



30 January 2015

Mr Sebastian Roberts  
General Manager – Network Regulation  
Australian Energy Regulator  
GPO Box 3131  
CANBERRA ACT 2601

[QLDelectricity2015@aer.gov.au](mailto:QLDelectricity2015@aer.gov.au)

Dear Mr Roberts

Thank you for the opportunity to provide a submission in response to the Australian Energy Regulator's (AER) Issues Paper regarding the Energex and Ergon Energy Pricing Proposals for the 2015-2020 regulatory control period.

The Local Government Association of Queensland (LGAQ) is a member of the Energy Users Association of Australia (EUAA) and supports the EUAA's submissions regarding Energex and Ergon Energy's proposals respectively. In addition to the views expressed by the EUAA, LGAQ encourages the AER to give consideration to the concerns reiterated in this submission when developing its determinations for the 2015-2020 regulatory control period.

#### ***Incentive Schemes and opportunities to better manage demand***

With the AER utilising a benchmarking process to measure performance of Distribution Network Service Providers (DNSPs) against desired outcomes, LGAQ questions the need for the Demand Management Improvement Scheme (and other schemes) to reward improvements. The LGAQ thus urges the AER to carefully consider proposed demand management initiatives, which are typically research focused, when significant opportunities to better manage peak demand through the use of off-grid solutions already exist (for example, back-up generation sets at water and sewage treatment plants). The DNSPs should seek to maximise arrangements to utilise local government infrastructure to curtail load during periods of peak demand. Such arrangements present significant opportunities to reduce/defer augmentation/capital expenditure (augex/capex).

Furthermore, the DNSPs should actively pursue partnerships with local governments to identify opportunities to upgrade other off-grid infrastructure to reduce overall demand. Relatively small contributions towards the cost to upgrade to more efficient equipment also present significant opportunities when compared to the large augex/capex programs proposed by the DNSPs (for example, contributions towards the cost of more efficient pumping equipment).

#### **LGAQ recommends the AER:**

- Limit initiatives approved under the Demand Management Incentive Scheme in favour of opportunities to better utilise existing off-grid infrastructure;
- Give consideration to whether or not the augex/capex programs proposed by the DNSPs have been developed with appropriate investigations into utilising off-grid infrastructure during periods of peak demand; and
- Give consideration to whether or not the augex/capex programs proposed by the DNSPs have been developed with appropriate investigations of low cost high benefit off-grid investments to reduce overall demand.

### ***kVA Charging***

In June 2014, LGAQ wrote to the AER expressing serious concerns with the introduction of kVA charging for sites classified as Standard Asset Customer (SAC) large as of 1 July 2015. In this correspondence, LGAQ stated:

*While the network efficiency aspects of kVA charging are understood, the power factor is unknown for sites which don't currently have demand metering installed. The proposed introduction of kVA pricing on 1 July 2015 does not allow sufficient time to rectify the situation considering the required metering upgrades, an appropriate amount of time to quantify the average power factor at maximum demand (allowing for seasonal demands) and allowing for the power factor data to be collated and then be included in a tender for the installation of the necessary rectification measures. As such, the Association believes any implementation of kVA charging should not occur until 1 July 2016.*

Further to issues surrounding the timing and readiness of councils for the introduction of kVA charging, LGAQ is also concerned that the threshold (100MWh/annum in Queensland) for the transition from small to large Standard Asset Customer (SAC) classification is considerably lower than in other jurisdictions (160 MWh/annum in New South Wales). There are a significant number of council sites that would trigger the 100MWh/annum threshold and thus be classified as SAC large. While LGAQ understands that the issue of consistent thresholds across the National Electricity Market (NEM) is outside the AER's role, LGAQ believes the AER should make appropriate representations to ensure consistency across the NEM in the interests of all consumers. LGAQ also encourages the AER to consider the above-mentioned demand management opportunities as a means of mitigating the impact of these substantial threshold discrepancies.

### **LGAQ recommends the AER:**

- Note LGAQ's previously stated concerns with the timing and readiness of councils for the introduction of kVA charging;
- Make appropriate representations to ensure that a consistent national approach to thresholds is adopted (160MWh/annum as the threshold for transition between SAC small and SAC large classification); and
- Give consideration to whether or not the DNSPs proposals have sought to make the most of available demand management opportunities to alleviate the impacts of differences in SAC thresholds across the NEM.

### ***Street lighting***

#### ***Service Charters and Service Level Agreements***

The overall level of engagement with LGAQ and councils in relation to street lighting has improved significantly during the course of this regulatory reset. Through the various consultation processes of the DNSPs and the AER, LGAQ has advocated for a publicly available base level service charter with the option for individual street lighting customers to enter into a Service Level Agreement for additional services upon request.

