



Guide to New Customer Contributions

(Effective from 1 July 2020 until revoked)

July 2020

VERSION CONTROL PAGE

| Document History and Version Control | Date Approved | Brief Description |
|---|----------------------|---|
| 0.0 | August 2013 | Creation of original document. |
| 1.0 | December 2013 | Plans added to Appendices B & C. |
| 1.1 | March 2014 | Addition of section regarding Non-Residential High Demand NCC. |
| 1.2 | July 2014 | Revised NCCs added. |
| 1.3 | June 2018 | Revised to reflect Price Submission 18. |
| 1.4 | July 2018 | Revised payment of NCC and calculation of incremental financing charge. |
| 1.5 | July 2020 | Revised to reflect Price Submission 20. |

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1. Introduction

Western Water's Guide to New Customer Contributions has been prepared to:

- Outline Western Water's methodology for calculation and application of NCC; and
- Provide information for the land development industry.

New Customer Contributions (NCC) are an upfront payment to recover the cost of major water, sewerage and recycled water infrastructure required to service new development. The basis for NCC is provided in the *Water Act* Section 268 and 269. The *Water Act* requires NCC to be assessed as "fair and reasonable" with review by the Victorian Civil and Administrative Tribunal (VCAT).

The Essential Services Commission (ESC) is the economic regulator of the Victorian water sector. The ESC regulates all water corporation prices, including NCC, as well as monitoring service standards and market conduct. In August 2012, the ESC released a Guidance Paper on NCC.

(See <http://www.esc.vic.gov.au/Water/New-Customer-Contributions>)

The ESC Guidance Paper is a principles-based approach, which enables a water corporation to prepare standard NCC and a Negotiating Framework with the development industry to ensure flexibility in complex/non-standard development proposals.

Western Water supports and has applied the ESC's principles-based approach to determining NCC.

For further information on Western Water's Guide to New Customer Contributions please contact Western Water on telephone 1300 650 422.

2. Western Water Overview

Western Water is one of Victoria's thirteen regional urban water corporations. It provides water, recycled water and sewerage services to over 65,000 properties over an area of 3,000 square kilometres and a population of over 150,000.

