made; for example, the requirement to  
22 have a review of DSPs should be waived while the zero  
23 developer charges policy applies. Effectively, this is  
24 what has been done by Sydney Water and Hunter Water, given  
25 that developer charges were not active, but to reflect this  
26 in the determination would be a preferable way forward.

27  
28 Also the utilities proposed to allow a transition  
29 period if developer charges are reactivated to allow them  
30 to review and aggregate, consolidate the DSPs as required  
31 and develop a suite of DSPs to get before the  
32 determination applies; and also to allow more flexibility in the  
33 review period. As we heard from Central Coast Council,  
34 more often than once in five years is required, perhaps at  
35 the time of the pricing submissions together with the price  
36 review, basically less rigid than once every five years and  
37 only once, as we have now.

38  
39 There were additional issues raised in the utilities'  
40 submissions such as the methodology being refined to better  
41 support liveability and affordable housing - that was  
42 stated by Sydney Water in its submission. Perhaps some  
43 other methods for developer charges - not a methodology but  
44 a cap or postage stamp charge or some developer charge  
45 offsets - could be implemented. Also an issue was raised  
46 on voluntary agreements with developers for delivery of  
47 higher levels of service. These agreements may better



1 support the integrated water cycle management approach  
2 especially in relation to stormwater services that some  
3 developers are willing to provide. Sydney  
4 Water put forward that we should be looking to discuss  
5 voluntary agreements with developers. Also there was  
6 recognition of growing competition to service new  
7 developments and a lighter-handed approach to regulation  
8 would therefore be preferred.

9  
10 Other stakeholders' submissions generally support the  
11 current methodology. We received a submission from  
12 WaterNSW regarding headworks costs that WaterNSW suggest  
13 should not be included in Sydney Water's developer charges.  
14

15 WSAA commented that the specificity of the  
16 methodology/higher data requirements increase the  
17 risks of the utilities being challenged, so extra precision  
18 may bring extra risks.

19  
20 HIA submitted that the methodology appears to be fit  
21 for purpose and is generally accepted by stakeholders.  
22

23 Again we received comments on links between developer  
24 charges and housing affordability and the integrated water  
25 cycle management, especially in relation to recycled water.  
26 However, we note that this review is not assessing  
27 developer charges policy; that is a matter for the  
28 government. Also we plan a separate review of recycled  
29 water developer charges and our approach to regulating  
30 water utility recycled water prices after the government  
31 completes its review of recycled water.  
32

33 Our preliminary position on developer charges is to  
34 maintain the 2000 determination and update the parameters  
35 for Sydney Water and Hunter Water, as we did for Central  
36 Coast Council, with regard to the discount rate, average  
37 consumption and CPI.  
38

39 We also propose a preliminary position to amend  
40 procedural requirements to allow more flexibility in the  
41 review of DSPs; to suspend the DSP review requirement while  
42 the zero developer charges policy is in place for Sydney  
43 Water and Hunter Water; and also to allow for a  
44 transition period if this policy is removed.  
45

46 We are seeking your feedback on the following  
47 questions:

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What are your views on our preliminary position?  
What alternatives should we consider, as opposed to  
the developer charges methodology.

Should we allow unregulated voluntary agreements  
between a utility and developers; and specifically,  
What would such an unregulated agreement cover, how  
could it differ from regulated developer charges?

What would be the benefits of such agreements and what  
would be the risks and what would be their effect on  
competition?

Also, what procedural or other requirements, if any,  
should relate to voluntary agreements? Should there be a  
reporting requirement? Should there be ring fencing?

Basically if we talk about voluntary agreements we  
would like to have more details and suggestions as to how  
this can be done. I will leave it here and now hand back  
to the Chairman.

THE CHAIRMAN: Thank you very much, Alexandra. Questions,  
comments from around the table? I am just wondering  
whether Sydney Water would like to expand a little on the  
unregulated voluntary agreements proposal.

MR MICHAEL ENGLISH (Sydney Water): In the context of  
planning for Greater Sydney, we have a big focus on  
liveability outcomes. I guess there are different levels  
of service we could provide in a development. There is the  
basic or traditional water and wastewater service  
provision, but with a greater focus on liveability.

Some developers - some more than others - are  
interested in pursuing alternative servicing approaches.  
They may or may not cost more than the traditional  
solution, or there might be differences in timing and  
things like that. I guess the idea was to have the option  
where both parties could come to an agreement where they  
might ask - or anyone else might ask - for a service level  
that might be considered above the traditional, if you  
like - for example, with the integrated water cycle  
management, building in stormwater solutions that achieve  
better outcomes for the developer and making it more  
attractive for the buyers, so there is more interest in  
that.

We are not seeking to impose those sorts of outcomes

1 on developers in any way, but if they were to come to us,  
2 as we offered, and we came to an agreement, it would be  
3 good if the regulatory framework allowed for that  
4 possibility where we could come to a mutually agreed  
5 outcome. That is the concept.

6  
7 THE CHAIRMAN: Thank you very much, Michael. It is sort  
8 of limited with the microphone. I am wondering if we  
9 should work down the table to PIAC, and then over to the  
10 other side, if that is okay. Craig or Thea from PIAC?

11  
12 MR CRAIG MEMERY (PIAC): Thank you very much, and thank  
13 you to the tribunal for having us here today and finding  
14 two seats for us at the table as well. It is much  
15 appreciated.

16  
17 We represent the interest of New South Wales  
18 households with respect to energy and water use. While we  
19 represent all New South Wales households, we have a  
20 particular focus on vulnerable and disadvantaged households  
21 in the advocacy and policy and regulatory work we do. So  
22 it won't surprise the tribunal that our biggest concern is  
23 actually around the policy in place rather than the  
24 methodology, which seems to me to have been probably a bit  
25 tried and tested and matured over time, rather than the  
26 policy which does not seem to carry that same level of  
27 proof with respect to consumer outcomes.

28  
29 We do not think that it is efficient, let alone fair,  
30 that water users should be subsidising home buyers or  
31 developers - simple as that.

32  
33 With respect to how that can fit into this process, we  
34 are interested to understand whether or not the actual  
35 costs that are imposed from new connections that are  
36 subsidised under the policy can be recovered in a timely  
37 and full fashion through normal water rates. We assume  
38 that the answer to that would be no - that is why the  
39 policy has been put in place by government rather than a  
40 decision by the tribunal. Therefore we would ask the  
41 question: what other alternatives might be in place? Is  
42 zonal pricing or nodal pricing a fair and possible way of  
43 recovering some of those, picking up on commentary  
44 therefore around the preference for simplicity and postage  
45 stamp pricing, I guess for us that leads to a position  
46 where we think that those charges should be applied to  
47 developers.

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THE CHAIRMAN: Sorry, I missed that - "those charges should be"?

MR MEMERY: The charges should be fully applied to developers and the policy should be lifted. We support IPART's view of a transition involved in that to mitigate any unforeseen and unintended consequences. We would suggest that that transition would need to be a hasty one, given the amount of development that is underway. We appreciate this is a policy decision completely beyond IPART's direct remit.

One thing we would like to understand in this context is what is the cost of the policy decision that has been incurred and will continue to be incurred in the future by other customers, as in what are the costs that are being recovered from other customers to subsidise new developments?

To preempt a comment that I would expect from Sam Stone, to our right here, I would like to understand if the goal of this has been to support new developments. That would be the basis, presumably, that Sam's organisation would support continuing having that policy in place. From a consumer perspective, we would like to understand the counterfactual, which is what developments have gone ahead that actually otherwise wouldn't have gone ahead had this policy not been in place and, in the future, what would that mean as well?

Just to recap, our view would be that we need to transition to having those charges fully levied.

I must confess we probably do not have as much to add in terms of the actual methodology, however I would flag, and I might be drawing too heavily on my energy background here, some consideration of the treatment of marginal costs - I appreciate that this has been addressed in the paper - as opposed to incremental cost would be an effective way, we think, of considering how efficiency signals can be sent with respect to the type of new development. We appreciate it is never quite that simple but that would be something we would flag.

Another point - and it supports the point that I think was made by Hunter Water; Peter I am not sure if it was

1 you - simpler is good, but we do not need to go too simple.  
2 Simple to the point where it does not result in  
3 inefficient, unintended outcomes I think is what we would  
4 support. Simplicity for its own sake can often become a  
5 bit of an unworthy goal, in our view, where it removes  
6 incentives for efficient development and cost recovery.  
7 Thank you.

8  
9 THE CHAIRMAN: Thank you very much, Craig. We will now  
10 give Sam a chance.

11  
12 MR SAM STONE (UDIA): Obviously we have detailed our  
13 thoughts on the policy position in our submission and we do  
14 not support a change in the policy. We would support  
15 possibly charging customers over the course of their bill.  
16 In the interests of housing affordability, that would then  
17 mean the developer charge does not then have GST and stamp  
18 duty also placed on it, so it creates a nicer outcome for  
19 the consumer.

20  
21 I think in terms of the unregulated agreements, we  
22 really support development from the proponent-led  
23 development and then where developers are responding to the  
24 state government. We would support having unregulated  
25 agreements, particularly for larger proponent-led  
26 developments, but that also needs to be integrated with  
27 recycled water as well probably to maximise getting that  
28 competitive outcome from it.

29  
30 In terms of where it has been a state-led process, we  
31 would be less inclined to see unregulated agreements occur  
32 as it is usually developers doing 100 or 200-lot  
33 subdivisions. Getting those efficiencies from an  
34 unregulated agreement we do not see as possible, and we do  
35 not see scope for competition at that scale at the moment.

36  
37 THE CHAIRMAN: Thank you very much, Sam. We might move  
38 across to Stuart Wilson.

39  
40 MR STUART WILSON (WSAA): The Water Services Association  
41 of Australia represents large utilities but also many  
42 smaller members. I will make some really brief comments on  
43 the policy, but will mainly confine my comments to the  
44 method itself, and one blends into the other.

45  
46 As with the other participants in the room, and PIAC,  
47 we support the role of developers charges in offsetting the

1 higher costs of growth so that those costs do not flow back  
2 to all water and wastewater consumers. We made some brief  
3 comments in our submission that from our membership around  
4 Australia we see a whole range of developer charge  
5 arrangements and that we have not seen a link between that  
6 and affordability.  
7

8 More so, we think developer charges are actually a  
9 useful value-capture mechanism. It is not the home owner,  
10 it is not even the developer; it is the owner of the  
11 original land who actually incurs the whole cost of the  
12 developer charges. That is in our submission, so I won't  
13 say anything further on that.  
14

15 When we look across Australia and see that most  
16 jurisdictions have a system of developers charges in place,  
17 we also see that there is not a lot of commonality among  
18 that. It would be nice to come to the table and say, "Here  
19 is the ideal, the best practice model", but we see a huge  
20 amount of variation.  
21

22 There is probably a message in that variation itself  
23 that there are a number of ways to skin the cat here and  
24 that sensible people in different areas have come to  
25 different conclusions.  
26

27 That is sort of an opening comment into IPART's method  
28 itself, which is probably the most formalised approach we  
29 see among jurisdictions. It is a really elegant approach.  
30 It is really conceptually tight, but it is also very  
31 ambitious in what it is trying to do. It is trying, with  
32 one instrument, to meet a number of different policy  
33 purposes, and those two main policy purposes are cost  
34 recovery for some of the higher costs of growth, but also  
35 sending efficient price signals to all the new developers.  
36

37 There is some tension in that, which I think the  
38 tribunal has recognised in its issues paper. As PIAC said  
39 that is exactly the issue between marginal cost and average  
40 cost. If you had two greenfield areas side by side and in  
41 one you just built a very large treatment plant and in the  
42 other there was to be a treatment plant in ten years time,  
43 the efficient price in the first one would be almost to  
44 charge nothing because the marginal cost is very low,  
45 whereas the marginal cost in the second one is very high  
46 because the plant is yet to be built. But that does not  
47 actually help recover the costs of that development, if

1 cost recovery is your aim. So there are some real tensions  
2 in the formula itself in trying to meet those two different  
3 objectives.  
4

5 That led, I think, to some comments we made in our  
6 submission that the plea for simplicity that many people  
7 have said today is not just a pragmatic trade-off to try  
8 and keep it simple so we can all understand it; it is  
9 trying to recognise that there are tensions in the formula  
10 and that you might actually get better outcomes for  
11 efficiency by not trying to chase precision down to the nth  
12 degree.  
13

14 As one example of that - I would be happy to unpack  
15 other things in questioning - I know when the last  
16 developer charges regime operated in Sydney, something like  
17 two-thirds of the city had no developer charges because the  
18 formula gave a zero result. Looking around Australia,  
19 nearly all jurisdictions have charges for brownfield areas.  
20

21 We do not think all those people have got it wrong.  
22 We think that any new development in a brownfield area will  
23 likely incur costs. It is just over what time frame will  
24 those costs be incurred? So why wouldn't that come out in  
25 the formula? Well, you cannot look infinitely far ahead for  
26 capital costs in a formula with any precision, so it is  
27 reasonable you would only have a certain rate.  
28

29 Also in brownfield areas, the result might be strong  
30 and positive because you are making a contribution to  
31 postage stamp pricing, and that is part of that policy  
32 landscape, so why would you offset that to a formula which  
33 then confers the development back on developers? That is  
34 just one example where we see a tension in the formula. So  
35 these simple rules of either capped charges or minimum  
36 charges actually can support efficiency and simplicity.  
37 I would be happy to unpack that a bit more if there is  
38 interest.  
39

40 MR WILLETT: Could I just pick up on the comments from the  
41 last two speakers on the distinction between incremental  
42 cost and marginal cost. I wonder if your concerns there  
43 can be dealt with in the choice of cohort for the  
44 determination of incremental costs. In some ways when you  
45 are dealing with large infrastructure investment, a pure  
46 marginal cost approach can lead to ridiculous outcomes,  
47 which is why we tend to use incremental costs. But I am

1 sensitive to an argument that the incremental cost of what  
2 is the important question. I wonder if that is the  
3 question that needs to be asked, or if that is the question  
4 that you are proposing needs to be addressed.

