



**INDEPENDENT PRICING AND REGULATORY TRIBUNAL  
OF NEW SOUTH WALES**

**Invitation to Tender**  
**Review of Capital Expenditure, Asset Management, and**  
**Operating Expenditure in NSW Metropolitan Water Agencies (ref: 02/237)**  
*(Sydney Morning Herald and Australian, Wednesday 10 July 2002)*

The Independent Pricing and Regulatory Tribunal (IPART) is seeking suitably qualified consultants to conduct a review of the capital expenditure, asset management and operating expenditure of NSW metropolitan water agencies: Gosford City Council, Hunter Water Corporation, Sydney Catchment Authority, Sydney Water Corporation and Wyong Shire Council. This review will be a key input to the determination of the maximum water, sewerage and drainage charges to apply from 1 July 2003.

The purpose of this consultancy is to assess:

1. the appropriateness of actual and proposed operating expenditure for the period 2001/2002 to 2005/2006
2. the prudence of each agency's capital expenditure for the period 1999/2000 to 2002/2003
3. the appropriateness of proposed capital expenditure for the period 2003/2004 to 2006/2007.

Interested consultants may obtain a copy of the consultancy brief from the Tribunal's website ([www.ipart.nsw.gov.au](http://www.ipart.nsw.gov.au)), by contacting Kylie Miller (02) 9290 8472 or by email at [kylie\\_miller@ipart.nsw.gov.au](mailto:kylie_miller@ipart.nsw.gov.au). Tenders should be mailed to the address below or delivered by hand to the Tribunal's office marked "Review of Capital Expenditure, Asset Management, and Operating Expenditure in NSW Metropolitan Water Agencies" (attention Ms Meryl McCracken).

Tenders should be received no later than 5:00pm on Friday 26 July 2002. The Tribunal is not obliged to accept late tenders.

Thomas G Parry  
Chairman  
10 July 2002

Level 2  
44 Market Street  
SYDNEY NSW 2000

PO Box Q290  
QVB Post Office  
NSW 1230



**INDEPENDENT PRICING AND REGULATORY TRIBUNAL**  
OF NEW SOUTH WALES

---

**I N V I T A T I O N   T O   T E N D E R**

---

**CAPITAL EXPENDITURE, ASSET MANAGEMENT, AND OPERATING  
EXPENDITURE REVIEW IN NSW METROPOLITAN WATER  
AGENCIES**

**BACKGROUND**

The Independent Pricing and Regulatory Tribunal of New South Wales (IPART) was established in 1992 primarily to provide independent oversight of the prices charged by monopoly service providers. These functions were expanded in 2000 to include operating licence regulation.

The Tribunal is seeking suitably qualified consultants to conduct a review of the capital expenditure, asset management and operating expenditure of NSW metropolitan water agencies. Five different organisations make up the metropolitan water agencies:

Gosford City Council (GCC)  
Hunter Water Corporation (HWC)  
Sydney Catchment Authority (SCA)  
Sydney Water Corporation (SWC)  
Wyong Shire Council (WSC)

The price paths for GCC, WSC and HWC were set for 3 years from 1 July 2000 to 30 June 2003. Prices for SWC were established for almost 3 years, from 1 October 2000 to 30 June 2003. In view of the fact that the SCA had only come into being in July 1999, and in response to a specific reference by the Premier, IPART determined a 5 year price path from 1 October 2000 to 30 June 2005, to provide the Authority with greater financial certainty in carrying out its role.

The Tribunal is conducting a price path review of the maximum water, sewerage and drainage charges to apply from 1 July 2003 for each of the four metropolitan water supply authorities. The maximum charges determined by IPART for these agencies will cover a 2 year period until 1 July 2005.

This review will also be a Mid Term Review of the Catchment Authority's current price path. In the event that the Tribunal deems a price adjustment necessary, it will introduce a fresh determination, effectively repealing the current determination.

In determining maximum prices, it is necessary for the Tribunal to ensure that the agencies have sufficient revenue to maintain and expand their operations to ensure adequate service delivery. In the context of monopolistic businesses, IPART seeks to set prices which do not reward inefficient investment and asset management decisions, or inefficient operations and practices.

To assist this assessment, the Tribunal seeks a consultant to undertake an independent review of the agencies' capital expenditure, asset management and operating expenditure against industry best practice benchmarks and historical performance.

The successful consultant will be required to examine the efficiency of the water agencies' operations, identify major cost drivers and recommend efficient cost levels consistent with maintaining service delivery capacity. In doing so, the consultant should take into account capital expenditure and operating expenditure trade-offs such as maintenance versus capital replacement options.

