



Recommended charges for Fire and  
Rescue NSW's automatic fire alarm  
management services

## Information Paper

March 2022



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The Independent Pricing and Regulatory Tribunal (IPART) has reviewed Fire and Rescue NSW (FRNSW)'s fees and charges. We have made recommendations on which of FRNSW's services should have user charges; and how FRNSW should recover the costs of providing those services. Our final recommendations will inform a review of the *Fire Brigades Regulation 2014* (FB Regulation), and any new charges should apply from 1 September 2022.

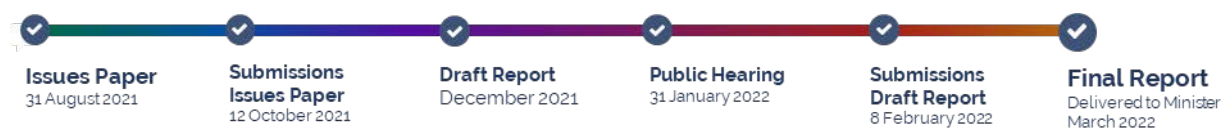
In December 2021, we released a [Draft Report](#) and associated information papers, including an information paper with our draft recommendations on charges for automatic fire alarm management services. We received written submissions on the Draft Report and held a public hearing. We considered all the views expressed in submissions and at the public hearing. We also updated some cost inputs based on consultation and further analysis by our cost consultant.

This Information Paper sets out our final recommendations on charges for automatic fire alarm (AFA) management services and is structured as follows:

- Section 1 summarises our final recommendations on AFA management service charges.
- Section 2 provides an overview of FRNSW's arrangements with automatic fire alarm service providers (AFASPs) and current AFA management service charges.
- Section 3 explains our approach in making our final recommendations.
- Sections 4 to 6 provide our analysis of user charges for AFA management services, the efficient costs of AFA management services and our recommended charges and explains how we considered feedback from stakeholders on our Draft Report.
- Section 7 discusses the impact of our final recommendations.

This Information Paper supports our Final Report. Separate Information Papers contain our analysis and recommendations on charging for false alarm call outs, hazmat services, fire safety activities in the built environment and FRNSW's other services.

### Timeline for this review



# 1 Summary of our recommendations

This paper sets out our recommended charges for AFA management services. In recommending AFA management service charges, we have simplified the charge structure. Currently, separate charges apply to first connections and second and subsequent connections at a premises – we recommend a single charge for all connections. Similarly, we are recommending a single charge for ongoing monitoring for all alarms and a single charge for all transfers.

The level of our recommended charges differs substantially from the current charges for some services. In particular:

- The recommended connection fee is 3 to 6 times higher than the current level.
- The recommended monitoring fee is about 50 to 75% lower than the current level.

Table 1.1 Recommended charges for AFA management services (\$2022-23, ex-GST)

| Fee                                      | Unit              | Recommended charge |
|--|-------------------|--------------------|
| <b>Alarm installation and monitoring</b> |                   |                    |
| Connection                               | Per event         | \$755              |
| Ongoing monitoring fee                   | Per AFA per month | \$14.25            |
| Transfer                                 | Per event         | \$160              |
| <b>New AFASP application</b>             |                   |                    |
| Application Fee                          | Per application   | At reasonable cost |
| <b>Maintenance</b>                       |                   |                    |
| Maintenance fee                          | Per AFA per month | 85 cents           |

Our final recommendations are largely the same as those presented in the Draft Report. There is one minor change to the ongoing monitoring fee which was reduced from \$14.45 to \$14.25 to reflect our final cost analysis.

## 2 FRNSW's charges for automatic fire alarm management services

FRNSW enters into arrangements with AFASPs for the installation and maintenance of fire alarm links between fire brigade premises and other premises. These arrangements are known as AFA network service arrangements.<sup>1</sup> FRNSW charges AFASPs for connection, monitoring and system maintenance it provides under these arrangements. There are 3 approved AFASPs that are contracted to FRNSW. FRNSW invoices the AFASP, which in turn invoices its customers, typically building owners or managers.

### 2.1 Current charges in automatic fire alarm network service arrangements

Unlike user charges for other FRNSW services that are set in the FB Regulation, the AFA management service charges are set out in AFA network service arrangements, consistent with the requirements of the *Fire and Rescue Act 1989* (the Act). Table 2.1 below outlines the schedule of fees which are currently charged to AFASPs under the AFA system agreement.<sup>a</sup>

Ongoing fees charged to AFASPs include the monitoring of alarms after installation (per alarm and per month) and fixed quarterly maintenance fees for each AFASP after the first year's upfront payment. There is no adjustment for this maintenance fee based on the number of alarms connected to each AFASP.