5  
6 THE CHAIRMAN: Thanks, Ed.

7  
8 MR EDGERTON: I have an additional follow-on comment or  
9 question to Stuart in discussing those options of marginal  
10 costs versus incremental costs.

11  
12 Another consideration is that we now operate in an  
13 environment where there is potential competition for new  
14 developments. I was just wondering, given that potential  
15 competition and the attraction of creating a level playing  
16 field, are there any implications for developer charges and  
17 consideration such as incremental or marginal costs?

18  
19 MR WILSON: As a broad comment - and again we have not  
20 worked this through in a lot of detail - there clearly are  
21 implications for competition of a developer charges regime.  
22 I think Sydney Water has made this point. If there are no  
23 developer charges, then there is an inherent bias towards  
24 going with the existing supplier. I think that is  
25 something that Sydney Water is happy to see corrected.  
26 I know Phil and the team can speak for themselves, but  
27 I have not seen among our members any desire to thwart  
28 efficient competition.

29  
30 On the incremental and average costs, I do not pretend  
31 to have all the answers there, but I think incremental  
32 costs can throw up quite volatile results, or marginal  
33 costs. I think a broad average cost approach will also  
34 send a price signal. If you were to tilt the method one  
35 way or the other towards the cost recovery element - and  
36 I think when you look at the formula it more or less does  
37 that - that would probably be a sound approach.

38  
39 THE CHAIRMAN: Thanks, Stuart. I will let Central Coast  
40 Council and Hunter have a few words.

41  
42 MR MELI: I reiterate our approach. We would support the  
43 continuation of developer charges for a price signal on  
44 this issue of incremental and marginal costs. I am not  
45 sure what IPART's position is in relation to point number 5  
46 as to what is the appropriate time limit for inclusion of  
47 the further assets. We have said ten years. What is your



1 current position and thinking there?

2  
3 MS SIDORENKO: If I may answer that, basically in summary,  
4 Sydney Water and Hunter Water seem to be supportive of the  
5 status quo which does not limit inclusion of assets going  
6 forward and does not limit 30 years of position for the  
7 reduction amount. Effectively everyone would be putting  
8 5 years of future assets. As you mentioned, there was not much  
9 certainty in having longer projections. So de-facto it is  
10 there, but we do not limit it in case there is a strong  
11 commitment that we are required to bring it in for longer  
12 than ten years. However if DSPs are being reviewed every  
13 five years, this is the opportunity to adjust the forecast  
14 and effectively, you would have more accuracy in the  
15 five-year spans. So our preliminary position is not to  
16 deviate from the status quo.

17  
18 MR MELI: Thank you.

19  
20 THE CHAIRMAN: Thanks. Hunter, would you like to comment?  
21 Peter.

22  
23 MR SHIELDS: I might address the question about  
24 competition in New South Wales. With regard to the  
25 difference between incremental and marginal, as I see it,  
26 marginal is forward-looking only, whereas incremental is  
27 forward looking, but it also recognises past investments in  
28 our system, particularly given the nature of capital  
29 investment in large treatment works and trunk assets,  
30 creates additional capacity that was built for growth. So  
31 the method, as designed, does measure that, place a value  
32 on it, and incorporate it in developer charges.

33  
34 In the Lower Hunter, there are large greenfield  
35 developments. There is the opportunity and some examples  
36 where private water utilities have built and are now  
37 operating stand-alone systems, stand-alone from our  
38 wastewater system. An additional charge on developers when  
39 they are connecting to the public water utilities will make  
40 those stand-alone systems commercially more attractive. In  
41 a sense, it is levelling the playing field. It is  
42 encouraging or it is a positive for competition.

43  
44 THE CHAIRMAN: Thank you, Peter. Emma?

45  
46 MS EMMA TURNER (Hunter Water): I wish to make a few  
47 comments in relation to unregulated voluntary agreements.

1 Conceptually we would be supportive of allowing such  
2 agreements. We think that would be consistent with two  
3 relatively recent decisions of the tribunal - one is the  
4 retail price determinations for Hunter Water and Sydney  
5 Water where large customers are considered to have  
6 sufficient negotiating power that they can negotiate a  
7 different pricing arrangement with Hunter Water or Sydney  
8 Water, for example. There is a win-win situation where  
9 they could take their services in a slightly different  
10 manner and avoid incurring operating costs or capital  
11 costs, and there could be some passing on of those savings.  
12 It would also be consistent with the current recycled water  
13 pricing guidelines whereby voluntary recycled water schemes  
14 for pricing can be agreed with those customers.

15  
16 In terms of the impacts on competition, it would  
17 appear to be consistent with competition which was partly  
18 introduced to encourage innovation, and it would also be  
19 consistent in encouraging public water utilities to meet  
20 their customer needs, so it is fully understanding of what  
21 developers wanted and then meeting that market.

22  
23 THE CHAIRMAN: Thank you very much, Emma. We might open  
24 up to the floor.

25  
26 MR ROBERT KEESSEN (Warren Smith & Partners): I should say  
27 I used to work for Sydney Water, so I have a bit of  
28 perspective on this. Warren Smith does a lot of work for  
29 developers. Hence, I have two questions and I am prepared  
30 to take them one at a time so everyone else gets a chance.

31  
32 My first question relates to customers. To what  
33 extent have we consulted with the people who will actually  
34 be paying this charge, which is the developers themselves?  
35 I think they will have a lot to contribute towards this.  
36 The reason I say that is that, back when I was employed  
37 with Sydney Water, it was when this developer charges  
38 question was originally brought up and questioned. The  
39 reason it was questioned was because of the inordinate  
40 amount of complaints that were coming from developers.

41  
42 The complaints weren't so much that the developer  
43 charges existed, but it was around the methodology and what  
44 resulted and what charges came out of the methodology.  
45 That was because it made a lot of sense from an engineer's  
46 perspective, and from an economist's perspective, that the  
47 charge on this side of the road would be X, because it was

1 part of system X; but on the other side of the road it was  
2 Y, because it was part of a different system. That made a  
3 lot of sense, as I say, to people working the charges out,  
4 but it made no commercial sense to the developers  
5 themselves.

6  
7 Those charges were different, sometimes by thousands  
8 of dollars. It was not a small amount. Hence a lot of  
9 complaints were generated by the customers that "That  
10 company across the road got significantly less than what  
11 I had to pay". From a developer's perspective, there  
12 really is no difference between one side of the road and  
13 the other.

14  
15 You might say that is just along the margins, that  
16 that is a marginal issue you might be able to address but  
17 it did generate a lot of unhappiness within the development  
18 community and that went back through ministers. They found  
19 that Sydney Water was spending more time trying to answer  
20 customer complaints about the issue than on anything else.

21  
22 I guess what I am saying is that it might be really  
23 valuable to go to the customers, the people who are paying  
24 the charge, and say, "What do you think? What is the best  
25 way?" If you need a method, and I note this is not about  
26 whether the charge exists or not, it's about what method  
27 would you use, what makes sense from a consumer  
28 perspective?

29  
30 THE CHAIRMAN: Thank you for that, Robert. As you well  
31 know, in IPART, we have a process. We put out papers. We  
32 take submissions from people. What we will do is check and  
33 redouble our effort to make sure we are getting inputs from  
34 developers and others. Thanks for the reminder. We  
35 appreciate it. Do you have another question?

36  
37 MR KEESEN: Yes. My other comment is in relation to the  
38 competition. I think there is, as some of the panellists  
39 have pointed out, a bit of a tension here between  
40 competition and developer charges. My comment is in  
41 relation to the suggestion of a voluntary unregulated  
42 agreement.

43  
44 It was pointed out earlier that the current system of  
45 no developer charges favours incumbents of the utility  
46 service provider rather than the competition. If you have  
47 competition and there is this ability to have an

1 unregulated agreement, the incumbent is most likely to go  
2 towards the lower end of the charging range to capture the  
3 market if the remainder of their costs are covered through  
4 prices, through the wider customer base. I put out a  
5 cautionary comment there that if you go to voluntary, then  
6 a utility can volunteer to have their charges very low and  
7 undercut the market.

8  
9 THE CHAIRMAN: Thank you, Robert.

10  
11 MR ENGLISH: Could I respond to that?

12  
13 THE CHAIRMAN: Sure, Michael.

14  
15 MR ENGLISH: One of the key questions I think Alexandra's  
16 slide had was about ring fencing as a potential. We fully  
17 support that and we would be happy to ring fence from  
18 regulated business. We do not want to be in the business  
19 of cross-subsidising to meet a special outcome for a  
20 developer and using our wider customer base to pay for  
21 that. The appropriate ring fencing would be part of what  
22 we would do with regard to that arrangement.

23  
24 THE CHAIRMAN: Thanks, Michael. Yes, Craig?

25  
26 MR MEMERY: To respond to those comments, the first  
27 question you raised, Robert, was to what extent were  
28 developers consulted? I would say, given the policies in  
29 place, the answer is probably almost exclusively, given  
30 that it does not seem to benefit other users of the utility  
31 so much as it does the developers and the new customers.

32  
33 I think you raised a very important question, though  
34 not directly, which is who are the customers when we talk  
35 about this? We usually think about customers as being the  
36 consumers of water, existing and new. We - being PIAC - do  
37 not think of the customers being the developers as  
38 customers of the water utility. I would like to understand  
39 what IPART's position is on that as well.

40  
41 On your final point, Robert, about the need to go to  
42 the developers and ask them what their thoughts are,  
43 I would say I think that is partly the purpose of this  
44 process and I think IPART is doing a good job on that.

45  
46 I would really welcome IPART's view on whether  
47 developers count as a customer and how that works.

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THE CHAIRMAN: We focus on the end user of water. If developers have to pay a developer charge, they will pass that through to the sale of the block of land or to the customer and the customer can pay for it where it is embedded in the cost of acquiring a block of land or they can pay for it through water charges, which was the point that was raised. The point about who pays for it is really important.

Are there other questions or comments from the floor?  
No. Yes, Deborah.

MS COPE: There were some comments made earlier about the potential for greater simplicity and transparency. What are the concrete suggestions about what would need to happen to make the charges more simple and more transparent?

THE CHAIRMAN: Would anybody like to comment on that?  
Tass?

MR MELI: Yes, our points in that area were really just giving some definition about the calculation or the use of equivalent tenements and discharge factors. If they were standardised, as I think Stuart pointed out here, that would make it more transparent and there would be less uncertainty or fewer questions as to how the calculations were made.

Then our need to build infrastructure that meets engineering standards which delivers an appropriate level of service, then means that we are making decisions as to what type of infrastructure to build. Again if that was standardised, if a set of engineering standards were accepted, that would again take away the uncertainty as to how appropriate is the capital infrastructure we put in, and what the charge was.

THE CHAIRMAN: Anybody else on that one? Emma?

MS TURNER: I will just give some concrete examples from us. Mainly it is in the setting of DSP areas and how tight the asset nexus has to be with the development. I think that over-adherence to precision - and perhaps we went too far with our past developer charges - does not necessarily benefit anyone, but it does create some opacity there. It

1 also creates a bigger burden for the developers and other  
2 stakeholders when they are reviewing exhibited DSPs because  
3 they can't go through 50 of them in a meaningful way;  
4 whereas if we had some flexibility for agglomeration  
5 between areas and perhaps a slightly looser asset nexus,  
6 I think that would be beneficial.

7  
8 Consistency of parameters between IPART's different  
9 discount determinations would also be an improvement  
10 because some customers get confused by different discount  
11 rates in different determinations.

12  
13 In relation to equivalent tenements, I recall from  
14 the 2008 partial review of developers charges that the  
15 definition of peak versus averaged ETs did actually give  
16 rise to some of the differences in charges and the  
17 application of the methodology between the different water  
18 utilities.

19  
20 We would support some greater specificity with regard  
21 to whether it is average or peak, but I do not think that  
22 it would be practical to set a common definition of an ET  
23 between the different jurisdictions because our average  
24 consumption is quite different. I think that it is better  
25 to refer that to our prevailing price determination.

26  
27 Similarly for sewerage discharge factors, I think the  
28 tribunal did a review in 2014 and looked at the potential  
29 to increase the consistency and perhaps have a common set  
30 of discharge factors between the utilities. The outcome of  
31 that was that there was too much variation in the types of  
32 industry or the types of development in the different  
33 areas, and each of these utilities is required to publish  
34 the discharge factors on the internet and provide a  
35 mechanisms through which customers can challenge discharge  
36 factors. I think that is still appropriate.

37  
38 THE CHAIRMAN: Thank you, Emma. Stuart?

39  
40 MR WILSON: With regards to Deb's suggestion to simplify,  
41 as WSAA has the luxury of not being directly affected, we  
42 can sort of float things that may be a bit more out there.  
43 The suggestion we had was that there may be a minimum  
44 developer charge at one end and maybe a cap at the other.

