Government of **Western Australia**
Department of **Water**

Guidelines for infrastructure contributions

2013

Looking after all our water needs

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Department of Water

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1 Scope

These guidelines are made under section 85(3) of the *Water Services Act 2012* (the Act). They apply to infrastructure contributions imposed under the Act by licensees other than the Water Corporation.

2 Background

Sections 83 and 85 of the Act set out the basis for the payment of infrastructure contributions. In particular, section 85(3) of the Act states that the relevant Minister must approve guidelines that set out the extent to which an infrastructure contribution can be required and the methods for determining, or guiding the determination of, the amounts of infrastructure contributions.

3 Guidelines

Infrastructure contributions levied under section 83(3)(b) must be in accordance with the charges or the methodology published on the licensee's website.

At the discretion of the water service provider, the setting of infrastructure charges may have regard to the following:

- high infrastructure charges (relative to service charges) can make a water service provider's revenue overly dependent on development activity;
- low infrastructure charges can place undue long term financial strain upon a water service provider and/or affect its ability to service new development;
- while new development is a major driver of the need for expenditure on scheme capacity, in some circumstances existing customers and/or subsequent developers may also benefit from this expenditure; and
- substantial and rapid changes to standard infrastructure contributions may be unfair to some customers.

4 Explanatory notes

An infrastructure contribution (also known as a headworks or developer charge), is a payment by a property developer to a water service provider.

Section 85(1) of the Act defines an infrastructure contribution as a payment by a developer to a water service provider, to assist in offsetting costs to the provider brought about by increased demand arising from the development.

In practice, infrastructure contributions:

- provide funds to allow a water service provider to finance the construction of service capacity needed for new development;
- share the costs of scheme expansion between newly connected lots and other customers; and
- provide a price signal that reflects the cost of expanding the network.

4.1 Balancing revenue from infrastructure charges and other charges

Relatively high infrastructure charges can make a water service provider's revenue overly sensitive to scheme growth. Conversely, relatively low infrastructure charges can place undue long term financial strain on a water service provider and/or affect its ability to service new development.

If a water service provider aims to set its infrastructure charges at a level that will minimise the financial impact on its business of fluctuations in the rate of development, this may help avoid problems associated with infrastructure charges being too high or too low. Special charges may still need to be agreed or set in order to finance unusually large and unforseen developments.

The Economic Regulation Authority *Inquiry into developer contributions to the Water Corporation, 2008* recommended that:

- source costs should be recovered through customer tariffs rather than through infrastructure charges, because all customers benefit from supply augmentation; and
- infrastructure charges should at least cover the direct forward looking incremental costs of providing services to new developments.

These are also useful considerations in balancing revenue from new developments with revenue from other customers.

4.2 Fairness between new and existing customers

The addition of new connections to the scheme is a major driver of capacity expansion. However, increased water security benefits all customers and scheme capacity expansion may benefit existing properties in some circumstances. Therefore it can be legitimate for a water service provider to recover some proportion of headworks costs from normal customer charges.

Rapid and substantial changes in infrastructure contributions can create a disparity between the infrastructure contributions made by existing customers added to the network and those made by newly connected customers. Such a disparity may be viewed as unfair. Maintaining fairness between existing and future customers is an acceptable consideration in setting charges.

4.3 Higher cost developments and charges by agreement

Where a request is made for a new service within the licensee's operating area, section 21(1)(b) requires that the licensee must offer to provide a service on reasonable terms unless provision of the service is not financially viable or is otherwise not practicable.

In some circumstances, the cost of expanding services to provide for a particular development may differ significantly from the standard charges that can be levied under section 83(3)(b) as set out by these guidelines. The licensee may seek to enter into an agreement with the proponent for a different charge under section 83(8). This may assist in making a service financially viable. The Act does not require that arrangements under an agreement need to be governed by these guidelines.

Where a development requires the provision of higher cost infrastructure, proponents may seek to cooperate with each other to share costs, and the licensee may consider means of sharing costs with subsequent developments.

4.4 Impact on revenue of water corporations

The customer charges of water corporations (Aqwest, Busselton Water and the Water Corporation) are subject to independent inquiry by the Economic Regulation Authority. In this inquiry process, the revenue collected by water corporations from infrastructure charges is deducted from the revenue that the corporations are permitted to collect from water services charges. Thus water corporations do not have an incentive to overcharge through infrastructure contributions in order to increase total revenue.

References

Economic Regulation Authority 2008, *Final report: inquiry into developer contributions to the Water Corporation,* Perth

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