



Standard ~ Connecting Asset Funding

July 2023



TABLE OF CONTENTS

Table of Contents	2
Document information.....	3
Version history.....	3
Summary of changes in this version.....	3
Document control.....	3
1. Purpose.....	4
2. Scope.....	4
3. Definitions, acronyms and abbreviations.....	4
4. Sequencing of new development.....	5
5. Funding arrangements.....	5
5.1. Category 1: Regional Asset.....	6
5.2. Category 2: Connecting in-sequence development.....	7
5.3. Category 3: Connecting out-of-sequence development.....	7
6. Commercial arrangements.....	8
6.1. Staging of infrastructure construction and repayment arrangements.....	8
6.2. Connecting Asset Funding Deed.....	8
6.3. Funding Deed sunsets at year 10.....	9
7. Related documents.....	9
8. Transitional arrangements.....	9



Document information

Version history

Document review date is as per the Integrated Management System Standard ([HW2013-421/22.002](#)).

Version	Author	Approved By	Date approved
1.0	Peter Shields, Group Manager Economic Regulations	Executive Management Team and Managing Director	24 Apr 2023

Summary of changes in this version

Summary of changes
New Corporate Standard as part of Developer Charges coming into effect 1 July 2023.

Document control

Document owner:	Group Manager Developer Services
Mandatory Reviewer(s):	Group Manager Development Services; Team Leader Land Development; Team Leader Project Delivery, Group Manager Economic Regulations, Group Manager Planning & Engineering
Approver(s):	Managing Director

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1. Purpose

The purpose of this Standard is to set out our approach to funding capital works that support growth in the Lower Hunter.

Capital investment in water and wastewater infrastructure to connect new developments can provide shared capacity for future developers and future customers to connect to our networks.

The Standard is designed to ensure that new network infrastructure is appropriately sized and configured in a way that represents the most efficient option from a total community perspective.

Typically, good infrastructure planning should avoid individual developers duplicating assets to connect new developments in the same local area.

2. Scope

The Standard covers funding and delivery categories for water and wastewater connection and reticulation assets transferred to Hunter Water to operate and maintain in perpetuity. It also covers mandated recycled water network infrastructure regulated by IPART (Independent Pricing and Regulatory Tribunal).

The Standard applies to residential, commercial and industrial developments where new or augmented infrastructure is required to support growth in the Lower Hunter. It does not apply to existing developments that, for historical reasons, are unconnected to either water or wastewater infrastructure.

The infrastructure assets dealt with in this Standard are:

- connection assets that cover the lead-in and lead-out infrastructure needed to connect a new development to Hunter Water’s existing networks, including pipes, pump stations and water storage facilities, and
- reticulation assets within a development, including pipes, pump stations and water storage facilities that have been upsized to service adjacent future developments.

3. Definitions, acronyms and abbreviations

Term	Definition
Lead Developer	The Lead Developer is the party instigating the need for the connecting asset(s), will design and construct the assets, and whom Hunter Water will enter into a single <i>Connecting Asset Funding Deed</i> . The Lead Developer will require a valid Notice of Requirements and hold development consent for the benefitting lead development.
New development	Any growth, residential, multi-residential, commercial or industrial, that involves new buildings or lots created, or additional on-site business activity, that yields a net increase in water consumed, recycled water consumed or sewer discharged to the Hunter Water network.
Section 50 Compliance Certificate	A certificate issued under Section 50 of the <i>Hunter Water Act 1991</i> .
Reticulation asset	An asset that is generally internal to the development, providing a point of connection to sewer within each of the lots created and/or a frontage to a watermain.
Connection asset	An asset primarily outside of the development site that connects the development area to Hunter Water’s existing water and wastewater systems.



Term	Definition
Right-sized connecting asset	An asset that has been optimised, sized and configured to serve growth in addition to that of the Lead Developer and as a consequence is larger than the minimum size to serve the Lead Developer.
Upsized reticulation asset	An asset within a development site that has been 'upsized' in agreement with Hunter Water to provide some additional capacity to also service future adjacent developments. This can be a pipe, pump station or water storage.

