

REQUEST FOR PROPOSALS – TO BENCH MARK TASMANIAN ELECTRICITY SUPPLY INDUSTRY UTILITIES AGAINST AUSTRALIAN CONTEMPORARIES.

Part Three

Specification

Introduction

The Electricity Supply Industry Expert Panel Act 2010 (the Act) establishes an independent Panel to conduct an investigation into, and provide guidance to Parliament on, the current position and future development of Tasmania's electricity industry. The terms of reference for the Panel require it to investigate and report on:

1. The current efficiency and effectiveness of the Tasmanian energy industry with particular reference to the existing regulatory framework and the cost and operation of the energy industry elsewhere in Australia.
2. The primary factors that have driven recent increases in non-contestable electricity prices in Tasmania including the impact of major infrastructure development decisions.
3. The competitiveness of non-contestable electricity prices in Tasmania compared with those in other states.
4. The financial position of the state-owned energy businesses (SOEBs): Transend Networks, Hydro Tasmania and Aurora Energy.
5. The impact of interaction between the three state-owned businesses on the effective operation of the Tasmanian energy industry and Tasmanian energy prices.
6. Having regards to trends in electricity prices and market developments at the national level and Tasmanian-specific circumstances, the implications of Tasmania's market and regulatory arrangement for electricity tariffs over the coming years.
7. Actions that would guide and inform the development of a Tasmanian Energy Strategy particularly in relation to the Government's primary objectives of minimising the impact on the cost of living in Tasmania and ensuring Tasmania's long term energy sustainability and security.
8. The advice that was provided to the State Government by the senior management or Directors of Aurora Energy from 1 October 2009 to 16 June 2010 inclusive.
9. Any other matters that the Expert Panel considers are relevant to the above matters.

The Panel is supported by a small Secretariat, which is responsible for:

- managing and undertaking the detailed work program under the direction of the Panel;
- undertaking research relevant to the review;
- represent that Panel in engaging with stakeholders on issues relevant to the Inquiry; and
- the development of papers, advice and other materials for the Panel's consideration and the preparation of reports on its behalf.

The Panel has released a draft Statement of Approach to the Terms of Reference for public comments (attached).

The Brief

The Secretariat is seeking to appoint a Consultant (or Consultants) to assist with the benchmarking of Tasmanian electricity SOEBs with their Australian peers on both an operational and cost performance basis.

As part of the issues development /resolution phase of the work program the Panel plans on releasing an Information Paper by the first week in June 2011, which will largely address Item 1 of the Terms of Reference and provide basic information to support work in other areas.

A two-stage selection process is proposed. A short-listing exercise, which aims to minimise costs to bidders, will be used to identify a small number of potential providers with whom a detail scope can be developed and costed.

The key elements of the assignment are to establish the effectiveness of the Tasmanian SOEBs in terms of achieving key technical performance parameters, and developing and managing their assets and delivering services in an efficient, i.e. cost effective, manner.

Each of the SOEBs has been has been requested to provide information to the Secretariat in the following areas which have been identified as necessary elements to appropriately inform the Panel.

1. Identification of the pertinent operational and reliability performance measures and the comparison of same over time and with other Australian utilities.
2. An assessment of the process of identifying the need for infrastructure additions or system enhancements (i.e. the technical need) the corporate approval process, the method of acquisition, capital project management (including the comparison of actual cost to approved budget), and the comparison of these activities with other Australian utilities.

3. The examination of the SOEBs asset management philosophy and/or maintenance practices (including the acquisition of services) and determination of the extent to which these compare with other Australian utilities.
4. An examination of the major cost drivers for each entity, the cost accounting/control methodology, including cost performance measures, historical cost trends and the comparison of these costs with other Australian utilities.
5. An assessment of the cost of a range of resources [e.g. labour, materials] and operational and/or maintenance activities that are intrinsic to Tasmania (which may include the impact of Tasmania's particular topography, geography, population distribution or system, and may include Original Equipment Manufacturer services, specialised transmission line inspection facilities etc) and the comparison of these with the cost of such activities elsewhere in Australia. (The purpose of this activity is to establish whether or not the cost of operating a utility in Tasmania is inherently more or less than in other States.)
6. The extent to which the current regulatory arrangements for each utility have been driving technical performance and the efficiency of operational activity or maintenance practices, and the impact on the costs incurred.

While each of the SOEBs has advised that they have carried out benchmarking activities for their own internal purposes, or to satisfy regulatory requirements, the nature and appropriateness of their benchmarking for this review is yet to be determined. Additional or more detailed information may be necessary to provide realistic comparisons to enable the Panel to adequately address its Terms of Reference, although the objective of minimising the cost and resource burden on the SOEBs is very important.

The Panel's objective in seeking proposals at this stage in the process is to identify a small number of potential consultants with whom a more detailed work scope can be discussed and arrangements for a fixed fee assignment negotiated.

Proposed Scope of Work

The advice and work scope that is required from the Consultant (or consultants) will necessarily depend on the on the extent of detail provided by the SOEBs. Nonetheless, several elements can be identified at this stage:

- A review of the benchmarking information provided by the SOEBs to assess its appropriateness in meeting the Panel's requirements, which may include an

assessment of its independence, accuracy, and extent to which it meets current Australian best practice.