45  
46 What we are saying there is that the formula works up  
47 to a point. If you are getting a zero developer charge,

1 you question what is going on. If it is a marginal area,  
2 then a very high developer charge can effectively end  
3 growth, and that is what you want, but if it is an area  
4 designated for growth and the formula is throwing up a very  
5 high developer charge, then what is going on there? Is the  
6 formula achieving what it is designed to do? It is sort of  
7 a pragmatic way of giving certainty to the developer  
8 industry that there is certainty and transparency but also,  
9 keeping it simple at some point while letting the formula  
10 operate for the majority of the pricing.

11

12 THE CHAIRMAN: To the extent charges are above the cap, it  
13 means that the water consumers are not paying, so there is  
14 a trade-off there.

15

16 MR WILSON: There would be a trade-off. What is going on  
17 with the formula that it gives such very high charges?

18

19 THE CHAIRMAN: It depends whether it is a problem with the  
20 formula or it actually costs a hell of a lot.

21

22 MR WILSON: That's right.

23

24 MS KATE BEATTY (Sydney Water): One of the things that we  
25 were looking at in some of these areas which are very high  
26 cost to serve is that there are actually broader benefits  
27 to the more stringent environmental protection licences in  
28 those areas, because they are flowing into beautiful  
29 catchments that we want to protect. The whole of the  
30 customer base wants those catchments protected. In that  
31 way, they might be actually acting a bit more like a  
32 backlog sewerage charge.

33

34 One of the things we thought would be beneficial to  
35 look at was trying to acknowledge that sometimes, in some  
36 growth areas, you might have that situation where you might  
37 want to actually allocate some of the costs to the broader  
38 customer base. However, again I guess it would be on a  
39 case-by-case basis and you would need to have very robust  
40 articulation of why you would do that.

41

42 THE CHAIRMAN: As you were speaking, I was thinking that  
43 we will be getting into this in the backlog sewerage  
44 charges. It raises the issues about better benefits for  
45 the community, in other words externalities, and then there  
46 is an issue about who should pay for that and should other  
47 water consumers or other taxpayers, for that matter, share

1 in the cost. It is a very important issue. Craig?

2

3 MR MEMERY: May I respond to your question about  
4 simplicity? I would observe that what we mean by  
5 "simplicity" in charge structures often really depends on  
6 who the customer of the charge is. When we talk about  
7 end-use consumers, simplicity is much more important  
8 because it is about them understanding their bills and, in  
9 the case of contestable services, things that they are  
10 choosing between.

11

12 When the customer is a developer, we would argue that  
13 they have a higher level of sophistication, so we do not  
14 need this simplicity at the level of postage stamp  
15 approaches for that more sophisticated customer.

16

17 We would suggest, however, that simplicity is best  
18 achieved through having consistent structures in charges,  
19 not necessarily consistent levels. It might be completely  
20 appropriate that one side of the road pays thousands of  
21 dollars more than the other, because that just reflects the  
22 cost to connect. However it would be beneficial if there  
23 were common elements to the cost structures as far as  
24 possible, but not necessarily common amounts.

25

26 THE CHAIRMAN: Thank you, Craig. Tass?

27

28 MR MELI: The experience we can offer from the Central  
29 Coast - and this was raised from the floor - is that the  
30 developer charges in the Gosford CBD are higher than the  
31 other areas of the Central Coast. Agglomerating those  
32 areas has, I think, simplified everything and been more  
33 appropriate for the community. But there is a higher  
34 charge to develop in the Gosford CBD reflective of the  
35 challenges of doing that, so we would see that as  
36 appropriate.

37

38 THE CHAIRMAN: Sam?

39

40 MS STONE: In terms of simplicity and also the review  
41 times, we see the greenfield development process from land  
42 acquisition to actually getting houses unlocked to be a  
43 seven to ten-year time frame. In making that commercial  
44 decision, we want certainty that the charge will be  
45 consistent from when we have made to decision, so whether  
46 it is a capped or a consistent charge over that period  
47 would really be what we are looking for, so it can then be



1 priced into the development.

2

3 THE CHAIRMAN: Thank you, Sam. Anything else on this  
4 topic?

5

6 MS SIDORENKO: I wanted to ask the Central Coast Council  
7 perhaps to give us more information about the consolidation  
8 of the DSPs that you went through. You had a review of  
9 your DSPs, I believe in 2011, when you went from nine to  
10 two. Tell us how you defined this nexus and consolidated  
11 your DSPs, because that may be useful for Sydney and Hunter  
12 to draw upon when they consider consolidating their DSP  
13 areas when the time comes.

14

15 MR MELI: I will do the best that I can, not having been  
16 part of that process. I have only recently - in the last  
17 year - joined the council. As I understand it, it was not  
18 only to give the right price signals, as you mentioned, in  
19 that it is not fair that developers or customers subsidise  
20 the costs of developing the Gosford CBD.

21

22 There were up to 80 sub-areas, DSPs, and we did have  
23 the situation where, on one side of the road, it is a  
24 certain amount and, on the other side of the road, it is a  
25 different price.

26

27 The other challenge there is that, with the smaller  
28 areas, we would have to wait to collect the contribution  
29 charges to then reimburse those developers that had  
30 actually constructed the infrastructure in that area, and  
31 we would not be able to provide those credits or  
32 reimbursements until there had been sufficient money  
33 collected in that DSP account.

34

35 With the larger areas, it means there is a much simple  
36 accounting process to do, and we see that the Central Coast  
37 Council is gravitating towards a common system in both  
38 water and sewer drainage. Especially if we look at  
39 maintaining the distinction between the former Gosford and  
40 the former Wyong and the Gosford, that does represent those  
41 similar areas for us. The northern areas are more where  
42 there are greenfield developments and new growth. Around  
43 the Gosford area, there is a lot of infill development and  
44 redevelopment. Then the Gosford CBD has its own challenges  
45 due to the topography.

46

47 That process, I think, has simplified things for the

1 developers. It was more a case of the difference in  
2 charges rather than there actually being a charge that was,  
3 as I understand it, the issue.

4  
5 THE CHAIRMAN: Thank you. Robert and, then just behind  
6 you.

7  
8 MR KEESEN: You might have gathered from my previous  
9 comment that I believe that simplicity has a lot of merit  
10 in the charging. I will take the devil's advocate  
11 position, if you don't mind, and that comes from  
12 competition, that simplicity means that you are averaging  
13 out charges and it means that the more expensive ones that  
14 Sydney Water can service, the cheaper ones the competition  
15 can service, or choose to service, or have a competitive  
16 advantage. By levelling out the charges to average, you  
17 will open up the opportunity for some cherry-picking,  
18

19 THE CHAIRMAN: Thanks, Robert. Yes?

20  
21 MS CHWEE LIM (Sydney Water): I think that I understand  
22 what was said in terms of simplicity - and I agree with  
23 that - to reflect the user pays.

24  
25 Sydney Water advocates simplifying developer charges in the  
26 sense that, for the more discrete assets, it is easy. If  
27 we can identify that that DSP area would require discrete  
28 assets, then that is a simple case.

29  
30 We think that some of these costs, the average, or  
31 whatever, is more to do with the shared assets. Let's say  
32 that shared asset either is a new asset or an existing  
33 asset. How do we allocate those costs equitably to the  
34 existing customers who benefit from those assets? And also  
35 how do we allocate them to the new area - the new  
36 development - because those customers obviously do benefit  
37 from the shared asset supplied to that area as well.

38  
39 What we advocate, for example, if you look at the  
40 delivery systems for an area, if, let's say, there's a  
41 nexus - and Emma raised that - between the asset and  
42 serving that area, rather than a smaller DSP - currently  
43 there are many DSP areas - maybe you have the same nexus or  
44 a driver, then we should look at the shared assets, look at  
45 that driver and then allocate it equitably. That is one  
46 way of Sydney Water advocating simplifying the approach,  
47 maybe looking at bigger drivers for that, rather than

1 currently consolidating those DSPs.

2

3 THE CHAIRMAN: Thank you very much, Chwee. Are there  
4 other comments or questions on this area?

5

6 MR ENGLISH: With regard to a comment that Alexandra made  
7 that there were no comments on the zero discount rate for  
8 the pre-1996 assets, I think that might be technically true  
9 in terms of what we wrote, but we did propose an  
10 alternative method, which would essentially result in just  
11 one discount rate. That may not be in the interests of  
12 simplicity, but there are methods where, with cost  
13 allocation, in the work that we are doing at the moment,  
14 you could build on that to get consistency across, keeping  
15 the competition, and the like.

16

17 Basically, we would end up with an objective way of  
18 determining a pre-1996 asset and how much are they, what  
19 life is remaining in those, and what value still needs to  
20 be recovered from customers - existing customers or  
21 developer customers, whoever they might be - so that would  
22 help in terms of simplicity. There are no arbitrary  
23 dates - pre-1970 or pre-1996. All that kind of stuff all  
24 falls away if we have one discount rate. It doesn't  
25 directly address the zero discount, but it addresses a  
26 number of issues at the same time

27

28 THE CHAIRMAN: Thank you very much, Michael. Kate?

29

30 MS BEATTY: I have a couple of comments, chiefly I think  
31 in relation to a couple of the points that you made,  
32 Robert. I think the first one was about the developers  
33 being the customers.

34

35 In preparing Sydney Water's response, I did talk to a  
36 lot of people within our business and I got that very same  
37 message which was, "Don't you remember?" There is actually  
38 not a very long memory in Sydney Water, but the people who  
39 have been around for a bit longer did remember that the  
40 developers hated developers charges and they saw it as  
41 being very inequitable. It comes down to something that  
42 Sam brought up. The time frame, from when you first  
43 purchase the land and then actually come to selling the  
44 houses on it, can be seven to ten years. What I think  
45 developers would really like to see is stability in those  
46 charges.

47

1           In previous implementation of the charges, I think,  
2           because we were trying to get too granular and trying to  
3           have such a tight asset nexus, we actually ended up with  
4           far more volatile charges which did not actually help the  
5           developers. So, as Stuart was saying, there is a bit of a  
6           tension between trying to get the right charge, but also  
7           not having such volatility that you are going to hamstring  
8           development.

9  
10           One of the things that we thought would be good would  
11           be to have slightly wider DSP boundaries and that would  
12           assist in having less volatility in the charges.

13  
14           THE CHAIRMAN: Thank you, Kate. Craig?

15  
16           MR MEMERY: I will respond to that good point and pick up  
17           on Sam's point as well. We do appreciate that the need for  
18           long term certainty around charges is actually important.  
19           I would caution against combining certainty and  
20           variability. I think certainty about where you are headed  
21           and just notification of where charges would go in coming  
22           years, if they are to change, would be a more appropriate  
23           approach to that issue than trying to fix them at a certain  
24           level in the interests of avoiding that impact.

25  
26           We certainly support better transparency and forward  
27           notification of where charges are going, in any case, so  
28           that you guys get the forward information that you need,  
29           but not restraining charges to the level that they are  
30           today, just in the interests of that certainty.

31  
32           THE CHAIRMAN: Thank you, Craig. Anybody else on this  
33           topic? No. We will have morning tea now and resume at  
34           11.30 and we will go straight into backlog sewerage  
35           charges.

36  
37           SHORT ADJOURNMENT

38  
39           THE CHAIRMAN: Welcome back, everybody. For those who  
40           were not here earlier, as in the previous session, a member  
41           of the IPART secretariat will give a brief introduction to  
42           the topics we would like to discuss in this session, which  
43           is backlog sewerage charges. I will then invite  
44           participants to provide comment on the issues, following  
45           discussion around the table, I will then invite comments  
46           from those in the general audience.