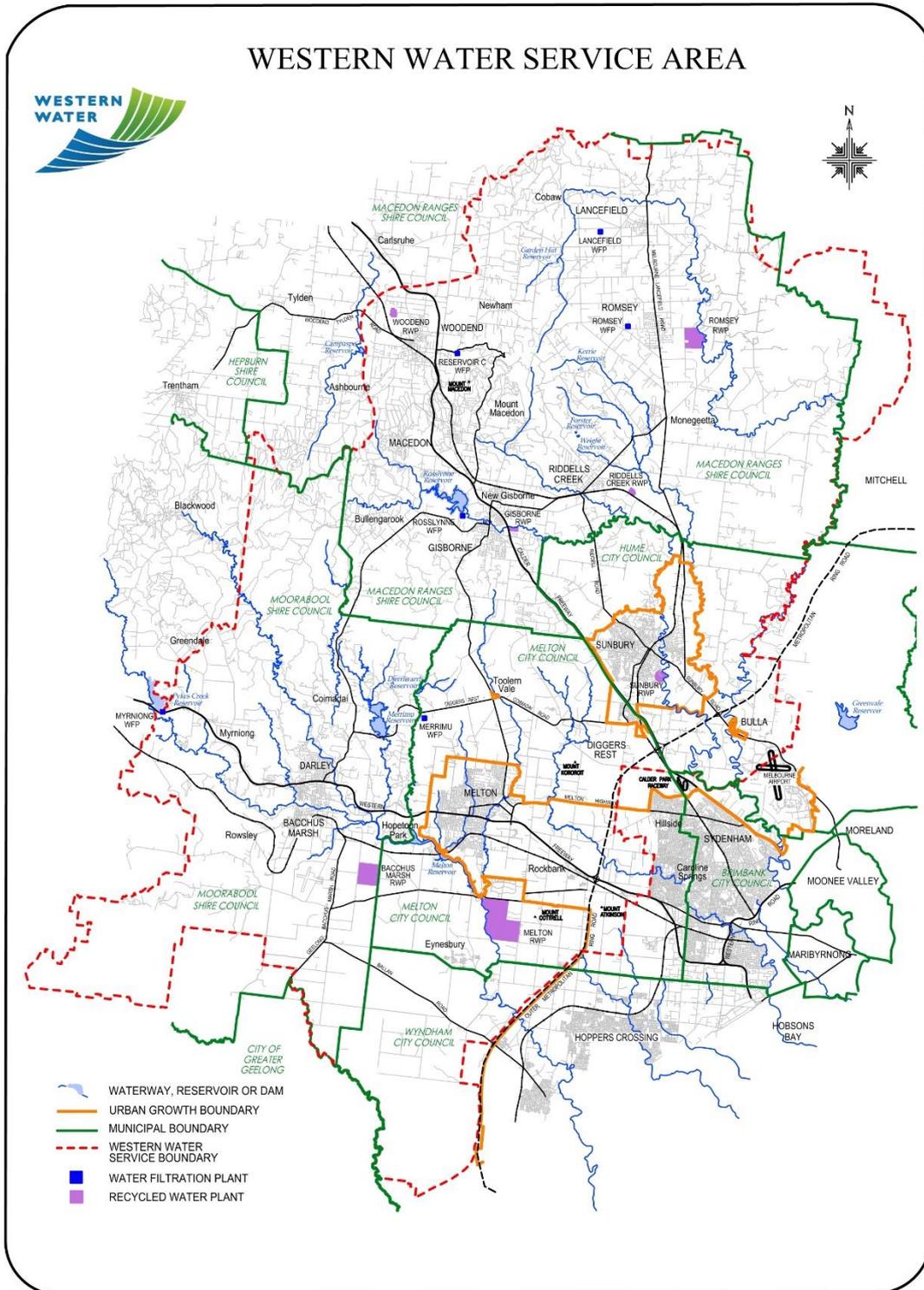
Western Water supplies close to 14 billion litres of clean, healthy drinking water to customers each year. Around 10 billion litres of sewage are processed each year to produce recycled water. Class A recycled water is piped to homes in some new developments for uses including toilet flushing, clothes washing and garden watering. Other recycled water classes are used for irrigating parks and sports grounds, industry and agriculture.

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Western Water has seven Water Filtration Plants, which treat water from local catchments. In addition, Western Water is also able to access water from the Melbourne system and supply to the majority of the Western Water region. Western Water also has seven Recycled Water Plants, which treat all the region's sewage and supply recycled water to the region. In the near future, Western Water will connect to the Melbourne sewerage system, through a part of City West Water's network near Caroline Springs.

Western Water's service area (as shown in Figure 1), which includes Melton, Bacchus Marsh, Sunbury, and towns in the Macedon Ranges, is one of the fastest-growing regions in Victoria. Rapid housing development is contributing to an average population growth of over 4% per year, with the region's population expected to double in the next 15 years. The rapid population growth within Western Water's region has been influenced by the revision to Melbourne's Urban Growth Boundary (UGB). The revised UGB was approved by Parliament in July 2010 and significantly expanded land for Melbourne's growth in the Melton and Sunbury corridors.

Figure 1: Western Water’s Service Area



3. Regulatory Period

As the economic regulator, the ESC reviews and approves the maximum charges that water corporations can charge for water and sewerage services. The reviews are conducted and charges are approved before the commencement of each regulatory period.

The regulatory periods are typically of five-year duration and have previously been called Water Plans (now referred to as Price Submissions/Determinations).

As approved by the ESC, Western Water's regulatory period commencing on 1 July 2018 was for two years. Western Water's current regulatory period commenced on 1 July 2020 and runs for three years until 30 June 2023. The Western Water Guide to New Customer Contributions (this guide) is applicable for the duration of this regulatory period and until revoked.