The focus of the study is on providing an overall strategic view of the adequacy and appropriateness of the agencies' proposed level of capital and operating expenditure.

To assist assessment of agency performance the Tribunal will seek financial and performance data from each agency in electronic form through an annual information return (AIR) and a special information return (SIR) which will be made available to the consultant.

## **TERMS OF REFERENCE**

### **Objectives of Consultancy**

The primary objectives of the consultancy are to assess across each agency's water business and across the retail agencies' sewerage and drainage businesses:

1. the appropriateness of actual and proposed operating expenditure for the period from 2001/02 to 2005/06.
2. the prudence of each agency's capital expenditure for the period from 1999/2000 to 2002/2003.
3. the appropriateness and efficiency of proposed capital expenditure for the period from 2003/2004 to 2006/2007.

In undertaking the study the consultant must consider:

- current and projected capacity
- growth in customer numbers
- current asset condition and renewal requirements
- existing operational requirements
- the specific regional and demographic circumstances of each agency
- implications for expenditure of demand management initiatives
- efficient costs of providing the relevant water, sewerage and drainage services

- potential for contestability in the provision of water, sewerage and drainage services
- current and likely future environmental, health and safety standards
- current and likely future customer service standards
- relevant legislation and Government policies and initiatives.

This assessment should be based on best practice standards for efficient maintenance and utilisation of water, sewerage and drainage infrastructure assets.

### **Operating Expenditure**

For this aspect of the review, the consultant will be specifically required to:

- a) Review the agencies' functions and costs of operations, including:
  - operations, support functions
  - maintenance and servicing activities
  - administration and overheads (both direct and corporate allocations).
- b) Review the appropriateness and performance of each of these functions against industry best practice.
- c) Review the cost effectiveness and efficiency of the functions.
- d) Identify reasons for any costs higher than normal commercial levels, for example government ownership, awards and conditions, operating environment, staffing levels, assets, technology, or other factors.
- e) Identify and analyse transfer of costs between regulated and unregulated areas of the water agency businesses.
- f) Identify and analyse the agencies' potential for cost reduction in each area and recommend efficiency gains that the agencies should adopt as targets. If current expenditure in an area of operations is assessed as inadequate, specification and quantification of recommended additional expenditure should be undertaken.
- g) Identify for each year between 2003/2004 and 2005/2006 the level of operating expenditure that in the consultant's view is required to efficiently undertake each agency's functions.

### **Capital Expenditure**

For this aspect of the review, the consultant will be specifically required to:

- a) Identify agency capital works projects from 1999/2000 through to 2009/2010, separately identifying projects satisfying a materiality threshold of \$1,000,000 for SWC, \$250,000 for HWC and SCA, and \$100,000 for WSC and GCC.
- b) Identify the capital works that are intended to be contracted-out or which are intended to be carried out in-house or by the agencies' internal contracting arms.
- c) Identify and segregate the capital works projects associated with assets for which developers will either contribute to the cost of provision or will build and possibly hand over to the agency.

- d) Identify industry best practice with respect to asset provision, asset utilisation and service standards. Compare and contrast the asset management policies of the NSW water agencies with industry best practice, and quantify the impact of these policies on costs relative to service, reliability and safety levels. The consultant should identify any deficiencies or shortcomings in the approaches taken by the various agencies, having taken into account any capital versus operating expenditure trade-offs.
- e) Assess the rigour of the agencies' approach to managing their assets and developing their asset management plans having regard to the following:
- least cost planning
  - service standards
  - environmental outcomes
  - new technology
  - risk management and safety
  - industry best practice.
  - minimising costs over the life of the assets.
- f) Provide the consultant's opinion as to the reasonableness of the cost estimates included in each agency's capital expenditure program for the period from 2002/2003 to 2006/2007.
- g) Comment on the prudence and reasonableness of the agency's actual capital expenditure and project delivery for the period from 1999/2000 to 2002/2003. Reasonableness should be assessed against identified drivers and variations from capital expenditure proposals identified for the 2000 determination should be discussed.
- h) Comment on any particular concerns or issues relating to the process for determining and prioritising future infrastructure expenditures for each agency.
- i) Identify for each year between 2003/2004 and 2006/2007 the capital expenditure program that, in the opinion of the consultant, is required to undertake each agency's functions.

## **OUTPUTS**

The required outputs from the consultancy are:

1. one draft report and a final written report for each agency, together with an overview report which address the objectives of the consultancy
2. discussions and meetings with water agencies, the Tribunal and/or Tribunal Secretariat
3. presentation of draft findings to water agencies and discussion of same with each water agency and the Tribunal Secretariat
4. presentations to the Tribunal and/or Tribunal Secretariat which outline the major issues and findings.