Charges per event include initial alarm connection fees, fees for the transfer of AFAs between AFASPs and fees to conduct additional alarm tests. These fees are lower when there is more than one alarm for the same premises or AFASP.

A one-off application fee is charged to new AFASPs to connect to the FRNSW AFA system, however this is very infrequent with only 3 current AFASPs contracted to FRNSW.

Table 2.1 Schedule of AFASP fees and charges in 2021-22 (ex-GST)

|  | Charge value | Frequency | Description   |
|--|--------------|-----------|---|
| <b>Alarm connection installation fee</b>                       |              |           |   |
| First connection   | \$256        | Per event | To cover the administrative and operational processes to activate a new alarm |
| Second and subsequent connections                              | \$128        | Per event |   |
| <b>Alarm installation monitoring fee</b>                       |              |           |   |
| Ongoing monitoring fee for first installation                  | \$57.50      | Monthly   | To cover the costs of ongoing monitoring of a connected alarm                 |
| Ongoing monitoring fee for second and subsequent installations | \$28.75      | Monthly   |   |

<sup>a</sup> The AFA system agreement refers to the terms and conditions of the contract between FRNSW and AFASPs. The AFA system agreement is published on FRNSW's [website](#).

|   | Charge value                   | Frequency | Description  |
|---|--------------------------------|-----------|--|
| <b>Alarm installation transfer fee</b>                      |                                |           |  |
| Transfer first installation between AFASPs                  | \$128                          | Per event | To cover the administrative process to transfer between providers                      |
| Transfer second and subsequent installations between AFASPs | \$64                           | Per event |  |
| <b>Maintenance fee</b>                                      |                                |           |  |
| First year  | \$51,716                       | Annual    | To cover the cost of ongoing maintenance of the IT platform to operate the AFA network |
| Second and subsequent years                                 | \$12,929                       | Quarterly |  |
| <b>Testing fee</b>  |                                |           |  |
| Additional service fee                                      | \$83.90 per hour plus expenses | Per event | Charge for testing AFA equipment – not applied in practice                             |
| Retesting fee (third and subsequent tests)                  | \$1,549                        | Per event |  |

Source: FRNSW, [AFA system agreement Attachment B - Schedule of AFASP Fees and Charges](#).

The AFA system agreement also includes a charge for responding to an automatic fire alarm that is subsequently deemed to be a false alarm. We have reviewed costs associated with responding to an automatic fire alarm and provide our recommended charges for false alarms in a separate Information Paper.<sup>2</sup>

FRNSW levies all these charges on the AFASPs, which recover the costs from their customers through separate arrangements.

AFA management service charges generate on average \$10.3 million a year in revenue for FRNSW, the second largest proportion of their revenue. This has risen in the past 5 years and is expected to continue with the increasing density of premises requiring AFAs.<sup>3</sup>

## 2.2 Charges for automatic fire alarm management services in other jurisdictions

The arrangements between fire agencies across Australia and the AFASPs operating in each jurisdiction varies. This variation reflects differences in the number of automatic fire alarms in each jurisdiction and/or size of the relevant market. There are three types of arrangements across Australia:

1. **A number of private companies (AFASPs) monitor automatic fire alarms** under arrangements with the relevant fire agency. This type of arrangement is in place in NSW, Victoria and the ACT.
2. **Fire agency engages one private company to monitor automatic fire alarms.** This type of arrangement is in place in Queensland and Western Australia.
3. **Fire agency monitors automatic fire alarms.** This type of arrangement is in place in South Australia, Tasmania and the Northern Territory.

Table 2.2 provides a summary of AFA management service charges in some other jurisdictions. The fees charged in the ACT are very similar to FRNSW, likely due to the ACT adopting the same charging structure as FRNSW. For the Northern Territory and Tasmania, connection and monitoring charges are higher than in NSW, but there is no separate maintenance charge as in NSW.

