



Meriton Apartments Pty Limited

A.C.N. 000 644 888

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DX 1177 Sydney 2000

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Email: general@meriton.com.au • Internet: <http://www.meriton.com.au>

28 April, 2000

Independent Pricing & Regulatory Tribunal
Level 2
44 Market Street
Sydney NSW 2000

Att: Jessica Radbone

Dear Ms Radbone,

RE: CAPITAL CONTRIBUTIONS DISCUSSION PAPER: APRIL 2000

We appreciate being **given** the **opportunity** to comment on the above topic as we feel that **the current** Policy is unfair and discriminates against large residential developers such as **Meriton** and benefits smaller builders.

Meriton is the largest home unit developer in **this** country. We construct **over** 2500 residential units in Sydney per year **from** as **far** north as **Hornsby** through to **the** southern suburbs in Sutherland

The electricity supply for all of our developments is negotiated **with** Energy Australia as we do not **feel that it is economically** viable to negotiate **with** other suppliers due to the cost incurred in time delays.

Energy Australia's capital contributions and recoverable works guidelines are set out in **what is known as the ES 8 document, which we feel is extremely unfair and detrimental to large** home unit **builders**. We have written to Energy Australia on a number of occasions outlining **the** problems associated with their guidelines **and are yet to** receive a **satisfactory** response. A copy of our **correspondence** is attached.

When we acquire land to develop we approach **Energy** Australia advising of the number of units that will be constructed on the site and are **advised as to whether** a substation (kiosk or Chamber) will be required or **if the** site will be serviced **from** the street.

If a substation is required for the site we are **required** to provide either a 5 x 4 m site or **construct** a chamber substation, at our cost. We also pay **for** the cost of non-recoverable items such as **labour** etc in the construction of the substation and

for the excess mains **from** our boundary to the nearest point of supply. If there is no requirement for a substation the excess main charge applies. This however is a rare occurrence due to the larger number of units constructed on each of our **sites**, which range **from** 60 - 2500 units.

We note **from** your discussion paper that the Capital Contributions Working Group **have submitted recommendations** for adoption by **IPART from the 1/7/00**, and have been **categorised** by **IPART** into options **1,2,3** and 4 as listed below.

6.1 Options

Based on the issues raised and proposals received, four options **have** been developed to help focus discussions.

- Option 1** Continuation of the current guidelines
- Option 2 **The** proposals of the Capital Contributions Working Group.
- Option 3** Continuation of the **current** guidelines, modified to;
- tighten the key definitions
 - **require** customers to **contribute** to shared extension assets
 - introduce a **reimbursement** scheme for shared extension assets.
- This option would not **include** customer liability for upstream **augmentation** or revenue **offset elements** of the **CCWG** proposal,
- Option 4 The proposals of the **CCWG** modified to:
- adopt a simplified economic test based on fixed revenue offsets
 - exclude customer liability for upstream **augmentation** assets (ie, limit capital contributions to dedicated assets and extension assets).

Option 4 is **preferred** by our Company however there are a **number** of further issues that need to be **addressed**, these being;

- **Substation Site And Construction Of Chamber Substations**

We currently provide a **99 year** lease to Energy Australia for any chamber substation or land required for a substation for nil consideration.

The construction costs **of** a **chamber** substation **run** into hundreds and thousands of dollars, and **there** is also a cost of a dedicated substation site. We feel that we should be **reimbursed** for these costs if Capital Contributions are to continue.

- **Economic Test**

We are aware that Energy **Australia** have evaluated a number of our sites all of which have equated to a profitable investment.

We note your example on page 17, of your report headed "Case 2 Large Urban Customer", whereby the DRO (Distributor **Revenue Offset**) is much higher than the cost of supplying the site with power. In such cases we **feel** that the **customer/(developer)** should receive the balance,

eg.	Costs of supplying power to development	=	\$70,000.00
	Distributor Revenue offset	=	\$200,000.00
	Developer receives	=	\$ 130,000.00 credit

- **Reimbursement Scheme**

If, as a **result** of a development costs are incurred by the Developer in providing power supply that is later utilised in the **future** by another customer these costs must be reimbursed or not charged in the tit instance.

There should not be a time-frame of **6 years** for reimbursements to lapse as put forward by the Working Group, when the **life** of the asset is 30 years plus.

This topic also **requires the** relevant Power Authority and its employees who negotiate substations to better their forward **planning** and not take each site on a case by case basis.

For example, we have constructed substations on a number of sites, of which we have paid capital contributions, and **within 24 months** have purchased the site **adjacent** for redevelopment which also require substations.

