



Fact sheet

Developer charges (Headworks)

This fact sheet summarises the key issues in relation to water and sewerage developer charges and outlines TasWater's proposed approach and the Economic Regulator's proposal to the way headworks charges are applied in Tasmania.

What are developer charges?

Developer charges are paid by developers rather than water and sewerage customers and include:

- Headworks – a capital contribution towards consumption of capacity in water or sewerage network, or its expansion, which results from a development. These charges are usually levied on a per property/lot basis in a subdivision development;
- Works internal – any infrastructure which is internal within a subdivision, up to the property boundary, is installed at a developer's cost and gifted (ie contributed) to TasWater; and
- Works external – where a development requires stand-alone assets (eg a pump station) to be installed to support the development, at the developer's cost.

TasWater's proposal

TasWater has proposed continuing the current arrangements whereby charges associated with works internal and works external are recovered on a cost reflective basis through direct payment or gifting of assets by the developer.

In relation to headworks charges, TasWater is proposing:

- No charge where a proposed development lies within the existing network capacity or is consistent with TasWater's immediate network growth plans that would deliver the required capacity.
- An 'Out-of-Sequence Development' charge equivalent to the funding cost for undertaking planned works earlier than would otherwise be the case where a proposed development is within TasWater's 10 year capital expenditure plan but is brought forward to cater for the new development.
- An 'Isolated Development' charge would apply where a proposed development is outside TasWater's 10 year capital expenditure plan, with the developer paying all infrastructure costs for their development.

Assessing possible approaches to headworks charges

The costs of expanding the capacity of water and sewerage systems to allow new developments to be connected either needs to be met from developers or from TasWater's existing customers through higher overall water and sewerage prices.

Whilst new developments can impose extra costs in the form of extensions or upgrades to TasWater's network, existing customers may benefit when new customers connect as fixed costs are spread over a larger customer base.

The Economic Regulator considers that:

- Some proportion of growth related costs should be recovered upfront from developers rather than over time from customers through recurrent charges.
- There are benefits in a headworks charging approach that is simple and provides certainty for developers.
- A sensible headworks charging approach should encourage developers to use existing capacity before requiring TasWater to invest in new infrastructure.

Economic Regulator's proposed decision

The Economic Regulator proposes to approve TasWater retaining current arrangements for developer charges associated with works internal and works external.

However, in relation to headworks charges, the Economic Regulator is proposing to require TasWater to impose:

- a low/nominal flat rate headworks charge for all developments within serviced land (serviced land is the land which TasWater will permit to be connected to its water or sewerage infrastructure – land generally within 30 metres of TasWater's existing infrastructure);
- a higher flat rate charge to all developments that represent extensions to serviced land; and
- for stand-alone projects, a charge calculated according to the net present value of the infrastructure TasWater is required to provide and the future revenue it expects to receive from that infrastructure.

The Regulator is seeking feedback on this approach and the level of the respective charges that may apply.

Next steps

If you would like more information on developer charges, or would like to comment on TasWater's proposals, please see section 6.2.5 of the Economic Regulator's Water and Sewerage Price Investigation Draft Report, available at <http://www.economicregulator.tas.gov.au>