

1. Market Context

March 2018 data from UDIA Victoria partner Research4, shows the median lot price in Melbourne's greenfield land market, has increased by 9% over the quarter to \$330,000 per lot, which represents an annual increase of 31%. This rapid price growth is largely attributable to several delays in the post Precinct Structure Plan (PSP) process, which is manifesting as record low stock levels and subsequently skewing the housing demand-supply balance.

Delays caused by electricity distribution businesses are widely recognised across industry and government as a key contributor to these problematic market conditions.

2. Summary

The Victorian Division of the Urban Development Institute of Australia (UDIA Victoria) welcomes the opportunity to provide feedback to the Essential Services Commission (ESC) to help inform the investigation into the practices of distribution businesses that connect electricity to Victoria's new property developments.

UDIA Victoria has spent significant time consulting with the urban development industry, to consolidate and prioritise the pressure points with regards to large-scale electricity connection services.

This process of in-depth member engagement made the following issues very clear:

1. Electricity companies enjoy an unregulated monopoly on large-scale connections to new developments with no penalties for poor service practices;
2. Electricity companies may change their standards without any consultation or transitional phase, enabling random changes in requirements and costs throughout the development process;
3. Design reviews and audit inspections are plagued by inconsistencies and inefficiencies; and
4. There is a consistent failure by electricity companies to meet reasonable timeframes.

These issues add time, risk, uncertainty and cost to the development process, making it increasingly difficult for industry to bring new housing to market at an appropriate pace and price-point to meet demand. These impacts are particularly concerning in context of current Melbourne greenfield market conditions.

Based on the above, UDIA Victoria recommends the following:

- a) Amend the Electricity Distribution Code to incorporate timelines and financial penalties for Underground Residential Distribution customers;
- b) Broaden the scope of contestable services to enable increased use of accredited third-party resources;
- c) Implement a standardised, regulated and transparent process with a transition phase to accompany any change in standards introduced by electricity businesses;



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- d) Establish a standardised manual for designers and auditors, supported by ongoing training and new technology;
- e) Amend the walk-off policy that currently applies to audit inspections;
- f) Introduce a sample auditing system to streamline the design and construction processes; and
- g) Introduce regulatory timeframes, enforced by financial penalties.

3. Next Steps

Lack of accountability is at the core of the issues experienced by industry when dealing with electricity distribution businesses for new property developments. UDIA Victoria therefore urges the ESC to focus its advice to the Victorian Government on initiatives that will establish robust, long-term accountability measures that will drive efficiencies, increase transparency and lift poor service standards across large-scale electricity distribution businesses.

UDIA Victoria strongly recommends that State Government continue to engage with the urban development industry pre- and post-enquiry to ensure subsequent reform is effectively addressing the issues presented within this submission.

4. About Us

Urban Development Institute of Australia (Victoria)

The Urban Development Institute of Australia (UDIA) is the peak industry body for the urban development sector. In Victoria alone, we represent the collective views of over 320 member companies including developers, consultants, financial institutions, suppliers, government authorities and utilities. Together we drive industry discussion and debate, which serves to assist key regulators and all levels of government in achieving successful planning, infrastructure, affordability and environmental outcomes.

5. Contact

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| Hyatt Nidam Advocacy and Communications Manager Urban Development Institute of Australia (Victoria) E: hyatt@udiavic.com.au | Policy Team Urban Development Institute of Australia (Victoria) E: policy@udiavic.com.au |
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6. Issues and Recommendations

5.1 Electricity companies enjoy an unregulated monopoly on large-scale connections to new developments with no penalties for poor service practices

The root cause of delays in the electricity connections process for new housing developments is that a small number of privately owned electricity distribution companies have an unregulated monopoly on large-scale connections. In the absence of established accountability measures or a competitive operating environment, there is little to no incentive for these companies to lift service performance. Similarly, there is no avenue for the development industry to hold electricity providers accountable for poor service or unreasonable and costly project delays.

Recommendations:

a) Amend the Electricity Distribution Code¹ to incorporate timelines and financial penalties for Underground Residential Distribution (URD) customers

There is an urgent need to revise the Electricity Distribution Code so it incorporates timelines and financial penalties for URD customers. The definitions need to be broadened, as they are currently focused at individuals or businesses seeking connections, however they form a solid template for relevant performance criteria for large-scale connections, with clear penalties for not meeting reasonable obligations.