4. New Customer Contribution Framework

4.1 Introduction

Under the ESC NCC framework:

- Water corporations are required to negotiate NCC in accordance with Pricing Principles and Negotiating Frameworks approved by the ESC;
- Developers will negotiate with water corporations and have recourse to the Victorian Civil and Administrative Tribunal (VCAT) for dispute resolution;
- The ESC, through the water price review, will approve:
 - Any supplementary pricing principles;
 - Negotiating Framework;
A Negotiation Framework is to be developed by water corporations and approved by the ESC setting out the procedural and information requirements relevant to services to which NCCs apply.
 - Standardised NCC charges;
Water corporations may develop Standardised NCC consistent with the pricing principles and submitted by the water corporations in their Price Submissions. These can be a single standardised charge for each service applicable for an entire water corporation's service area or several geographically-based standardised charges.

4.2 Pricing Principles

The ESC requires that NCC charges will:

- Have regard to the incremental infrastructure and associated costs attributable to a given connection;
- Have regard to the incremental future revenues that will be earned from customers at that connection; and
- Be greater than the avoidable cost of that connection and less than the standalone cost of that connection.

4.3 Charging Units

Water corporations shall have the flexibility to choose the charging units for NCC (e.g. lots, equivalent tenements, fixtures units etc.). The charging units should provide a 'fair and reasonable' charge for each 'occupancy' based on the capacity utilisation of that occupancy.

This is further detailed below in Section 6.2.5.

5. Land Development Process

The initial calculation of NCC and application of the negotiating framework fall within Western Water's Land Development process between the "Request for Conditions" made by the Customer/Developer and the resulting Development Agreement issued by Western Water in accordance with Sections 268 to 271 of the *Water Act 1989*.

6. Western Water NCC Definitions & Assumptions

This section outlines how Western Water implements the framework and includes:

- Standardised NCC for nominated areas within Western Water's service area;
- A Negotiation Framework for NCC that integrates with Western Water's Land Development Process; and
- Development Servicing Plans that are used as the baseline for calculating standardised NCC and for determining the magnitude of 'incremental financing charges' that may be applicable to new connections.

6.1 Western Water's Standardised New Customer Contributions

Western Water has developed Standardised NCC in accordance with the ESC's pricing principles and as approved by the ESC, to reflect the costs of providing major sewerage, water and alternative water infrastructure for new connections. Western Water is applying a transitional increase in the Standardised NCC to minimise the impacts on the development industry.

For simplicity, Western Water has adopted standardised charges for Greenfield and Infill development within its region. Standardised NCC are applicable only to new connections in eligible areas.

The NCC applicable will be effective from the start of each financial year. The approved and current Standardised NCC are available on Western Water's website.

NCC will be calculated at the rate applicable on the date that Western Water consents to Statement of Compliance. The developer may choose to pre-pay some, or all, of the NCC and a reconciliation will occur prior to Statement of Compliance.

NCC must be paid in their entirety prior to Western Water consenting to Statement of Compliance.

6.2 Assumptions/Definitions

The standardised charges have been developed based on assumptions including:

1. Definition of Greenfield, Infill and Other NCC Criteria.
2. Definition of reticulation assets funded by new customers and vested to Western Water.
3. Growth rates and distribution of growth.
4. Definition of areas eligible for Standardised NCC.
5. Development Servicing Plans.
6. Charging Unit Definition.

6.2.1 Greenfield, Infill and Other NCC Criteria

- If a development (including a subdivision) requires either the construction of new assets or the upgrade of existing assets (either built by Western Water or built by the developer and gifted to Western Water) NCC will be payable at a Greenfield rate for each property created.
- If a property is serviced and connected for one or two of available services (i.e. potable water, sewerage or Class A recycled water), the provision of, or connection to, a further service will incur Greenfield NCC in respect of that new service.
- A property which is already serviced and connected and is to be subdivided will pay an Infill NCC for each additional property created.
- A property that is not serviced, nor has it been serviced in the past, will incur NCC at the Greenfield rate for each property created.
- For developments excluding subdivision (i.e. residential, business, commercial or industrial), NCC will be applied having regard to the new demand to be imposed by the development on the Western Water system(s), on an ESC principles-based approach.
- In any case where the application of these criteria may result in an outcome that is not fair and reasonable then, after negotiation with the owner/developer, an alternative decision may be made by Western Water.

