

SUBMISSION TO THE AUSTRALIAN ENERGY REGULATOR (AER) VICTORIAN ELECTRICITY DISTRIBUTION PRICE REVIEW (EDPR) 2021-26

LOCAL GOVERNMENT RESPONSE TO THE AER'S DRAFT DETERMINATION

Prepared by the Victorian Greenhouse Alliances

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TABLE OF CONTENTS

- EXECUTIVE SUMMARY 4
- 1. INTRODUCTION 6
- 2. PUBLIC LIGHTING 6
 - 2.1 Efficient pricing inputs 6
 - 2.2 Repairs per day 7
 - 2.3 AusNet Services Revised MV Bulk Replacement Program 7
- 3. DEMAND MANAGEMENT 9
 - 3.1 Demand management incentive scheme allowance expenditure 10
- 4. DISTRIBUTED ENERGY RESOURCE (DER) INTEGRATION 10
- 5. VEGETATION MANAGEMENT & CLIMATE RESILIENCE 11
- 6. GLOSSARY 12

EXECUTIVE SUMMARY

On behalf of their council members, the Victorian Greenhouse Alliances are pleased to make this submission to the Australian Energy Regulator (AER) in response to the Draft Determination for the 2021-2026 Victorian Electricity Distribution Price Review (EDPR). This submission should be read in conjunction with Local Government's [previous submission](#) to the AER in May 2020 which addressed a number of issues:

- Public lighting
- Demand management
- Distributed energy resources (DER)
- Regional supply and microgrids
- Vegetation management
- Climate resilience
- Stakeholder engagement

The recommendations provided in the May 2020 submission are still valid, and we urge the AER to re-consider these issues within the context of the views presented within this follow-up submission to the Draft Determination. The following recommendations are provided to assist the AER in making its Final Determination:

Public Lighting

- Ensure the repair rates of VLEDs in the AusNet Services' model are matched to those of Powercor
- If the AER approves AusNet Service's revised proposal for the bulk replacement of mercury vapour (MV) lights, the following aspects should be included:
 - All of the elements developed by AusNet with the Local Government working group should be included in the program roll-out
 - Future processes that propose such funding need longer time frames for engagement to ensure councils can adequately consider the proposals
 - Councils cannot commit in advance to co-funding without going through proper process. AusNet will need to work in partnership with councils to ensure:
 - There is sufficient time to consider the matter in the relevant year
 - An agreed process is determined if councils cannot allocate funding in the nominated year
 - Cross subsidies are removed or minimised
 - A clear process around resolving lighting data inaccuracies before and during the project

Demand Management:

- DNSPs should only be granted their full Demand Management Incentive Scheme (DMIS) allowance when the types of activities and intended outcomes proposed by the businesses are clearly defined

DER Integration:

- The AER reconsiders its Draft Determination, and accepts the proposed DER enablement expenditure for all DNSPs

Vegetation Management and Climate Resilience:

- The AER requires Distribution Service Network Providers (DNSP) to report on how climate vulnerability assessments have been applied within decision making in their pricing proposals

1. INTRODUCTION

On behalf of their council members, the Victorian Greenhouse Alliances are pleased to make this submission to the Australian Energy Regulator (AER) in response to the Draft Determination for the 2021-2026 Victorian Electricity Distribution Price Review (EDPR).

The Alliances are formal partnerships of councils and networks driving climate change action across the State's 79 municipalities. The Alliances work across their networks, communities and partners to deliver regional carbon mitigation and climate change adaptation programs. This work includes the implementation of joint initiatives that provide economies of scale and enable projects typically beyond the reach of individual councils. Our project work is complemented by targeted advocacy, capacity building activities and regional partnerships.

In May 2020, the Greenhouse Alliances coordinated a [sector wide response](#) to the pricing proposals submitted by Victorian DNSPs to the AER's 2021-26 regulatory determination process. Following the AER's subsequent Draft Determination (September 2020), additional information and content has been compiled by councils to assist the AER in making its Final Determination in April 2021.

The content of this response to the Draft Determination should be considered in conjunction with recommendations of the original submission which still apply, unless otherwise stated within this document or addressed by the AER in the Draft Determination.

2. PUBLIC LIGHTING

Councils welcome the findings of the Draft Determination and note that the AER has largely agreed with the recommendations within Local Government's submission in May 2020. We also welcome the AER's support for further collaboration between councils and DNSPs to:

- update the Victorian Public Lighting Code
- deliver asset enhancements to enable smart lighting
- improve levels of recycling of redundant street lighting assets
- ensure DNSPs utilise the latest approved technologies when replacing failed and ageing assets (such as LEDs)
- clearly define asset lifecycle to ensure timely asset renewals

2.1 Efficient pricing inputs

The Draft Determination indicated that benchmarking a range of inputs was an efficient way of ensuring reasonable pricing. This is particularly important where product prices decline over time (particularly for technologies such as LED), where pricing at the start of a five year regulatory period is not reflective of pricing at the end of the period. For example, LED prices for minor roads were \$350-\$400 in 2015 and had declined to around ~\$200 by 2020. This low price can be seen in many of the DNSP proposals. We support the approach of including the lowest current product price for LED products.