4. Sequencing of new development

Our *Growth Plan* provides guidance on the likely timing of growth for infrastructure planning purposes and outlines the anticipated timing of our investments in new network infrastructure to meet regional planning objectives.

The *Growth Plan* includes detailed growth maps showing the predicted timing for connection of new land development in the Lower Hunter. The timing is shown in the growth maps using a colour-coding system and classified as:

- within five years (yellow-coded area)
- beyond five years (orange and green-coded areas)

The growth maps help Hunter Water sequence our capital works program to meet the needs of regional development. The growth maps also help us determine the funding and delivery category for infrastructure needed to connect a new development to our system.

The *Growth Plan* is prepared using data on actual development activity from various sources, including the *Hunter Regional Plan 2041*, the NSW Department of Planning and Environment, local councils, our customer connections database, developer servicing strategies and development assessment applications submitted to Hunter Water.

The *Growth Plan* is typically updated and published annually, using the best available information at that time. It may also be amended from time to time if we become aware of new or changed circumstances.

5. Funding arrangements

Development can occur in areas where there is insufficient infrastructure capacity to service it or where there is no existing network infrastructure, and part of our role is to support growth in line with the NSW Government planning objectives. This *Standard* sets out when infrastructure will be

- fully funded by the developer,
- fully funded by Hunter Water, or
- where both parties have a role in funding infrastructure.

Hunter Water

We will directly fund assets where there are wider regional benefits as part of our broader capital works program. These works are driven by a combination of compliance, operational and regional growth objectives (Category 1).

Developers

Developers will be required to design and construct new water and wastewater mains and associated infrastructure to connect their development to our networks. We may enter into a commercial agreement with the Lead Developer, known as a *Connecting Asset Funding Deed (Funding Deed)*. The *Funding Deed* provides for the repayment of asset costs incurred by the Lead



Connecting Asset Funding

Developer in building right-sized assets when delivery milestones are met (Category 2 and Category 3).

The funding category depends on how the development aligns with the indicative timing of growth in the Lower Hunter, as shown in growth maps contained in the *Growth Plan*. The funding arrangement distinguishes between in-sequence and out-of-sequence development.

Developers are required to fund and deliver water and wastewater reticulation assets that service connected lots within their development area and comply with our design standards. Reticulation assets may provide incidental capacity for subsequent developments in the longer term, but there is no obligation on other developers to contribute to infrastructure costs.

Cost-effectiveness test

We encourage efficient sequencing of development and incremental extension of associated water and wastewater services. The test is designed to limit our exposure to remote, expensive-to-serve development. The test takes account of the geographic separation of a development from existing services and the costs of connection assets on a per lot basis. We apply a cost-effectiveness test to each water and wastewater asset type.

We will consider funding assets up to the value calculated by applying the cost effectiveness cap. If the asset value exceeds the value determined by applying the cost effectiveness cap, the developer is required to fully fund any additional costs.

Shared capacity for subsequent development

Our repayment of connection asset costs recognises that subsequent developments may make use of spare capacity in the assets, particularly new greenfield development in urban growth areas. Our funding arrangements are not intended to repay the cost of connection assets that will only ever serve a single development in an infill area. We reserve the right to apply the funding arrangements on a case-by-case basis.

Minimum value of Funding Deed

We apply a minimum agreement value for any Funding Deed. This approach avoids situations where the administration costs of preparing and executing the deed exceed the cost of the connection assets.

5.1. Category 1: Regional Asset

Our *Growth Plan* provides basic information on growth-related infrastructure projects we plan to fund and deliver in the next five years. The costs associated with these regional assets are recovered through tariff pricing.

We fund and deliver regional assets where it is in the best interests of the broader community. Typically, this would occur where the asset provides servicing capacity for potential growth in a geographic region serving a broad population.

