

29 June 2015

## **Negotiation for Dedicated Public Lights**

This note that been prepared by staff as a means to assist stakeholders understand issues and prepare their submissions. It is not a policy document from our board.

In a negotiated model, it's up to councils/VicRoads to determine and pursue the outcome you want.

Under the proposed negotiated service classification set out in the framework and approach the AER considered that customers have the option and ability to negotiate prices with either distributors or through alternative service providers by tender processes, for the provision of dedicated public lighting assets.

Dedicated public lighting assets are public lighting assets that are on a standalone pole that do not share or house any other electricity distribution assets.

Example of dedicated public lighting assets



By contrast, a **shared** public lighting asset is one where the pole hosts the public light and other electricity distribution assets too.

## Examples of shared public lighting assets



Councils/VicRoads know the things they require and have the ability to undertake tender processes and should be able to achieve superior outcomes than that which the AER can provide through setting regulated prices.

Councils/VicRoads might want to negotiate prices for dedicated lights with their distributor, seek quotes with one of the other four distributors in Victoria or other alternative service providers. VicRoads and Councils with multiple distributors in particular are well placed to negotiate with all of their distributors and select the best value for money dedicated public lighting service.

Below we set out some of the potential options for participants in a negotiated regime. This is by no means meant to be exhaustive.

### **Scenario 1**

Councils/VicRoads and distributors can agree on the operation, maintenance, repair and replacement of dedicated public lights.

This might involve an agreed price for operation, maintenance, repair and replacement of dedicated public lights for a specified number of years. This could include bulk replacement of lamps, types of technologies to be used and replacement of other components at the end of their economic life.

Councils/VicRoads may be able to achieve some cost saving through this negotiation. Alternatively, better service agreements with distributors at no extra, or minimal additional costs, may be possible. A strict regulated regime (such as that currently in place) cannot (and arguably to date has not) delivered this outcome.

## Scenario 2

If Councils/VicRoads are not satisfied with distributors' offers, they may want to test the market for the provision of dedicated public lighting services.

### Scenario 2A

After conducting a tender process Councils/VicRoads may receive offers from alternative service providers for the operation, maintenance, repair and replacement of dedicated public lights that are superior to those from a distributor.

This again might involve an agreed price for operation, maintenance, repair and replacement of dedicated public lights over a set time period.

Included could be bulk replacement of lamps, types of technologies to be used and replacement of other components at the end of their economic life.

Councils/VicRoads may receive tenders that will allow them to achieve some cost savings or better service agreements and outcomes from distributors without additional cost.

Distributors might choose to match these offers or not. If distributors do not, Councils/VicRoads may wish to sign contracts for alternative service providers to undertake this work.

If Councils/VicRoads sign contracts with an alternative service provider, the contract may provide for the operation, maintenance, repair and replacement of dedicated public lights for a specified number of years.

### Scenario 2B

Alternatively Councils/VicRoads may be happy for the distributor to be responsible for capital replacement of the asset but for the maintenance activities to be undertaken by a third party service provider, engaged by the local council. Some portion or part of the operation, maintenance, repair and replacement of dedicated public lights might continue to be provided by their distribution and the other portion to be provided by an alternative service provider.

For example the operation maintenance and repair or the replacement of dedicated public lights might be contracted out to a third party provider. Councils/VicRoads may also be able to achieve economies of scale by using the same alternative service provider for new public lights and for alteration and relocation of existing public lighting assets which also fall under the negotiated classification.

### Scenario 2C

Where councils/VicRoads choose to pay and/or use alternative service providers to replace dedicated public lighting assets, councils/VicRoads may choose not to gift these assets to distributors and instead be able to achieve cost savings in the long term by retaining ownership of these assets.

### **Scenario 3**

Distributors and councils/ own these assets.

If looking at contracting an alternative service provider directly, councils/VicRoads may consider it more economical to have ownership and full control of these assets and might seek to negotiate the purchase of these assets from distributors.

That is, the value of the residual dedicated streetlight asset must be paid out by councils/VicRoads. In some respect, this can be thought of as analogous to an early termination payment from an existing contract.

Ownership and control of the assets for councils/VicRoads may allow flexibility to finance, maintain, replace and manage these assets as they prefer and generate improved outcomes/cost savings from this.

Councils/VicRoads contracting directly with alternative service providers may reduce distributors' returns and create a risk of these assets being stranded.

#### **Negotiating in practice**

The AER understands that good negotiated outcomes have been achieved for some time across Australia between local councils and distributors. This includes negotiated outcomes for the replacement of existing older style lights for new technology lights.

In South Australia public lighting has been a negotiated service for 10 years and we understand from participants in that process that good price outcomes have been achieved.

#### **Negotiation approaches**

It is not a matter for the AER but local councils, the Municipal Association of Victoria and VicRoads might want to begin considering how they would go about negotiating with distributors and alternative service providers if dedicated lights become negotiated some time during the 2016–20 regulatory control period.

In particular whether that negotiation would be best undertaken collectively at a state wide level, or as groups of councils within each distributor's respective geographic areas or on a more individual council by council basis.

The Streetlight Group of Councils has been operating since 2002 and already represents over 30 councils in seeking to take a unified approach in resolving public lighting issues with distributors.

#### **Submissions**

What you might like to think about for your submissions:

- Distributors assumptions and proposed prices for shared public lighting assets
- Process and assumptions used by distributors in splitting out dedicated assets
- How effective negotiation is likely be, drawing on past experiences and interstate examples
- Any other public lighting issues of concern and interest that the AER should be aware of.

### **Invitation for submissions**

Submissions are invited in relation to the classification of negotiated for dedicated lights in the framework and approach and in relation to any other public lighting issues.

We invite submissions on distributors' regulatory proposals and the AER's proposed negotiated distribution service criteria by **COB 13 July 2015**.

We recognise that the public lighting subject matter discussed will likely require local councils to have further consultations among themselves and with their distributors. Therefore, if individual submitters consider that they need more time to complete their submissions on the public lighting subject matter, they may approach us to discuss the timing of their submissions. You can contact us and email Submissions to [VICelectricity2016@aer.gov.au](mailto:VICelectricity2016@aer.gov.au).

Alternatively, written submissions can also be sent to:

Mr Chris Pattas  
General Manager - Network Investment and Pricing  
Australian Energy Regulator  
GPO Box 520  
Melbourne VIC 3001

The AER prefers that all submissions be sent in an electronic format in Microsoft Word or other text readable document form and publicly available, to facilitate an informed, transparent and robust consultation process.

Accordingly, submissions will be treated as public documents and posted on the AER's website, unless prior arrangements are made with the AER to treat the submission, or portions of it, as confidential. Those wishing to submit confidential information are requested to:

- clearly identify the information that is the subject of the confidentiality claim; and
- provide a non-confidential version of the submission.

### **Preliminary Decision**

The AER will make its preliminary decision by 21 October 2015.