- In the event that the suggested material is insufficient for the Panel to adequately address its Terms of Reference, provide guidance to the Panel on alternative measures that could be used to satisfy the Panel's requirements.
- Interpret the benchmarking information and prepare a draft report on each of the Items 1 to 6 above.
- Present the draft report to the Panel
- Prepare a final report based on feedback from the panel. The final report will form an important element of the Information Paper that the Panel will release publicly.

In the event that additional information or data is required, it should be assumed that it will be assembled by the SOEBs in a form suitable for Consultant interpretation or analysis (ie the Consultant will not be required to develop the data, rather, specify the data requirements).

It is expected that the Consultant will work closely with designated members of the Secretariat in fulfilling this assignment. It should be noted that the Secretariat members are non-expert in electricity technical matters, so the ability of the Consultant to enhance the Secretariat's understanding of the technical matters relevant to the scope of this assignment is important.

Other work streams

The Panel will be progressing other work programs that will interconnect with this consultancy. At this time, the Panel anticipates working with specialist advisers to examine:

- the financial performance of the SOEB; and
- competition analysis, particularly in the generation.

The Panel has yet to consider its need for market modelling resources, but it is likely that some expert advice in this regard will be sought during the Review.

The financial performance work aims to, *inter alia*:

- understand the financial performance of Hydro Tasmania, Aurora Energy and Transend Networks, over time;
- compare financial performance with like entities elsewhere;
- understand the impacts of diversification; and

- examine the likely benefits, consequences and risks of the integration of Aurora Networks and Transend Networks.

In terms of the relationship between this assignment and the financial work stream, this assignment will focus on unit costs and associated benchmarking and develop a deeper understanding of cost drivers within aspects of each of the SOEBs, whereas the financial work stream will examine the interaction between costs (broadly defined) and revenues and business strategy.

With the above in mind, it will be very important that each of these work programs maintain close relationships with Secretariat to ensure that there is no duplication in effort and that all three bodies of work come together in an integrated manner for the Panel's consideration and reporting purposes.

Moreover, the Panel anticipates that some level of cross-involvement and input will be advantageous between the work streams, although the exact scope of this involvement is unclear at this stage.

The Panel anticipates that once these three 'fact finding' assignments have been concluded, a subsequent package of work will be issued to relevant advisors work collaboratively with the Panel and Secretariat to develop and/or assess the potential impact of structural, regulatory and governance reforms that would underpin the Panel's draft recommendations. **This work is not within the scope of this tender.**

Consultants Proposal

Given the nature of the overall task, and indeterminate nature of the consultant advice required (at this time), it is recognised that a firm scope and total price for the work cannot be established at this point. As noted above, the desire is to establish a short-list of potential providers with whom more detailed negotiations on a defined scope can be negotiated.

Proposals should demonstrate the consultant's experience, knowledge and familiarity with electricity utility benchmarking practice and the extent to which the consultant has access to existing data which may be applicable to this exercise. Particular reference should be made to the consultant's ability to assess and compare utility asset management philosophy and maintenance practices.

Consultants who have specialised in a particular utility function or functions (i.e. generation, transmission, distribution or retail) should identify their speciality. It may be the case that multiple consultancies are awarded if this is the best way of achieving the objectives of the assignment.

Proposals should identify specific team members and how the consultant would expect these members to be utilised on this assignment and the charge-out rate of each proposed team member.

For the short listing exercise, a broad explanation of the proposed methodology is required, including the means of determining materiality and ranking of the various performance measures, practices or issues.

A more detailed methodology will be required at the final proposal stage from short-listed tenderers, which will be key in the selection process.

Consultant Fees

Hourly rates for each team member must be specified and these will be central to the short-listing process. These rates will be locked in for the detailed scoping and for the duration of the assignment, with the total cost of the consultancy confirmed and agreed once a detailed scope has been agreed with the successful Consultant (or consultants).

The Consultant will be required to enter into a Tasmanian Government standard Contract for Services Agreement (proforma attached) and should note that expenses for travel, accommodation and allowances are required to be charged at rates allowable to State Government employees.

Selection Criteria

The selection of the short-listed Tenderers will be made according to the following selection criteria and weighting:

Criteria	%
Demonstrated experience of the firm and proposed team members in undertaking utility benchmarking exercises, including the information base that can be brought to the assignment.	50
Price (hourly rates).	30
Demonstrated ability to work with non-experts clients.	20

The final selection of the successful Tenderer will be made according to the following selection criteria and weighting:

Criteria	%
Clarity and quality of methodology.	50
Price – total fee	50

Information to be provided by the Tender

Tenderers are to provide:

- completed Tender Form
- a response to the Selection Criteria
- CVs for all team members and a clear articulation of the roles that each would play in fulfilling the objectives of the assignment and reference to past performance of similar roles, along with the charge-out rate for each team member.
- contact details for at least two client referees able to confirm the Tenderer's ability to meet the Selection Criteria
- pricing structure, including fees and methodology for charging services
- Tenderers must provide a copy of the original Tender, marked accordingly, plus three hardcopies or an electronic copy on CD.
- details of the Tenderer's insurance cover, including type and amount of cover, policy number, name of insurer and policy expiry dates; and

A Tenderer lodging a Tender using the Electronic Tender System must lodge the Tender in accordance with one of the formats and with the naming conventions specified in Clause 15.