UDIA Victoria considers the ESC the most appropriate organisation to oversee accountability measures introduced through the Electricity Distribution Code, however we note that the ESC would need to be properly empowered to do so.

Specific parts of the Electricity Distribution Code which could apply to URD customers include:

2.2 New connection

Subject to clauses 2.3.1 and 2.6.1, where a connection request has been made by a customer or a retailer on behalf of a customer, a distributor must use best endeavours to connect the customer at a new supply address on the date agreed with the customer or with the retailer on behalf of the customer. Where no date is agreed, the distributor must connect the supply address within 10 business days after the request.²

2.4 Connection without energisation

Subject to clause 2.6.1, where a connection request has been made by a customer and the customer's supply address cannot be energised due to the operation of clause 2.3.1(a), a distributor must use best endeavours to connect but not energise a new supply address on the

¹ ESC Electricity Distribution Code, December 2015 Version 9

² ESC Electricity Distribution Code, December 2015 Version 9, page 4

date agreed with the customer. Where no date is agreed, the distributor must perform its obligations under this clause 2.4 within 20 business days after the request.³

2.5 Previous connection

Where a customer only requires energisation and the customer provides acceptable identification to the distributor or the customer's retailer, a distributor must use best endeavours to energise the customer's supply address within one business day of a request being made by a customer's retailer (or, where clause 2.3.1 permits, the customer) if such request has been made to the distributor (orally or in writing) by 3 p.m.⁴

3.1 Good asset management

EXPLANATORY NOTE: Clause 3.1 defines elements of good asset management which are designed to encourage innovation in the provision of distribution services and not prescribe distributors' practices in detail. The Commission may, however, undertake detailed examination of a distributor's practices if there is a substantial decline in the quality or reliability of supply, or evidence of a significant risk that such a decline may occur in the future when compared to the licensee's historical performance and its performance targets.⁵

6.2 Failure to supply

Where a distributor does not supply electricity to a customer's supply address on the day agreed with the customer, the distributor must pay to the customer \$70 for each day that it is late, up to a maximum of \$350.⁶

b) Broaden the scope of contestable services to enable increased use of accredited third-party resources

Enabling a broader and more transparent scope of contestable services that applies to connections and augmentations would reduce the development industry's reliance on the electricity distribution businesses. This would unlock capacity within the electricity businesses, reduce costly delays and introduce a level of consumer choice that is currently lacking in the market catering to URD customers.

The scope of contestable services should enable the market to use accredited third-party resources for the:

- Preparation of connection offers and augmentation proposals, using templates published for use by the distribution businesses, effectively allowing customers to propose network extensions, augmentations, or relocations for network approval, rather than waiting for augmentation proposals to be prepared and issued by networks;
- Development of electricity overall plans and network scopes;
- Conducting of drawing reviews and approvals;
- Conducting of audits; and
- Constructing, relocating and energising all electrical assets.

³ ESC Electricity Distribution Code, December 2015 Version 9, page 4

⁴ ESC Electricity Distribution Code, December 2015 Version 9, pages 4-5

⁵ ESC Electricity Distribution Code, December 2015 Version 9, page 6

⁶ ESC Electricity Distribution Code, December 2015 Version 9, page 19

5.2 Electricity companies may change their standards without any consultation or transitional phase

Significant issues exist around transparency and fairness when it comes to the ability of electricity companies to adjust their standards at any time, without consultation, notification or transition for those affected by the adjusted standards. This often manifests itself as a 'ratcheting up' of design standards throughout the process in which a developer is dealing with an electricity provider. This causes a great deal of uncertainty and erodes confidence throughout the development industry, directly impacting the time and cost it takes to bring new housing developments to market.

Recommendation:

c) Implement a standardised, regulated and transparent process with a transition phase to accompany any change in standards introduced by electricity businesses

A robust and enforceable process must be established to ensure electricity companies provide adequate consideration and notice to affected parties before making changes to their standards.

Transitional arrangements must honour existing applications that have been submitted prior to a change in standards, to ensure additional time and cost is not added to a project already underway.

The process associated with changing standards should be transparent and incorporate safeguards to ensure revisions are justified and cost-effective, so as not to have any unnecessary adverse effects on the ability of industry to deliver homes to market. This is particularly important in context of the housing affordability challenges faced by Victorians across the greenfield land market.