Table 2.2 2021-22 AFA management service charges in other jurisdictions (ex-GST)

| Fee or charge                      | ACT   | Northern Territory   | Tasmania   |
|------------------------------------|---|--|--|
| Connection/<br>registration        | \$259 per alarm (first alarm)<br>\$129 per alarm (subsequent<br>alarms on the same<br>premises) | \$409 per alarm  | \$764.55 <sup>a</sup> per alarm  |
| Monitoring of a<br>connected alarm | \$56 per month (first alarm)<br>\$28 per month (subsequent<br>alarms on the same<br>premises)   | \$2,380 per annum (pro-rata<br>for part year)<br>(equivalent to \$198.33 per<br>month) | \$649.09 per alarm (first<br>alarm) (equivalent to \$54.09<br>per month)<br><br>\$522.73 per alarm<br>(subsequent alarms on the<br>same premises) (equivalent<br>to \$43.56 per month) |
| Transfer                           | \$129 per alarm (first alarm)<br>\$62 per alarm (subsequent<br>alarms)                          | NA   | NA   |
| Application                        | \$59,207 per application  | NA   | NA   |
| Maintenance                        | \$13,142 per quarter  | NA   | NA   |
| Testing                            | \$1,572 per series of tests   | NA   | NA   |

a. We have classified Tasmania Fire Service's network fee as an alarm connection fee.

Sources: *Emergencies (Fees) Determination 2021 (ACT)*, Schedule 1, Items 279 to 287; *Fire and Emergency Regulations 1996 (NT)*, Schedule 4, cl 5A and Item 8; Northern Territory Fire and Rescue Service, *Schedule of Fees*, Tasmania Fire Service, *Fees & Charges – 2021/2022*.

### 3 How we made our final recommendations

In conducting this review, we have undertaken detailed analysis and public consultation:

- In June 2021 we consulted on draft Terms of Reference for the review and received 2 submissions before finalising the Terms of Reference in July 2021. A copy of the full final Terms of Reference is in our Final Report.
- We held numerous stakeholder meetings, including meeting with FRNSW, fire and rescue organisations in other jurisdictions, councils, automatic fire alarm service providers, relevant industry associations and building industry representatives. Details of our stakeholder engagement are provided in our Final Report.
- In August 2021 we released an Issues Paper which explained the terms of reference, outlined our proposed approach for the review and invited comments on key issues including our proposed approach. We received 8 submissions. A list of all submissions received is in our Final Report and submissions have been published on our website.
- We invited FRNSW to provide information for the review, including details of its costs and activities.
- We engaged consultants, the Centre for International Economics (the CIE) to review information provided by FRNSW and provide expert advice on efficient operating costs of those of FRNSW's services that we identified should have user charges. The CIE's draft and final reports have been published on our website.
- We released a Draft Report which set out our draft findings and recommendations. We received 6 submissions. A list of all submissions received is in our Final Report and submissions have been published on our website.
- In January 2022 we held a public hearing where stakeholders provided feedback on our draft findings and recommendations. The transcript of the public hearing is published on our website.

We took the following steps in making our recommendations on AFA management service charges:

1. assessed whether FRNSW's AFA management services should have user charges and whether those charges should be set out in the FB Regulation based on the principles outlined in Box 3.1
2. estimated the efficient cost of FRNSW's arrangements with AFASPs using a cost build-up approach Box 3.2
3. determined the most appropriate charging structure for FRNSW having regard to the 7 pricing principles outlined in Box 3.3
4. considered the impact of our recommendations on FRNSW and its stakeholders.



This approach is broadly in line with our overall approach for the review and ensures we consider all matters required by our Terms of Reference. In Sections 4 to 7 below, we describe how we have implemented these steps and how we considered the views expressed in submissions and at the public hearing to reach our recommendations and findings, and present the impact of our recommended charges on FRNSW and the users of FRNSW's services.

### Box 3.1 Principles for assessing user charges and having charges set out in regulation

#### **Principles for assessing which of FRNSW's services should have user charges**

We identified whether AFA management services should be subject to charges based on the following principles:

- Equity – Where identifiable individuals create specific demand for FRNSW's services, they should pay for them. This includes FRNSW's regulatory activities.
- Efficiency – Where charging for a service ensures scarce resources are better allocated, FRNSW should charge for it.
- Risk mitigation – Where charging for a service provides an incentive for individuals to mitigate risk, FRNSW should charge for it; and where FRNSW undertakes activities that better mitigate risk, FRNSW should charge for them.

#### **Principle for assessing if those charges should be set out in regulation**

Once we determined that AFA management services should have user charges, then we decided whether its charges should be set out in regulations based on whether it is a monopoly service.

### Box 3.2 Cost build-up approach and capital allowance

We used a 'cost build-up' approach to estimate total efficient costs. Under this approach, we assessed efficient operating, maintenance and depreciation costs, by:

- analysing information provided by FRNSW on its historical and projected operating costs and activities
- engaging consultants, the CIE, to review information provided by FRNSW and provide expert advice on efficient operating costs of AFA management services.

