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WESTERN AUSTRALIA

16th May 2008

Mr Lyndon Rowe
Inquiry on Developer Contributions to the Water Corporation
Economic Regulation Authority
PO Box 8469
Perth Business Centre
PERTH WA 6849

By email: developercontributions@era.wa.gov.au

Dear Mr Rowe

INQUIRY INTO DEVELOPER CONTRIBUTIONS TO THE WATER CORPORATION

The Urban Development Institute of Australia (UDIA) (WA) is pleased to make comment on the Draft Report, *Inquiry into Developer Contributions to the Water Corporation* (14 April 2008). The Institute has read the report with interest and we take this opportunity to reiterate our original position, namely that UDIA (WA) strongly supports the current Uniform Pricing Policy (UPP) as it is performs well for industry and it maximises social welfare across the State regardless of geographic location.

1. General Principle

UDIA (WA) endorses Finding 9 as the general principle for a developer contributions scheme:

> *The benefits of implementing a developer charging methodology should outweigh its administrative costs, including transition costs.*

Considerable costs will be incurred by Water Corporation in the event of changes to the current charging methodology. A move away from the current system will bring about increased administration costs and an increased scope for appeals which Water Corporation would find difficult to manage given the constrained resources at its disposal. It is UDIA's view that the costs of implementing change will outweigh the perceived benefits and that the optimal approach to developer contributions is to maintain the status quo. This gives industry and Water Corporation surety, reduces risk and keeps costs down.

2. Objectives

The draft report indicates the principles for developer contributions are guided by three objectives: efficiency; equity; good regulatory practice.

2.1 Efficiency

UDIA takes issue with the ERA position on cross-subsidies that result from uniform pricing and disputes Finding 11 that states there are unlikely to be net welfare gains across the State from subsidising charges in regional areas. Metropolitan users are subject to a minor cost impost only (and therefore marginal welfare loss) as opposed to an enormous cost impost on regional users (with a greater welfare loss) were the subsidy to be removed. The great majority of Water Corporation customers are in the Perth metropolitan area providing a significant capacity to subsidise the regional areas. The net welfare gain from uniform pricing is regional development which benefits the whole State, particularly under current economic conditions.

The efficiency principle detailed in the report extends to discussion of forward-looking direct costs of development in each location. The ERA proposal for future looking characteristics, particularly that relating to spare capacity, is not supported by UDIA. Spare capacity is difficult to determine and it is unreasonable for the developer to be required to put in spare capacity which from industry's point of view, is the domain of the utility provider. UDIA supports the continued use of historical pricing to determine developer charges.

UDIA is also opposed to using a pricing signal for utilities to determine the location of urban development. Water transmission infrastructure cost is only one of many drivers influencing where and when urban development occurs and it goes against orderly and proper planning to use a price signal for one commodity to influence future development. It is not the role of the water provider to influence the pattern of urban development.

Where efficiency relates to a clear development schedule, UDIA advocates strongly for a State Infrastructure Strategy to determine where future growth occurs. This would reduce risk for industry as developers would know what would be included in the system and the upfront charges they were required to fund (refer 4.2 for further discussion). These charges would have to be open to appeal.

The State Infrastructure Strategy should inform DPI's Metropolitan Development Program (MDP) and Country Land Development Program (CLDP) and identify development fronts and the rollout of infrastructure to support land release in metropolitan and regional areas.

2.2 Equity

The draft report argues that a move away from cost reflective pricing is likely to result in a net welfare loss. This will not be the experience of regional areas which will suffer considerable welfare loss if cost reflective pricing is introduced. The significance of this loss must be balanced against an insignificant impact on metropolitan users, where the many support the few.

2.3 Good Regulatory Practice

UDIA fully supports a triennial review of developer charges and methodologies. Our concerns about good practice relate to the large number of appeals that will likely result from a scheme based system and Water Corporation's capacity to manage the outcomes. It is our view that the

Urban Development Advisory Committee (UDAC) should be strengthened to enable it to manage appeals.

3. Options

3.1 UDIA Recommended Approach

UDIA's preferred position is Option 1 as presented by Water Corporation. Option 1 maintains the status quo and delivers a net benefit to regional areas that Option 2, contingent on scheme area, is unlikely to deliver.

ERA states that one of their three main objectives is to promote equity, particularly where it relates to affordability to the purchaser of the developed land and regional development (page v). A state wide uniform charge provides equity and any move away from this will conspire against regional development and financially penalise people choosing to locate in regional areas. ERA argues that the government has capped and subsidised developer charges for Western Power's edge-of-grid customers. While this is the case, the subsidies do not go far enough and the increased costs have been responsible for reduced affordability and a sharp reduction in the development of new residential lots in the affected areas. The net welfare loss to regional areas is significant, particularly in the context of strong population growth in the regions which has led to increased demand for new residential development at an affordable price.

