

Public Lighting Strategic Engagement with Local Councils – Phase 4

Research report prepared for
Essential Energy

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1. Executive Summary

1.1 Background

This independent report compiled by Woolcott Research and Engagement outlines the findings from Phase 4 of the Public Lighting Stakeholder Engagement program conducted by Essential Energy. The engagement program for Public Lighting was conducted as a supplementary component of the main engagement program to inform the organisation's Regulatory Proposal for 2024-2029.

For this fourth phase, nine meetings took place between Essential Energy, Councils, Regional Organisations of Councils (ROCs), Next energy consultants and observers from the AER. Woolcott Research was present at, or had access to recordings of, five of the online Zoom forums and this report details findings specifically from those five meetings.

The attendees participated in active discussion to ensure transparency and clarity of the proposals for Public Lighting and were encouraged to identify areas of concern. The intention of the engagement was to collaborate with Local Councils and external public lighting advisors to facilitate the best possible co-development of the Public Lighting draft proposal for the 2024-2029 regulatory period.

1.2 Research methodology

Nine meetings were held on the prescribed dates, with each session attended by various council and ROC representatives as well as Essential Energy experts. The meetings ran on the online platform Zoom. Councils had received an information pack provided by Essential Energy prior to taking part in these meetings. Woolcott Research was present for sessions 4-8 to collate information to inform this independent report. Sessions were recorded and then transcribed for detailed findings. Representatives from the non-Southern Lights Councils were invited to Meeting 5.

The structure of the meetings involved presentations from Essential Energy and then Q&A and feedback sessions. At each stage participants were encouraged to ask questions to have concepts clarified openly and transparently by members of the Essential Energy Public Lighting team. In addition, participants were directed to submit requests for additional discussion through the engagement portal yoursay@essentialenergy.com.au.

Essential Energy added any new points for discussion that were raised to a list of action items from the previous forums. These were presented at each meeting for further discussion, collaboration and resolution.

1.3 Research findings

Key themes emerged from the Zoom sessions on the pricing structure of Public Lighting, reinforcing some of the issues discussed in previous meetings. Council participants were consultative with independent advisors and Essential Energy staff to further understand, gain insight and offer input into the proposed pricing models for the next regulatory submission.

Participants were asked for feedback throughout each of the sessions, with a view to further collaboration.

1.3.1 Play Back of Principles and Actions from Previous Sessions

On presentation of the principles, there were no further questions or comments showing that these have been accepted by the participants.

The ‘actions from previous sessions’ discussions in Meeting 4 resulted in Essential Energy considering advice from participants on pricing for Zhaga Luminaire failure rates. After consultation across subsequent meetings, pricing was updated to reflect the standard LED failure rate.

The item of LED floodlights Design Portion was allocated a placeholder of one hour of design and labour per floodlight and considered an ongoing conversation with Graham Mawer from Next Energy.

The item of auditing and compliance on the action list from previous discussions was marked as ongoing with Councils agreeing to Essential Energy continuing to provide updates.

1.3.2 Current versus Next Period Performance

There were no comments or objections on the impact of switching to LEDs from HIDs when participants were shown figures from the Blayney Council upgrade.

The total OPEX comparison between the two regulatory periods provoked commentary from participants who questioned the increased resourcing to the Public Lighting team for the 2024-2029 Regulatory Proposal. Subsequent discussions across the five meetings resulted in a revision to the initial allocation in direct costs for the team from \$5million to \$4.5million.

1.3.3 OPEX Assumptions and Draft Pricing

The proposed OPEX SLUOS charges that detailed an increase of 9.5% in real terms over all assets for the 2024-2029 regulatory period were revised after consultation to reflect a 5% decline which formed part of the discussions in Meeting 8.

Participants requested further investigation on the failure rate of the LED0105 17W (CatP) luminaires and questioned the use of this failure rate in the blended, weighted approach to OPEX build-up.