1           May I also remind you that today's hearing is being  
2 recorded by a transcriber. Therefore to assist the  
3 transcriber, I ask that on each occasion you speak, please  
4 identify yourself and, where applicable, your organisation  
5 while speaking.  
6

7           We have organised for another microphone. We now have  
8 one on each end of the table. Also lunch will be provided  
9 and it will be ready at 12.45. We are slightly ahead of  
10 schedule so we should make that.  
11

12           This is session 2, backlog sewerage charge  
13 methodology, and I will call on Alexandra, from the IPART  
14 secretariat, to introduce the discussion.  
15

16 Session 2: Backlog sewerage charge methodology  
17

18 MS SIDORENKO: Thank you, Mr Chairman, and good morning  
19 everyone, again. I am Alexandra Sidorenko from the IPART  
20 secretariat and I will introduce this backlog sewerage  
21 charges section of our public hearing.  
22

23           Backlog sewerage charges recover the capital cost to  
24 connect a reticulation system to previously unsewered  
25 areas. This slide is a schematic representation of backlog  
26 sewerage charges. This dashed grey line represents that a  
27 sewer is not available in the area.  
28

29           We have several methodologies that are applied to  
30 backlog charges. We have a 1997 determination of backlog  
31 charges that stands for Sydney Water, Hunter Water and the  
32 area of Central Coast Council that was part of  
33 determination 4.1. Areas where residents had not contributed  
34 to a water/sewerage funding scheme were excluded and were  
35 covered in a later determination. The Hunter Sewerage  
36 Project Priority Area 1 was also excluded from the 1997  
37 determination.  
38

39           Those areas for Gosford City Council were covered in  
40 the 2006 determination. This applies to areas where  
41 residents have not contributed to a water/sewerage funding  
42 scheme. It has two different formulas applied, depending  
43 on whether the area is a priority sewerage program area or  
44 not. Apparently there were three formulas working.  
45

46           For the Gosford City Council the charges for PSP  
47 property are a fixed charge of \$5,400

1 plus 67 per cent of the residual capital charge net of  
2 subsidies. For non-PSP area property, the determination  
3 applied the developer charges methodology. We can see that  
4 there was a cap on the backlog charge and there was a  
5 cost-sharing parameter. So only a share of cost is passed  
6 on to the backlog customers.  
7

8 What I missed here is the Sydney Water, Hunter Water  
9 and other areas, and the Central Coast backlog sewerage  
10 charge. That charge only recovers 25 per cent of the  
11 capital costs, and it was capped at \$3,000 nominal. So  
12 that \$3,000 nominal has not changed since 1997.  
13

14 In our issues paper, we asked questions on what  
15 backlog sewerage charges are currently levied and in what  
16 areas. Basically we asked you to tell us how you apply  
17 this backlog charges methodology and what are the areas you  
18 actual levy these charges at the moment.  
19

20 We also asked whether current methodologies continue  
21 to be appropriate and if not, what would be an appropriate  
22 methodology; what needs to be changed?  
23

24 We also were seeking comments on: should backlog  
25 customers continue to have the option of an up-front  
26 payment or annual charge, because our determination  
27 provides an annuity option for connecting customers to be  
28 paying in annual instalments.  
29

30 In the utilities' submissions, we received the  
31 following views:  
32

33 Sydney Water supports reassessing the methodology to  
34 recognise wider benefits to the community when backlog  
35 properties are connected. I think this is the point Kate  
36 was making in the earlier session.  
37

38 Hunter Water argues for more flexibility and  
39 potentially higher thresholds for backlog sewerage customer  
40 contributions - so where the 3,000 nominal cap was not  
41 enough, and there was customer support for a higher level  
42 of backlog sewerage charge and willingness to pay for this  
43 infill connection. So more cost-reflective backlog charges  
44 may be called for.  
45

46 The Central Coast Council argues for more flexibility  
47 in sharing the connection costs with the broader community

1 and allocating a larger share of costs to the wider  
2 customer base - that is, lower backlog sewerage customer  
3 contributions. We heard in the first session examples of  
4 backlog schemes that did not go ahead because customers  
5 were not ready to contribute that \$3,000 nominal as per our  
6 earlier determination.

7  
8 We received submissions from the City of Newcastle  
9 stating that IPART should maintain avenues for the delivery  
10 of backlog sewerage services. In particular, the council  
11 gave an example of Hexham that was nominated as a priority  
12 sewerage area. It was endorsed by NSW Health and the EPA  
13 as an environmental and public health priority for  
14 connecting to the sewerage system.

15  
16 For Hexham, the City of Newcastle made an argument  
17 that it would be inappropriate to charge Hexham residents a  
18 \$3,000 backlog charge, which is our \$3,000 nominal charge  
19 in the 1997 determination, because, in the case of Wyee,  
20 that \$3,000 was picked up in government funding, so it  
21 would be inappropriate to charge Hexham residents that  
22 backlog charge.

23  
24 Going forward, we considered how similar and  
25 how different the backlog sewerage charges could be  
26 from developer charges. This diagram is perhaps a  
27 simplified representation of what we think these charges  
28 stand for. If someone were to connect to a service - and  
29 this is excluding the standard reconnection of an existing  
30 service - in making the decision as to where to place them,  
31 the first question would be, "Is this a new development?"  
32 That is the first test. If the answer is "Yes", there will  
33 be developer charges.

34  
35 If it is not new development and it is an existing  
36 property, then we apply the test, "Is the service available  
37 in the area?" If a general service is there, and it is  
38 just a last extension or a little bit of service extension  
39 or expansion, that could be those other capital charges  
40 that we are looking at as part of this review, which is the  
41 Sydney Water minor service extension and the Hunter Water  
42 major service connection charge. We have not found a  
43 similar charge for Central Coast Council, so perhaps  
44 Central Coast could be considering something like this  
45 charge to enable this service extension.

46  
47 However, if this is a new area that has not been

1 sewerer in this case, and the service is not available in  
2 this area, they will land up in the green box of backlog  
3 charges. If it is an existing township or property and  
4 services are not available in this area, to extend the  
5 services to the area, that would be a backlog  
6 charges determination.

7  
8 With this diagram in mind, there were a lot of  
9 similarities in terms of what are the costs to be covered  
10 and how the costs should be determined, and what  
11 methodology do we apply?

12  
13 Our preliminary position is that the developer charges  
14 methodology seems to be the way to go to determine the cost  
15 of backlog sewerage schemes. However, there may be cases  
16 where these costs should be shared between customers in  
17 recognition of the externalities that exists due to the  
18 provision of these sewerage services in the area.

19  
20 Our preliminary view is to apply the developer charges  
21 methodology and procedural requirements to backlog charges  
22 as the kind of baseline default position.

23  
24 However, for special cases like a large township that  
25 needs to be sewerer, it is quite hard to revise the cap and  
26 sharing ratios that are currently embedded in our  
27 determination to have a blanket universal estimate of these  
28 externalities and cost sharing between different projects  
29 which can have different characteristics.

30  
31 The preliminary position would be to consider any  
32 departure from the developer charges methodology in terms  
33 of cost-sharing rules or caps on a case-by-case basis,  
34 area-by-area, with specific backlog projects, brought to us  
35 by the utility to look at during, for example, the periodic  
36 retail price review when we can ascertain the cost of  
37 servicing these areas, and the consultants that we engage  
38 can scrutinise the proposed costings. The consultants can  
39 assess the externalities, the magnitude of the wider  
40 community benefits stemming from sewerer this area, and  
41 that will remove the need for us to have a blanket  
42 universal parameter set up as part of the determination.

43  
44 An important feature of the current determination is  
45 the capacity to create the provision for connecting  
46 customers to pay on an annuity basis. Our preliminary  
47 position is to maintain this option because it mitigates



1 the situation for the customer. It makes it more  
2 affordable for a customer by spreading out what would be a  
3 large capital charge.  
4

5 Also the existing determinations have provided this  
6 option for annuity payments for current backlog customers  
7 that have been contributing to the cost of their scheme,  
8 so our preliminary position is to grandfather these charges  
9 so that the customers who started their annuity payments  
10 under the current determination can pay them out for the  
11 agreed duration.  
12

13 Today we would like to have comments from the panel  
14 and the floor on:  
15

16 How often and in what circumstances are backlog  
17 charges currently applied?

18 Can customers choose to receive a backlog service, can  
19 they opt out from receiving a backlog service or are they  
20 compelled to subscribe to a backlog service at a particular  
21 point?

22 What are your views on our preliminary position, given  
23 that streamlined graph, as an indication of developer  
24 charges, to similar kind of charges?

25 Should backlog charges generally be set using the  
26 developer charges methodology?  
27

28 Also should we expand the procedural requirements  
29 embedded in the developer charges methodology and the  
30 determination to include backlog sewerage charges, meaning  
31 a servicing plan for this backlog project could be set up,,  
32 notified, registered with us that is, treating the backlog  
33 scheme in a similar way to what we would do with developer  
34 charges.  
35

36 We would also like to have your feedback on whether  
37 backlog charges should be subject to a cap or some  
38 cost-sharing arrangement. So in what circumstances would  
39 that be appropriate; how should this cap or cost share be  
40 determined; and who should pay the difference between the  
41 backlog customer's share of costs and the full efficient  
42 costs of the scheme? Thank you.  
43

44 THE CHAIRMAN: Thank you very much, Alexandra.  
45

46 So questions or comments around the table. I am just  
47 wondering Neil, from NSW Health, whether you would like to

1 say anything at this stage

2

3 MR NEIL SHAW (NSW Health): Yes, I would, thank you.  
4 I really appreciate the opportunity to be here.

5

6 A comment was made earlier that there is a fair  
7 turnover of staff within Sydney Water and other  
8 authorities. In NSW Health, it tends to be the opposite.  
9 I have been in NSW Health for 43 years. During that time  
10 I have seen a lot of on-site systems play up because of  
11 lack of sewerage.

12

13 One of the things that I would like to say is that  
14 there has been development. If we like to think about the  
15 northern suburbs of Sydney - when I was a young inspector  
16 I looked after the Manly-Warringah area - in 1985, it was  
17 then decided by the government that there would be a change  
18 of policy and there would no longer be the provision of  
19 sewerage services to those suburbs on the basis of an  
20 80 per cent occupancy of those suburbs.

21

22 Up until that time, the local councils, together with  
23 NSW Health, had a dual function. We would inspect those  
24 premises and try and get them to have on-site facilities  
25 that would get them through at least for five years until  
26 the sewer was provided.

27

28 With the change of policy, we had areas like Frenchs  
29 Forest, Terrey Hills, Palm Beach that just basically blew  
30 up with septic tank effluent. We did not have treatment  
31 plants, as we do today, and there were many cases where we  
32 would have liked to have closed quite a few of the beaches  
33 because of the contaminated stormwater that came from  
34 septic tank overflows.

35

36 The problem, as we see it, is that while sewers are  
37 catching up, there are still some developments that have  
38 health risk issues and environmental issues. While we are  
39 not very good at looking at costs or those sorts of things,  
40 we would like to see some sort of an area where those  
41 perhaps in greatest need from a sanitation point of view  
42 would have some cost relief. For them to convert from  
43 a lower grade system - such as a septic tank or a  
44 composting toilet, or something of that nature - up to a  
45 secondary treatment system, the cost is between \$15,000 and  
46 \$20,000, which is quite significant for a household. If  
47 they could be provided with a sewer and a connection to a

1 sewer, that would make life simpler for them.

2  
3 Pump-out costs are exorbitant for those areas that  
4 still have pump-outs. I remember in Terrey Hills, when  
5 this new policy came in, it was generally accepted that  
6 Sunday evening was siphon-out night when they used to  
7 siphon out the septic tank effluent. I used to do my  
8 inspections on Monday morning to try to catch these people.  
9 On Monday morning, it was washing morning, so they would  
10 activate their washing machines and flush out all the  
11 gutters so that the inspectors couldn't see the evidence  
12 from the septic tank siphon issues.

13  
14 We tried to do surveys and get evidence of increased  
15 levels of infectious disease. We almost did it; we almost  
16 found a statistically significant difference between  
17 sewered and unsewered areas, with gastrointestinal illness,  
18 except for one case. If we had one more case, there would  
19 have been a statistical difference, and that's looking at  
20 fairly big population.

21  
22 From a health point of view, it is fairly well proven  
23 that we need to have a sewer. We think that some sort of  
24 health risk criteria or a health risk assessment should be  
25 done that would allow for those who perhaps are at greatest  
26 risk to bear less cost in having their premises upgraded.

27  
28 I have already mentioned that to put in a secondary  
29 treatment system is expensive and would cost around about  
30 \$15,000 to \$20,000. We would contend that perhaps the  
31 newer suburbs that have been developed, which have already  
32 been through that cost, should be allowed for that cost to  
33 run out - I do not know the economic term for it, but  
34 perhaps it should last for the viability of the  
35 installation, which is probably around about 15 years -  
36 before then having the cost of being sewered. That would  
37 then be mellowed with the health risk assessment of the  
38 suburb as to whether there was any health or environmental  
39 effects of that.

40  
41 We could perhaps look at provision of backlog costing  
42 associated with two factors - one with health risk analysis  
43 and the other one with the longevity in the returns of  
44 their investment and their capital on their premises.  
45 Thank you.

46  
47 THE CHAIRMAN: Thank you very much, Neil. Are there other

1 questions or comments around the table? Craig?

2

3 MR MEMERY: Thank you. We see this as, in many ways, a  
4 more vexed issues than the developer charges. I think the  
5 statement from Newcastle Council nails it when they say the  
6 primary beneficiary is the environment, therefore they do  
7 not see it is appropriate to charge consumers. I would  
8 say, "Well, how do you send the bill to the environment?"  
9 That kind of goes to the challenge that we have with this  
10 issue, and the same could be said in relation to the health  
11 issues as well.

12

13 Responding to Neil's point, we certainly agree that  
14 the areas most in need would need to have some sort of  
15 cost relief, and we strongly suggest that needs to be a  
16 means-tested approach. So the people who cannot afford to  
17 pay for their own solutions are the ones who are actually  
18 getting the benefit from that reticulation being extended  
19 to them. For people who can afford to pay for it  
20 themselves, who are more likely to benefit from the  
21 improved value of their property, and so on, in having that  
22 sewerage attached it is quite fair that they should be able  
23 to pay.

24

25 In that respect we see the application of a cap as  
26 very concerning. It does have the potential to turn into a  
27 blank cheque. In the context of some comments I'll make  
28 around potential alternatives, we see that as potentially  
29 excessive as a charge to other consumers but also  
30 potentially inefficient as a way of addressing the  
31 underlying issues, which should not be framed as the need  
32 to get sewerage out there. It ought to be framed as what  
33 the environmental and health issues actually are as the end  
34 issue.

35

36 We speak to people all around the state -  
37 predominantly around energy, it must be said, but some of  
38 the things that we hear from them are common. One thing  
39 we frequently hear is that people are prepared to chip in a  
40 bit more to things like their bills, and so on, to help  
41 people who are more disadvantaged than themselves.

42

43 That statement should not be taken as meaning carte  
44 blanche charge everyone for big cross-subsidies for people  
45 who are experiencing any conceivable type of disadvantage.  
46 However, we do need to bear in mind when we consider that  
47 people are prepared to make some contribution generally so

1 that these who are disadvantaged can be taken out of  
2 disadvantage to some extent.