If Energy Australia's staff got involved with the Local Council and looked at the **zonings** of the areas, a lot of time and money could be saved by both parties by providing larger **infrastructure up front** to cater for the inevitable redevelopment of existing properties.

- **Liability For Upstream Augmentation**

With reference to the above we feel that this is a most unreasonable proposal by the **Working** Group.

Their proposal suggests that if a major development were to be constructed that **required** the nearest zone substation, to be upgraded than the developer should contribute towards this. This raises the question of **whether** the **existing** 5000 odd customers on the same network would also have to contribute.

- **Credit For Previous Uses**

When a site is to be developed and the economic test is applied we feel that the previous history of the site should be taken into account,

If a site to be developed is to use less power **than** the **site** previously used then there would be less of a load on the upstream transformers, allowing more customers to come on line without **augmentation**.

- **Sites That Prove To Be Uneconomic**

We **feel** that sites that require Capital **Contributions** to be paid for **redevelopment** should be either **funded** by Local Councils **from** their Section 94 Contributions as a Material Public Benefit or when a particular site is for sale it should be noted on the title of the property that Capital Contributions for Electricity Supply apply.

This will enable the costs to be **deducted** from the purchase price of land,

Sites that are rezoned for residential development increase in value, however if a site's current **value** is \$1 million and then increases to **\$3** million due to the new re-zoning, there may be \$500,000 worth of Augmentation to **carry** out, This must be brought to the attention of both the vendor and purchaser as early as possible,

We therefore suggest that a simple economic test should be carried out for every development, to calculate the profit to the network supplier, then deduct the costs that we are presently liable.

The above points raised in this letter should also be taken into account by **IPART** if Capital Contributions are to continue.

For any enquiries please contact the undersigned on 92647177 or 0417227275.

Yours **faithfully**,
MERITON APARTMENTS PTY LIMITED



STUART GANDER
Project Manager



Meriton Apartments Pty Limited

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8 November 1999

Chief Executive Officer
Energy Australia
Mr Paul Broad
570 George Street
SYDNEY NSW 2000

Fax: 9264 2982

RE: CAPITAL CONTRIBUTIONS FOR ESTABLISHMENT OF ELECTRICITY SUPPLY TO NEW DEVELOPMENTS

Dear Sir,

I refer to the contributions that we are now required to pay Energy Australia for the establishment of substations and the High Voltage Connections for our Residential/Commercial developments.

These contributions do not take into account the benefits and **future** earnings that our developments **offer** Energy Australia.

We are **the** largest Residential developer in Australia, constructing **over 2000 units** per year, and as a result provide Energy **Australia** with these new customers.

On any one development, we are required to pay the total costs involved in connecting to the closest High Voltage main., and if a substation is required we provide the room together with all non-recoverable costs associated in establishing the substation. Energy Australia then obtain a 99 year lease over the substation location.

The space required to establish a substation can vary **from 5m** x 4m (kiosk) to **10m** x 5m (chamber).

The construction costs associated with the concrete slab (kiosk) and the **enclosure required for a chamber substation is also borne by our** company. The costs of such areas of land run into hundreds of thousands of dollars, as units both residential, commercial, and **carparking**, are reduced to allow for substations.

Upon completion of our developments, Energy Australia have increased their value, obtained an asset in the form of the substation, new underground cabling to the development, and received anywhere between ZOO-2500 customers, which did not previously exist. .

We therefore request that Capital Contribution on our future developments be waived and the amounts paid on the following properties be returned:

43A Bridge St, Hurstville	\$82,863.00 (Approx, 10,000 Street Lights)
12 I Pacific Highway, Hornsby	\$29,000.00
• Rosebery Place, Balmain	\$29,845.00
460-470 Victoria Ave, Chatswood	\$44,020.00
5-7 Beresford Rd, Strathfield	\$35,025.00

We feel that the above request is reasonable and fair, as other service authorities **such** as **Telstra** and AGL provide their service at no cost to the developer. If a satisfactory response is not received we will commence proceedings to seek compensation for all previous substation sites completed with Energy Australia,

Yours faithfully,

MERITON APARTMENTS PTY LIMITED


HARRY O TRIGUBOFF A.O
MANAGING DIRECTOR



Meriton Apartments Pty Limited

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9 November 1999

Mr Paul Broad
Chief Executive Officer
Energy Australia
570 George Street
SYDNEY NSW 2000

FAXED

COPY

By facsimile: 9264 2982

Dear Sir,

CAPITAL CONTRIBUTIONS FOR ESTABLISHMENT OF ELECTRICITY SUPPLIED TO NEW DEVELOPMENTS

As you would be aware **Meriton Apartments Pty** Limited is a major developer operating within the Sydney metropolitan area. Our developments are usually substantial medium density/high density residential complexes which create an increased demand upon services provided by your Corporation,

Our developments **often** require the installation of a substation within the development. Energy Australia requires the developer to pay for the construction of the substation in advance prior to the installation of any services.