Funding principles used to assess whether capital investment falls within the regional asset category include whether the investment:

- provides longer term operational flexibility in servicing growth
- supports high growth potential in a geographic area over longer time horizon. This assessment will be based on a number of factors including:
 - land ownership
 - land zoning and relevant Council settlement strategy (or equivalent land use planning document) at the time of preparing the water and sewer servicing strategies in accordance the Hunter Water Edition of the WSAA Design Codes, and



Connecting Asset Funding

- the expected growth rate over the next 10 years, normally across multiple developments, to mitigate the risk of underutilised assets.
- augments existing systems capacity for growth across multiple developments. This includes upgrades to water and wastewater treatment plants.
- improves service provision to existing customers and ensures we comply with regulatory requirements.

The regional asset assessment is applied to each individual asset component (ie. pipe or pump station) rather than the total system or strategy.

Delivering regional assets

We will design and deliver regional assets. There may, however, be unique circumstances where it is in the interests of both Hunter Water and the lead developer for the developer to deliver regional assets on our behalf. If such circumstances arise, we would enter into a separate commercial agreement with the Lead Developer covering procurement and payment arrangements.

5.2. Category 2: Connecting in-sequence development

Category 2: in-sequence development, applies to proposed development land shown as a new development area in our *Growth Plan* with initial connections expected within five years (yellow-coded areas).

We will repay the cost of connection assets for Category 2 developments after ownership of the asset is transferred to us, to then operate and maintain in perpetuity. Payments will be made to the Lead Developer in accordance with the *Funding Deed*.

Where the servicing strategy approved by Hunter Water for a new development requires the Lead Developer to up-size reticulation assets within the development to service future adjacent developments, we will repay the full cost of these larger assets when ownership of the asset is transferred to us.

5.3. Category 3: Connecting out-of-sequence development

Category 3: out-of-sequence development, applies to proposed development land shown as a new development area in our *Growth Plan* beyond five years (orange and green-coded areas).

We will repay the cost of connection assets for Category 3 developments built by the Lead Developer in a staged manner, after ownership of the asset is transferred to us, to then operate and maintain in perpetuity. We will:

- make part payments - on a per lot basis - for the connection asset until 50% of the lead development has been issued with a Section 50 Compliance Certificate (progress payments);
- upon receiving Section 50 Compliance Certificates for 50% of the lead development, pay the remaining 50% of the connection asset (final payment).

Payments will be made to the Lead Developer that funded and delivered these assets, being the party to the *Funding Deed*.

Where the servicing strategy approved by Hunter Water for a new development requires the Lead Developer to up-size reticulation assets within the development to service future adjacent development, we will repay the cost of these larger assets as part of the progress and final payments under the *Funding Deed*.

Intermediate developments located between the lead development and the point of connection to our existing assets could connect to the connection assets built by the Lead Developer, prior to the lead developer reaching 50% of its connections. We may consider the additional connections from other intermediate developments when determining the repayment schedule in the *Funding Deed*.



6. Commercial arrangements

Hunter Water must approve the water and sewer servicing strategies prepared by the Lead Developer associated with each *Funding Deed*. The servicing strategies approved by Hunter Water will ensure the new connection and reticulation assets are sized and configured for the new development and any known or likely development that would make use of the new infrastructure.

Where funding is approved, we will enter into a single *Funding Deed* with the Lead Developer covering connection assets and any upsized reticulation assets. The Lead Developer will also be required to enter a Complex Works Deed governing the delivery of the assets. The latest Complex Works Deed is available on Hunter Water's web site.

The Lead Developer is responsible for planning, designing and constructing all assets to our requirements as detailed in the relevant servicing strategies and one or more Complex Works Deeds.

We will repay the costs of assets approved under the Standard to the Lead Developer provided those assets have been delivered in accordance with our Complex Works Deed and procured in accordance with our Guidelines for Funding and Procuring Assets. The latest version of the Guideline is available on Hunter Water's web site.

We may engage a probity auditor, as necessary, to undertake spot checks of developers' systems, and a quantity surveyor to undertake project specific assessments of rates and quantities to ensure probity and value for money requirements are being achieved under the Standard.