3  
4 We would suggest, though, that it is really important  
5 that the water businesses speak to their customers - not  
6 just the customers who are direct beneficiaries, but also  
7 the other customers who would be paying for any services  
8 that require some sort of a cross-subsidy in that vein -  
9 and to actually justify having any subsidy, such as a cap  
10 or anything less than a full contribution by the connecting  
11 party, that needs to be couched in terms of other people's  
12 preparedness to pay.

13  
14 Just responding to Neil's point about it being proven  
15 that we need to have a sewer, I challenge that slightly.  
16 I would say it has certainly been proven to some customers  
17 that the only alternative for them to have a healthy supply  
18 themselves and for the immediate environment of those  
19 around them would be to have a sewer, but we do need to  
20 consider the alternatives.

21  
22 If you are considering spending \$50,000 on connecting  
23 an individual home to the water grid - the sewer in this  
24 case - there are far more cost-effective alternatives to  
25 that and potentially to septic systems in the form of  
26 composting toilet designs and other things. That might  
27 seem a bit challenging to some people, but there are people  
28 who willingly want to adopt those. You wouldn't want to  
29 roll them out to people who did not want them, but there  
30 are a lot of people who live in remote areas who  
31 understand. They have been living with a sewerage system  
32 or the septic systems for some time. They know what they  
33 are getting into and would potentially prefer to have some  
34 of those alternatives.

35  
36 It comes back to the same issue that we raised in  
37 relation to developer charges about what the costs will be  
38 to other consumers if we go a bit too far.

39  
40 THE CHAIRMAN: Thank you, Craig. Sydney Water?

41  
42 MR ENGLISH: We do not have any backlog areas, as such.  
43 We have lots of minor service connection type categories,  
44 which range from a single property to almost a township.  
45 Going back to what was previously mentioned, I am sure  
46 there will be an issue around where you draw the boundary.  
47 The question would be: "Is it available" or "How far away

1 do you need to be?" That will lead down the track to the  
2 debates people will have about, "Oh, I am just out by a  
3 kilometre", or whatever that number is. I imagine that  
4 would be difficult.

5  
6 One of the other proposals you had was, I think, a  
7 specific price basically for the backlog areas as part of  
8 the price review. I guess those areas have probably been  
9 there forever, but five years, four years, whatever the  
10 time frame is between price reviews, seems quite a long  
11 time. Maybe taking the wholesale example of recycled  
12 water, people could ask for a specific price outside the  
13 price review. That could be an option.

14  
15 These things can get heated very quickly. Imagine  
16 telling people, "I am sorry, we would love to help, but  
17 come back in three years time and it should be happening",  
18 or whenever it might be. You are only dealing with a small  
19 scheme in most cases with that kind of option.

20  
21 We support the payment options that have been  
22 proposed. The burden of costs can be quite high and we  
23 want people to connect. There are infrastructure charges  
24 but also, on top of that, they have to actually connect to  
25 whatever we build, which can be as much again, depending on  
26 the property. We would definitely support a bill-splitting  
27 option.

28  
29 THE CHAIRMAN: Thank you very much, Michael. Peter, from  
30 Hunter Water.

31  
32 MR SHIELDS: We have attempted, in our submission, to  
33 document the history of backlog schemes in the Hunter and  
34 the situation we face today. There are a lot of towns and  
35 a lot of small mining villages that never received a  
36 reticulated sewerage system. It just wasn't practical.  
37 They were too remote to provide the service, or for  
38 whatever reason.

39  
40 Over the last 30 years, we have rolled out a backlog.  
41 We have rolled out a reticulated service to 30 of those  
42 townships and villages and it has cost close to half a  
43 billion dollars. We have funded it through the specific  
44 environmental improvement charge. It is a per-customer  
45 charge, with pensioners excluded. Over the years, it has  
46 gone from \$70 to \$140, then \$50 and it is currently set  
47 close to \$40. It raises about \$7.5 million to \$8 million a

1 year.

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We do still have 18 unsewered areas. They are largely discrete townships and villages. The cost of providing the service to those villages ranges from \$25,000 to \$80,000, the average cost being about \$55,000. We are currently sewerage the township of Wyee, so 450 residential lots will be connected to our system in 2020, and in our last price submission, we set out the funding arrangements for that. IPART allowed us an extension of the EIC, at the end of the price path. We have indicated that we would need to extend the EIC out to 2021-2022 to fund that project.

We have a policy on the funding of backlog sewer schemes and it largely mirrors the priority sewerage program work. We go through a screening process. We talk to Health and EPA. We get their advice on priority areas. We talk to local councils. We do the costing work, and then we consider next steps and what we will put in our pricing submission.

We think that is a reasonable approach to take. It involves government and it involves contribution from the New South Wales government towards the cost of those schemes. The New South Wales government has paid \$6,000 per property for the Wyee scheme.

Again with the situation where we have 18 of those townships, it would cost \$130 million plus, and we are currently raising \$7 to \$8 million a year.

We are interested in the options that you have and that you have put up today. I guess we are thinking about ways, where if there is genuine interest from a number of existing property owners in an area and they are willing to make a contribution to have a reticulated service sooner, there could be some flexibility in the determination that allows us to do that on a case-by-case basis. That would be welcome.

THE CHAIRMAN: Thank you very much Peter. Bileen?

MS BILEEN NEL (Central Coast Council): As we mentioned earlier today, we do have two backlog schemes that were implemented with the private sewer program. Certainly the Cockle Bay one in particular had a very high uptake rate, and I think that was because of the very high amount of

1 community engagement that happened there.

2  
3 We certainly will continue to support an annual charge  
4 to smooth down the bills. We would like to continue to  
5 explore backlog sewerage charges in the three particular  
6 areas that we have mentioned, but there are also other  
7 areas in the Central Coast Council. Given the specific  
8 topography, and also there are some very low-lying areas -  
9 we have lots of sensitive lakes, et cetera, in the area -  
10 that would be something we would need to look at. Given we  
11 can't bill the environment for it, certainly we need to  
12 ensure that we protect it, because a lot of the times there  
13 are implications on our water catchments. We need to make  
14 sure we keep them our catchments clean, so it has a  
15 drinking water implication as well.

16  
17 THE CHAIRMAN: When you say that Cockle Bay had a high  
18 uptake, does this mean that some people have just elected  
19 to remain on septic tanks?

20  
21 MS NEL: Yes. It was an opt-in or opt-out option. There  
22 were some requirements about having certain amounts of  
23 infrastructure available should they want to opt in. There  
24 were three different levels that you could do, but, at the  
25 end of the day, they could say, "No, I don't want to", or,  
26 "Yes, I do", and we had about 75 per cent of the community  
27 opt in.

28  
29 MR WILLETT: What does that mean for equivalent tenement  
30 costs?

31  
32 MS NEL: If my memory serves me correctly, it was \$75,000  
33 per lot.

34  
35 MR WILLETT: Adopting an opt-in/opt-process, you get less  
36 utilisation so how much does that increase the cost per  
37 unit?

38  
39 MR MELI: We would have to take that one on notice. We  
40 can't come up with those figures here.

41  
42 THE CHAIRMAN: Thank you, Bileen. Tass?

43  
44 MR MELI: The general theme of our submissions is that we  
45 would like to realise those wider environmental and health  
46 benefits for everyone. The challenge is how much of the  
47 charge we can apportion across the wider community, or if



1 we can manage to achieve funding from the state government,  
2 or elsewhere, so that that apportionment is over an even  
3 wider base.

4  
5 We do not have the ability to levy an environmental  
6 impact charge or an environmental improvement charge, we do  
7 not have that scope, and whether if we did that would be  
8 mean tested, and so forth, would be introducing a fair bit  
9 of complexity.

10  
11 The only other thing is the consideration of what is  
12 the actual improvement the individual gets from that scheme  
13 and whether that can be factored in.

14  
15 In relation to the questions that are there, we would  
16 like a little bit more flexibility in the calculation,  
17 rather than it just being strictly under the same methods  
18 as the developer contributions.

19  
20 THE CHAIRMAN: Any questions or comments from the floor?  
21 Michael first, and then Robert.

22  
23 MR ENGLISH: Just to answer the question in the context of  
24 minor service extensions, we set a charge according to a  
25 methodology. Maybe it is opt-in/opt-out; people can choose  
26 to pay that or not. What happens is, once it is built, if  
27 they do not connect, we record in the system that there is  
28 an outstanding charge on that development. In the future,  
29 if they change their mind down the track, the charge is put  
30 it up by the CPI and they pay that at the time, so there is  
31 no shortfall as such.

32  
33 THE CHAIRMAN: So, in effect, Sydney Water carries it  
34 until they decide to come into the system.

35  
36 MR ENGLISH: Correct, so a readjustment of the charge  
37 there, but they have the opportunity to connect.

38  
39 THE CHAIRMAN: Thank you.

40  
41 MS BEATTY: May I add a little bit?

42  
43 THE CHAIRMAN: Sure.

44  
45 MS BEATTY: There is a little bit of a forecasting issue,  
46 though. To create that charge in the first place, you have  
47 to forecast when each of those lots are likely to commence.

1 So how optimistic do you make that forecast? If you make  
2 it very optimistic, the charge will be low and you will  
3 then eventually not ever recover the total cost. That is a  
4 particular problem for those minor service extensions,  
5 because there is no way that we would force them to  
6 connect. Also it is very difficult to get forecasts right  
7 on a very small basis

8  
9 THE CHAIRMAN: Basically, you carry the risk of the  
10 forecasts as well, but you also gain --

11  
12 MS BEATTY: With minor service extensions, I am not sure  
13 that we bear the risk, but it is actually the customer  
14 bills that bear it. But, yes, thankfully they are only a  
15 small proportion of the revenue that we receive.

16  
17 THE CHAIRMAN: Thank you, Kate. Robert?

18  
19 MR KEESEN: Just a bit of perspective here, it does cost  
20 about \$20,000 to service a lot around Sydney with a nice  
21 secondary system. The reason that backlog areas are  
22 backlog areas is because they are difficult to service.  
23 They have been left out. The average lot is about \$50,000  
24 to service, roughly. Don't quote me on those numbers, but  
25 you're talking about at least double the cost for a lot of  
26 these backlog areas. It raises the question as to how much  
27 of that is a community service obligation and how much of  
28 that is a customer benefit?

29  
30 What seems to be happening here is we are oscillating  
31 between the customers looking after themselves, and you get  
32 all sorts of the odd behaviours that you are talking about,  
33 about, such as Sunday night being siphoning night, and the  
34 customer is not really that concerned. On the other hand,  
35 you can go to a utility provided service which is costing  
36 \$50,000 per lot roughly. I again qualify those numbers,  
37 but that is roughly what you are talking about.

38  
39 That \$50,000 is for a conventional system. There are  
40 service providers out there that will do precinct scale  
41 services that do not cost \$50,000. What I think you should  
42 be looking at is how do you encourage that level of  
43 innovation into that part of the industry?

44  
45 The way you could do that is to quite clearly define  
46 what is the community service obligation component of the  
47 cost and offer that cost, not just to the incumbent utility

1 but to any service provider who is willing to back that  
2 scheme, and then they can come into the market. At the  
3 moment, they can't come in to the market because they do  
4 not have access to the community service obligation that  
5 the government is, in actual fact, providing for a broader  
6 community benefit - public health, et cetera. That's my  
7 comment.

8  
9 THE CHAIRMAN: Good point, thank you. Are there other  
10 questions or comments? Yes, Chwee?

11  
12 MS LIM: One factual correction there. I see that it was  
13 stated that it is about \$3,000 per lot for the CSO, but in  
14 2011, actually for Sydney Water, the figure for that CSO  
15 element that was introduced is \$6,000 per dwelling. So  
16 that is just from 2011 onwards.

17  
18 MR EDGERTON: The \$3,000 refers to the cap.

19  
20 MS LIM: Increased to \$6,000 from 2011.

21  
22 THE CHAIRMAN: The \$3,000 is in the determination.

23  
24 MS LIM: Yes, but in 2011, the minister basically directed  
25 Sydney Water to accelerate that PSP and increase the CSO  
26 subsidy to the program to \$6,000 per dwelling.

27  
28 MR EDGERTON: Just to confirm, though, the \$3,000 is not  
29 the CSO. The \$3,000 is the cap on the charge.

30  
31 THE CHAIRMAN: The charge to the customer.

32  
33 MS LIM: All right, sorry about that.

34  
35 THE CHAIRMAN: It's okay.

36  
37 MS LIM: I just wanted to highlight that there has been an  
38 increase.

39  
40 THE CHAIRMAN: So what you are saying is that the Minister  
41 has directed that the CSO be \$6,000?

42  
43 MS LIM: That's right.

44  
45 MR ENGLISH: I think for PSPs, the government stepped in  
46 to cover the \$3,000 cap number and then they said, "Let's  
47 make it six because time has moved on".

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THE CHAIRMAN: Any questions? Deborah.

MS COPE: This is directed to Central Coast Council. You said there were several systems that didn't go ahead because they lacked local support. Was that because local people didn't perceive the benefit or because you're talking about areas that are particularly disadvantaged and, therefore, have an affordability issue?

MR MELI: Deborah, without access to the specific responses and data in those circumstance, the general comment would just be that it is around affordability. That's as much as I can really say.

THE CHAIRMAN: Does anybody else have questions? Matt?