We then added a capital allowance of 10% to compensate FRNSW for committing capital investment, to arrive at the total efficient costs.

### Box 3.2 Cost build-up approach and capital allowance

Our estimated capital allowance is based on the average Earnings Before Interest and Taxes (EBIT) margin for selected proxy industries, which are comparable to FRNSW in terms of its chargeable activities. These industries included fire and security alarm installation services, investigation and security services, fire protection services and hazardous waste hauling services. The Final Report provides our analysis of the capital allowance in more detail.

### Box 3.3 Principles for recommending charges

In recommending charges for AFA management services, we assessed various options against the following pricing principles:

- Transparent – Key information about the charges should be readily available, such as the authority to charge, charging rates, and, where relevant, the basis of the charges.
- Cost-reflective – Charges should reflect the efficient cost of providing the service.
- Equitable – Charges should be equitable and affordable.
- Create positive incentives – Where relevant, charges should incentivise risk mitigation.
- Simple – Charges should be straightforward, practical, easy to understand and collect.
- Flexible – Charges should be easily applicable to any new activities that FRNSW undertakes in future.
- Consistent – Charges should be consistent between similar activities conducted by FRNSW and consistent with charges for similar activities conducted by other NSW agencies, where relevant.

## 4 User charges for automatic fire alarm management services

The first step in our approach for recommending FRNSW's fees and charges is to identify which FRNSW's services should have user charges and have charges set out in the FB Regulation.

We have conducted a comprehensive review of FRNSW's non-core services and determined whether each service should be subject to user charges, and, if so, whether it should have charges set out in the FB Regulation. The key principles we have applied are:

- whether there is an identifiable impactor who creates the need for the service in question. Our view is that the impactor or risk creator should pay the costs associated with providing the service
- whether the service in question is a monopoly service to decide whether it should have charges set out in the FB Regulation. If FRNSW is not the monopoly provider of the service in question, customers can choose to engage FRNSW or other services providers in the market. In this case, charges for the service do not need to be set out in the FB Regulation.

We have assessed that AFA management services should have user charges because there is an identifiable impactor.

However, unlike user charges for other FRNSW services that are set in the FB Regulation, the AFA management service charges are set out in the AFA network service arrangement.<sup>4</sup> This is consistent with the requirements of the Act.

We consider that AFA management service charges should also be set in the FB Regulation as FRNSW is the monopoly provider of AFA management services. Therefore, we recommend that the Act be amended to provide for charges to be set in the FB Regulation. However, even without changes to the Act, our recommendations on AFA management fees could be implemented via the existing framework. Further discussion of this recommendation is provided in Sections 3 and 4.5 of the Final Report.

## 5 Efficient costs of automatic fire alarm management services

As discussed in Chapter 3, to make our recommendations on charges for AFA management services, we estimated the efficient costs associated with connection, transfer, maintenance, monitoring and testing of AFAs. We did this using a cost build-up approach.

### 5.1 Overview of our findings

Overall, we found that the current AFA management service charges do not reflect the efficient costs of providing the services. For connection and transfer of AFAs, the current charges are lower than the efficient costs, whereas for ongoing maintenance and new AFASP applications, the current charges are higher (or likely to be higher) than the efficient costs.

Ongoing monitoring fees showed the biggest difference between the current charges and the efficient costs. This is likely driven by improved economies of scale and significant efficiency gains due to technological advances, leading to cost reduction.

AFA management service charges were set many years ago based on the upfront cost and the number of AFA connections at the time. Since then the number of connections has increased substantially due to increased density of both residential and commercial properties which require AFAs. This implies a lower average cost per connection, which is the basis for the charge.

Also, since the fees were initially set, there is likely to have been significant efficiency gains to the AFA system, including far less manual intervention in the maintenance process, or the ability to undertake some of the work remotely.

Table 5.1 provides a comparison of the current AFA management service charges and the estimated efficient cost.

