



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

**REVIEW OF ENERGY AUSTRALIA'S PUBLIC LIGHTING CAPITAL
EXPENDITURE AND OPERATING EXPENDITURE**

BACKGROUND

The 2004 Electricity Distribution Determination designated public lighting as an excluded distribution service, to be regulated under Rule 2004/01.¹ Rule 2004/01 requires that if a DNSP wishes to increase its public lighting charges, it must make an application to the Tribunal. Rule 2004/01 provides for Tribunal to either accept the DNSP's proposals, or to require the DNSP to submit alternative proposals if it considers that the initial proposals do not meet the requirements of Rule 2004/01, which include:

- a requirement that DNSPs set prices to signal economic costs of provision (Clause 2.2); and
- consideration of customer impacts, and how the impact of any significant changes can be mitigated (for example by transitional price options).

Rule 2004/01 requires the DNSP to apply to the Tribunal each time it wishes to make a price change. The Tribunal does not therefore have the option of approving multi-year price changes in advance. However, the Tribunal considers it important to understand planned price changes in subsequent years as part of the wider context of a price change application.

The primary customers directly affected by public lighting price increases are local councils (A number of smaller customers would also be affected - for example, some hospitals, the RTA, defence establishments etc).

EA applied for a public lighting price change in November 2004 - it sought a single year average increase of 26 percent (real), with further increases planned thereafter. The size of the proposed increases varied significantly between councils. The Tribunal consulted on EA's price proposals, and asked EA to write to all councils to inform them of the plans and how they would be affected. A large number of submissions were received from councils and their representatives (available on IPART's website, along with a document from EA summarising its initial proposals). Having considered EA's proposals and the consultation responses, the Tribunal did not accept EA's proposals, and asked EA to submit alternative prices.

¹ Excluded distribution services are those distribution services that are not prescribed distribution services. Excluded distribution services are regulated in a more "light-handed" manner than prescribed distribution services. Public Lighting Infrastructure is defined in the 2004 Electricity Distribution Determination (p39) as: "the structures, wiring, globes, and other equipment: (1) used for, or associated with, the provision of public lighting to streets, roads and other public places; and (2) which are connected or attached to (or which form part of) a DNSPs Distribution System."

EA is due to submit its alternative price proposals shortly. As part of its assessment of these proposals, the Tribunal wishes to understand the extent to which the operating and capital expenditure assumptions underlying these proposals represent efficient expenditure and represent good value for money for public lighting customers. It is therefore seeking to appoint consultants to undertake a review of EA’s public lighting operating and capital expenditure proposals.

TERMS OF REFERENCE

Scope

The Tribunal is seeking suitably qualified consultants to conduct a review of the public lighting operating expenditure, capital expenditure and asset management practices of EnergyAustralia.

The successful consultant must examine the DNSPs’ operations, identify major cost drivers and recommend efficient costs levels consistent with maintaining (or where necessary varying) standards and 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 following.

- a) Whether the DNSPs’ proposed levels of capital and operating expenditure are reasonable and efficient,² that is, whether they represent efficient levels for the public lighting services being delivered.³ In order to assess this, it is expected that the consultant will need to understand what current service levels are. The Tribunal considers it important that service levels do not decline unless there is clear evidence that current service levels exceed customer willingness to pay. The consultant will also be required to provide their professional judgement on the appropriateness of service levels included in or implied by the submission, and to make recommendations on any implications for levels of expenditure should these standards fall short of/exceed appropriate levels.
- b) The prudence⁴ of the DNSPs’ public lighting past capital and operating expenditure to the extent that this impacts on the efficiency of expenditure assumptions within EA’s proposals.

² For the purposes of this review, a test of efficiency requires an assessment of operating and maintenance and capital expenditure from a least-cost perspective over the life-cycle of the assets. Efficiency should be assessed on the basis that the projected expenditures will deliver the identified outcomes. Over time, efficient investments should minimise costs for the expected outputs and ensure that resources are allocated appropriately.

³ Note that the DNSPs are currently working with councils and the Department of Energy, Utilities and Sustainability (DEUS), to develop a Public Lighting Code. It is intended that this Code will set out minimum standards for public lighting services. The Public Lighting Code is currently still in draft form and has yet to be finalised. Any costs associated with the implementation of the Public Lighting Code should be separately accounted for.

⁴ Prudent in the light of information available at the time the expenditure was made/committed.

While EA can only apply for a price increase to cover a single year, they are expected to include in their submission proposed future price increases covering several years, and to provide expenditure forecasts for the corresponding period. The consultant will be required to analyse planned expenditure over this entire period.

The consultancy will assist the Tribunal by reviewing estimates of operating expenditure, capital expenditures and asset management policies, using appropriate best-practice industry benchmarks wherever possible. If the consultant finds operating and/or capital expenditure assumptions to not be reasonable/efficient, it should indicate the amount by which it considers the expenditure assumptions should be adjusted to obtain reasonable/efficient levels. If appropriate, the consultant may make specific comment on the adequacy/efficiency of asset management practices. The Tribunal may rely on this review in determining whether to accept EnergyAustralia's public lighting price proposals.

OUTPUTS

The required outputs from the consultancy are:

1. One draft report and a final written report which addresses the objectives of the consultancy.
2. Discussions and meetings with DNSPs, the Tribunal and/or Tribunal Secretariat.
3. Presentation of draft findings to the Tribunal and/or the Tribunal Secretariat, incorporating any comments where agreed into the final report.

The consultant may also be required to make presentations to the Tribunal and/or Tribunal Secretariat which outline the major issues and findings.

The consultant should note that the final report may 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

A copy of the Tribunal's standard consultancy contract is attached.

It is anticipated that the Consultancy would begin in early June 2005, and that the final report would be delivered in July 2005 (dates to be confirmed, subject to date of receipt of EnergyAustralia's application).