3.2 Alternative Approach

UDIA offers qualified support for Option 2, with qualifications related to the scale of the scheme area, the separation of source and distribution assets (as per Option 1) and the need for a price cap.

UDIA supports a uniform charge across a scheme however for this to be efficient the scheme area would have to be sufficiently large to eliminate significant regional distortions. If the scheme area is too small and forward costings are applied, these would be prohibitive and have a severe negative impact on affordability and the future development of land in regional areas. Our recommended scheme areas are: North of the 26th Parallel; South of the 26th Parallel. At a minimum, the main scheme should include Perth, Peel and areas in the South West.

ERA should remain mindful of the general principle (Finding 9) and the significant cost impost for Water Corporation and developers should uniform pricing be discontinued. The current system provides surety, it works efficiently, it reduces risks associated with land development and keeps prices down. Were uniform pricing to be abandoned, the increased administration costs for Water Corporation would outweigh any benefit from changing the existing regime.

Increased costs will also be incurred by a greater number of appeals which will result from non-uniform pricing. UDIA supports the role of UDAC as the appeals body however its operations need to be revised to provide a stronger, more robust appeals instrument within UDAC. If non-uniform pricing is to apply, an appeals mechanism will require development of an appeals policy to direct its operation.

UDIA supports the separation of source and distribution assets with developers to be charged for distribution assets only. The review presents an opportunity for greater transparency around Water Corporation's total revenue streams, the historical 40% / 60% expenditure breakdown and profit paid to State Revenue.

4. Other Issues

4.1 Water Sensitive Urban Design (Finding 21)

It is UDIA's view that water sensitive urban design should be a government priority and should be encouraged by incentives of sufficient magnitude to encourage developers to implement it in their developments.

4.2 Out of sequence development (Finding 25)

UDIA would like to draw ERA's attention to a case study that illustrates developers are required to unreasonably fund infrastructure that in our opinion, should be funded by Water Corporation, particularly as the development is taking place in a designated growth area. The case study not only highlights the need for a State Infrastructure Strategy where utilities planning and land use planning align, it also illustrates how unreasonable demands are put on developers to pre-fund major infrastructure which should be the responsibility of the State.

The case study relates to a joint venture development between Stockland and the Department of Housing and Works (DHW) at Brookdale / Wungong.

Advice from Water Corporation:

All services required to service the Wungong Master Plan area north of the Wungong River are to be prefunded by the developers at a cost of $5.6M for the JV in Cell F of the Master Plan area alone.

An additional ~$3.0M may potentially be required for the JV landholdings outside of Cell F in the Master Plan area (total prefunded cost of ~$8.6M).

The only item that is currently in the Water Corporation's program is the Hilbert Road pump station which cannot service any landholdings north of the Wungong River and has limited capacity.

The lack of services in the area requires the construction of temporary infrastructure at the developer's cost. In the case of the Stockland / DHW site:

- A Temporary Type 40 pump station (~$500,000) and pressure mains to service the Master Plan area until the ultimate Type 350 pump station is required. Although we agree that a Type 350 will not be required for several years, the temporary Type 40 will service areas outside of the Stockland/DHW site (for ~ 5 to 10 years) and we therefore consider it to be required for development to progress in the greater Master Plan area. Nevertheless, the Water Corp considers the pump station as a temporary solution and therefore it is at the developer's cost.

- Major sewer infrastructure is required along Eleventh Road to service the ultimate development site. To avoid traffic disruption and costs for reconstructing the road, these sewer mains (~$2.0M) will be installed when the road is upgraded. The cost for this work will be prefunded by the developer due to the size of the mains and it is not required by the Water Corporation until a later date.

Advice from consultant:

The development timeframes and the servicing requirements for Brookdale have been discussed for several years. Despite these discussions, the Water Corporation advised in late 2007 (just prior to the approval of the Master Plan (March/April 2008) that water planning for the area is subject to review and has not been finalised. To date we have only been advised verbally that it is unlikely that the revised scheme will be implemented due to timing issues. However, until formally resolved, this imposes the following risks to the project:

- The temporary solutions have limited capacity to service the Master Plan area, which may impede further construction and approvals if the ultimate proposal is not implemented in a timely manner. Alternatively, the temporary solutions may be upgraded and this could potentially be at the developer's cost.
- This could result in substantial cash flow issues depending on the scale of the revised scheme. This is assuming that the revised water planning proposal, of which we (the consultants) still do not have any details, will require prefunding by the developers.

We trust you will give these comments due consideration in the final report. Should you wish to clarify any of the above, please do not hesitate to call me on 9321 1101.

Yours sincerely

Debra Goostrey
Chief Executive Officer