Participants expressed concern that the warranty loop has not been closed and that councils are held responsible for luminaire failures occurring within the warranty period. As a result of council input, Essential Energy refined the warranty NPVs after Meeting 7 and removed a portion of the luminaire failure rates.

1.3.4 Capex Assumptions and Draft Pricing

There were no strong opinions for or against this section of the pricing proposal during Meetings 5-8, however there was a consensus that the approach of using blended, weighted CAPEX provides a fairer representation of build-up. Participants agreed that further discussions were required to gain greater understanding of the CAPEX modelling for the draft proposal.

1.3.5 Deep Dive into Overheads

Participants remain concerned that applying corporate overheads to Streetlighting is not appropriate. There was a consensus that future deep dive meetings with Essential Energy are required to solve the unresolved issues that have arisen during these meetings. Essential Energy acknowledged they welcomed feedback and ongoing collaboration with councils and advisors to finalise the Draft Proposal.

1.3.6 Implications

Essential Energy has aimed to consult with councils and independent advisors in a clear and transparent process to ensure collaboration for the pricing model for the next regulatory period.

Some issues have been significantly advanced throughout the Phase 4 meetings, such as pricing for Zhaga Luminaire failure rates, the revision of the allocation of costs for the Public Lighting team and the proposed OPEX SLUOS charges and revised warranty NPVs.

Some councils are interested in further discussions on price points over the coming months and as part of the revision process in 2023.

A document created by Essential Energy in collaboration with Graham Mawer was issued to councils outlining the open items and giving commitment to reviewing these in the future.

2. Background, Objectives and Engagement Program

2.1 Background

Essential Energy builds, operates and maintains one of Australia's largest electricity distribution networks, providing electricity to regional, rural, and remote NSW, and parts of southern Queensland. It covers 95 percent of NSW that is 737,000 square kilometres with 183,612 km of powerlines.

As a government owned entity, the business is regulated by the Australian Energy Regulator (AER), and every five years it must present a Proposal to the AER which outlines its investment plans, the costs to deliver those plans and the proposed prices that customers will pay. The Proposal for 2024-2029 is due to be submitted to the AER in January 2023.

Essential Energy is committed to placing customers and stakeholders at the centre of everything it does. Therefore, to develop its proposal, the business has adopted a comprehensive engagement program to identify customers' needs and priorities.

Essential Energy's approach to engagement for the previous proposal (2019-24) received considerable praise from the AER and customer representative groups, as well as winning the Energy Networks Australia and Energy Consumer Australia (ECA) 2018 award for consumer engagement. In a constantly evolving environment, there is a desire to build on this and do even better for the next one.

Woolcott Research and Engagement, with the assistance of ERM (previously KJA) were commissioned to develop and conduct the customer and stakeholder engagement program for the 2024-29 Regulatory Proposal, of which this Public Lighting engagement is a part of.

2.2 Objectives

The objective of the engagement program as a whole is to ensure the views and expectations of Essential Energy's diverse customer base are accurately and meaningfully reflected in the business's 2024-29 Regulatory Proposal, such that it is capable of acceptance and approval by the AER.

The goals of the whole engagement program are:

- To identify and understand all issues that are important to customers
- To involve customers in decisions that affect them
- To understand their individual perspectives on matters relating to Essential Energy's business
- To distil technical concepts from the electricity industry in a way that can be more easily understood by the public

As an adjunct to the Engagement program, Essential Energy wished to include a dedicated Public Lighting component with Councils and Streetlighting advisors in NSW.

2.2.1 Objectives of the Public Lighting Engagement

Public Lighting services are deemed an alternative control service and are hence regulated by the AER. To help feed into the submission Essential Energy wished to engage public lighting representatives from Councils to obtain input into the key areas of the upcoming submission.

Specifically, the objectives of the fourth phase of the public lighting engagement meetings were to:

- Present a summary of the findings from the Phase 3 engagement
- Revisit timelines, agreed principles and an update on actions
- Share pricing assumptions and draft prices
- Set expectations for the release date of the Regulatory Proposal and Revised Regulatory Proposal.