MR EDGERTON: Just a general question perhaps for around the table. We have proposed as a default position that the developer charges methodology and procedural requirements would apply to backlog sewerage charges, but that there could be a case to be made on an area-by-area basis for effectively a reduction to that or a cost-sharing arrangement between customers of the backlog charge and the broader customer base.

I was wondering whether there is a view that such a cost-sharing arrangement would, in practice, always occur for backlog charges or whether it really is on an exception basis, and what's the rationale for the cost sharing? When should it be put in place?

THE CHAIRMAN: Would anybody like to answer? Craig and then Robert.

MR MEMERY: That is an excellent question and it really goes to the core of what the issue is. In our view, we would see the cap as being most appropriately working both ways. There needs to be a cap as to how much is actually spent on a per-home basis by the utility and how much is socialised, therefore, but it reflects the point above which it just stops being the efficient thing to do.

That, in itself, is not as clear cut as saying there is a magic number, I appreciate that, so that would probably need to be considered in the context of what that co-contribution would look like. We would support

1 continuing to have annuity arrangements as an alternative  
2 to up-front costs, they are contributing, and we see that  
3 as being an important part of that tool.  
4

5 Considering that most of these broader benefits go  
6 beyond consumer benefits, there needs to be consideration  
7 given to other methods of contributing to what those costs  
8 would be, be they on budget or through council rates,  
9 acknowledging that neither of those are bottomless pits of  
10 money. We do need to consider those other alternatives  
11 because we are talking about benefits that accrue much more  
12 broadly than just to consumers.  
13

14 I know that that goes beyond the scope of what IPART  
15 can actually do, beyond making recommendations here and  
16 there, but I encourage IPART to think about how it could be  
17 communicated back to government that there are different  
18 alternatives that are available to socialising those costs  
19 through consumer bills which becomes a less efficient way  
20 of doing that in a lot of cases.  
21

22 THE CHAIRMAN: Thank you, Craig. Robert?  
23

24 MR KEESSEN: I would like to comment on a suggestion or a  
25 question that was put as to how sensitive are costs to  
26 uptake rates. So as to not lose that point, I would  
27 venture to suggest that they are very sensitive to uptake  
28 rates.  
29

30 If a utility is to put in a scheme and it gets 50 per  
31 cent uptake rate, its total costs will not be significantly  
32 different to the 100 per cent uptake rate. They need to  
33 design for 100 per cent, anyway, because the customer will  
34 not make a decision till further down the track. So if  
35 I design it and install it for a 100 per cent uptake rate,  
36 and then I get 50 per cent of the revenue, the cost per  
37 customer goes up correspondingly - it doubles. I suggest  
38 that, from a customer perspective, it's not so much the  
39 question of, "Do I want to contribute to the environment";  
40 their response probably is, "I just do not have the cash  
41 right now and if I can get away without paying, I would  
42 prefer to pay that off on my mortgage."  
43

44 What I am trying to do is say that customers do not  
45 necessarily disbelieve the environmental benefit, they just  
46 don't have the cash. If they can get away with not paying  
47 and the broader benefits are achieved by other people

1 paying, well, than, that's fine, but it does create quite a  
2 dilemma for the utility and it does have a very significant  
3 impact in my experience. Thank you.

4  
5 THE CHAIRMAN: Thank you. Yes, Craig?

6  
7 MR MEMERY: I have one additional comment. When we talk  
8 about benefits accruing to customers as well, we should not  
9 forget the benefit of the higher property value that comes  
10 with having sewerage connection to a property. The  
11 consumer will only realise that value if and when they sell  
12 the property, so we should not assume that automatically a  
13 value would accrue to the consumer, but, in this case, it  
14 is something that can generally be realised.

15  
16 THE CHAIRMAN: Thank you, Craig. They are all good  
17 points. Thank you very much.

18  
19 MR MEMERY: I apologise, I have to run out, but Thea will  
20 stay here.

21  
22 THE CHAIRMAN: Thank you for the contribution. I think we  
23 can now move on it session 3 which is "Other issues. We  
24 need a small change at the panel table. Thank you very  
25 much, Neil.

26  
27 Session 3 - Other issues

28  
29 THE CHAIRMAN: The purpose of the third session is to  
30 discuss other changes or issues related to this review as  
31 identified in our issues paper and/or by stakeholder  
32 submissions in response to the issues paper. These  
33 include, just to repeat: capital charges for minor service  
34 extensions and major service connection; also Sydney  
35 Water's Developer Direct; and the impact of development on  
36 water pressure and firefighting capacity.

37  
38 We have broken this session into three parts. For  
39 each part, we will have a brief introduction from the  
40 secretariat. The first one is other capital charges,  
41 including those for minor service extensions and major  
42 service extensions. Alexandra will introduce that; then we  
43 will move on to Sydney Water's Developer Direct; and then  
44 conclude with a discussion of development on water pressure  
45 and firefighting. Alexandra.

46  
47 MS SIDORENKO: Thank you, Mr Chairman. I will try to be

1 brief with this section. We covered quite a bit of  
2 discussion about the capital charges in our previous  
3 discussion on backlog sewerage.  
4

5 Basically there are two charges right now. Sydney  
6 Water's minor service connection charge is set out in  
7 Sydney Water's price determination. This is a charge  
8 payable on request of a property owner for Sydney Water to  
9 extend the sewerage system and/or water supply system to  
10 their property. It uses a methodology similar to developer  
11 charges but on a marginal capital cost basis. It is not  
12 looking to contribute to the costs of existing assets.  
13

14 Hunter Water proposed a major service connection  
15 charge based on the 2000 price review and did not go ahead  
16 with it. That would apply to existing properties and is  
17 similar to what Sydney Water is charging in the minor  
18 service connection charge, but using the 2000 developer  
19 charges methodology, which means taking into account these  
20 existing assets.  
21

22 In our issues paper, we wanted to ask questions on  
23 whether these charges could be somehow consolidated - so  
24 whether the methodology for the minor service extension  
25 should be set in Sydney Water's periodic price review or in  
26 the developer charges review. We asked whether this  
27 capital charge can be extended to other utilities. We  
28 asked whether Hunter Water's major service connection  
29 charge is warranted and how it should be applied. Now the  
30 question arises whether the Central Coast needs a service  
31 extension charge. Unlike Sydney Water and Hunter Water,  
32 Central Coast does not have this charge.  
33

34 With regard to the utilities' view, Sydney Water  
35 submits that the methodology could be simplified. Hunter  
36 Water argues that Sydney Water's minor extension charge is  
37 potentially not a regulated service at all because it  
38 recovers the cost of providing services to existing  
39 properties with some sewer solution in place already.  
40

41 For the Hunter Water major service connection charge,  
42 Hunter Water would see merit in applying this charge if the  
43 government reinstates developer charges, reverting the  
44 policy, and currently we understand that this charge  
45 is not been exercised.  
46

47 We are seeking your feedback on our preliminary view

1 that actually brings all these charges into the developer  
2 charges methodology and procedural requirements. That  
3 brings us to the issue of the last mile and the boundaries,  
4 and whether it is feasible to describe that service  
5 extension in the DSP language with the similar requirement.  
6 We would like to hear whether this preliminary view has  
7 legs or is feasible.

8  
9 Also we would like to hear whether large customers can  
10 be given the option to opt out from the determination of  
11 such charges. We discussed in section 1 that voluntary  
12 agreements in terms of developer charges may be an option to  
13 consider, so a similar opt-out can be given from these  
14 capital charges, service extension charges, by agreement  
15 between the expanding area and the utility.

16  
17 THE CHAIRMAN: Thank you very much, Alexandra. Are there  
18 any comments from Sydney Water and Hunter Water in  
19 particular?

20  
21 MR ENGLISH: It could be very difficult to apply  
22 procedural requirements for developer charges to MSEs -  
23 minor services extensions. It ranges from one property to  
24 a couple of hundred. I think there are a couple of  
25 thousand properties across Sydney, but they are in pockets  
26 all over the place. It sounds like a nightmare  
27 administratively to do the full DSP - publish a developer  
28 servicing plan, put it out for comment and register it with  
29 IPART, and all that. Yes, I can't see that working  
30 personally.

31  
32 As to opting out, I am not sure. It might be more  
33 relevant for Hunter's case but maybe not so much for the  
34 minor service extensions that I can think of, particularly  
35 residential. We are not talking about a large developer;  
36 if it is an existing group of houses that wish to connect.  
37 But they organise amongst themselves, then it is not a  
38 commercial type of arrangement, nor is it a level playing  
39 field in terms of negotiating power and stuff like that  
40 either. Again that is much more difficult to organise when  
41 we are not talking large customers but the minor services  
42 extensions.

43  
44 THE CHAIRMAN: Thank you, Michael. Peter or Emma?

45  
46 MR TURNER: Just a quick comment in relation to minor  
47 service extensions. It is similar in some ways to the way



1 that Hunter Water approaches infill backlog sewer services.  
2 The backlog sewer services we were talking about earlier  
3 were in relation to a whole township, whereas infill  
4 relates to clusters of, say, three to 30 properties. We  
5 essentially apply a similar methodology to Sydney Water in  
6 terms of the incremental costs to service the area.

7  
8 We approach those areas by discussing servicing with  
9 just a couple of streets, for example, that may not have  
10 sewer provided. We generally seek a 75 per cent uptake or  
11 greater before we proceed with the scheme. We would also  
12 generally work with the council or some other body that had  
13 the authority to require connections so that once agreement  
14 to connect was reached, we could actually achieve cost  
15 recovery with those customers.

16  
17 THE CHAIRMAN: What about the voluntary bit?

18  
19 MR SHIELDS: Capital contributions - since 1996 we have  
20 had a developer charges determination. In the 2000  
21 determination the developer charges were capped, as we  
22 talked about this morning, and they were applied to new  
23 development. At the same time, we applied a capital  
24 contribution to existing properties. So it was the same  
25 number calculated in the same way. It was just called a  
26 charge to existing properties, a capital contribution.

27  
28 In 2008, we sought directions and said no more  
29 developer charges for new development. We have continued  
30 the capital contribution for existing properties. When we  
31 came to the 2015 price review and were finalising our  
32 submission, our guys were saying, "We do not trust these  
33 DSP numbers anymore. We have been CPI'ing them."

34  
35 Post the review, we have gone back and taken legal  
36 advice on all of this. We did have the power to charge  
37 those capital contributions to existing properties, but we  
38 were never obliged to do so. Again there is good reason to  
39 charge a capacity charge to existing properties or a new  
40 development. We are no longer collecting capital  
41 contributions because we do not have up-to-date DSPs with  
42 accurate numbers that are generating charging amounts that  
43 are reasonable. If there is a reintroduction of developer  
44 charges, then it would make sense also to charge developer  
45 charges to existing properties.

46  
47 THE CHAIRMAN: Thank you, Peter. Any other comments or

1 questions around the table? Dave?

2

3 MR FILMER: No, thanks;

4

5 THE CHAIRMAN: Any other comments or questions on this one  
6 from the floor? No.

7

8 All right, let's move on to the next subtopic. I will  
9 ask Syvi Boon, from the IPART secretariat, to talk on  
10 Sydney Water's Developer Direct service

11

12 MS BOON: Thanks Peter. We raised Sydney Water's  
13 Developer Direct charge in our issues paper and we asked a  
14 question about its regulation. By way of background,  
15 Sydney Water Developer Direct is a service for developers  
16 who want to obtain their section 73 compliance certificate,  
17 and it only applies to complying development. It is a new  
18 service that Sydney Water is offering.

19

20 The charge is \$495.03, according to Sydney Water's  
21 website, and the website states that this is subject to  
22 variation. The charge includes a quote for construction  
23 work related to connecting the property to the water and  
24 sewerage network - if that is required, but it is not  
25 always required - and we considered whether we should  
26 regulate the price of construction services provided by  
27 Sydney Water Developer Direct and, if so, how?

28

29 We got some views from Sydney Water and Hunter Water  
30 about this. Both utilities said that this charge should be  
31 unregulated because there was competition in the market.  
32 WSAA also supported that Sydney Water Developer Direct  
33 should be unregulated - that is, the construction services  
34 component of it.

35

36 Then we received a submission from a water service  
37 coordinator, which suggested that the charge for the  
38 application services component - and that is the \$495.03  
39 that I mentioned earlier - was below the competitive  
40 market.

41

42 Today we are seeking feedback from everybody here  
43 about whether the application fee component of Sydney Water  
44 Developer Direct is cost reflective - I know we have a few  
45 water servicing coordinators here - and whether that is set  
46 appropriately, and whether there is any effect on  
47 competition for the construction services that are offered

1 as part of Sydney Water Developer Direct.

2

3 THE CHAIRMAN: Thank you very much, Syvi. Sydney Water  
4 would you like to say anything more before we open it up?

5

6 MR ENGLISH: No, thank you.

7

8 THE CHAIRMAN: Dave, would you like to make a comment?

9

10 MR DAVE FILMER (North Western Surveys): I am from a  
11 company called North Western Surveys, we are a water  
12 servicing coordinator. We are a multifaceted business. We  
13 are a complete development consultancy.

14

15 The first thing I must say is when we first put in our  
16 submission, we realised that there are a lot more issues  
17 that may not be related to IPART, but it is more the  
18 competitive neutrality of what we see is happening with  
19 Sydney Water Developer Direct.

20

21 We are not privy to how they have come up with their  
22 numbers to come into the market. They have entered into  
23 what is already a competitive market on the back of a  
24 contract with us that says they will not enter the market.  
25 That is not an IPART issue, I agree, but it is certainly an  
26 issue that needs to be addressed.