We believe this is an unreasonable impost.

As a result of our development Energy Australia acquires a substantial asset and the introduction of many consumers of Energy Australia's services. The substation is usually accompanied by a valuable 50 year lease in favour of Energy Australia for nominal consideration.

In these circumstances we see no reason why we should pay Energy Australia for the cost **to** build the substation. There is no statute, power or authority upon which Energy Australia can rely to support this claim. We should not be required to contribute at our cost to Energy Australia's capital works and to increasing your consumer base.

We seek your written confirmation that no contributions will be required **from** our **company** towards the **building** of substations for all our existing and future

avenues to require Energy Australia to pay for, at market rates the land and 'customers acquired from our company in relation to these substations. Further, should **further** payments be required to enable our developments to proceed without delay we put you on notice that such payments are made under protest and duress and that we shall seek their **recovery** in due course.

Yours faithfully,

MERITON APARTMENTS PTY LIMITED



Richard de Carvalho
Corporate Counsel



Meriton Apartments Pty Limited

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8 December, 1999

Mr Paul Broad
CEO
Energy **Australia**
570 George Street
SYDNEY NSW 2000

By facsimile: 9264 2982

Dear Sir,

CAPITAL CONTRIBUTIONS FOR ESTABLISHMENT OF ELECTRICITY SUPPLY TO NEW DEVELOPMENTS

I refer to your letter dated 19 November, 1999 which we understand was an attempted response to our letter dated 8 November, 1999.

Your letter fails to address any of the matters **raised** by our company, such as future **earnings** for Energy Australia or **the** costs **involved** in providing space for **Kiosk** or **Chamber** sub-stations.

We now wish to request that a **Capital Evaluation** be carried out on the following developments:

43A Bridge Street, Hurstville
121 Pacific Highway, **Hornsby**
460-470 Victoria Avenue, Chatswood
5-7 Beresford Road, **Strathfield**

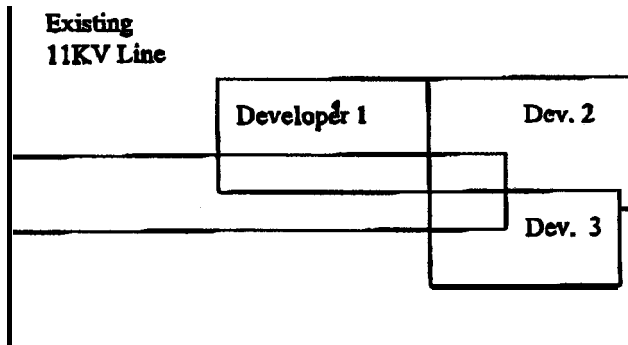
All of the above sites have had sub-stations negotiated and are currently under construction.

We believe that the results of the evaluation will prove that each site is an acceptable investment, therefore Capital Contributions should not apply to these or **any** site which returns similar results, as we understand that the Capital Contribution charge is not a mandatory charge, and is at the discretion of the supplier.

Further to your letter of the 19 November 1999 you make reference to Energy Australia's Policy Document ES8 - Capital Contributions and Recoverable Works Guidelines.

We have reviewed this document and wish to request clarification of clause 2.2, Urban Residential Subdivision which states:

"Energy Australia will fund the cost of the High Voltage reticulation and newwork substations in residential sub-divisions as these assets are generally shared between developments. Energy Australia will also fund the cost of civil work for trenching external to the sub-division where high voltage cables are to be laid, or low voltage cables supply customers who are not part of the subdivision".



If we take the above example as given in ES8, a 3 lot sub-division owned by 3 separate developers will not attract a Capital Contribution for electricity supply, however if one developer owned all 3 sites, consolidated them and built either the same number of units or more, then the single developer will attract the Capital Contributions, this is extremely unfair to the large developer.

Example 2

The 3 developers negotiate a sub-station with Energy Australia free of charge. Developer 1 buys out Developer 2 and 3 and consolidates the site at the end of the job, Developer 1 has received the sub-station free of Capital Contributions.