2.3 Public Lighting Engagement Program

The engagement program for Public Lighting has consisted of:

- An online survey of Local Council representatives
- Three phases of online Zoom forums with Local Councils held in April, May, July 2022
- A fourth phase for ‘testing the Draft Proposal’ which involved nine online Zoom meetings conducted in September, October and November.

2.3.1 Phase 4 Public Lighting Engagement Program

Nine meetings were held during Phase 4, with each session attended by various council and ROC representatives as well as Essential Energy experts. The meetings ran on the online platform Zoom. Councils had received an information pack provided by Essential Energy prior to taking part in these meetings. Woolcott Research was present for sessions 4-8 to collate information to inform this independent report. Sessions were recorded and then transcribed for detailed findings.

After an overview of the findings from Phase 3 was presented, key objectives for the fourth phase of meetings were broken down into the following discussion sessions:

- Revisiting timelines and agreed principles and providing an update on actions from prior meetings
- Current versus next period performance
- OPEX assumptions and draft pricing
- Capex assumptions and draft pricing
- Deep Dive into overheads
- Next Steps

The structure of the meetings involved presentations from Essential Energy and then Q&A and feedback sessions. At each stage participants were encouraged to ask questions to have concepts clarified openly and transparently by members of the Essential Energy Public Lighting team. In addition, participants were directed to submit requests for additional discussion through the engagement portal yoursay@essentialenergy.com.au.

Essential Energy added any new points for discussion that were raised to a list of action items from the previous forums. These were presented at each meeting for further discussion, collaboration and resolution.

The following representatives were in attendance at the nine scheduled meetings, with representatives from the non-Southern Lights Councils invited to Meeting 5:

Meeting 1 Friday 23rd September from 10am-11am

Attendees: Members of Southern Lights Councils were invited

- Hamish Wheatley, Ben Thomas, Nirav Rajguru, Daniel Picone (Essential Energy)
- Members of the Southern Lights Council

Meeting 2 Thursday 29th September from 10am-11am

Attendees: Members of Southern Lights Councils were invited

- Hamish Wheatley, Ben Thomas, Andrew Hillsdon, Nirav Rajguru, Daniel Picone and Chloe Willner (Essential Energy)
- Kate Barker and Jenny Bennett (Central NSW Joint Organisation)
- Paul Gowans (Next Energy)
- Julie Briggs (Riverina Eastern Regional Organisations of Councils)

Meeting 3 Thursday 6th October from 11am-12noon

This meeting was a future collaborative working group session with Jenny Bennett.

Attendees:

- Hamish Wheatley, Ben Thomas, Nirav Rajguru, Chloe Willner (Essential Energy)
- Jenny Bennett (Central NSW Joint Organisation)

Meeting 4 Friday 21st October from 10am – 11am

Attendees:

- Justin Hillier, Hamish Wheatley, Ben Thomas, Andrew Hillsdon, Natalie Lindsay, Justine Langdon, Nirav Rajguru, Daniel Picone and Chloe Willner (Essential Energy)
- Kate Barker and Jenny Bennett (Central NSW Joint Organisation)
- Paul Gowans (Next Energy)
- Brad Ferris (Albury City Council)
- Deb Taylor (Bathurst City Council)
- Paul Harrigan (AER)
- Nick Innes (AER)

Meeting 5 Wednesday 26th October from 2pm-3pm

This meeting was designed as a Question and Answer session for all non-Southern Lights Councils. An information pack was sent to all councils prior to the invitation to attend.