27

28 As I said, we are not privy to how the charges were  
29 brought about, but we exist in a competitive market with  
30 30 other water servicing coordinators and we win our fair  
31 share and a fair amount of work. We do disclose up-front  
32 to the client the full scope of those works and we  
33 individually price each component. From our point of view,  
34 the Sydney Water thing seems to be, "We've got you in the  
35 front door", type of thing, and they may be able to charge  
36 down the track.

37

38 On top of that, they also are not required to meet the  
39 same levels and standards that we have to meet. Sydney  
40 Water requires us, as part of our contract, to have an  
41 AutoCAD licence that is either the current or the one  
42 previously superseded. In a company our size, it goes into  
43 the tens of thousands of dollars a year to keep. Sydney  
44 Water is able just to produce a sketch and they do not have  
45 an AutoCAD licence of any sort to do that. They do not  
46 seem to have the same inspection regime that we are  
47 required to follow to produce in the submission of

1 finalised documentation.

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I know, in effect, the first thing that came out was for construction, but we thought we would take the opportunity to open the door to suggest that there is a little bit more in depth to this than just the construction aspect of it. We would like IPART to have a look at that and scrutinise whether it is anti-competitive or, in this case, the neutrality and quality of competition is not there.

THE CHAIRMAN: Thank you very much, Dave. Are there any other comments or questions? Thea?

MS THE BRAY (PIAC): We would be concerned if the price that Sydney Water is charging was so low that it would not be sustainable into the future. If there was less competition as a result of that, then later on, when there is less competition, the price could be raised.

THE CHAIRMAN: Thank you, Thea. Questions or comments from the floor? There is a lady down the back.

MS COLLEEN THOMPSON (PR & CM Drafting): I am also a water service coordinator. I have looked at Sydney Water's charges for \$495.03 and for what they say that they can produce, it is totally unfair and not a level playing field.

You cannot do the work in the time that Sydney Water says it take to do the job. I worked out that it took them two hours to do what takes us several hours. In their submission, they say that that is the construction cost. So for two hours, they provide the notice of requirements. They provide the quotation. They provide a sketch. They provide inspections, because in their submission, they refer to "construction only". We have to provide quite a lot more than that.

THE CHAIRMAN: Thank you very much, Colleen. Any other questions or comments?

MR DANIEL PEACOCK (Sydney Water): I was the project manager on the Sydney Water Developer Direct project, so I can answer a lot of these questions.

In relation to the time it takes for Sydney Water

1 Developer Direct to do their activities, the first thing  
2 that can be said is that when this activity or this  
3 function was set up, we were very diligent to make sure  
4 that ring fencing was very much a part of what we did to  
5 make sure that the regulated part of the business in no,  
6 way shape or form subsidised the unregulated part of the  
7 business.

8  
9 We audit and rigorously check the time it takes for  
10 staff members and the team to do the work. I have no  
11 visibility of how water servicing coordinators operate or  
12 what they do on their day-to-day activities. What I can  
13 tell you is, on an average, for applications that require  
14 no work, it does take Sydney Water Developer Direct about  
15 2.5 hours, that's effort - not elapsed time; that's effort.

16  
17 For activities or for jobs that require construction  
18 work, yes, there is more effort involved and that equates  
19 to around 3.75 hours worth of effort - again not lapsed  
20 time, but effort.

21  
22 The point I am trying to make is that we have been  
23 very, very careful that we do not in any way, shape or form  
24 let the regulated part of the business subsidise the  
25 unregulated component. We have been very careful in how we  
26 design the service documents; we make sure it is lean and  
27 efficient to make sure we do not incur unnecessary charges  
28 to customers, and that is very important.

29  
30 In relation to the comments that were made earlier  
31 about what we do and do not do, to provide a bit of clarity  
32 on that, Sydney Water as a whole, needs their water  
33 servicing coordinators to submit work in a consistent way  
34 to make sure when we receive what we call "work completion  
35 packages" into the system, we can then process them  
36 accordingly. We need a certain level of consistency.

37  
38 Sydney Water abides by the same standards, but we do  
39 not have to submit our own drawings to ourselves in AutoCAD  
40 format because we know what we need to provide to make sure  
41 that our system is updated accordingly, but we do insist  
42 that the water servicing coordinators submit a document in  
43 a form that allows us to do our job effectively and  
44 efficiently to make sure we do not pass on extra charges to  
45 the customers.

46  
47 THE CHAIRMAN: Thank you very much, Daniel. Dave, do you

1 want to say anything?

2

3 MR FILMER: I accept that Sydney Water has access only  
4 basically because they own the system. Two water  
5 servicing coordinators were provided with greater access to  
6 Sydney Water's GIS system. I assume that's where the  
7 difference comes - that you can put things directly into  
8 your GIS. That service could be provided to WSCs if you  
9 wanted to. There is no reason that that could not happen,  
10 but I assume it never will.

11

12 I really do not see that that argument stacks up,  
13 personally, because if we are required to put it in  
14 AutoCAD, I am not exactly sure what happens to the AutoCAD  
15 drawing once it gets back to Sydney Water. The same person  
16 who uploads into the GIS system could easily interpret what  
17 we have done out in the field as to what you have done out  
18 in the field, by the same thumbnail-dipped-in-tar sketch  
19 that would be provided. I really do not see that that is  
20 an argument.

21

22 We still do not understand who does the inspections of  
23 the works. For those who do not know, Sydney Water  
24 conducts forums with the WSCs on a roughly quarterly basis.  
25 It has to be said that those forums, which were a two-way  
26 talkfest originally, have now basically become a one-way  
27 lecture where we are told what's happening and we get sent  
28 on our way.

29

30 We have been told that no inspections are required by  
31 the Sydney Water Developer Direct works because their  
32 contractors operate to a much higher standard than the  
33 developer contractors that we employ, which is frankly  
34 garbage. I still do not see that they are on an equal  
35 footing, and I won't be satisfied that they are until each  
36 of us play by the same rules. It is as simple as that

37

38 THE CHAIRMAN: Thank you, Dave. Robert?

39

40 MR KESSEN: Warren Smith does a lot of WSC work as well.  
41 I wish to comment that competitive neutrality in these  
42 sorts of areas will always be a vexed issue. It goes way  
43 back years ago to when Sydney Water were competing in the  
44 consulting market and there was a lot of unrest around  
45 that. Resolving the issues was always going to be  
46 difficult because of the cross-fertilisation. The  
47 competitive benefits that Sydney Water gets are very

1 subtle, and they revolve around risk. If these water  
2 service coordinators underquote and undercut the market,  
3 they go out of business. Their business goes; it folds.  
4 If Sydney Water underquotes for a while, then it is  
5 reflected in a very small number on the bottom line  
6 somewhere and nobody goes out of business.

7  
8 It is really business risk, and that is where the most  
9 difficult aspect of competitive neutrality comes into it.  
10 It is very difficult to quantify that and it put it into a  
11 number and say, "Oh, we have a level playing field." You  
12 have to ask the question, "Why are you doing it? Why would  
13 Sydney Water want to get into this space?" The answer is  
14 fairly simple. They want to get closer to their customers.  
15 It is not about making a lot of money. It is about getting  
16 closer to the customer and them understanding what the  
17 customer wants more. That is a very legitimate ambition of  
18 the organisation, but maybe there are better ways of doing  
19 this that do not have these vexed issues around competing  
20 against other established industries. That's my  
21 suggestion. Thank you.

22  
23 THE CHAIRMAN: Thank you very much, Robert. Daniel?

24  
25 MR PEACOCK: To echo your point, Sydney Water, back  
26 in January 2016, conducted a very large customer research  
27 piece with customers that went on for about three months.  
28 The resounding feedback we got from customers was, "We want  
29 a choice." Over the last 16 to 18 years, by having the  
30 water servicing coordinator industry, essentially that is a  
31 monopoly because it has been a closed industry for those  
32 years, and customers said, "Why can't we deal with you  
33 directly for smaller simpler development?"

34  
35 That is why Sydney Water Developer Direct came about.  
36 It was not because we wanted a market share or anything  
37 like that. Customers said that's what they wanted. As  
38 part of our core strategy we want to be customer-centric,  
39 so we have to listen to our customers. If that's what our  
40 customers are saying, we need to take it on board and come  
41 up with a solution. Whether it can be improved or not is a  
42 different thing but that's what they wanted. That is the  
43 only reason.

44  
45 THE CHAIRMAN: Thank you, Daniel. Are there any other  
46 comments or questions on this issue? You are well on our  
47 radar screen, David.

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MR FILMER: Thank you.

THE CHAIRMAN: Talking about vexed issues, I think we can move on to the issue of firefighting capacity and Alexandra will introduce the topic.

MS SIDORENKO: Thank you, Peter. We are dealing with the submission on this review from Fire and Rescue NSW, raising the question of water pressure and the capacity to fight fires. The summary of the submission is:

Brownfill developments - and we are seeing increase in the number of multi-storey and multi-unit developments - rely on existing water infrastructure which often has insufficient flow and pressure to the fire hydrant on the street.

Continuing growth in multi-unit developments has an effect on water pressure in mains, requiring existing apartment blocks to install on-site firefighting systems - pumps and tanks - if necessary. With these on-site systems, because of the technology that's required to access these on-site fire solutions - that increases the time to respond to a fire, and that impacts Fire and Rescue NSW in providing a timely response to a fire.

Fire and Rescue NSW argues in its submission that these costs could be avoided if Sydney Water were to upgrade its mains, especially in those areas where multi-unit developments are happening, to increase water pressure to everyone in the streets in those areas.

Also Fire and Rescue NSW made the suggestion that the funding model for water infrastructure should be reviewed to provide for an upgrade of existing water infrastructure to facilitate firefighting.

We would like to put on to the discussion today the question of how is Fire and Rescue's argument addressed and considered by Sydney Water in its decision making today? We know that there is a memorandum of understanding between Fire and Rescue and Sydney Water, as required by Sydney Water's operating licence signed in 2015. We would like to know effect of this current MoU on the issue.

Also what can or should be done to address the water pressure issue for firefighting? Is there a case to impose



1 a standard or a requirement on Sydney Water to maintain  
2 water pressure for firefighting in these areas of new  
3 development?  
4

5 We would also like to know how this should be tackled  
6 when developers charges are at zero and when they are not  
7 zero, and who should pay for these additional measures  
8 relating to what would be required as part of the standard  
9 water services to customers for firefighting purposes. Who  
10 should pay? Should it be all Sydney Water customers or  
11 some subset of customers, or customers who get the water  
12 pressure increased in their street and who are saving on  
13 their on-site firefighting system, or is it the broader  
14 community that should be funding these additional  
15 requirements?  
16

17 THE CHAIRMAN: Thank you very much, Alexandra. Gregory  
18 from Fire and Rescue.  
19

20 MR GREGORY BUCKLEY (Fire and Rescue NSW): Thank you,  
21 Mr Chairman, and thanks, Alexandra. That was a good  
22 summary.  
23

24 Just to recap, our concern is really how our ageing  
25 infrastructure, predominantly in Sydney - I am not quite  
26 sure how it will affect Central Coast and Hunter, but  
27 mainly in the Sydney area - will meet the greater demand  
28 that we are getting with the urban growth. Really because  
29 of the interplay between building code requirements and  
30 what the utilities can provide, we have a current  
31 situation, but getting worse, of economic inefficiency in  
32 the market.  
33

34 Because of the ageing infrastructure, in terms of the  
35 reticulated mains in the street, a developer for, say, a  
36 mid-rise apartment block may be required to install tanks  
37 and pumps at great expense to provide the appropriate fire  
38 safety requirements for water supply to the building to  
39 meet the building code.  
40

41 Just to make it concrete, there are a couple of  
42 aspects to this problem. There are brownfield and  
43 greenfield issues. In infill or brownfield developments,  
44 you will have a situation that may be poorly serviced by an  
45 existing mains at the moment. There is a concrete example  
46 that we raised at a previous hearing.  
47

1 Just to give you an idea, in a particular street in a  
2 northern Sydney suburb, one apartment block - not a  
3 particularly large block - was required to have an upgrade.  
4 It was not a new development, but there was an upgrade  
5 imposed for a fire safety order placed by council. The  
6 costs on that apartment block were in the vicinity of  
7 \$150,000.  
8

9 In some research done by our fire safety area in  
10 talking to Sydney Water, the upgrade of the main on that  
11 street would have been in the vicinity of \$600,000. We  
12 have the situation whereby the developer, or the building  
13 owners in that case, may be quite willing through some  
14 voluntary agreement to pay, say, \$50,000 or \$100,000  
15 towards the upgrade of the main, but then Sydney Water is  
16 obviously left with the undesirable situation of finding  
17 the other half a million dollars.  
18

19 But then, over time, there may be further development,  
20 because we are getting a greater increase in housing  
21 density, and other developments on that street would get  
22 the benefit from that improved service from that water main  
23 but not incur any cost. Normally you may say, "Well, maybe  
24 there is some developer levy that could be struck that  
25 would go towards the cost of the upgrade and the  
26 infrastructure and when Sydney Water accumulated a certain  
27 amount of money to pay for that upgrade and the mains, they  
28 could then undertake the work".  
29

30 That is not much good for the first developer who is  
31 facing the problem of whether they contribute some  
32 developer levy through a voluntary agreement and still have  
33 to meet the building code requirements. You really need  
34 the main installed up-front with the first developer. He  
35 may be able to make some contribution, and then you have to  
36 figure out how you're going to fund through ongoing  
37 contributions over time to pay for the residual costs.  
38 That is the nub of the problem.  
39

40 The silly situation at the moment is that you may  
41 find, for instance, in that street half a dozen buildings  
42 may be paying \$100,000 to \$200,000 in costs to upgrade,  
43 which greatly exceeds at the time the cost of the upgrade  
44 in the main. That would be far more efficient way of doing  
45 it because it benefits all consumers on the street.  
46 Whether you do it through capturing developer charges  
47 downstream or through pricing for the consumer on the

1 street - and I know that is probably not considered here -  
2 that's a problem.