Table 5.1 Comparison of current AFA management service charges and estimated costs (\$2021-22)

|  | Unit                       | Charge (ex-GST)                | Costs    |
|--|----------------------------|--------------------------------|----------|
| <b>Alarm installation and monitoring</b>                       |                            |                                |          |
| First connection   | Per event                  | \$256                          | \$665    |
| Second and subsequent connections                              | Per event                  | \$128                          | \$665    |
| Ongoing monitoring fee for first installation                  | Yearly                     | \$690                          | \$72     |
| Ongoing monitoring fee for second and subsequent installations | Yearly                     | \$345                          | \$72     |
| Transfer first installation between AFASPs                     | Per event                  | \$128                          | \$143    |
| Transfer second and subsequent installation between AFASPs     | Per event                  | \$64                           | \$143    |
| <b>New AFASP application</b>                                   |                            |                                |          |
| Application fee  | Initial                    | \$58,239                       | -        |
| <b>Maintenance</b>   |                            |                                |          |
| First year   | Annual                     | \$51,716                       | \$50,000 |
| Second and subsequent years                                    | Quarterly                  | \$12,929                       | \$12,500 |
| <b>Testing</b>   |                            |                                |          |
| Additional service fee   | Per event                  | \$83.90 per hour plus expenses | -        |
| Retesting fee  | Third and subsequent tests | \$1,549                        | -        |

Sources: FRNSW, [AFA system agreement Attachment B - Schedule of AFASP Fees and Charges](#), The CIE, *Efficient operating costs of providing Fire and Rescue NSW's services*, Final Report, February 2022, p 56.

## 5.2 Our approach to estimating efficient costs

We invited FRNSW to provide information on their costs associated with AFA management services. We commissioned the CIE to review this information and provide advice on efficient operating costs.

The CIE analysed costs associated with each of the following AFA management services:

- AFA connection
- ongoing monitoring
- transfer of AFAs (to a different AFASP)
- maintenance
- testing
- application assessment for a new AFASP

The sections below describe key findings for each of these AFA management services.

### 5.2.1 AFA connection

A \$256 connection fee is charged for the first AFA connection, then half the fee is charged for the second and subsequent AFA connections at the same premises.

This charge is to recover the administration costs of establishing a new AFA connection and to recover the costs of a fire brigade crew attending the premises to conduct a "Brigade Exercise". The CIE estimates that the total cost to connect an AFA is \$665, comprising:

- the average administration costs of \$143 per AFA: To connect and activate a new alarm, FRNSW first assesses the application and set up the relevant systems for operation. This is estimated to take an average of 90 minutes for an administrative staff member, costing FRNSW \$143 per initial connection
- the average costs of a "Brigade Exercise" of \$522: Once administration work is done, an operational team is then required to travel to the premises, arrange access and conduct a safety risk assessment. This is generally undertaken by a 4-person crew in a standard pumper and can take an average of 60 minutes, costing FRNSW around \$522 per connection.

The CIE found that the process for FRNSW is identical whether it is an initial, second or subsequent connection and hence estimated the same costs for all connection types.<sup>5</sup>

### 5.2.2 Ongoing monitoring of the AFA systems

FRNSW charges a monthly monitoring fee for every connected AFA. The fee for the first AFA is \$57.50 per month and a fee of \$28.75 is charged for the second and subsequent installations on the same premises.

The monthly monitoring fees recover the costs for FRNSW to operate the AFA system, such as ongoing reporting and logistics. Managing the AFA system agreement may also contribute to these costs though this activity is infrequent

The CIE found that there are two main teams, each comprising 4 key staff members, who undertake all the administration and monitoring activities required for ongoing operation of the AFA systems. It estimated total staff costs of these two teams, including on-costs, at \$1,231,267 per annum. With 17,055 AFAs in the system (i.e. in 2021), the cost per AFA is \$72 per year.<sup>6</sup>

. The CIE noted that costs related to the system infrastructure are included within cost estimates for hazardous materials (hazmat) incidents and false alarms generated by AFAs and should not be included here.<sup>7</sup>

### 5.2.3 Transfer of AFAs between providers

FRNSW charges transfer fees when a premises owner changes its AFASP. The transfer fee for the first connection is \$128 and second and subsequent connections for the same premises have a transfer fee of \$64.

To estimate the costs of transferring AFAs between AFASPs, the CIE have considered similar activities to the initial connection, minus the need for premises inspections and risk assessments (unless a reassessment is needed under certain circumstances). Therefore, with administration costs alone, a transfer has been estimated to cost \$143 each.

The CIE found there is no difference in the process for FRNSW whether it is an initial, second or subsequent alarm. It therefore estimated the same costs for all alarm transfers.<sup>8</sup>

#### 5.2.4 Maintenance costs

AFASPs are required to pay ongoing maintenance fees, which cover the cost of the IT platform that facilitates the AFA system.

FRNSW charges a quarterly fee of \$12,929 for existing AFASPs. A new AFASP would be charged \$51,716 for the first full year, and then move to quarterly charges.