Attendees:

- Hamish Wheatley, Ben Thomas, Andrew Hillsdon, Nirav Rajguru, Daniel Picone, Chloe Willner (Essential Energy)
- John Sinclair (Narromine Shire Council)
- Saul Standerwick (Gwydir Shire Council)
- Chris McGrath (Dungog Shire Council)
- Bruce Quarmby (Coonamble Shire Council)
- Graeme Robertson (Richmond Valley Council)
- Daryl Colwell (Gilgandra Shire Council)
- Neil Bungate (Mid-Western Council)

Meeting 6 Friday 28th October from 10am-11am

Attendees:

- Hamish Wheatley, Ben Thomas, Andrew Hillsdon, Nirav Rajguru, Daniel Picone, Chloe Willner (Essential Energy)
- Graham Mawer (Next Energy)
- Paul Gowans (Next Energy)
- Deb Taylor (Bathurst City Council)
- Nick Innes (AER)

Meeting 7 Monday 31st October from 11am-12:30pm

Attendees:

- Hamish Wheatley, Ben Thomas, Andrew Close, Nirav Rajguru, Chloe Willner (Essential Energy)
- Julie Briggs (Riverina Eastern Regional Organisations of Councils)
- Kate Barker (Central NSW Joint Organisation)
- Deb Taylor (Bathurst City Council)
- Paul Gowans (Next Energy)
- Graham Mawer (Next Energy)
- Jenny Bennett (Central NSW Joint Organisation)
- Brad Ferris (Albury City Council)

Meeting 8 Thursday 3rd November from 10am-11:15am

Attendees:

- Hamish Wheatley, Ben Thomas, Andrew Hillsdon, Justine Langdon, Nirav Rajguru, Daniel Picone, Chloe Willner (Essential Energy)
- Graham Mawer (Next Energy)
- Paul Gowans (Next Energy)
- Jenny Bennett (Central NSW Joint Organisation)
- Deb Taylor (Bathurst City Council)
- Kate Barker (Central NSW Joint Organisation) from 10:54am
- Nick Innes (AER)

Meeting 9 Thursday 3rd November from 3pm to 5pm

This was an Essential Energy consultation exclusively with Graham Mawer from Next energy.

Attendees:

- Hamish Wheatley, Ben Thomas, Nirav Rajguru, Daniel Picone (Essential Energy)
- Graham Mawer (Next Energy)

3. Meeting Findings

An overview of the timeline for the Proposal and future engagement was presented to the meeting participants at the beginning of each of the five Zoom sessions. Participants were shown a flowchart depicting the entire engagement process and were informed that the resulting Regulatory Proposal would be lodged with the regulator by 31st January with the final determination date of April 2024.

3.1 Play Back of Engagement Principles and Actions from Previous Sessions

3.1.1 Comments on Engagement Principles

At the outset of each of the five Zoom meetings, Essential Energy revisited the principles of engagement on Public Lighting developed throughout the previous three phases of engagement. At the first meeting participants were asked for any further questions or feedback on these principles. There were no questions or comments on the principles provided.

3.1.2 Actions from Previous Sessions

Essential Energy staff then presented the actions that have arisen from previous forums and meetings and stated that they would be providing updates on these.

The first action presented included negotiations with Southern Lights prior to Phase 4 meetings, to revise the modelling for the Zhaga Luminaire Failure Rates. It was relayed that after recent consultation with Councils, Essential Energy had identified an issue in the buildup of the pricing. Following revision, the new failure rates will be based on the standard LED failure rates to reduce the OPEX component passed on to Councils. There was positive feedback from Councils on the revision.

“I’m very happy that the Zhaga OPEX rate will be the same as the standard luminaire, as in the previous version the price differential was very large between the standard and Zhaga and was going to be a disincentive for councils.”

After positive feedback from participants Essential Energy considered this a closed item on the action list agenda.

The next item on the action list was the LED floodlights Design Portion which Essential Energy have allocated a placeholder of one hour of design and labour per floodlight. This item was considered an ongoing conversation with Graham Mawer from Next Energy, and there was consensus from participants that it could be developed outside of the Regulatory Proposal. This action was marked as subject to further review and refinement.

“I agree that Essential Energy needs to have a rough guidance of what number goes in there as long as it’s clearly recognised we haven’t agreed on the number.”