The various criteria set out above will be applied subject to each other.

Note:

- "property" includes an existing or potential, separately metered premises.
- "serviced" means a serviced property as defined in the Water Act and may include a property to which service is available but not connected.
- "connected" means a property which is both serviced and connected.

6.2.2 Reticulation (or gifted) Asset Definition

The following definition has been utilised by Western Water in the development of the Standardised NCC.

Reticulation (or gifted) Asset Definition

When connecting to a Western Water's sewerage, water or recycled water network, a developer is required to provide:

- All Reticulation Assets, and
- New Customer Contributions (NCC).

A **Reticulation Asset** is defined as, "A water main or recycled water main that is DN150mm or less in diameter and gravity sewerage main that is DN225mm or less in diameter, and all associated assets." It is to be fully funded by the developer and vested to Western Water, regardless of whether it is required to be sized or positioned to service other developments.

Associated Assets that are deemed to be reticulation assets include, but are not limited to:

- Sewer Pump Stations, emergency storages and rising mains (where the gravity sewer inlet to sewer pumping station is less than or equal to DN225mm diameter);
- Water or recycled water Pump Stations (where the pump discharges into water or recycled water mains of DN150mm diameter or less);
- Pressure Reducing Valves (where connected to water or recycled water mains of DN150mm diameter or less);
- Water and Recycled Water Tanks (where outlet main is DN150mm diameter or less);
- Freehold land, reserves and or easements required to accommodate Reticulation Assets.

Other growth-related assets and associated land tenure requirements will be provided by Western Water, the incremental cost of which is recovered through the NCC and the Incremental Financing Charge (if applicable).

6.2.3 Growth Rates

Western Water's derived population figures were determined from individual water supply systems and provide individual growth rates per system. The extensive customer growth review incorporated results from the Victoria in the Future review by the Victorian Government and specialist demographers.

6.2.4 Development Servicing Plans

Western Water has prepared Development Servicing Plans showing the expected timing and sequencing of infrastructure provision. The Development Servicing Plans have been prepared taking into account growth rates and market information of the location and timing of development. The Development Servicing Plans depict logically-sequenced expansion of Western Water's water and sewerage networks, in accordance with the ESC framework.

The Development Servicing Plans are the basis for the Standardised NCC. Standardised NCC apply to areas to be serviced with infrastructure to be provided in or before 2028, as shown on the Development Servicing Plans (unless this results in an outcome that is not fair and reasonable, in which case a negotiated NCC may apply). Any proposed new connection outside of these areas will be subject to a negotiated charge utilising the ESC pricing principles.

The Development Servicing Plans show the timing of Western Water's planned investment in its water and sewerage networks. They are the baseline for determining if an investment is in line with Western Water's planned timing or is required earlier than planned, for the purposes of calculating any Incremental Financing Charges that may apply.

The Development Servicing Plans are available on Western Water's website (www.westernwater.com.au).

6.2.5 NCC Charging Unit Definition

The payment of a Standardised NCC for each additional connection includes the following:

- Any new lot on a plan of subdivision;
- Any new separate premises that is or can be metered;
- Any apartment, unit, or premises within a multi-story development that is or can be separately metered (regardless of whether or not it is subdivided)
- Specialised, non-residential, non-subdivisional or higher water usage developments*

* Specialised, non-residential, non-subdivisional or higher water usage developments include but are not limited to:

- Commercial developments
- Industrial developments
- Nursing homes
- Private hospitals
- Schools or other non-rateable properties
- Caravan parks
- Public open space
- Sports grounds

For some developments, a credit may apply for the existing lot and then standard NCC will apply.

6.2.6 Incremental Financing Charge

An Incremental Financing Charge will apply in addition to the Standardised NCC, when Western Water is required to provide infrastructure earlier than planned, as shown on the Development Servicing Plans.

