Yarra Valley Water | a fresh approach

Yarra Valley Water Ltd
ABN 93 066 902 501

Lucknow Street
Mitcham Victoria 3132

Private Bag 1
Mitcham Victoria 3132

DX 13204

Facsimile (03) 9872 1353

Email enquiry@yvw.com.au
www.yvw.com.au

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Mr Greg Wilson
Chairperson
Essential Services Commission
Level 2, 35 Spring Street
MELBOURNE VIC 3000

Dear Greg,

In our comments on the Regional and Rural Businesses Water Plans 2008-2013 Draft Decision sent to you on 9 May 2008, we made reference to supporting the Victorian Water Industry Association's (VicWater) proposal on new customer contributions in full.

This was based on the VicWater proposal dated May 2007 and forwarded to the Commission on 21 May 2007. Unfortunately, we have just received a revised VicWater proposal which we believe was forwarded to the Commission on 14 May 2008.
While we had input into the May 2007 proposal, Yarra Valley Water was not aware of a revised proposal and had no input into its development.

There are two key issues in the May 2008 proposal that we do not support.

1. **Discounting the scheduled water NCC by 50% where developments are supplied with class A recycled water for uses including toilet flushing and outdoor garden flushing.**

Yarra Valley Water Position
We support the VicWater proposal for a scheduled NCC for recycled water supplied via a third pipe

We do not support the VicWater proposal to discount the scheduled NCC for potable water where developments are supplied with class A recycled water for uses including toilet flushing and outdoor garden flushing

<u>We support the VicWater proposal for a scheduled NCC for recycled water.</u>
Recycled water supplied via a third pipe is a homogeneous product and is just another service provided at the time of development that should be treated identically to water and sewerage services.
In this regard, for each service we believe:
- the end customer should pay scheduled charges for service and usage linked to the charges for potable water
- the developer should pay scheduled charges for new customer contributions

- the developer should pay for all reticulation assets, and
- the water business should pay for shared assets and headworks.

Third pipe recycled water systems require the funding of another set of assets to supply a product, the cost of which should be shared by all beneficiaries:

- Developers benefit from marketing advantages over other developers and drought proofing their development. Developers will fund reticulation assets and pay NCCs. The developer's costs will be wholly or partly passed on to property owners.
- Property owners benefit from drought proofing their properties, paying for outdoor usage at block 1 prices and not being required to pay for solar hot water systems or rainwater tanks to meet 5 star home requirements. The property owners pay higher land prices for developers passed through costs.
- General customer base benefits from deferral of the next water supply augmentation. They contribute by paying increased prices for water and sewer to cover the funding shortfall for the shared third pipe recycled water supply infrastructure.

Yarra Valley Water has an obligation under the Central Region Sustainable Water Strategy (CRSWS) to mandate third pipe systems (recycled water) where they are the best solution for balancing supply and demand. We have identified growth areas close to existing or proposed sewage treatment plants where third pipe systems offer the best solution for balancing overall supply and demand and as such will mandate third pipe systems in these areas.

The argument that a recycled water NCC should not be levied, as all customers derive some benefit from third pipe recycled water through increases in security of supply, is not consistent with the NCCs for other water and sewerage services. For example, the provision of sewer facilities is mandatory and developers are expected to pay NCCs even though all customers benefit through public health, cleaner waterways and bays. In total NCCs contribute but do not fully recover the costs of servicing new development.

We oppose the VicWater proposal to discount the scheduled NCC for potable water

If the scheduled NCCs were reflective of the cost to extend the water, sewerage and recycled water networks, then we would be supportive of the proposal to reduce NCCs where it could be demonstrated that reduced usage of one or more of the services results in decreased asset sizes.

Unfortunately the proposed NCCs are notional amounts that do not reflect the cost to the water businesses to extend the networks and resultant significant funding shortfall that is borne by the general customer base.

Water assets are sized not only to cater for peak use but also for fire fighting purposes. As such, a 50% reduction in potable water use by customers does not equate to a 50% reduction in pipe size and a 50% reduction in pipe size does not equate to a 50% reduction in cost (i.e. the only significant difference in cost is the cost of the pipe, all excavation etc is predominately the same).

As the supply of recycled water does not significantly impact the water businesses cost of providing potable water assets for growth, and the scheduled NCCs are not cost reflective, we disagree with the VicWater proposal to discount the potable water NCC when a development is supplied with recycled water via a third pipe.

2. Sharing the cost of reticulation assets between developers.

Yarra Valley Water Position
We do not support the VicWater proposal that the cost of reticulation assets should be shared by benefiting developers.

The VicWater proposal is for developers to only pay for the capacity they require in reticulation assets whether or not the asset is upsized to cater for future development.

For sewer, every asset would need to be assessed for capacity taking into account pipe size, material and the grade at which it is laid. The spare capacity would then be paid for in future by a subsequent developer. This is a retrograde step and would place a significant administration burden on the water businesses which will ultimately be paid by all customers.

There is unlikely to be a significant benefit to the developers as it is essentially a zero sum game. Although each developer will pay less for the "shared" reticulation asset they install, this will be offset by contributions to assets constructed by downstream developers.

To have developers only paying for a portion of reticulation assets and have future development make a contribution to sunk assets does not provide appropriate signals for future developments. Including sunk costs appears contrary to the Commission position of sending appropriate costs signals as it overstates the incremental cost of connection and is not likely to promote efficient decisions.

We suggest the Commission's current guidelines be retained and a hierarchy to be prescribed to ensure a consistent approach across all water businesses. For example, some water companies adopt the size criteria as the determinant for reticulation assets (a developer is asked to fund a 225mm sewer even if the development only requires 100mm) while others consider the minimum size asset required to service a development as reticulation (the same 225mm sewer would be a shared asset).

Should you require any further information please do not hesitate to contact Brett Mathieson on 9872 2441.

Yours sincerely

Tony Kelly
MANAGING DIRECTOR