The CIE identified that the only cost driver of the charged quarterly maintenance fee is the underlying IT platform used to operate the AFA network system. This platform is also shared with hazmat services and building fire safety operations which makes it difficult to determine relative costs specific to AFA management.

However, the CIE concluded the current quarterly fee is likely to reflect the cost of the IT platform needed to operate the AFA system, which it estimated to be \$150,000 per year.<sup>9</sup>

#### 5.2.5 Testing

FRNSW can charge for conducting tests of AFA equipment. The charges in the agreement are a service fee of \$83.90 per test per hour (plus expenses) and \$1,549 per test for third and subsequent tests.

The CIE did not estimate the costs associated with testing AFAs. It noted that the current testing charges are outdated and are not applied in practice. FRNSW does not test physical alarms and is more likely to test the connection to the AFA IT platform, which can be done remotely. There is no information about the number of actual tests being performed.<sup>10</sup>

#### 5.2.6 Application fee

There are 3 approved AFASPs that are contracted to FRNSW. Anyone can apply to become an AFASP, and currently FRNSW would charge a fee of \$58,239 per application. FRNSW advised that there had only been one application in recent years, which was rejected and had most of the application fee refunded. Due to the lack of data on the assessment process, the CIE could not undertake an accurate cost build-up without mostly speculation.

The CIE found that applications for new AFASPs are very rare and the administrative process was difficult to assess. Therefore, it was unable to determine if the \$58,239 application fee was reflective of FRNSW's costs.<sup>11</sup>

## 6 Recommended charges for automatic fire alarm management services

The third step in our approach for recommending AFA management service charges is to decide on the appropriate charging structure and level, having regard to 7 pricing principles outlined in Box 3.3.

In this Information Paper, we discuss our recommendations on the AFA management service charges. In our Final Report, we make recommendations regarding the regulatory framework to implement these charges. We recommend that the Act be amended to provide for AFA management service charges to be set out in the FB Regulation rather than in the AFA system agreement. This is discussed further in Sections 3 and 4.5 of our Final Report. However, without relevant changes to the Act, these recommended charges can be reflected through changes to the AFA system agreement. FRNSW may amend the fees and charges in the agreement by giving AFASPs at least 90 days prior written notice.<sup>12</sup>

### Recommendation

- ✓ 24. Automatic fire alarm management service charges be set for 2022-23 as set out in Table 6.1

Table 6.1 compares the current charges with our recommended charges. Overall, we recommend:

- a substantial reduction to the ongoing monitoring charge
- an increase to the connection charge
- little change to the transfer charge
- little change to the total annual charge for maintenance.

Table 6.1 Comparison of current and recommended charges (ex-GST)

|  | Current (\$2021-22) | Recommended (\$2022-23)   |
|--|---------------------|---------------------------|
| <b>Alarm installation and monitoring</b>                       |                     |                           |
| First connection   | \$256 per event     | -                         |
| Second and subsequent connections                              | \$128 per event     | -                         |
| All connections  | -                   | \$755 per event           |
| Ongoing monitoring fee for first installation                  | \$57.50 per month   | -                         |
| Ongoing monitoring fee for second and subsequent installations | \$28.75 per month   | -                         |
| Ongoing monitoring for all AFAs                                | -                   | \$14.25 per AFA per month |
| Transfer first installation between AFASPs                     | \$128 per event     | -                         |
| Transfer second and subsequent installation between AFASPs     | \$64 per event      | -                         |
| Transfer of all AFAs between AFASPs                            | -                   | \$160 per event           |



|                             | Current (\$2021-22)                              | Recommended (\$2022-23)    |
|-----------------------------|--|----------------------------|
| <b>Maintenance</b>          |  |                            |
| First Year                  | \$51,716 per annum                               | -                          |
| Second and Subsequent Years | \$12,929 per quarter                             | -                          |
| Ongoing maintenance fee     | -  | 85 cents per AFA per month |
| <b>Testing</b>              |  |                            |
| Additional Service Fee      | \$83.90 per hour (plus expenses)                 | -                          |
| Retesting Fee               | \$1,549 per event for third and subsequent tests | -                          |

We considered the CIE's analysis of the efficient costs associated with AFA management and recommend several changes to the current charges.

### We recommend a connection fee that reflects the efficient costs of the service

We consider that the connection fee should directly recover the efficient costs of FRNSW providing the service. The CIE estimated the cost per connection to be \$665 which includes administration and a Brigade Exercise to set up the connection.<sup>13</sup> Our recommended fee of \$755 includes a further adjustment for inflation and a 10% capital allowance, consistent with all our recommended charges.

