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6 August 2008

Mike Buckley
General Manager
Network Regulation North Branch
Australian Energy Regulator
GPO Box 3131
CANBERRA ACT 2601

Dear Mr Buckley,

RE: COUNCIL CONCERNS ABOUT 2009-2014 ENERGYAUSTRALIA PUBLIC LIGHTING PRICING PROPOSAL
Council File Ref: F97/01840

It is with concern that Council has noted EnergyAustralia's recent proposal to the AER for a 38.6% real increase in capital and maintenance charges for public lighting over the next 5 years (eg 2009-2014 regulatory period) and a 90.2% real increase in network distribution charges for public lighting over the same period. These proposed increases follow very significant increases in capital and maintenance charges totalling some 40% since 2005.

Council asks that the AER consider the following key principles in its pricing review:

1) **Pricing Based on an <u>Efficient</u> Cost of Service** – Councils strongly welcome the AER's recent comments at its 30 July public forum that pricing is to be fair and reasonable, reflecting the efficient cost of service. There is significant Council concern that EnergyAustralia's cost of service for public lighting is insupportably high.

   In particular, in this and other recent EnergyAustralia price proposals to Councils, there are large and unsupported EnergyAustralia component price movements, unexplained differences between the pricing for key light types and significant gaps when benchmarking EnergyAustralia pricing against other utilities. A key example of this is current EnergyAustralia proposals about the pricing for new energy efficient lighting.

   Underlining the importance of pricing being no higher than warranted is the difficulty for Councils in managing large increases under NSW rate capping. In this context, we note in particular the large first year increase in capital and maintenance charges proposed by EnergyAustralia of 11% plus CPI.

2) **Link Between Price & Service Level** – Street lighting is a monopoly service of NSW electricity distributors yet there are no contracts, no binding service regulation and there has been ineffective regulatory oversight of pricing to date. In recent years, there has thus been no clear recourse for non-compliance with the voluntary Public Lighting Code, misinvestment in lighting types not supported by Councils and, unwarranted delays and obstacles to the timely adoption of energy efficient lighting. Councils are in an untenable position of having responsibility for the safety, security, energy, greenhouse gas emissions and costs of lighting, but have no meaningful control over key aspects of the service provided. While Council recognises that the regulatory framework is not under the control of the AER, it is important to note that there cannot be confidence in pricing decisions unless there is clarity about what the price is for.

3) **Transparency & Timely Information Provision** – Council strongly welcomes the AER's recent comments at its 30 July public forum about the importance of transparency and the acknowledgement of the significant information asymmetry in the review of public lighting price proposals. Unfortunately, as of 5 August 2008, EnergyAustralia had yet to provide underlying Cost-to-Serve modelling to Councils.

   While Councils appreciate that the AER is bound to meet a number of pricing review timetable provisions, it is unreasonable to expect meaningful input from stakeholders without full information disclosure within a reasonable review timeframe. To bring confidence in the pricing regime, it is essential that pricing reviews are based on clear, timely and open disclosure of cost analyses that are then properly benchmarked.

Council is one of 34 Councils participating in the SSROC Street Lighting Improvement Program. The SLI Program will be making a detailed submission and we ask that the general issues raised in this submission and the more detailed issues raised in the SLI Program submission received careful scrutiny.

For any questions about this letter, please contact Peter Cormican, Manager Assets, on 02 9367 9012.

Yours sincerely,

Peter Head
GENERAL MANAGER