Example 3

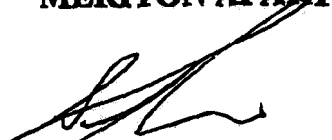
A single developer requires a substation for the construction of 200 units which are then strata subdivided upon completion, creating 200 individual titles, and accounts plus a House Light account with the Body Corporate.

We wish to be advised how this scenario differs from the 3 lot subdivision example as there are 200 customers sharing the one supply.

We feel that there must be an analysis carried out on each individual site to assess whether Capital Contributions should apply as your current policy is open to much interpretation.

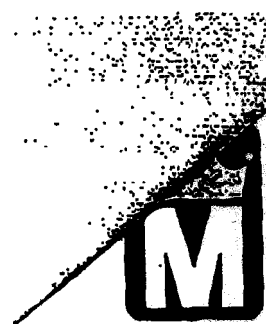
We would appreciate your urgent attention to this matter and for any enquiries please contact the undersigned on 9264 7177.

Yours faithfully,
MERITON APARTMENTS PTY LIMITED



STUART GANDER
Project Manager

cc. IPART



Meriton Apartments Pty Limited

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3 February, 2000

Mr **Mervyn** Davies
General Manager - Network
570 George Street
SYDNEY NSW 2000

Dear Sir,

a

CAPITAL CONTRIBUTIONS FOR ESTABLISHMENT OF ELECTRICITY SUPPLIED TO NEW DEVELOPMENTS

In response to your letter of 10th December 1999, we wish to advise that in **IPART's** Report No. 10, 1996, Clause 3.1, Paragraph 5 states the following:

"The Tribunal would be concerned if there was excessive use of Capital Contributions. Clearly there should be no double dipping. That is the same costs should not be recovered twice through capital contributions and annual charges. The Tribunal would also be concerned if Capital Contributions recovered costs in excess of efficient costs. Recovery of inefficient costs would place an unfair burden on customers and establish poor incentives for the service provider".*

We **feel** that the key issue to our argument is clearly stated by **IPART** being:

"Recovery of inefficient costs would place an unfair burden on customers".

Your **current** policy discriminates against the larger **Developer** who is providing a more profitable product to Energy Australia by way of large volume of units. This results in the smaller developer or developments being subsidised by **companies** such as ours.

Your reluctance to carry out Capita! evaluations of our developments confirms to us **that** the result, as we all know, would show that our developments are **all** profitable for Energy Australia and would not require Capital Contributions to be **levied**.

We now request that you confirm to us, **by** providing details and calculations, that Energy Australia is not "double dipping"* in **recovering costs by way of Capital Contributions and annual charges for the developments listed in our letter** dated 8th December, 1999. We will be requesting this information for **all** future developments that are **levied with Capital Contributions**.

We feel that the only possible way for Energy **Australia** to **conform** with **IPART's** recommendations is to have Capital Evaluations **carried** out on each site, as it would seem

impossible to determine if double dipping is occurring on sites by **charging** for substations as set out in your ES8 **document**.

An **example** of this situation is if three individual developers built four **townhouses** on adjacent blocks of land, a substation would **be** shared and therefore supplied at no charge.

However, if a developer constructed 200 **units** on one Parcel of land and **required** a substation, the **capital** contribution would apply.

It is obvious that the **200** unit development would give **Energy Australia** a **much higher** and more **profitable** return than the **12** unit scenario, so we feel that our request for Energy Australia to substantiate their costing is fair and reasonable given the above situation.

If upon completion of the investigation into the Capital Contributions to our developments indicate that **Energy Australia** **incorrectly administered** the charge, we feel that a refund of all monies paid to date by **Meriton Apartments Pty Limited** should apply.

We have had a good working relationship with Energy Australia for some 35 **years**, and find that your reluctance to cooperate **in** answering our relevant enquiries some what disturbing.

We hope that our requests in this letter can be addressed *in* a more **comprehensive** manner than your response of the 10th December, 1999.

The second half of your letter of the 10th December 1999 refuses to answer or **clarify** our queries put **forward** in our letter of the 8th December 1999 regarding the ES8 Document.

We have approached Customer Service **officers**, as you had suggested, however our queries were **unable** to be answered. We were advised to **clarify** our queries with yourself **as General Manager - Network**.

We' would appreciate your earliest reply to this letter as **we** have a number of **developments** being delayed due to **the lack of information** supplied in your letter of the 10th December, 1999.

Yours faithfully,
MERITON APARTMENTS PTY LIMITED


STUART GANDER
Project Manager