Both DNSPs have made substantial progress towards the adoption of base level service charters that include provisions for the establishment of Service Level Agreements. These base level charters outline the minimum services to be provided under the Alternate Control Service (ACS) pricing included in their respective proposals. Energex has released a draft of its "Public Lighting Management Standard" to its street lighting customers for consultation and feedback. LGAQ





understands Ergon Energy will soon release a draft, similar to that released by Energex, to its street lighting customers.

Both DNSPs have gone to significant lengths to improve the accuracy of their respective street light inventories, with Ergon Energy in particular developing a web based portal (known as LightMap) that will assist customers to update their inventories via a GIS enabled interface.

#### *Alternate Control Service Charges*

The provision of public lighting is an essential community service. The DNSPs have a role in the provision of this community service, and as such LGAQ believes they should seek to minimise the charges levied for the installation and operation of street lighting. The LGAQ notes that proposed pricing submitted by the DNSPs will deliver a reduction in ACS charges in the first year of the regulatory control period with increases aligned to inflation in the remaining years thereafter. While these reductions will contribute towards providing some much needed price relief, LGAQ still holds concerns in relation to the overall increase in costs to councils for street lighting in the Ergon Energy Distribution area. These concerns relate to:

- The pass through of ACS Charges

An initial 10% of the ACS charge was passed through to Councils in the Ergon distribution area as of 1 July 2014. A price path for the transfer of the remaining 90% of the ACS charge is yet to be finalised by the Queensland Government. The LGAQ will continue to make representations to the Queensland Government to ensure that a price path for the remaining 90% is sensible and limits short-term impacts on local government budgets and the provision of essential community services.

- Queensland Competition Authority's (QCA) draft determination for 2015/16

LGAQ's submission on the AER's Framework and Approach expressed concerns regarding cost increases under the N(network)+R(retail) approach. While the QCA's draft determination for 2015/16 includes a 15% decrease in the kw/h charge for Tariff 71 street light electricity consumption, LGAQ is concerned by the proposed rate for the daily charge per street light which, by our initial calculations, would increase by approximately **583%**. For the estimated 156,000 street lights in the Ergon Energy inventory, this equates to an additional \$2.2 million per annum in additional retail revenue.

#### *End of Life Street Light Assets*

The LGAQ is concerned that the end of life treatment for contributed street lights (typically known as 'Rate 2') will result in significant, and in many cases unpredictable costs for councils. The DNSPs do not make allowance for the replacement of these assets and as such current arrangements see councils pay for end of life replacement through either increased ACS charges (reversion to Rate 1) or upfront capital contributions for the replacement (and continuation of Rate 2) of the previously contributed assets.

LGAQ and the DNSPs have recently commenced discussions to better understand the issues surrounding the end of life treatment for previously contributed street lights. The AER should facilitate a solution that ensures contributed street lights are treated in a manner which considers all the various cost components and results in the fairest outcome for all parties. Given the criticality of the end of life issue the LGAQ requests that streetlight inventories be provided on an annual basis, including the installation date for each component of the inventory.

- Consider overall increases in street lighting costs under the N+R approach when determining fair and reasonable prices for ACS charges in the Ergon Energy distribution area;
- Facilitate a solution that ensures contributed street lights are treated in a manner which considers all the various cost components and results in the fairest outcome for all parties; and
- Notes that councils will require the installation date of each line item of the street light inventory to be provided on at least an annual basis.

### ***Value of consultation***

Initial interactions with both DNSPs were extremely guarded as they demanded Confidentiality Agreements be signed. As regulated monopolies this view is not conducive to open and honest engagement and LGAQ declined to participate under these circumstances. To the credit of both DNSPs, this requirement was removed with open and honest engagement subsequently occurring.

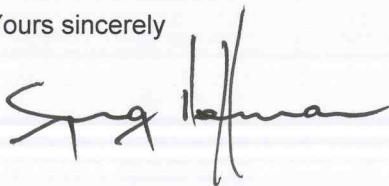
The LGAQ very much appreciates the level of consultation undertaken by the AER, and in particular the interactions with the Consumer Challenge Panel (CCP). The process undertaken by the AER has been extremely beneficial for consumer groups and should be retained for future regulatory resets. An annual forum between the AER, CCP and consumer groups would also ensure the AER remains abreast of consumer issues, assisting in its ongoing regulatory role.

### **LGAQ recommends the AER:**

- Retain its consultation process, including the Consumer Challenge Panel, for future regulatory resets; and
- Implement a consultation process, in the form of an annual forum, to ensure ongoing consumer engagement with the AER and CCP between resets.

If you have any questions or further details in relation to the above submission, please do not hesitate to contact either myself or Michael Fullelove, Category Manager – Energy, Local Buy, on (07) 3000 2122 or at [mfullelove@localbuy.net.au](mailto:mfullelove@localbuy.net.au).

Yours sincerely



Greg Hoffman PSM  
GENERAL MANAGER – ADVOCACY

cc: Michael Fullelove, Category Manager – Energy, Local Buy