5.3 Design reviews and audit inspections are plagued by inconsistencies and inefficiencies

There is a great deal of inconsistency across design reviews and audit inspections conducted by electricity providers, with the development industry resigned to the notion that the result depends on "who you get on the day". This lack of uniformity applies to employees within the same electricity company, as well as those from different companies, resulting in uncertainty and irregularity across the system.

Further, there is currently a 'walk-off' policy that means auditors can walk-off the site after finding a certain number of faults. This policy is often used despite the developer having booked and paid for a complete audit. This is an inefficient process that gives rise to multiple re-audits of the same project, equating to added time and cost, which could reasonably be avoided.

Recommendations:

d) Establish a standardised manual for designers and auditors, supported by ongoing training and new technology

Introducing a standardised manual supported by a suite of tools to establish consistency across design reviews and audits would ensure inspectors can confidently conduct their assessments based on clear

guidelines. This would also provide the development industry with the direction required to facilitate efficient and effective compliance of various standards.

A suite of tools to encourage an efficient, standardised design review and audit system could include:

- A manual providing clear guidance and direction to auditors, designers and industry on the standards and compliance. The manual should have regulatory weight and specify an efficient inspection process that requires all defects be identified in the preliminary inspection, to ensure the developer can rectify all faults before re-submission or re-audit;
- Ongoing training for designers and auditors focused on teaching the correct interpretation of standards;
- A common defect differentiation system that facilitates tolerances to minor faults where the developer can demonstrate rectification without the need for a re-audit or new inspection;
- New technology that would assist and upgrade inspection techniques by delivering efficiencies and improving accuracy, ultimately increasing employee capacity; and
- Ongoing educational engagement between the various electricity businesses and the development industry to ensure clear and mutual understanding of the audit and design review process, and to provide opportunity to clarify emerging issues of disparity. UDIA Victoria would be happy to activate and facilitate these engagement opportunities with the cooperation of the relevant service authorities.

e) Amend the walk-off policy that currently applies to audit inspections

The protocol enabling auditors to walk-off site after finding a certain number of faults must be addressed and changed.

Auditors should be required to carry out the full audit for which the developer has booked and paid for, regardless of the number of faults that are identified throughout the audit – that way the developer is provided a full list of defects that they can then address before booking and paying for another audit. This would reduce the likelihood of having several re-audits of the same project.

f) Introduce a sample auditing system to streamline the design and construction processes

Considering the abovementioned issues and clear need to amend and streamline the existing construction audit inspections process in particular, it should be considered whether the current system is necessary, or whether it is creating an over-audited, inefficient and costly environment for little benefit. Consideration should include assessing the likelihood and consequence of potential risk events, and the value realised by current processes as compared to other auditing options.

UDIA Victoria recommends exploring a sample auditing process to replace current practice. A sample auditing system could be based on checking 25% of all works, giving the auditor a reliable indication of the quality of works without having to physically examine 100% of the works. Historical performance of constructors could also be a consideration in determining the need to conduct a full or sample audit.

5.4 Consistent failure by electricity companies to meet reasonable timeframes

The development industry is experiencing significant project delays because of electricity providers taking unreasonably long periods of time to assess, respond to and determine applications in a timely manner.

In the absence of a competitive operating environment to drive improved performance standards, UDIA Victoria recommends the introduction of regulatory timeframes enforced by financial penalties, particularly around the design approval stage and for the time it takes for the distributor to energise a site.

Recommendation:

g) Introduce regulatory timeframes, enforced by financial penalties

While some statutory timeframes exist, the various referral and responsible authorities in Victoria often exceed them without consequence. To ensure timeframes placed on the electricity authorities are effective in driving accountability and efficiency, adherence to the timeframes should be monitored and enforced through the application of financial penalties for ongoing failure to meet specified timeframes. Please refer to section 5.1 of this submission for UDIA Victoria's recommendation on how the ESC could set and monitor such timeframes and financial penalties.

UDIA Victoria recommends the following specific timeframes:

- 28 calendar days for the design approval stage; where a distributor exceeds the 28 day timeframe, the distributor must pay a penalty for each late day;
- 28 calendar days for the distributor to energise the site from date of request; where a distributor exceeds the 28 day timeframe, the distributor must pay a penalty for each late day; and
- 5 business days for the auditor to conduct the audit from date of request; where an auditor exceeds the 5 day timeframe, the distributor must pay a penalty for each late day.