



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

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

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

**BACKGROUND**

The Independent Pricing and Regulatory Tribunal of New South Wales (the Tribunal) 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 joint review of the asset management, capital expenditure, 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, SWC and HWC were set for 2 years from 1 July 2003 to 30 June 2005. Prices for the SCA were set for approximately five years from 1 October 2000 to 30 June 2005

**CONTEXT**

The Tribunal is conducting a price path review of the maximum water, sewerage and drainage charges to apply from 1 July 2005 for each of the four metropolitan retail water supply authorities. It is also conducting a price path review of the maximum water supply charges to apply from 1 July 2005 for the SCA. The maximum charges determined by the Tribunal for these agencies will cover a period of up to five years, the duration of which will be determined by the Tribunal during the review.

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. The Tribunal sets prices based, in part, on its estimates of each businesses revenue requirement over the regulatory period. This, in turn, is established on projections of efficient operating and capital expenditure. In the context of monopolistic businesses, the

Tribunal seeks to set prices which do not reward inefficient investment and asset management decisions, or inefficient operations and practices.

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

In determining a revenue requirement to enable prices to be set the Tribunal needs to examine operating and capital expenditure from two perspectives – since the last determination and for the next regulatory period. Retrospective review of capital expenditure enables the Tribunal to consider whether capital expenditure has been prudent and should therefore be added to the regulatory asset base. A retrospective review of operating costs is intended to inform an assessment of proposed future operating costs. An assessment of the efficient forward capital and operating costs enables consideration of the revenue requirement for each business for the coming regulatory period.

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

An assessment of asset management frameworks, plans and practices within each business is considered necessary to assist in evaluating the appropriateness of capital expenditure and to enable the Tribunal to consider the extent to which the businesses' infrastructure management is consistent with maintenance of long term service delivery capacity.

The focus of the study is on providing a review of the adequacy and appropriateness of each agency's proposed level of capital and operating expenditure.

As one of the key inputs to an 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.

The Tribunal intends commissioning a separate review of each agency's forecasts of future water consumption.

## **TERMS OF REFERENCE**

### **Objectives of Consultancy**

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

1. to the extent necessary to undertake 2 below, the efficiency of operating expenditure for the period from 2002/03 to 2004/2005.
2. the efficiency of the businesses' estimates of operating expenditure for the period from 2005/2006 through to 2009/2010, that is, from 1 July 2005 until 30 June 2010.

3. the prudence of each agency's capital expenditure for the period from 2002/2003 to 2004/2005.
4. the efficiency of proposed capital expenditure for the period from 2005/2006 to 2009/2010.

In undertaking the study the consultant must consider:

- relevant legislation, regulatory requirements and Government policies and initiatives.
- current and projected capacity
- growth in customer numbers
- current asset condition and renewal requirements
- asset management frameworks, plans and practices
- existing operational requirements
- ringfencing of and cost transfers between regulated and unregulated activities
- 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 service obligations

This assessment should be based on best practice standards for efficient maintenance and utilisation of water, sewerage and drainage infrastructure assets and make use of relevant industry cost benchmarks where appropriate.

### **Operating Expenditure**

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

- a) to the extent necessary to undertake (b) to (h) below, review the operating expenditure of each business for the period from 2002/03 to 2004/05
- b) review the agencies' functions and costs of operations, including:
  - operations, support functions
  - maintenance and servicing activities
  - administration and overheads (both direct and corporate allocations).
- c) review the appropriateness and performance of each of these functions against industry best practice.
- d) review the cost effectiveness and efficiency of the functions.
- e) 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.

- f) identify and analyse the agencies' potential for cost reduction for each function and make recommendations, with supporting reasons, about efficiency gains that the Tribunal can consider when determining efficient operating expenditure levels for price setting. If current expenditure in an area of operations is assessed as inadequate, specification and quantification of recommended additional expenditure should be undertaken.
- g) provide the consultant's opinion as to the efficiency of each agency's proposed level of operating expenditure for each year between 2005/2006 and 2009/2010 and provide for each year estimates, with supporting reasons, of the level of operating expenditure that is required to efficiently undertake each agency's regulated functions.
- h) identify and analyse transfer of costs between regulated and unregulated parts of each water business, subsidiary or parent agency or businesses and comment on any such transfers which in the opinion of the consultant are inappropriate.

## **Capital Expenditure**

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

- a) identify agency capital works programs and projects from 2002/2003 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) assess, against industry best practice, the agencies' asset management frameworks, processes and plans, and the rigour of the agencies' approach to managing the whole life of assets having regard to the following:
  - Current and future service outcomes and performance requirements, including customer service and environmental outcomes ;
  - The way in which agencies manage the risks associated with asset failure or underperformance;
  - The clarity of drivers for capital expenditure; and
  - Minimising costs over the life of the assets.

In undertaking the review the consultant may have regard for any relevant existing reviews and benchmarking (such as WSAA Asset Management benchmarking).

- c) comment on any particular concerns or issues relating to the process for determining and prioritising future infrastructure expenditures for each agency.
- d) comment on the prudence of the businesses' capital expenditure for the period from 2002/2003 to 2004/2005 and nominate a value for any capital expenditure considered imprudent. Prudence should be assessed against identified drivers and variations from capital expenditure proposals identified at the 2003 price review should be examined.
- e) provide an opinion as to the efficiency of each agency's capital expenditure program for the period from 2005/2006 to 2009/2010 and provide for each year estimates, with supporting reasons, of the level of capital expenditure that the consultant considers efficient in order to undertake each agency's business and functions.
- f) 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 and reconcile actual and proposed developer funded capital expenditure with forecast capital expenditure in Development Servicing Plans.

## OUTPUTS

The required outputs from the consultancy are:

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

The final written reports 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
September 2004		Review available agency data and hold briefing discussions with Tribunal Secretariat
October 2004		Commence review of agency submissions and data provided in annual and special information returns.
December 2004		Submission of draft reports to Tribunal Secretariat
December 2004		Initial presentations of draft findings to each water agency
December 2004		Final presentations of draft findings to each water agency
December 2004		Presentation of findings to Tribunal
January 2005		Submission of final reports

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

Weekly, formal progress updates will be required to be provided to the Tribunal 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
- describe the intended approach or methodology for undertaking the review
- 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 regulatory and financial frameworks
- 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 30<sup>th</sup> July 2004.