Financing costs relating to infrastructure built earlier than planned shall be calculated as the Incremental Financing Charge (IFC) on the capital expenditure for the number of years that the expenditure is earlier than planned. That is, the product of the capital expenditure, the estimated pre-tax regulatory rate of return applied to Western Water and the number of years.

$IFC = (1 - [1/(1+r)^n]) \times \text{cost of capital being provided earlier than planned}$ where:

r = estimated pre-tax regulatory rate of return that is applicable at the time and applied to Western Water.

n = the number of years the asset is required earlier than planned.

The number years (n) is calculated from the date that Western Water accepts the tender for the works (reimbursable or otherwise) set out in the Development Agreement. It is the difference between the date of the tender acceptance and the date shown on the Development Servicing Plans applicable at that time.

6.3 Non-Residential High Demand New Customer Contribution Charge

To reflect the higher demand placed on Western Water's networks by commercial, industrial and other high-demand developments, the NCC will be converted to an equivalent residential connection.

For water and recycled water, NCC will be based on the meter size required for the development. Where both water and recycled water will be in use, the larger of the two meter sizes involved will form the basis of the calculation.

The table below sets out the ratios applicable for each meter size. A 20mm meter is considered equivalent to a single Lot.

Table 1: Equivalent residential connections

| Meter Size | Equivalent Residential Connections * |
|------------|--------------------------------------|
| 20mm | 1.0 |
| 25mm | 2.0 |
| 32mm | 3.0 |
| 40mm | 6.0 |
| 50mm | 10.0 |
| 80mm | 40.0 |
| 100mm | 70.0 |

* The equivalent residential connection ratio for meter sizes up to 40mm is fixed. For meter sizes greater than 50mm, the ratio may vary based on the capacity of the meter to be used.

For sewer NCC the equivalent residential connection calculation will be based on the number of the plumbing fixture unit rating contained within the development.

For the purposes of the calculation, 25 fixture units are equivalent to a single Lot. The fixture unit rating for each plumbing fixture is set out in AS/NZS 3500.2.2: 2018. (Plumbing and Drainage).

Note: The equivalent residential connection ratio is a multiple of a residential lot NCC and the calculation is based on whether the development is greenfield or infill development.

7. Negotiation Framework

Western Water's Negotiation Framework for NCC is provided in Appendix A.

The Negotiation Framework outlines the connection applicant's rights and obligations, the negotiation process and indicative timeframes.

Appendix A – Negotiating Framework

WESTERN WATER NCC NEGOTIATING FRAMEWORK

1. Application of Negotiating Framework

This Negotiating Framework forms a part of Western Water’s approved Price Determination which applies in the current regulatory period.

This Framework applies in situations where Standardised NCC is not fair and reasonable or where a new connection is outside the areas designated as eligible for Standardised NCC.

1.1 Purpose

This Negotiating Framework sets out procedural and information requirements relevant to *services to which developer charges (New Customer Contributions) apply*, as defined in the WIRO. New Customer Contributions (NCC) are levied when new connections are made to the water corporation’s water, sewerage and recycled water networks. The framework requires Western Water and any Connection Applicant to negotiate in good faith to agree the price, standards and conditions of services to be provided. It also provides for transparent information to enable the Connection Applicant to understand the reasons for decision made by Western Water.

The requirements set out in this negotiating framework are in addition to any requirements or obligations contained in or imposed under the *Water Act 1989*, the *Planning & Environment Act 1987* (including under any planning scheme or permission), the *Subdivision Act 1988*, subordinate regulation under the described legislation as well as Western Water’s Land Development Process or any other relevant legislation or instruments (the “Regulatory Instruments”).

In the case of inconsistency between the Regulatory Instruments and this negotiating framework, the Regulatory Instruments will prevail.

This Negotiating Framework does not alter the rights of a Connection Applicant to seek a review of Western Water’s decision by the Victorian Civil and Administrative Tribunal (VCAT).

1.2 Who this negotiating framework applies to

This Negotiating Framework applies to Western Water in dealing with any property owner – generally a property developer – that is a Connection Applicant who requests connection to Western Water’s works in accordance with section 145 of the *Water Act 1989* (“Application”).

