

# **Pricing of Recoverable Works**

## **Discussion Paper**



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

# **Pricing of Recoverable Works**

## **Discussion Paper**

# TABLE OF CONTENTS

<b>1</b>	<b>INTRODUCTION</b>	<b>1</b>
	1.1 Background	1
	1.2 Tribunal's approach to the review	1
	1.3 The review process	2
<b>2</b>	<b>CURRENT ARRANGEMENTS</b>	<b>2</b>
	2.1 Context	2
	2.1.1 Expenditure on recoverable works	2
	2.1.2 Contestability of recoverable works	2
	2.2 The current recoverable works framework	3
<b>3</b>	<b>ISSUES</b>	<b>3</b>



## 1 INTRODUCTION

In Determination 10 of 1996, the Tribunal defined recoverable works as “capital works undertaken by electricity distributors at the request of individuals or organisations, which are not for the purpose of establishing a new connection to the system”.<sup>1</sup>

This paper briefly reviews current arrangements and relevant issues for recoverable works. A discussion paper on capital contributions has previously been issued.<sup>2</sup>

### 1.1 Background

The National Electricity Code provides a framework for the national wholesale electricity market. The Tribunal is the jurisdictional regulator for distribution service pricing in New South Wales.

The current recoverable works framework in NSW is detailed in the Tribunal’s Determination 10 of 1996 *Pricing for Capital Contributions and Recoverable Works*.<sup>3</sup> The relevant parts of the determination will end on 30 June 2000. The Tribunal intends to issue a new determination on recoverable works, which will come into effect 1 July 2000.

### 1.2 Tribunal’s approach to the review

The Tribunal is of the preliminary view that the existing recoverable works arrangements do not require significant change. Nevertheless, the Tribunal will undertake a public consultation and will carefully consider all views. Therefore, in the absence of any feedback to the contrary, the Tribunal proposes to maintain the current approach. The current recoverable works framework is reproduced in section 2.2.

However, certain anomalies relating to information disclosure have arisen in the application of the current framework. The Tribunal is seeking feedback on how best to resolve these anomalies.

Distributors can make recoverable works contestable. As the proportion of recoverable works that are undertaken under competitive conditions increases, the role of the Tribunal in regulating prices will diminish. If there are circumstances where contestability may not be feasible, some degree of regulatory oversight may continue to be required. This should be in proportion to the scale of the works in question.

---

<sup>1</sup> *Pricing for Capital Contributions and Recoverable Works*, Determination No. 10 1996, p 26.

<sup>2</sup> *Pricing of Capital Contributions to Electricity Networks*, Discussion Paper DP 38, April 2000.

<sup>3</sup> As varied in Determination 5.4, 1997.

## **1.3 The review process**

The Tribunal wishes to learn the views of interested parties before considering any changes to the current arrangements. Submissions should be sent to the address below, or faxed to (02) 9290 2061 by 15 May 2000.

Recoverable Works Policy Review  
Independent Regulatory and Pricing Tribunal  
PO Box Q290  
QVB Post Office  
Sydney NSW 2000

The Tribunal can be contacted by email at [ipart@ipart.nsw.gov.au](mailto:ipart@ipart.nsw.gov.au)

## **2 CURRENT ARRANGEMENTS**

### **2.1 Context**

Recoverable works account for only a small proportion of overall capital expenditure and are increasingly subject to contestability.

#### **2.1.1 Expenditure on recoverable works**

It is not straightforward to quantify levels of recoverable works expenditure between distributors because each business has a different interpretation of what constitutes recoverable works.

Although the type of works included within the definition varies between businesses, it is clear that recoverable works accounts for only a small proportion of overall capital expenditure. EnergyAustralia estimates that it spent \$15-\$20 million per annum on recoverable works, which is roughly 10 per cent of total capital expenditure. The estimates of other distributors are considerably lower than EnergyAustralia, both in actual terms and as a proportion of overall capital expenditure. (For example, Great Southern Energy estimates that their annual expenditure on recoverable works is approximately \$1.8m, or roughly 5 per cent of total capital expenditure. The estimates of NorthPower and Australian Inland Energy are even lower.) Different definitions and different levels of contracting out of recoverable works projects can explain the variations.

