

# AUSTRALIAN ENERGY REGULATOR'S PUBLIC LIGHTING SUBMISSION



CENTRAL NSW  
COUNCILS



Centroc's Mission is to be recognised as the lead organisation advocating on agreed regional positions and priorities for Central NSW whilst providing a forum for facilitating regional co-operation and sharing of knowledge, expertise and resources effectively nurturing sustainable investment and infrastructure development.

[www.centroc.com.au](http://www.centroc.com.au)

Chairman: Cr Phyllis Miller, Mayor Forbes Shire Council

9 May 2012

Reference: pm:vp 051209  
Enquiries: Ms J Bennett: 0428 690 935

Mr Warwick Anderson  
General Manager  
Network Regulation Branch  
Australian Energy Regulator  
GPO Box 3131  
Canberra ACT 2601

Dear Mr Anderson

Centroc represents sixteen local government areas and one water authority in central NSW. This is an area the same size as Tasmania with about half the population and a bigger GDP. Centroc exists to advocate on behalf of the region's communities and deliver cost savings and other efficiencies for member councils. The 34 member Centroc Board is made up of the Mayors, elected representatives and General Managers of the Region.

Electricity pricing forms a significant component of expenditure for Centroc members. Centroc members as both "price takers" and operating under rate-capped financial constraints are keen to ensure fairness in pricing.

For more information regarding the above please contact the Centroc Executive Officer Jenny Bennett on 0428 690 935.

Yours sincerely,



Cr Phyllis Miller OAM  
**Chair**  
Central NSW Councils (Centroc)

## General Comments on the discussion paper

### 1. High Residual Asset Valuation Remains Key Issue

While the Australian Energy Regulator AER Discussion Paper focuses on possible approaches to cost allocation, councils note that there is a more fundamental issue in pricing: the overall cost of public lighting itself and how the underlying capital base has been determined. The revaluation of the existing Ausgrid street lighting assets was the key driver of the 49% average increase in capital and maintenance charges from 1 July 2010. The Ausgrid asset valuation is viewed by councils as grossly excessive and having little relationship to historic real-world costs or the history of the assets themselves. This has not been dealt with by either IPART or AER, and is central to the issue of pricing. Consequently, Centroc members must find the conclusions of the discussion paper lacking in substance.

### 2. Greater Transparency Essential From Outset Of Pricing Process

A major concern of councils in the 2009-2014 pricing determination was Ausgrid's withholding of key street lighting pricing assumptions and the overall pricing model throughout the pricing review, appeal and redetermination. This partial model was a spreadsheet covering OPEX costs only and had been stripped of assumptions, asset quantities and key cost details leaving it of little value to councils in understanding and questioning Ausgrid's pricing proposal. Councils are seeking a release of the full street lighting pricing model and underlying assumptions from the outset of the forthcoming pricing review.

## Response to AER Questions in the discussion paper

### Question 1

#### A. What has been the experience for customers under the current regulatory approach to public lighting? For example, do the current arrangements result in pricing that is too complex or lacking in transparency?

Response: Aside from the large price shock resulting from a substantial asset revaluation (as noted above), the most significant impact of the 2010 AER pricing redetermination has been with respect to pricing complexity and a lack of transparency for councils. Since the AER redetermination, Councils have received three monthly street lighting bills with network charges spread across all three of them. Centroc members find both the current bills and forecasting increases complex and opaque.

In member view, bills do not meet reasonableness test of NSW Public Lighting Code *"13.1 Bills provided by a Service Provider must identify separately in summary form the charge for each type of Public Lighting Service provided and must contain at least the following information: a) details of the number and type of lights; and b) any other information reasonably necessary for the Customer to verify the accuracy of an amount charged on the bill."*

**B. Should public lighting in NSW continue to be regulated by the AER as an alternative control service or is there merit in classifying the service as a negotiated service or an unclassified (unregulated) service?**

Response: It is essential that public lighting in NSW continues to be regulated as an alternative control service and the vast majority of public lighting assets are owned by the NSW Designated Network Service Providers.

To achieve meaningful contestability, extensive development of a NSW Lighting Contestability Framework would be required. Given that Ausgrid is deemed to have funded and owns almost all street lighting assets (the vast majority of which sit on their wooden distribution poles), there is little comparable precedent to draw on, as current NSW contestability relates to assets owned by the customer.