2.2 Repairs per day

The AER benchmarked and compared repairs per day across DNSPs and utilised efficient numbers in most cases. In general, AusNet Services and Powercor have been compared to each other, given they are 'like' DNSPs with large areas of rural and remote locations combined with urban areas. The only discrepancy to this is the repair rates for VLEDs (in AusNet these are listed as 70W, 155W and 275W LEDs). This may be an oversight, however we would expect the repair rates for these to align throughout the model between the two DNSPs.

TABLE 1: Repair rates for VLEDs AusNet Services and Powercor

Rate by region	AusNet	Powercor	% variance from Powercor
Number of repairs in 1 day - urban	15	19	-28%
Number of repairs in 1 day - rural	11	15	-40%
Number of repairs in 1 day - remote	9	12	-28%

Recommendation

- Ensure the repair rates of VLEDs in the AusNet model are matched to those of Powercor

2.3 AusNet Services Revised MV Bulk Replacement Program

Local Government's original submission to the AER did not support AusNet Services' proposal to replace MV lights due to the high costs of the proposed program (amongst other reasons). In addition, councils called on the distributor to work collaboratively with councils to find an agreed position for the final submission. The AER subsequently rejected the proposed replacement program in its Draft Determination (Sept 2020). AusNet Services has proactively responded to the request from councils to find an alternate, collaborative approach to the replacement of lights.

TABLE 2: Summary of negotiation process

Date	Steps
20 Oct 2020	All councils in AusNet Services region were invited to discuss four high level options for a lighting replacement project. Other issues, such as data accuracy of light numbers and smart lighting controls are also discussed
30 Oct 2020	A smaller working group of councils (South Gippsland, Casey, Nillumbik, Yarra Ranges) Alliance Executive Officers (EAGA, GBGA) and Ironbark Sustainability meet with AusNet to further progress an approach focusing on cost equity between councils. This approach involves AusNet co-funding council-led replacement projects on a dollar per light basis (see Revised Proposal below)
9 Nov 2020	Follow-up meeting of the working group to discuss draft modelling of project costs, pricing impacts and levels of cross-subsidy between councils
20 Nov 2020	Working group provided opportunity to review draft of AusNet's revised proposal for submission to AER

30 Nov 2020	AusNet Services provides updated draft proposal, together with revised modelling with sensitivity testing around the \$/light with a view minimising cross-subsidies between councils
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The outputs of the negotiation included the following revised proposal for the consideration of councils:

- AusNet Services fully fund (11 councils) and co-fund (18 councils) the replacement of mercury lights with efficient LEDs, providing \$45 per streetlight in each council area in funding efficient light replacements - equivalent to \$6.9M of funding across the region.
- For the 18 councils under the co-funded model, councils will be required to contribute the remainder of the replacement costs (\$10.2M) within the 2021-26 period.
- AusNet Services can fund the replacement of a small number of HPS lights to clear up residual inequality for the 11 councils, where the funding allocation exceeds what is required for the mercury vapour light upgrades.
- Councils will be able to lead projects, either in regional groups or individually, as long as the process meets AusNet requirements.
- AusNet Services will work with councils to address data accuracy issues where lighting numbers are in dispute to undertake audits. Audit costs are paid by the Council if findings determine light numbers are correct. Audit costs are paid by AusNet Services, if the requested audit finds lighting numbers are incorrect.
- Additional tariff structures will be introduced for councils opting to install smart devices in major road lights to enable the costs for software control systems to be recouped.

Following the distribution of AusNet’s revised proposal, all councils within the network region were asked to complete a survey to understand their support (or otherwise) for the revised the proposal. Responses from 16 of 29 councils were received at the time of writing.

TABLE 3: Local Government survey results

Question: “Does your council agree to AusNet’s revised proposal to co-fund the replacement of mercury vapour lights with efficient LEDs at the price of \$45 per light?”		
Response	# responses	Percent
Yes	10	62.5%
No	6	37.5%

Nearly all responses to the survey (both ‘yes’ and ‘no’) were provided with caveats, many relating to the proposed co-contribution of council funding:

“While supportive of AusNet’s intention to be proactive in replacing lights, I don’t have the authority to commit significant funding in a future budget round for the replacement program. The program has be ‘opt in’ as Councils made funding available.”

“This will require approval from council but certainly we would like to be involved I just don’t have council approval in this short time frame...”

It is clear the formal budgeting process of councils do not allow for rapid consensus decision making within the timeframes of the current regulatory process. Councils need to receive the co-funding proposals at least eight months before the start of the financial in which the upgrades will take place. Local Government budgeting process begins each November and concludes a few months later. Councils generally cannot secure additional funding outside of this cycle.