It also applies to Western Water in responding to such requests from a Connection Applicant.

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1.3 No obligation to provide service, good faith obligation

Nothing in this negotiating framework imposes an obligation on Western Water to allow the Connection Applicant to connect to Western Water's works or provide services to the Connection Applicant.

Western Water can refuse its consent, consent, or consent subject to any terms and conditions that Western Water thinks fit, as provided under section 145(3) of the *Water Act*.

However, Western Water and Connection Applicant must negotiate in good faith the price, terms and conditions for services sought by the Connection Applicant.

2. Timeframes

Western Water and the Connection Applicant will use their reasonable endeavours to achieve the following timeframes:

- (a) Agree the milestones, information requirements and any other relevant issues within fifteen (15) business days of Western Water's receipt of an Application. An application, under Section 145 of the *Water Act 1989*, for connection means a formal request for servicing conditions made to Western Water.
- (b) Respond to the Applicant giving details of the terms and conditions of the Offer to allow connection:
 - Within forty-five (45) business days where a Standardised NCC Charge applies; and
 - Within one hundred and twenty (120) business days where a Negotiated NCC Charge applies.
- (c) Adhere to any timetable established for negotiations, and progress negotiations in an expeditious manner; and
- (d) Finalise negotiations within one hundred and twenty (120) business days of the initial application.

2.1 Commencing, progressing and finalising negotiations

Table 2 below provides an indicative timeframe regarding the process of NCC negotiations. As mentioned above, dependent on the location and specific requirements of the development, either a standardised or a negotiated NCC will be applicable. The timeframes for these two charges will differ. It is likely that a Negotiated NCC Charge will require additional design and modelling to be undertaken by Western Water and/or the Connection Applicant. The two timeframes are presented below.

Table 2 – Indicative timeframes for negotiating connection

| Step | Actions | Timing Standardised NCC Charge (Business Days from Application date) | Timing Negotiated NCC Charge (Business Days from Application date) |
|------|---|--|--|
| 1 | <p>Application</p> <p>Receipt of written application for connection servicing conditions under Section 145 of the Water Act 1989.</p> | Application date | Application date |
| 2 | <p>Negotiation Meeting</p> <p>Parties discuss (and meeting if required):</p> <ul style="list-style-type: none"> the nature of the services required; any additional information to be provided by the Connection Applicant; and notification and consultation with other persons potentially affected <p>Parties agree to timeframes for negotiation and consultation and milestones if different to these indicative timeframes.</p> | + 15 Business Days (if required) | + 15 Business Days |
| 3 | <p>Connection Applicant provides any additional information</p> <p>Connection Applicant provides additional information to Western Water if requested.</p> <p>This includes:</p> <ul style="list-style-type: none"> Original completed application; Additional information (if required). | + 20 Business Days | + 35 Business Days |
| 4 | <p>Western Water Investigation completed</p> <p>This could include:</p> <ul style="list-style-type: none"> Where required, Consultation with others potentially affected. Additional design & modelling. | + 35 Business Days | + 90 Business Days |
| 5 | <p>Offer</p> <p>Western Water makes offer, in accordance with relevant instruments, including:</p> <ul style="list-style-type: none"> terms and conditions of connection; NCC (i.e. developer charge) to apply; and such offer will (unless otherwise specified) expire 12 months from being made. | + 45 Business Days | + 120 Business Days |

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3. Provision of information by Connection Applicant

The Connection Applicant must provide sufficient information to enable Western Water to assess the Application and determine the service requirements and costings for the development. The information provided by the Connection Applicant will be treated as confidential by Western Water, subject to the various acts and statutes that Western Water operates under.

The level of information required by Western Water and the detail of its response will vary depending on the complexity and size of the development. As stated above, additional information may be sought by Western Water in the event of Negotiated NCC Charge being sought.

4. Provision of information by Western Water

After consideration of servicing conditions Western Water may provide an offer, via letter, draft agreement and/or notice ("Offer"). The Offer will include specific requirements for the particular development and also include various standard conditions and other information including charges and fees to achieve connection to Western Water's assets. This includes New Customer Contributions.