The following action items of OPEX modelling, CAPEX modelling and the potential impact of the weighted capital on the Regulated Asset Base (RAB) required ongoing analysis and discussion with participants in each of the Phase 4 meetings, detailed in sections 3.3 and 3.4 of this report.

The item of auditing and compliance on the action list from previous discussions was marked as ongoing with Councils agreeing to Essential Energy continuing to provide updates. It was stated that a placeholder of

\$150,000 had been allocated. Essential Energy proposed that this amount directly relates to 80-90 cents applied to each light due to the quantity of work required by the metering and compliance teams working with the DNSPs. Essential Energy relayed that discussions on whether this constituted repairs or planned maintenance were ongoing, and that this component was not built into the charges model. Participants expressed a preference for auditing and compliance to be combined with routine maintenance. Clarification was sought on whether this was a new requirement.

"In previous meetings, we raised the query why couldn't you perform those tasks when other maintenance is being carried out?"

"Obviously that's not a new requirement, was it previously unrecognised, has it fallen through the cracks somehow?"

"It's always been there, but it's never been recorded or reported previously."

"I can't imagine the intent of the regulator was to impose significant costs if someone is already out there visiting the poles."

At the conclusion of this discussion, participants concurred that they were prepared to wait for further developments resulting from more in-depth investigation by Essential Energy.

"We're happy that you're continuing to look into that, that's good."

The final action item of reviewing the Traffic Control Assumptions was marked as closed by Essential Energy after consultation with participants.

3.2 Current versus Next Period Performance

3.2.1 Commentary on the impact of switching to LEDs

Next in the agenda, the impact of switching to LEDs was presented to participants using figures from Blayney Council as an example. The reduction in the total annual OPEX charges for the current regulatory period due to the LED upgrade was charted alongside the proposed pricing for the next regulatory period (2024-2029). Essential Energy outlined the two options for funding the LED rollout, either as an upfront cost or tariff recovery agreement. The modelling also represented the two regulatory periods as scenarios to compare the return on investment for an LED upgrade, assuming an upfront capital cost of \$400,000. It was stated that savings were based conservatively on a 19 cent/kWh energy charge and as an example, amounted to a 36% reduction for the 2024-2029 regulatory period. Participants were given the opportunity to contribute to a discussion on their thoughts on the proposed pricing.

There were no comments or objections from participants on this section of the Draft Proposal.

3.2.2 Commentary on OPEX under-recovery in the Regulatory Period 2019-2024

Essential Energy provided data on the current OPEX under-recovery depicting the decline in the actual OPEX revenue. Participants requested further clarification on the modelling presented and sought insights on the under-recovery.

"I'm assuming the actual OPEX is declining, reflective of the LEDs. Is that what is driving the reduction in the actual?"

Essential Energy explained that the proposed revenue for the next regulatory period takes LED savings and the benefits of improved labour rate accuracies into account. Annual approved OPEX and the proposed comparison across the next 10 years as calculated by Essential Energy, showed no dramatic changes. However, there were questions and concerns on the total OPEX comparison between the two regulatory periods, in particular the increased resourcing of the Public Lighting team proposed in the next regulatory period. The projected total OPEX of \$5,051,518 raised concern with participants about how this proposed increase had been calculated and what constituted the build-up of cost.

“Can you talk us through the increase into the resourcing of the Streetlighting team, it’s a massive increase?”

“I’m honestly just having a real challenge understanding. You mentioned this is additional to the people that are already accounted for previously as Streetlighting managers?”

“I agree with Graham, a million dollars a year in additional staffing for Streetlighting because you’ve got some additional reporting to do with IPART should be able to be addressed with the push of a button.”

Participants expressed an expectation that the outcome of the LED upgrade would be a gain in efficiencies. Further clarification was requested on how these funds would be allocated across the Public Lighting team. There was confusion from participants over the diagrammatic representation of the increase in cost and the ratio of indirect to direct components.

“So that increase covers the whole of that regulatory period and I recall there were consultants involved and are all those costs bundled into that?”

“What projects do you anticipate in the next five years? Councils are in a rate capped environment and an invidious position.”