#### **2.1.2 Contestability of recoverable works**

In 1996 the Tribunal developed its recoverable works framework on the basis that work of this nature would progressively become contestable. This could remove the need for regulation.

Feedback from the distributors suggests that the shift towards contestability of recoverable works is taking place, although policies vary between businesses. For example, all of EnergyAustralia's recoverable works will be contestable from July 2000. At present, none are formally contestable although occasionally asset relocations have been contested at customer's request. Integral Energy makes all recoverable works contestable with the exception of emergency works, and at Advance 80 per cent of recoverable works

expenditure (or 50 per cent of jobs) is contestable. On the other hand, relatively few jobs are contestable at Australian Inland Energy because of the nature of the market. The small customer base scattered over a large geographical area does not easily support competitors.

As the shift towards effective competition continues, the role of the Tribunal will recede.

## **2.2 The current recoverable works framework**

Determination No. 10 of 1996, *Pricing for Capital Contributions and Recoverable Works*, details the current recoverable works framework at page 26. The Tribunal's preliminary view is to maintain this policy, subject to the resolution of the issues discussed in Section 3. However, this may change as a result of the public consultation.

*Recoverable works are those capital works undertaken by electricity distributors at the request of individuals or organisations, which are not for the purpose of establishing a new connection to the system. They include works such as:*

- *relocation of assets on a customer's property at the request of the customer*
- *reinstatement of electrical assets following works by other services, such as roadworks.*

*In these instances distributors have been relatively free to develop charges for recoverable works based on their own estimates of labour rates, overheads, materials and other expenses.*

*The Tribunal proposes that distributors make recoverable works contestable. This proposal means that charges for work that is contestable would not be regulated. However, for the period leading up to contestability, the Tribunal has determined that distributors shall calculate charges for recoverable works based on actual costs, including overheads and a component for capital costs. The capital cost component should be based on each distributor's weighted average cost of capital. The charge rates and overhead rates must be fixed for each financial year and must be submitted to the Tribunal. At this stage the Tribunal will monitor the rates by this process. However, if there is evidence of abuse then the Tribunal may need to monitor rates directly.*

*The methodology for recoverable works is to apply from 1 January 1997 until contestability is established.*

*Where emergency work is required to, for example, restore supply, it may be inappropriate in this circumstance to make the work contestable. The Tribunal has determined that in this situation distributors may levy charges, calculated as above, on an ongoing basis.*

*Distributors must disclose in their annual report the numbers of recoverable works jobs that were not declared contestable.*

## **3 ISSUES**

The recoverable works arrangements set out in Determination 10 of 1996 have proven to be uncontroversial. However, the Tribunal welcomes the opportunity to improve on the current framework if adjustments are required.

***The Tribunal would like to hear the views of interested parties on the effectiveness of the current recoverable works framework.***

Distributors have reported difficulties in providing meaningful information to the Tribunal on costs rates used in non-contestable works, due to the non-standard nature of many of the jobs encountered.

However, as the level of contestability increases it may be reasonable to expect that the diversity of non-contestable work requiring price oversight will be reduced. (Contestable services are not subject to price oversight.) The use of clearer, restricted criteria for non-contestability would reinforce this expectation.

***The Tribunal would like to hear the views of interested parties on the effectiveness of overseeing standard cost rates for non-contestable works.***

Determination 10 also requires distributors to disclose in their annual report the numbers of recoverable works jobs that were not declared contestable. In many instances, this requirement is not being complied with.

***The Tribunal seeks feedback on the requirement to disclose the number of non-contestable recoverable works jobs in distributors' annual reports.***

The Tribunal has a strong interest in the effectiveness of contestability. If the distributors' tendering processes are not resulting in effective competition, some form of 'light handed' regulation may be required.

The processes by which recoverable works are made contestable will receive the Tribunal's attention during the course of other reviews, such as the ring fencing review, during the coming year. Nonetheless, the Tribunal welcomes submissions regarding the effectiveness of contestability for recoverable works.