

Submission to
Essential Services Commission
Water Tariff Structures Review
By Villawood Properties
May 2008

In the Essential Services Commission has released a Draft Decision on its Water Tariff Structures Review and has invited submissions and responses on this, particularly from developers. Submission are due by 9th May 2008.

This submission is offered in this context.

Villawood Properties is an experienced land developer operating in all of the Melbourne growth corridors, and in regional Victoria and interstate. In 2007-08 it will have sales of over 1,000 lots. Villawood Properties has won numerous awards for its developments and has pioneered innovative approaches towards reducing water and energy consumption and improve recycling as a part of urban development.

Water companies currently operate somewhere between a servicing authority and a commercial organisation. We sense the business approach employed by the water companies varies under different circumstances with their overriding desires to have all new infrastructure paid for new users but make strong profits out of water (or sewerage) sales. The ESC must direct through this review how the water companies are to be operated. If they are commercial organisations returning a profit then all new business (ie new infrastructure including reticulation) should be paid for by the water company out of future profits from selling its commodity (water or sewerage). If they are a servicing authority then it would be reasonable for new customers to meet the cost of the new infrastructure but with water and sewer services provided at cost with no profit. We are of the firm view that water companies are commercial organisations and should operate accordingly. We also strongly support the principle that new customers are effectively an expansion of a water companies business and, as such, the cost of new infrastructure should be recovered from the retail price of water (and sewerage). We point out that the established areas of Melbourne, serviced by the same water companies, have their infrastructure maintained and replaced from revenues raised from retail water (or sewerage) charges. This is also the same mode of operation for gas and communication infrastructure.

We also have serious concerns at the accuracy of the development growth in the water company's five year water plans. Obviously all plans are based on a range of assumptions and predictions. Water companies use their water plans as a basis for capital works programs for this period. We are concerned that recent facts of Melbourne's population growth released by the government (that 2030 population forecasts are now expected to be reached by 2020, etc) and amended forecasts have not formed a basis of these water plans. We are also concerned as to the response from water companies to changes in demand due to changed population growth rates, etc. Will water companies modify water plans and accelerate capital works programs should population growth rates require this over this upcoming determination period or will water companies see this as a matter for bring ? This matter needs to be addressed now.

All Costs are Borne by the End User

Developers as an industry operate in a similar manner to any other commercial venture – they undertake a business enterprise to produce an income that will cover their expenses, overheads and produce a profit commensurate with the level of operating risk. Publicly available information from the numerous publicly listed companies that deliver the bulk of land development in Victoria demonstrates this fact. As a consequence all cost increases

are passed on to the end user. In today's environment the cost of reticulation alone within an estate for both water and sewerage costs around \$3,000 per lot. This is a direct cost to the end user yet becomes a gifted asset to the water companies. This fact should not be forgotten in the ESC's deliberations on this water tariff review.

Water Use and Efficiency as a Factor in Determining New Customer Contributions

Should water use and efficiency be a factor in determining the amount of new customer contributions? Whilst the first reaction to this question is to come to natural yes answer, is it the most appropriate approach? The multi tariff system for water is specifically constructed to encourage and reward water savings and efficiency and, from an economics point of view, is the ideal tool for this. Consideration of this question also brings forward a lot more questions than answers – if water use and efficiency are factors, how should they be considered? Water use and efficiency are greatly influenced by household design, fittings and appliance selection as well as the inclusion of rainwater tanks and grey water systems, etc. To be true to the premise these must then factor into the new customer contributions. Yet the determination of new customer contributions occurs well before decisions are made on any of the above household matters. Clearly this approach would then need a rebate system or similar to take account of water savings and efficiency matters introduced after the new customer contribution has been established and paid. This would lead to a cumbersome and unwieldy process if at all workable. The irony of this approach is that a new dwelling may be amongst the most water efficient in the entire Melbourne metropolitan area yet there is little to no benefit built into this overall pricing framework.

Using Lot Size as a Determinant for Water Use and Efficiency

Using lot size to establish the level of new customer contributions (ie larger lots pay more) through its impact on future water demand of the new development assumes that larger lots are more inefficient and naturally use more water. The suggested 3 levels of contribution (p59 of the ESC Report) separates lots less than 450m², 450m² to 1350m² and above 1350m². Lots less than 450m² generally apply to a 12.5m by 34m (425m²) which predominately are single person's or childless couples' homes. Basic family homes start on 14m wide lots (476m²) and extend through 16m wide lots (544m²) to 18m wide lots (612m²). It is also generally accepted that families use more water than singles and childless couples simply more people use more water so their impact on the future water demand is greater. However families already pay for increased consumption as a group paying the multilevel tariff for water consumed. This is based on household consumption not individual consumption. Considering a typical family of 4 living on a 612m² lot (153m² per person) one could argue this is a much more efficient use of land than a childless couple living on a 450m² lot (225m² per person). Families are already slugged for higher water usage costs (by way of household costs not individual costs) and water companies now support families being slugged higher new customer contributions simply because they are families. There is no equity in this approach and we steadfastly oppose it.