“Jumping to 2-3 times the number of people to me seems to be out of alignment. I understand enormous resources are required for the LED upgrade but all of that is coming to an end now.”

There were calls from council participants for a revision of the proposed figure for the Public Lighting team due to the difficulty of managing competing costs from other portfolios under their remit.

“You’re the monopoly provider, please be really careful with those costs as that will come off a pothole in a road that your car is going to drive into. We don’t have separate funding for Streetlighting so it comes off roads. Please interrogate those numbers and try and find as many cost savings as you can, we don’t want it gold plated.”

The response from Essential Energy after extensive consultation with participants was presented at the fifth Zoom meeting as a revision in direct costs for the team from \$5million to \$4.5million for the 2024-2029 regulatory period. It was acknowledged by Essential Energy that upon investigation, inflation had been applied twice to the Public Lighting team which accounted for an increased cost of \$100,000 per annum.

Essential Energy provided further explanation on the decrease in materials cost included in the OPEX build-up. It was described as a direct result of reduced maintenance for LEDs with the new clean and wipe program not requiring materials. Essential Energy explained that the projected contractor cost has decreased by \$800K for the next regulatory period due to transitioning from a 4 year program to a 6 year program.

The disparity in overheads will be detailed in section 3.5 of this report.

3.3 OPEX Assumptions and Draft Pricing

3.3.1 Key OPEX Assumptions

For this topic the presentation from Essential Energy outlined key OPEX assumptions and included a detailed explanation of costs. Participants were informed of a proposed increase in the field worker labour rate described as reflective of resource supervisors and crew co-ordinators who are on a higher hourly rate. It was explained that the previous model from the current regulatory period was based on a power line worker rate to build-up the OPEX modelling but this was not cost-reflective.

The proposed rate for asset inspection was presented by Essential Energy as a new rate to ‘make charges equitable’. Participants sought clarity on the proposed charges.

“Just in reference to the \$39.97, is that for a dedicated streetlight or does it apply to a shared asset?”

There was an assurance from Essential Energy that this figure corresponded to a dedicated streetlight and therefore applied to 70,000 columns not shared assets. There were no more comments on this build-up.

The modelling presented for the following regulatory period included a change in the timeframe for pole inspection. Essential Energy proposed to increase the cycle from every 4 years to every 4.5 years in line with the asset management strategy and relayed that inspection would continue for the life of the asset. This was stated as a more cost-reflective approach with the intention of making small savings for councils.

3.3.2 Proposed OPEX Prices

In the first of these Zoom meetings, Essential Energy presented the proposed OPEX SLUOS charges that detailed an increase of 9.5% in real terms over all assets for the 2024-2029 regulatory period. This was subsequently questioned by participants via email. After suggestions from Southern Lights councils, Essential Energy revised the modelling to reflect a 5% decline which formed part of the discussions in Meeting 5. The explanation was stated as the asset mix (HID and LED) between the current regulatory period and the next one.

In addition, there were many questions and comments regarding the LED failure rate figures in the proposed OPEX prices for SLUOS charges. Essential Energy sought expectations of failure rates from Graham Mawer from Next Energy, due to his experience in rolling out LED upgrades in the City of Sydney as well as the City of Los Angeles. The failure rates presented across the Essential Energy network for the LED0105 luminaires exceeded 1.2% and participants expressed concern particularly given Councils were not empowered to select their preferred supplier or luminaire for upgrade.

“It looks like something must be wrong with those luminaires. Are you concerned that something may be wrong with that luminaire? At the basic engineering level, has the question been asked?”

“I can imagine as things progress and history goes past there will be a lot better data on the actual failure rates but if you look those failure rates now, you’d favour a particular fitting if you had a choice.”

Further to this, participants believed that given the highest failure rate pertained to the most common luminaire, the potential move to a weighted/blended failure rate requires understanding of whether there is evidence of a fault or anomaly. Essential Energy sought feedback from participants on the use of a blended/weighted approach in comparison to an average rate sometimes used by DNSPs.