3  
4 Another aspect to this is that you may be in a  
5 marginal situation where developers will come along. The  
6 first developer may find that they can get what they  
7 require from the main on that street, but the greater  
8 drawing on that particular main may mean that the second or  
9 third developers may still use it, but the fourth developer  
10 may incur the \$200,000 charge to meet the building code  
11 requirements that the other developers did not have to  
12 meet. It really goes to how we upgrade infrastructure over  
13 time to meet the most efficient outcome.

14  
15 THE CHAIRMAN: Thank you very much, Greg, Sydney Water,  
16 are there any comments?

17  
18 MR ENGLISH: I have not been involved in the MoU, but  
19 I understand working relationships have been quite good  
20 under that and it have definitely improved since it has  
21 been in place.

22  
23 MR BUCKLEY: Yes, I echo that. Since the MoU has been  
24 place as part of the operating licence, we have had a very  
25 good relationship with Sydney Water. It is very  
26 collaborative and they have learned a lot from us about  
27 some of the problems that they can address. But this goes  
28 beyond that because it really goes to the core of how we  
29 fund improvements in the infrastructure.

30  
31 MR ENGLISH: The link between private responsibilities and  
32 public water utility responsibilities and building codes  
33 and operating licence interactions and who bears the cost  
34 is really a vexing issue. To caution against a broader  
35 standard it is a very broad brush. You can't have the same  
36 solution everywhere, so I guess we would be cautious about  
37 putting something in the licence, because it may mean  
38 hundreds of thousands of dollars of expenditure where local  
39 solutions might be the most comfortable outcome, depending  
40 on where the problems are in particular.

41  
42 THE CHAIRMAN: Do you mean put it in the determination?  
43 You said "licence".

44  
45 MR ENGLISH: Sorry, at the moment we do not have a licence  
46 obligation.

47

1 THE CHAIRMAN: Not on this, no, just the MoU.

2

3 MR ENGLISH: Yes. That may clarify responsibilities, but  
4 it may lead to such expenditure, so there might be a more  
5 efficient way of addressing the problem. We are working  
6 together over the next few years to really, I guess, try  
7 and predict where those problems areas might be and get  
8 more details so we will be more prepared about just what  
9 locations might be the biggest problems and focus on the  
10 solutions for those.

11

12 THE CHAIRMAN: Thank you very much, Michael. Are there  
13 any comments or questions on this issue? Thea?

14

15 MS BRAY: Just to reiterate, I imagine that there is a lot  
16 of planning around where there are expectations of more  
17 development in particular areas and really focusing on  
18 those areas. It would seem to be the best outcome for  
19 consumers that those costs could be spread much more  
20 fairly.

21

22 THE CHAIRMAN: Greg?

23

24 MR BUCKLEY: We would not disagree with that, because it  
25 is a local problem, but how you might apportion through  
26 developer charges and future developer charges that  
27 could then offset any upgrade in the mains, that is the  
28 critical thing here. I do understand the complexities of  
29 the issues, but that is the problem.

30

31 THE CHAIRMAN: It is indeed a very vexing issue. Having  
32 then identified the area, there's then a question about how  
33 and who pays and when. We can do with all the help we can  
34 get on this one.

35

36 MR BUCKLEY: Again, I do not know enough about the  
37 economics of it and how you would go about the solution.  
38 If the first developer had some voluntary charge that could  
39 contribute towards a local upgrade in that street, then  
40 there is the funding issue for Sydney Water about how they  
41 then carry that cost. It depends on how they see into the  
42 future where they may be able to recoup those costs from  
43 other levies.

44

45 If I go back to the example I quoted from the northern  
46 Sydney suburbs, if we are talking about a \$150,000 cost,  
47 roughly for argument's sake, on a particular individual

1 development as opposed to about a \$600,000 cost from a main  
2 in the street which is going to affect, I think, about  
3 30 or 40 properties potentially, then depending where you  
4 strike that balance - and there will be a risk on how much  
5 money you could get back because of the uncertainty in the  
6 future - then maybe they have some capacity to say, "Okay,  
7 we might take \$100,000 or \$150,000 from that developer in  
8 the knowledge that we might get it from ten other  
9 developers further down the track that recoups the cost.  
10 If we get it from 15, that perhaps could go into some fund  
11 that could help with further upgrades down the track".  
12 There is a lot of work that would have to be done in terms  
13 of the risk around that, but maybe that is approach that  
14 could be taken.

15  
16 THE CHAIRMAN: Earlier on, and I am not sure whether you  
17 were here or not, Kate made the point about the backlog  
18 sewerage and the issue about how many who opt in. In the  
19 example that Kate mentioned, Sydney Water is, in effect,  
20 financing this until others jumped in. I think that this  
21 is the place for IPART to try and tackle this, conceptually  
22 and methodologically it fits in with this body of work. It  
23 is a very tricky issue and one reason why it is tricky is  
24 not dissimilar from the backlog sewerage scheme. It is  
25 about who pays for it and what are the benefits for the  
26 general community, what are the benefits for the neighbours  
27 and things like that. Greg?

28  
29 MR BUCKLEY: In some sense perhaps again, the  
30 opt-in/opt-out may be managed on the basis of the fact  
31 that if you left the existing mains in place and it was  
32 deficient, then a subsequent developer will be bound by the  
33 costs of installing fire safety systems because the  
34 building code would require it. To a certain extent if you  
35 did not upgrade the main, they would have no choice, so  
36 they do not necessarily get the option to opt out.

37  
38 THE CHAIRMAN: The opt-in/opt-out would have to be treated  
39 differently; it is just that conceptually it's the same  
40 issue.

41  
42 MR WILLETT: It is conceptually similar in that there is a  
43 timing issue about when someone actually contributes to the  
44 cost. I think we recognise the efficiency over time, but  
45 it is a question of how you recover those costs and when,  
46 and how Sydney Water is able to make judgments about  
47 whether it would be a prudent investment over the next

1 ten years, they are quite different issues.  
2  
3 MS LIM: In a sense, it can be treated as a shared asset.  
4 If, let's say, that piece of the infrastructure is built  
5 where there are other developments around the vicinity as  
6 well, to a certain extent, the shared asset concept that we  
7 were talking about there could take into consideration the  
8 future development as well within the time period that we  
9 are looking at. That general concept applies to a lot of  
10 things.  
11  
12 THE CHAIRMAN: Thank you, I agree. Thanks Chwee. Are  
13 there other comments or questions? Any wrap-up?  
14  
15 MR MELI: Greg seems to be suggesting, and I do not say it  
16 is inappropriate, that the upgrade of the water main  
17 becomes part of the DSP.  
18  
19 MR BUCKLEY: Well, essentially, yes, but who pays and  
20 when?  
21  
22 MR MELI: Well, in Sydney and Hunter, no-one pays.  
23  
24 MS BEATTY: Everybody is paying.  
25  
26 MS SIDORENKO: What is the situation in the Central Coast?  
27  
28 MR MELI: I'd have to take that question on notice,  
29 Alexandra. It is tied up, of course, because it is part of  
30 the building code assessment of those developments.  
31  
32 MR BUCKLEY: Just to hammer home the point, people are  
33 paying this now. It really is an economic efficiency that  
34 if somehow we can come up with a better scheme, there will  
35 be a net economic benefit to the community overall.  
36  
37 THE CHAIRMAN: Thank you very much. Are there any other  
38 questions or comments? Matt?  
39  
40 MR EDGERTON: I have one question for Sydney Water. Just  
41 to confirm, to what extent is Sydney Water currently  
42 considering this issue of water pressure in its decisions  
43 on when and how to upgrade mains?  
44  
45 MR ENGLISH: One of the standards we look at is servicing  
46 development forecasting. Water pressure is actually  
47 probably the key to look at whether it gets down to the

1 effects of a fire at a particular point in time. Usually,  
2 we forecast ahead what would happen on the hottest day or  
3 the hottest month or the hottest hour on the hottest day.  
4 That is probably enough, but whether you need to add on top  
5 of that a central fire alarm. Pressure is definitely one  
6 of the key indicators so the forecast predicts that  
7 pressure would drop down by the operating licence standard  
8 and you would look at what needs to happen to bring it back  
9 up.

10  
11 MR EDGERTON: Has your consideration of decision making  
12 around water main upgrades changed in any way following the  
13 MoU?

14  
15 MS BEATTY: My understanding is that we have not changed  
16 because that it is my understanding of what's in our  
17 operating licence, and that does not necessarily have  
18 enough for the firefighting capabilities, particularly in  
19 these older suburbs. It is the cement-lined in-situ pipes  
20 that are the problem.

21  
22 That being said, we are very much on board with  
23 yourselves, Greg, that from an economic viewpoint, it does  
24 not make sense for six buildings to pay for the services  
25 when you could upgrade that pipe. I believe that we are  
26 working with Waverley Council on a case study at the  
27 moment.

28  
29 MR BUCKLEY: Okay, I was not aware of that.

30  
31 MS BEATTY: Yes, it is to look at whether we could  
32 actually work with the council. Another thing is that  
33 councils will not necessarily put these fire requirements  
34 on every single building on a street. It will be one here  
35 and one there are. It will be a case of councils working  
36 with us as well, getting everybody in a street to have the  
37 same requirements at the same time, and then you can work  
38 together on a solution. Yes, that is the status of that,  
39 but, like I say, our design requirements are only to the  
40 operating standard and we are meeting those.

41  
42 MR BUCKLEY: That is a good point. A coordinated approach  
43 to councils will work because it is quiet erratic. More so  
44 than the pressure, the flow of the water is the thing that  
45 we are mainly interested in, because obviously our fire  
46 trucks have pump and we can pressurise as appropriate, but  
47 it's about getting the necessary flow. I believe Hunter

1 Water have a 10-litre per second design requirement or  
2 objective.

3  
4 MR TURNER: For a new developments, yes. Perhaps I could  
5 make a few comments, just to share some insights from some  
6 preliminary discussions that we had with Fire and Rescue  
7 NSW during our operating licence review.

8  
9 We do not have the brownfield, infill, multi-storey  
10 issue that arises in Sydney's area of operations, but we do  
11 have some legacy issues from an evolution of fire flow and  
12 pressure standards over time as they have become  
13 increasingly stringent. For the new buildings, we do  
14 target that 10 litres per second.

15  
16 We have done some modelling and mapping across our  
17 area of operations to identify some hot spots where we may  
18 not be able to achieve 10 litres per second and identify  
19 those where it may be marginally or significantly less. We  
20 are looking forward to working with Fire and Rescue NSW in  
21 identifying which areas might still be acceptable, because  
22 it sounds like there are some of those where there may be  
23 an alternative mechanism to fight fires and it's not worth  
24 upgrading those, whereas there are some areas where it  
25 would be absolutely essential.

26  
27 If we were to have a blanket requirement across  
28 our whole area of operations, that would cost well over  
29 \$100 million to get those mains to that standard, which  
30 would put significant upward pressure on household bills.  
31 We see the five years of the operating licence as a good  
32 opportunity for us to collaborate and really identify what  
33 are the most efficient solutions for each and every area,  
34 and then perhaps work on what the opportunities are in any  
35 subsequent price reviews and price submissions.

36  
37 THE CHAIRMAN: Thank you very much, Emma. One last one,  
38 Greg.

39  
40 MR BUCKLEY: Thank you. We are certainly very conscious  
41 of the huge capital costs. We would not want to impose an  
42 across-the-board burden on utilities because that would be  
43 unreasonable. It needs to be attacked on a local basis.  
44 Certainly where we may suffer some shortage in a street, we  
45 will deal with the situation. Our main concern is the  
46 imposed costs on individual buildings for the installed  
47 protection.



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As an emergency service, we will deal with whatever situation we find when we get there, but we do not want to see the ridiculous situation of huge costs being borne on a building-by-building basis when a better result for everyone can be achieved by improving the infrastructure on the street, and that is our main point.

THE CHAIRMAN: Thank you very much, Greg.

CLOSING REMARKS

THE CHAIRMAN: I would like to thank everyone for attending today's proceedings. It has been of great benefit. I think it has been a very good session, with very good contributions from the panel and from the floor. We really appreciate the effort you made to come along.

A transcript of today's session will be available on our website in a few days. We will, of course, consider all of what has been said today in making our draft decisions on developer charges, backlog sewerage charges and other related charges for the three utilities determinations.

As previously mentioned, we will release our draft report for public comment in June 2018. Stakeholders will then have about four weeks to make written submissions for consideration by IPART before we finalise our decision.

The final report and determination is scheduled for release in September 2018. I encourage you to monitor our website for updates and further information on our timetable including the release date for the draft report and determination.

Once again, thank you very much, and lunch is waiting for us. Have a good afternoon.

AT 1.15AM, THE TRIBUNAL WAS ADJOURNED ACCORDINGLY