Water companies further argue that new customer contributions should be higher where there will be a requirement for 'further investment in infrastructure within a six year period, or where shared assets must be constructed ahead of schedule to service a new property or development and the calculated "bring-forward" costs are greater than \$1000 per lot for water and sewerage'. What does 'further investment' mean? Similarly what does 'where shared assets must be constructed ahead of schedule' mean? Are these criteria really applying a penalty on new customers for a water company's business growth being greater than expected / predicted. A penalty on customers for improved business growth is ludicrous! We oppose this proposal.

Impact of the Current Drought

The current long term drought has seen some large reductions in household water consumption and sewage volumes. The consumer's attitude to water usage is changing and

much of that change will stay with us. This will see our water resources and sewerage systems stretch over a much further than was originally expected. Are water companies using these revised usage figures in their future planning or are we under utilising current infrastructure and over sizing future infrastructure?

New dwellings, by the fact that new installations of water efficiency measures are much cheaper to install in new dwellings than retro fit in existing, are leading the way. Furthermore, each kilolitre that is saved through the installation of water saving devices is available for the whole community to use – new dwellings save water that everyone can use yet water companies propose to penalise them via their proposed tiered new customer contributions plan.

Recycled Water New Customer Contributions

Recycled water is certainly beneficial to its immediate users – providing a water source for garden usage, car washing as well as some substitution for potable water. Users must pay for a second household plumbing system in addition to recycled water reticulation installed during development. Recycled water also benefits the whole community – it saves potable water that remains available for the whole community to use. Given the whole community derives a significant benefit they should also pay some of the costs. The use of recycled water and subsequent reduction in potable water usage also allows for a reduction in potable water infrastructure – yet none of this is passed to the recycled water user. The water company proposal is to charge the full amount for both potable and recycled water. We oppose the new customer contributions for recycled water and we support a subsidised tariff approach to recognise the benefit received by the community in general.

Impact of proposed costs on New Developments

The fact that the cost of a home is clearly becoming beyond an increasing number of Victorians is one of the most concerning matters before the Victorian public at this time. Whilst proposed changes to new customer contributions are not devastating when considered in isolation, they are a part of numerous regulated impacts that all add considerably to the cost of new homes. It is incumbent on all parties who apply or approve any land development costs to carefully consider – should they exist? Can they be eliminated? Can they be reduced? In the case of new customer contributions – why do they exist? Is it some leftover aspect from a time when water authorities were a non profit service organisation and is now not relevant? As such there is a strong argument they be eliminated. In any case there is no logical argument for it to be increased.

The one real way housing affordability can be positively impacted is for all regulators to actively address the costs that they introduce or impact. Until we all stand up and act housing affordability will remain out of control.

Bring Forward Costs

Water companies propose to increase new customer contributions where ‘calculated “bring-forward” costs are greater than \$1000 for water and sewerage’. Water companies have shown a convoluted approach to bring-forward costs over recent times and have steadfastly refused to understand how development advances in greenfield areas and plan and implement water and sewer infrastructure in response. Several ‘bring-forward’ cost claims have been in dispute for several years and are still without resolution. To make ‘bring-forward’ costs a determinant for new customer costs could impose lengthy and unnecessary delays and costs in what should be a simple process. This is strongly opposed. Let ‘bring-forward’ claims run their race separately from other matters.

Impact of Failure to deliver infrastructure on time.

The issue of developer instigated infrastructure acceleration is addressed in the Draft Decision and in previous ESC Water Reviews. However the issue of water companies

delivering infrastructure late is not addressed. There have been several recent situations where water companies have not delivered as per the promised timetable, some are over 2 years behind their original delivery timeframes. This has meant that the sewage has been, and is being, educted (pumped into a truck and carted to a sewerage treatment plant) at enormous cost to the developer and no penalty to the water company. Clearly dual standards are in play. We call on the ESC to address this situation in its decision.

This submission is made with the aim of improving the delivery of water and sewerage services in an affordable and fair way. We would be pleased to explain or elaborate any of the above. Please call Rob Taber 9695 3004 if you have any questions.