“We want to make sure the blending doesn’t hide the problem of a luminator, given this is the most common luminaire on the network. If it was an obscure luminaire, I wouldn’t be too worried.”

“We’ve got a million operating hours now and this number looks different.”

“We’re supportive of blended rates, what we’re concerned about is the most common light has the highest failure rate so the sooner you can get to the bottom of what is going on, the better. Let’s park it until we have time to do more investigation.”

Participants suggested more detailed investigation into the LED0105 17W (CatP) was required, although they were largely supportive of the weighted/blended approach.

“Is there any feedback or research going into why one particular failure rate is higher than others?”

“All parties should probably support blended rates but when you’ve got an outlier that becomes the basis of blending without exploring it first, that’s an issue.”

“My initial reaction is a blended rate is better as the failure rates are probably going to change for individual LEDs over time as well as suppliers address issues, so it might be a false representation by the time we get to the regulatory period.”

“I would support a blended price for say the 17-watt LED regardless of the make, it makes it simpler for everybody. Looking at your tables there’s not a lot of difference in cost anyway.”

In response to this, Essential Energy included an engineer in Meeting 4 to provide an update on the failure rate investigation and analysis. Participants were told the current warranty process involves returning faulty luminaires to the three nominated providers for failure detection. It was stated that the majority of faults relate to the drivers within the lights however performance efficiencies are improving over time and failures are diminishing.

“And we’d obviously expect that you guys are providing feedback on performance of different types and some recommendations on changing in terms if warranty determines.”

These conversations flowed into the topic of warranty claims for failed luminaires with participants questioning whether incidents of double counting were occurring in the proposed modelling for the 2024-2029 regulatory period.

“I think the warranty plays into this as well. Obviously, a lot of the failures you’ve had will occur within the first year of the LEDs being installed and they’ll all be covered by warranty claims. Is that taken into account with the calculations?”

“You’ve changed the way the warranty luminaires are treated in terms of funding as they aren’t automatically Essential Energy funded, they remain customer funded until that’s resolved but that process was put in place 12 months ago and I haven’t seen that loop closed.”

“I remain concerned that the risk of enforcing a warranty has passed slightly to the customer which is bizarre as we don’t have a direct relationship with the supplier. The responsibility shouldn’t be up to the councils, it should rest with Essential Energy.”

“The other aspect is if there’s a 1% failure rate, 50% of those are valid warranty claims. Where can we see in the model that you’re not double counting as councils shouldn’t be paying for a CAPEX or OPEX if it’s something that is rebated as a warranty claim?”

In response to these concerns Essential Energy stated they would seek information from other distributors on LED deployment, as the majority of lights that have gone up are under the customer funded process. Essential Energy expressed a drive to improve efficiencies through warranty claims via further analysis of double handling and excess courioring. As a result of conversations from all meetings, participants requested the reporting needs refining.

In addition, Essential Energy declared that a portion of the warranty claim applies to labour for staff processing of the claims. Once again, participants raised concerns with the modelling and requested information on why councils would be charged for warranties within the warranty periods.

“Is this taking account of the 10 year parts warranty and the 3 year labour warranty versus non-warranted claims?”

“How can you be sure you’re not double counting? The councils shouldn’t be paying for the parts and labour if a fault occurs within the first 3 years.”

“I asked the same question last week and the answer I got was the cost for those claims was not being counted so I would like that clarified as well. Is this just failures to luminaires or is it any failures you’re counting here?”

As a result of these concerns, Essential Energy revised their modelling for the warranty NPVs and removed a portion of the luminaire failures originally included in the build-up.

3.4 Capex Assumptions and Draft Pricing

3.4.1 CAPEX charges

For CAPEX charges Essential Energy detailed key assumptions in the presentation and proposed a weighted blended approach in the next regulatory period. It was explained that this approach was considered a positive step as the current annuity model reflects the price of the day, which works well in a stable environment, however increasing input costs including steel prices results in instant increases in CAPEX across the base. The blended rate was represented as a better and fairer reflection of the asset base and takes in the significant costs of the LED upgrades. Essential Energy requested feedback from participants on their thoughts of applying a weighted blended approach to CAPEX, and received questions on various aspects of the modelling.