The final written report should be provided in 7 bound copies and 1 loose-leaf copy, as well as in PDF format suitable for web publication. Seven bound copies of the draft reports will also be required.

The consultant should note that the final report will be released as a public document. As such the report should be clearly and logically set out and written in plain English, avoiding the use of unnecessary technical terms.

On completion of the consultation, the consultant's reports, working papers and advice provided to the Tribunal will become the property of the Tribunal.

## CONDITIONS OF TENDER

### Timing

The successful tenderer must be able to meet the following work schedule:

CONTRACT PROGRAM		
Month	Date	Activity
August 2002	Friday 30*	Review agency data and hold briefing discussions with Tribunal Secretariat
October 2002	Friday 4*	Commence review of agency submissions and data provided in annual and special information returns.
November 2002	Friday 15	Submission of draft reports to Tribunal Secretariat
November 2002	Friday 29	Presentations of draft findings to each water agency completed
December 2002	Wednesday 4*	Presentation of findings to Tribunal
December 2002	Wednesday 11	Submission of final reports

\*Indicative dates – subject to negotiation with the Tribunal Secretariat.

Weekly, formal progress updates will be required to be provided to IPART in writing. Progress meetings in addition to those in the above are expected. The detailed consultancy work plan should reflect these.

### Fee

The fee quoted is to be inclusive of all costs including Goods and Services Tax, incidental expenses and disbursements. Payments will be due within 28 days of receiving an invoice as per an agreed payment schedule. The consultant may wish to outline a draft payment schedule.

A detailed breakdown of the consultancy costs is required with the proposal. The proposal should include estimates of the time required for the project, consultants to be involved in the project, their rates, and a total fee estimate. Staff costs should be clearly reconciled to the detailed work plan.

The consultant should allow for presentations to the Tribunal, discussion and meetings with staff of the Tribunal, and stakeholder meetings as required.

## **Proposal**

The consultancy proposal should:

- demonstrate an appreciation for the task as well as describe the intended approach for carrying it out
- list the personnel to be involved, including resumes detailing their experience
- include a detailed work plan
- outline any potential conflicts of interest
- preferably include details of previous clients who can be contacted.

## **Presentation**

Shortlisted tenderers may be required to make a presentation on their proposal as part of the tender evaluation process.

## **Criteria for selection**

In selecting the successful consultant the Tribunal may consider any relevant matter including:

- extent of knowledge of water and wastewater businesses
- experience in similar projects
- understanding of metropolitan water agencies operating and regulatory framework
- proposed consultancy fee
- adequate resourcing and ability to provide results within the stated time frame
- proposed quality assurance procedures
- guaranteed availability of key staff
- demonstrated ability to enlist the agencies' cooperation whilst engendering a sense of acceptance of the relevant outcomes.

## **Acceptance of Tender**

The Tribunal reserves the right to:

- accept no tender at all
- postpone indefinitely the acceptance of a tender
- call for new tenders
- appoint one or more tenderers to undertake the review
- approve or reject any sub-contractors the tenderer may wish to appoint.



## **Consultancy Contract**

The successful tenderer will be obliged to enter into a contract with the Tribunal prior to commencing the consultancy.

The Tribunal has a consultancy contract that covers issues including, but not limited to:

- consultancy information and documentation
- ownership of intellectual property
- conflicts of interest
- confidentiality
- insurance.

The Tribunal reserves the right to modify contract terms for the final contract as it considers appropriate. A copy of the Tribunal's draft contract is available on request.

## **PARTIES TO THE CONSULTANCY**

The party managing and commissioning the consultancy is the Independent Pricing and Regulatory Tribunal of New South Wales. The primary contact is:

Mr Christopher Spangaro Program Manager  
tel: 61-2-9290-8419  
e-mail: christopher\_spangaro@ipart.nsw.gov.au

## **LODGEMENT OF TENDER**

Three bound copies and 1 loose-leaf copy of the tender should be lodged in a sealed envelope marked 'Capital Expenditure, Asset Management, and Operating Expenditure Review for NSW Metropolitan Water Agencies' and addressed to:

Ms Meryl McCracken  
General Manager, Support Services  
Independent Pricing and Regulatory Tribunal of NSW

at, PO Box Q290  
QVB POST OFFICE NSW 1230

or, Level 2  
44 Market Street  
SYDNEY NSW 2000

so that it is received by no later than 5.00 pm Sydney time, on Friday, 26<sup>th</sup> July 2002.

**Top of the Page**