



Australian INLAND ENERGY

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AMR:AR-0694-00 –FIN-170

15 May 2000

Recoverable Works Policy Review
Independent Regulatory and Pricing Tribunal
PO Box Q290
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SYDNEY NSW 1230

Dear Professor Parry

PRICING OF RECOVERABLE WORKS

Thank you for the opportunity to respond to the IPART Discussion Paper DP-39 on **Pricing of Recoverable Works**.

Recoverable works being capital works undertaken at the request of individuals or organisations, which are not for the purpose of establishing a new connection to the network, represent a minor percentage of annual capital expenditure, or general works classified by AIE as recoverable.

The financial ledger, which was generally setup in accordance with the former Code of Accounting Practice, has recoverable works income and expenditure areas, but these are normally classified under maintenance rather than capital.

In response to your letter of 12 April requesting information on contestability of recoverable works, our response indicated that there is a wider classification of recoverable works than the definition in Determination No. 10 of 1996.

If capital work is required on the network, such as relocation of a pole or poles to accommodate roadwork re-alignment, then these works would normally be classified as a capital contribution, rather than recoverable work. Income and expenditure numbers would be allocated in the relevant ledger section, together with capital contribution works required for new or upgraded connections.

Of the “recoverable works” undertaken, some could be carried out by electrical contractors but in the majority of cases the customer requests AIE to undertake the works, where AIE is effectively competing with other service providers.

However, irrespective of the availability of accredited service providers and contestability of works, AIE would retain emergency restoration work on the network, where the cost was to be recovered. Apart from ensuring public safety, there are reliability and system security issues that can only be resolved by the network operator, particularly where the small customer base is spread over a large geographical area.

Therefore, AIE considers that the current framework is effective without requiring alteration or increased regulation, due to the scale of works in question.

Recoverable works are priced using the same labour, plant and material rates applied to maintenance and capital works, however the on-cost rates vary depending on the ownership of the assets. For example, if the works involve network assets, then the on-costs are the same as applicable to internally funded or capital contribution works. However, if the work related to repair work on a customer's installation, then normal engineering overheads are not applied.

Therefore, AIE does not believe that further regulation of cost rates is required for non-contestable works.

Considering the variation in the definition of recoverable works between distributors, and the minimal amount of capital recoverable works (as defined by the Tribunal) undertaken by AIE, there is little value in disclosing the number of non-contestable recoverable work jobs in annual reports.

As recoverable works arrangements set out in Determination 10 of 1996 have proven to be uncontroversial, AIE requests the relaxation of the reporting requirement, and agrees that the current "light-handed" regulatory approach to recoverable works is all that is required.

I trust that this assists the Tribunal in the forthcoming determination on capital contributions and recoverable works.

Please contact Mr Adrian Ray on telephone (08) 8080 2425 should you have any queries, or require further information.

Yours faithfully,



 **E T NORRIS**
CHIEF EXECUTIVE OFFICER