Even setting aside full contestability and assuming that Ausgrid was prepared to simply transfer responsibility to councils or other parties for existing assets would present some significant barriers including the high valuation of residual assets set in AER pricing determination of April 2010 valuing total street lighting assets at \$140.9m

Identifying and encouraging prospective competitive service suppliers and developing the commercial framework (eg comparable to the UK PFI framework which has taken many years to develop).

**C. Has the current approach resulted in greater (or less) competition in the construction or provision of public lighting services?**

Response: The current regulatory approach has not changed competition or the prospects for competition which are constrained by the existing situation. There are no NSW provisions allowing a customer to request a third party to alter, relocate, or replace public lighting assets. In any such event, Ausgrid customers would have to first pay Ausgrid's high claimed residual asset charges to exit current arrangements and these charges present a significant financial barrier to greater competition.

**Question 2**

**The AER seeks comments regarding the use of Option 1. In particular: A. What are the main advantages and disadvantages of this approach?**

Response: The introduction of third type of capital charge has the potential to further increase complexity. There may be opportunities to greatly simplify pricing, avoiding the increasing complexity implied in Option 1. Furthermore, there would appear to be opportunities to do this without significant price shocks or misleadingly price signals because:

- Capital costs (and maintenance charges) for many closely related assets are very similar
- Many lighting types used in the past are no longer used in new installations and, by the time the next regulatory period commences, it is unlikely that any of the asset types approved for

use at the start of the last regulatory period will be accepted Standard Luminaires for new installations in the next regulatory period. It should therefore be possible to draw a line under old asset types, with no need determine new capital charges for anything other than the new asset types.

Further, asset age assumptions can be considerably improved as the age of all Ausgrid assets from about 2000 is known accurately. In addition, the age range of particular lighting types is well understood and the age of most 'special installations' (eg parks, reserves and decorative lighting types) appears readily ascertained from Ausgrid's inventory and council records.

### **Question 3**

**The AER seeks comments on Endeavour Energy's submission. In particular:**

- A. What are key advantages and disadvantages of the approach proposed by Endeavour Energy?**
- B. Would the averaging of capital costs used to calculate the annuity for assets constructed in the 10 year period 2009 to 2019 disadvantage third party providers of these assets?**

Response: The introduction of third type of capital charge has the potential to further increase complexity. However, councils are not in a position to determine the price distortions that 10 year averaging of capital costs might create but would welcome modelling to assess the potential impact of such an approach.

### **Question 4**

**The AER seeks comments on Ausgrid's submission. In particular:**

- A. Would a simplified pricing structure such as this come at the expense of cost reflective prices?**

Response: While a simplified pricing approach is welcomed, it needs to ensure that cost-reflectivity and price shocks are modelled first.

- B. Would this approach permit the entry of third party providers of public lighting services?**

Response: Councils do not believe that moves to simplify pricing would have any material impact for contestability or result in any increase in competition.

## **Other Comments:**

### **Interim Tariffs To Facilitate Adoption Of Emerging Technologies**

Public lighting is entering a period of rapid change with technologies such as LEDs, light emitting plasma, adaptive lighting controls and others emerging quickly and fundamentally changing the mix between capital, energy and maintenance costs. In recent years, LEDs for example, have seen declining capital costs of some 30% per annum and simultaneous increases in efficiency at a similar rate. It is common for major LED luminaire manufacturers to replace models every six months in the current market.

The current regulatory approach, which implicitly assumes relative stability in technologies, progressive increases in costs in line with CPI and a relatively similar maintenance regime for all public lighting assets does not appear well suited to dealing with the next generation of emerging lighting technology. The process for pricing new technology is lengthy and complex. Indeed, by the time a pricing approval process is finished, the product being priced is likely to have been superseded.

Members suggests that, if DNSPs and councils agree on it, there should be some provision made by the AER for an interim tariff for new technologies to allow trials and initial adoption to take place easily without the need for a lengthy AER pricing approval process. The AER might reasonably set a volume limit on such interim tariffs (eg 500 luminaires) after which a formal pricing approval would be required.