### We recommend having a single charge for initial and subsequent services for connection, transfer and ongoing monitoring

For connection, transfer and ongoing monitoring, FRNSW currently charges different fees depending on whether it is an initial service or second and subsequent service, with second and subsequent services being charged at half the initial fee. However, as discussed above, the CIE found that the process is the same and thus the costs are the same between initial, and second and subsequent services. Therefore, we recommend a single charge for initial and subsequent services for each of connection, transfer and ongoing monitoring.

### We recommend lowering the current ongoing monitoring fee

FRNSW currently charges \$690 per annum for the ongoing monitoring fee for a first installation with the second and subsequent installations being charged at half the initial fee. The ongoing monitoring fee represents the biggest portion of FRNSW's revenue from AFA management.

Our review of FRNSW's costs associated with ongoing monitoring shows that FRNSW's current charge (\$690 per AFA per annum for initial installation or \$345 per AFA per annum for second and subsequent installations) is higher than the estimated efficient cost (\$72 per AFA per annum). Therefore, we recommend reducing the current monitoring fee to reflect the efficient cost.

## Our recommended ongoing monitoring fee includes the costs of waived false alarms

Our recommended monitoring fee includes \$7.61 per AFA to account for the costs of waived false alarms.

FRNSW levies separate charges when it attends false alarms from AFA systems (these are discussed in a separate Information Paper).<sup>14</sup> It has a policy to waive the false alarm charges if the alarm owner undertakes certain activity to reduce the occurrence of the false alarms. In most cases, it refunds 75% of the charge, in some cases it refunds the full charge. FRNSW waived an average of 1,024 charges over the last 3 years.

Based on our recommended false alarm charge of \$1,930<sup>15</sup> and the average number of waived false alarm charges, we estimate that \$1.5 million of revenue will be forgone due to the waivers policy. We consider this should be recovered through the monitoring charges.

## We recommend an application fee be charged at a reasonable cost

As discussed above, the CIE was not able to establish a reasonable cost base for the application fee. FRNSW noted that it received only one application in the last 10 years and there was no standard assessment and administrative process. FRNSW refunded most of the application fee except costs incurred as the application was rejected.

While we were not able to estimate the efficient costs of assessing an application, we consider the current fee of \$58,239 is likely to be too high. It is unlikely to reflect FRNSW's costs and it may act as a barrier to entry to the market for new AFASPs.

In a submission to our Draft Report, Romteck Grid detailed past experiences related to a failed AFASP in the market.<sup>16</sup> These experiences illustrate the need for technical requirements for new applicants that directly address the risks presented by new market entrants. We do not consider it appropriate to manage these risks through an application fee which is not cost reflective.

Given that we do not have a reasonable cost base to recommend cost reflective charges, we recommend FRNSW charge for assessing an application at a reasonable cost.

## We recommend an ongoing maintenance fee of 85 cents per AFA per month

Currently, FRNSW charges all 3 AFASPs an equal quarterly maintenance fee. While the total amount of the charge is consistent with the CIE's estimate of FRNSW's efficient costs, we consider an equal fee for each AFASP does not reflect the relative maintenance cost across each of the providers. Also, the current single maintenance fee of \$51,716 for new AFASPs for the first full year is likely to act as a barrier to market entry.

We recommend changing the fee structure to a monthly charge per AFA:

- A 'per AFA' charge ensures AFASPs with more connections pay higher maintenance charges.
- The same charging basis of 'per AFA per month' for the maintenance fee and ongoing monitoring fee leads to a simpler billing and administration process.

The CIE estimated that the total maintenance cost is currently \$150,000 per year for 17,055 AFAs. We have converted this into a cost per AFA per month and applied a capital allowance and inflation to arrive at the recommended charge of 85 cents per AFA per month.

We consider our recommended charge is more equitable for AFASPs with a different market share and changing the first upfront annual charge to monthly payments would also help to reduce barriers to market entry. In its submission to the Draft Report, Romteck Grid argued that the annual maintenance fee in the first year of operation is a reasonable barrier to reduce the risk of failed market entrants.<sup>17</sup> As discussed with the application fee, we consider that these risks should be managed directly rather than through an unrelated fee as a proxy.