The Offer will be provided by Western Water pursuant to the Regulatory Instruments.

5. Pricing Principles

The Western Water's charges will:

- (a) Have regard to the incremental infrastructure and associated costs in one or more of the statutory cost categories attributable to a given connection;
- (b) Have regard to the incremental future revenues that will be earned from customers at the connection; and
- (c) Be greater than the avoidable cost of that connection and less than the standalone cost of that connection

In setting charges, Western Water will also comply with:

- (a) The regulatory principles set out in clause 14 of the Water Industry Regulation Order (WIRO); and
- (b) Specific pricing principles approved by the Essential Service Commission as part of Western Water's Price Determination applying at the relevant time.

6. Consultation with affected parties

If Western Water considers that persons other than the Connection Applicant may be affected by proposed connection services, then:

- Subject to legal confidentiality requirements, Western Water may share any necessary information with others potentially affected to assess impacts; and
- Parties will allow sufficient time for reasonable consultation with affected parties to occur.

7. Payment of Western Water's Costs

All developments of land requiring new or upgraded connections to Western Water's system will incur associated fees and charges payable to Western Water. These fees and charges levied under the Water Act and subject to approval by the ESC. Details of the fees and charges applicable can be found on Western Water's website (www.westernwater.com.au).

Should the particular Application require a Negotiated NCC Charge, rather than the Standardised NCC Charge this will arise from the relevant negotiation, subject to the Regulatory Instruments in place at the time.

8. Termination of negotiations

The Connection Applicant may elect not to continue with its Application and may end the negotiations by giving Western Water written notice of its decision to do so.

Western Water may terminate a negotiation under this Negotiating Framework by giving the Connection Applicant written notice of its decision to do so where:

- (a) Western Water believes on reasonable grounds that the Connection Applicant is not conducting the negotiation in good faith;
- (b) Western Water reasonably believes that the Connection Applicant and the development will not be able to receive a service from Western Water; or
- (c) An act of insolvency occurs in relation to the Connection Applicant; or
- (d) Western Water reasonably believes that the Connection Applicant has provided false or misleading information to Western Water.

9. Dispute resolution

In the event of a dispute between parties, Western Water will continue attempts to resolve the matter by negotiation.

After Western Water provides its Offer, if the Connection Applicant does not accept the Offer and attempts to resolve the matter by negotiation are unsuccessful, generally the Connection Applicant has rights to seek a review in the Victorian Civil and Administrative Tribunal ("VCAT") of the terms and conditions of connection and the NCC charge applied. These VCAT review rights, including the various time lines, rights and processes are set out in the *Water Act 1989* and the *VCAT Act 1998*.

10. Giving notices

The address for correspondence and notices to Western Water is:

Western Region Water Corporation
(36 Macedon Street Sunbury)
PO Box 2371
SUNBURY DC VIC 3429

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A notice must be:

- (a) In writing and signed by a person duly authorised by the sender;
- (b) Hand delivered or sent by prepaid post, facsimile or email to the recipient's address for Notices, as varied by any Notice given by the recipient to the sender; and
- (c) If given or received under any Regulatory Instruments or other statute of regulation must be given under the requirements of that relevant instrument, or other statute or regulation.

11. Terms and Abbreviations

Western Water – A water corporation established pursuant to Part 6 of the *Water Act 1989*.

Connection Applicant – The person making the application to connect to Western Water's system pursuant to Section 145 of the *Water Act 1989*.

Application – The formal request for servicing conditions made pursuant to Section 145 of the *Water Act 1989*.

Standardised NCC Charge – This is the standardised charge for Connection Applicants wishing to connect to the Western Water System.

Negotiated NCC Charge – This charge, derived from NCC principles developed by Western Water, will apply where the Standardised NCC Charge is not applicable due to the nature and/or locality of the development, where an innovative connection solution or Integrated Water Cycle Management solution leads to substantive material change in Western Water's distribution infrastructure requirements with the Connection Applicant or arising out of negotiation with the Connection Applicant.