“Can you just remind me, is it a 10 year recovery of capital, so over the 35 years for a column we pay about \$12K?”

“Why is your labour cost so high? Are you paying bucket loads of workers compensation? Are you putting overheads in here? I’d love to see how you put it together. It’s adding another \$20 per hour to everything you do?”

“Why would you continue to use internal staff?”

“I’m not sure the blended rate works as the costs may already be accounted for in the Field Worker Rate of \$51.91.”

Participants agreed that further discussions were required to gain greater understanding of the CAPEX modelling for the Draft Proposal.

3.5 Deep Dive into Overheads

Essential Energy presented the Cost Allocation Model (CAM) approved by the AER that included details of support costs for Public Lighting and the build-up of these costs. Following the presentation, participants were asked for their responses and concerns. Overheads and the overall support costs prompted conversations and some concerns.

"I have a general concern that applying the corporate overheads to Streetlighting, which is effectively managed as a separate business unit, is probably not appropriate but I'm not sure my concerns can be alleviated."

"Could you please explain the 49.42%? Is that the overall support cost that Essential Energy carries, is 49% applied to Public Lighting?"

"If you remove that direct component from planning and scheduling of operations, that doesn't change the Streetlighting portion of the allocation. I'm worried we're losing something because it's getting smeared across the network."

"Why are items like fleet (and some aspects of network operations) accounted for the in overheads and also appear to be charged separately via the OPEX and CAPEX build-up?"

Participants requested an interpretation of the term 'Break-in Costs' used by Essential Energy, who detailed the proposed labour rate "break in work" as reactive work. This response prompted more questions regarding the application of these costs to the modelling given the existing Public Lighting Code Agreement.

"It doesn't make much sense. It feels like you're putting a square peg into round hole and the workflow is reactive."

"We have set 10 days for you to fix the Streetlight in the Public Lighting Code service level agreement and the reason we set this was to fit in with the regular workload."

"I'm struggling with the labour rate as we're charged a premium to break-in to the schedule when we've already been guaranteed a 10 day maximum to include maintenance in the regular scheduled maintenance."

"It's my concern we're paying on top of the systems you've put in place. You're saying now you need to apply the extra effort to log in the workflow but I thought this would be helped by putting in smart controls."

"The other councils and DNSPs essentially changed their positioning to reflect Essential Energy in this respect and it was moved down to 10 days specifically at the request of Essential Energy."

During the fifth meeting, there was a request for further information on the Night Patrol cycle including the category used in modelling and the cycle length.

"How many cycles are there per year and how many lights are you patrolling?"

*“Why is it listed as a separate item in the model and not treated like other maintenance components?
There’s a column for it but it’s listed as a component.”*

In response, Essential Energy stated the model includes CatV road figures, operates on a 6 monthly cycle and only the lights that have had the work done have that proportion added to the tariff.

Participants expressed the need for future deep dive meetings with Essential Energy to solve the unresolved issues that had arisen during these meetings. Essential Energy acknowledged they welcomed feedback and ongoing collaboration with councils and advisors to finalise the Draft Proposal.

4. Implications

Essential Energy has aimed to consult with councils and independent advisors in a clear and transparent process to ensure collaboration has occurred for the pricing model for the next regulatory period.

Some issues have been significantly advanced throughout the Phase 4 meetings, such as pricing for Zhaga Luminaire failure rates, the revision of the allocation of costs for the Public Lighting team, the proposed OPEX SLUOS charges and the warranty NPVs.

Some councils are interested in further discussions on price points over the coming months and as part of the revision process in 2023.

A document created by Essential Energy in collaboration with Graham Mawer was issued to councils outlining the open items and giving commitment to reviewing these in the future.



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