### We recommend testing be removed from AFA management charges

As discussed above, the number of actual tests being performed is not known and testing charges have not been applied in practice. Given that FRNSW has not been charging for testing, we consider the incremental cost is likely to be low, and we recommend testing charges be removed from AFA management charges.

## 7 Impact of our recommendations

Table 7.1 shows the impact of our recommended charges on FRNSW. Our recommended charges result in a material reduction in FRNSW's revenue from AFA management service from \$12 million to around \$3.7 million. This is a net effect of:

- a substantial reduction in the recommended ongoing monitoring charge
- an increase in the recommended connection charge
- little change in the recommended transfer charge
- little change to the total annual charge for maintenance.

Table 7.1 Estimated revenue: current charges vs recommended charges (\$2022-23, ex-GST)

|                        | Current (\$'000) | Recommended (\$'000) | % change    |
|------------------------|------------------|----------------------|-------------|
| Connection             | \$175            | \$535                | 205%        |
| Ongoing monitoring fee | \$11,466         | \$2,915              | -75%        |
| Transfer               | \$20             | \$25                 | 27%         |
| Maintenance            | \$158            | \$174                | 10%         |
| <b>Total</b>           | <b>\$11,819</b>  | <b>\$3,649</b>       | <b>-69%</b> |

We note that this is a substantial reduction in one source of revenue for FRNSW. This revenue, while not required to cover the efficient costs of AFA management services, has been effectively applied to the costs of other FRNSW activities. In future, some of those costs could be recovered:

- directly by introducing charges for those activities specifically (for example, the contestable services described in the "Other Services" Information Paper), or
- where the revenue is supporting core uncharged service activities such as firefighting or rescue services, by an increase in the Emergency Services Levy. The impact on the Emergency services Levy would be very small.

To implement our recommended charges, FRNSW would need to review its AFA system agreement with the 3 current AFASPs.<sup>b</sup> FRNSW may amend the fees and charges in that agreement by giving AFASPs at least 90 days prior written notice.

Implementing our recommended charges may have other impacts. For example, the new charges may impact the budgets and operations of AFASPs and building owners. Reduced overall charges may also lead to increased competitive pressure in the AFASP market. This may allow AFASPs to invest more in services and technologies or to offer more competitive prices to customers.

<sup>b</sup> Refer also to our recommendation on the regulatory framework in sections 3 and 4.5 of the Final Report which would require further review of the AFA system agreement.

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- <sup>1</sup> *Fire and Rescue NSW Act 1989*, s 79A.
  - <sup>2</sup> IPART, *False fire alarms*, Information paper, February 2022
  - <sup>3</sup> The CIE, *Efficient operating costs of providing Fire and Rescue NSW's services*, Final Report, February 2022, p 51.
  - <sup>4</sup> *Fire and Rescue NSW Act 1989*, s 42(1A).
  - <sup>5</sup> The CIE, *Efficient operating costs of providing Fire and Rescue NSW's services*, Final Report, February 2022, p 53.
  - <sup>6</sup> The CIE, *Efficient operating costs of providing Fire and Rescue NSW's services*, Final Report, February 2022, p 54.
  - <sup>7</sup> The CIE, *Efficient operating costs of providing Fire and Rescue NSW's services*, Final Report, February 2022, p 54.
  - <sup>8</sup> The CIE, *Efficient operating costs of providing Fire and Rescue NSW's services*, Final Report, February 2022, p 54.
  - <sup>9</sup> The CIE, *Efficient operating costs of providing Fire and Rescue NSW's services*, Final Report, February 2022, pp 54-55.
  - <sup>10</sup> The CIE, *Efficient operating costs of providing Fire and Rescue NSW's services*, Final Report, February 2022, p 55.
  - <sup>11</sup> The CIE, *Efficient operating costs of providing Fire and Rescue NSW's services*, Final Report, February 2022, p 54.
  - <sup>12</sup> FRNSW, *Automatic Fire Alarm System Terms and Conditions*, version 05, October 2019, clause 11.2, p 16.
  - <sup>13</sup> The CIE, *Efficient operating costs of providing Fire and Rescue NSW's services*, Final Report, February 2022, p 53.
  - <sup>14</sup> IPART, *False fire alarms*, Information paper, February 2022
  - <sup>15</sup> IPART, *False fire alarms*, Information paper, February 2022, p 39.
  - <sup>16</sup> Romteck Grid Pty Ltd, [submission to IPART Draft Report](#), February 2022, pp 2-3.
  - <sup>17</sup> Romteck Grid Pty Ltd, [submission to IPART Draft Report](#), February 2022, pp 2-3.