Where the new development requires upgrades or augmentations of existing Hunter Water assets, we may decide to procure and deliver those works directly. This would apply to more critical assets, like larger pump stations and reservoirs, that service existing customers that may present substantial operating risks if they were to fail during construction.

6.1. Staging of infrastructure construction and repayment arrangements

The approved servicing strategy for a new development may provide staged infrastructure delivery to defer capital expenditure and better align infrastructure delivery to anticipated growth. The approved servicing strategy will set out:

- the area to be served by each asset or group of assets within each infrastructure stage and
- the number of lots to be served by individual assets or group of assets within each infrastructure stage.

We will negotiate each *Funding Deed* by reference to an individual asset or group of assets. The repayment terms will reflect the number of lots serviced by each asset or group of assets at the time of completion.

6.2. Connecting Asset Funding Deed

The developer is required to enter into a *Funding Deed* and one or more Developer Works Deeds for the infrastructure. These deeds state:

- the developer must follow our [Guidelines for Funding and Procuring Assets](#) to ensure that we repay reasonable and efficient costs of infrastructure where the works have been competitively tendered
- the developer must keep accurate and detailed records and make such records available upon request



Connecting Asset Funding

- the developer must procure the delivery of the assets in accordance with endorsed designs
- the developer must comply with particular insurance requirements depending on the nature of the works
- the developer must transfer ownership of infrastructure to Hunter Water once assets have been commissioned and we have issued a Section 50 Compliance Certificate
- the developer is responsible for obtaining all regulatory approvals required to deliver the assets
- Hunter Water will not fund the developer's financing costs
- Hunter Water contributions must be repaid in certain circumstances, such as where the developer is in substantial breach of its obligations.

6.3. Funding Deed sunsets at year 10

Each *Funding Deed* will include a sunset date for completing a development and meeting connection milestones. A maximum period of 10 years will apply, unless separately agreed.

All payments are subject to the terms of the *Funding Deed* and the Lead Developer's compliance with those terms.

7. Related documents

[Growth Plan](#): sets out detailed maps at a sub-regional level showing anticipated development areas and the likely timing of land developments.

[Guidelines for Funding and Procuring Assets](#): set out the minimum requirements that developers must demonstrate when seeking repayment of costs under our *Connecting Asset Funding Standard*.

Connecting Asset Funding Deed: sets out terms and conditions detailing infrastructure covered by the deed and repayment milestones, along with all other associated rights and obligations for both Hunter Water and the Lead Developer.

[Manual – Delivery of Developer Works](#): assists developers and landowners to understand the asset creation process and to navigate obtaining a *Section 50 Compliance Certificate* for a development.

8. Transitional arrangements

We are legally obliged to implement and administer IPART's 2018 '*Determination of maximum prices to connect a service for metropolitan water agencies*' from 1 July 2023.

We have calculated and exhibited water and wastewater charges for each Development Servicing Plan area. These are known as DSP charges or developer charges. In addition to a share of existing asset capacity and future growth-related investments, these DSP charges allow the recovery of capital costs associated with new Funding Deeds in the relevant DSP area.

The NSW Treasurer has approved a phasing-in of developer charges from 1 July 2023:

- Nil charge in 2023-24
- 25% of applicable DSP charge in 2024-25
- 50% of applicable DSP charge in 2025-26
- 100% of applicable DSP charge from 1 July 2026.



Connecting Asset Funding

This *Standard* applies to each new *Funding Deed* that Hunter Water enters with a Lead Developer after 1 July 2023.

The following transitional provisions will apply to existing Contribution Deeds entered into under our previous *Funding and Delivery of Growth Infrastructure Standard* (the previous *Standard* is available upon request):

1. We will continue to make repayments under the existing agreed schedule in each Contribution Deed throughout 2023-24. This is the nil developer charges year.
2. We will repay all outstanding Contribution Deed amounts when the next stage payment is due after 1 July 2024. This is the start date for actual financial payments of DSP charges liable in that financial year and thereafter.

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