Whilst the survey responses demonstrate the willingness of councils to work collaboratively with distributors to upgrade public lighting assets, the accuracy of data of light numbers (and the implications for total costs) proved to be another barrier for councils:

"I note that Ausnet appears to be taking no proactive action to correct the significant errors in their database and are instead placing the onus on councils to provide evidence of errors at their own cost."

An agreed approach for the timely resolution of data inaccuracies and billing errors will be a critical first step in fast-tracking collaborative projects between councils and all DNSPs.

Recommendation:

- Ensure the repair rates of VLEDs in the AusNet Services' model are matched to those of Powercor
- If the AER approves AusNet Service's revised proposal for the bulk replacement of mercury vapour (MV) lights, the following aspects should be included:
 - All of the elements developed by AusNet with the Local Government working group should be included in the program roll-out
 - Future processes that propose such funding need longer time frames for engagement to ensure councils can adequately consider the proposals
 - Councils cannot commit in advance to co-funding without going through proper process. AusNet will need to work in partnership with councils to ensure:
 - There is sufficient time to consider the matter in the relevant year
 - An agreed process is determined if councils cannot allocate funding in the nominated year
 - Cross subsidies are removed or minimised
 - A clear process for resolving lighting data inaccuracies before and during the project

3. DEMAND MANAGEMENT

Based on the Draft Determination, Victorian DNSPs will spend less than 1% of total expenditure on demand management activities. This is particularly concerning, given the ability of demand management activities to provide flexible and relatively low-cost network solutions compared to traditional asset replacement or augmentation. This provides further evidence to demonstrate the current regulatory framework creates significant barriers to the uptake of demand management and provides a clear capex bias towards the way in which network businesses operate.

3.1 Demand management incentive scheme allowance expenditure

The data presented in TABLE 4 demonstrates that all DNSPs have been allocated their full allowance under the DMIS scheme. Whilst councils are very supportive of DNSPs undertaking pilot trials to unlock the potential of demand management approaches, it is concerning that the expenditure of three of five networks (totalling \$7.54M over Jemena, CitiPower and PowerCor) has been approved with no justification or evidence of the types of activities that will be undertaken. In fact, this completely undermines the intention for the allowance to be an incentive. This sets a poor precedent for the scheme in future and other areas of expenditure.

TABLE 4: Summary of proposed demand management incentive scheme expenditure

Real (\$m Real 2020)	UNITED	JEMENA	CITIPOWER	POWERCOR	AUSNET
DMIS allowance requested (\$M)	\$2.40	\$2.04	\$2.00	\$3.50	\$3.46
DMIS allowance granted (\$M)	\$2.40	\$2.04	\$2.00	\$3.50	\$3.46
% change	0%	0%	0%	0%	0%

Recommendation:

- DNPS should only be granted their full DMIS allowance when the types of activities and intended outcomes proposed by the businesses are clearly defined

4. DISTRIBUTED ENERGY RESOURCE (DER) INTEGRATION

Councils have long advocated for distributors to take a more proactive role in enhancing the hosting capabilities of DER across the network. The proposals put forward in this regulatory period represent a welcome step change in the approach taken by DNSPs to transition from relative planning to proactive planning. It is therefore disappointing to see that a planned investment over \$79M has been cut from DER expenditure in the Draft Determination.

TABLE 5: Summary of DER integration expenditure in Draft Determination

Real (\$m Real 2020)	UNITED	JEMENA	CITIPOWER	POWERCOR	AUSNET
DER enablement proposal (\$M)	\$71.3	\$28.1	\$60.0	\$94.0	\$58.9
DER draft decision (\$M)	\$39.3	\$28.1	\$43.4	\$63.1	\$58.9
% Change	45%	0%	28%	33%	0%

Given many areas across the State are approaching or passing 30% solar penetration thresholds, and examples of 'reverse flows' on networks are becoming more commonplace, the need for improvements to DER hosting capabilities has never been more urgent.

Recommendation:

- The AER reconsiders its Draft Determination, and accepts the proposed DER enablement expenditure for all DNSPs

5. VEGETATION MANAGEMENT & CLIMATE RESILIENCE

It is disappointing to note that the AER has not addressed any of the recommendations relating to vegetation management ([see Section 6](#)) and climate resilience ([see Section 7](#)) presented in Local Government's EDPR submission in May 2020. Despite the fact that both issues are, and will be, a major driver of costs for networks, this omission highlights the constraints of existing regulatory frameworks and demonstrates the narrow remit of its supporting institutions are no longer fit for purpose within the context of climate change.

Councils acknowledge that networks face significant challenges in giving adequate consideration of climate change in decision making. Even AEMO's Integrated System Plan¹, which provides over 30 pages of analysis of climate resilience issues, makes the clear admission that:

"...the benefits of resilient system designs to extreme events are not currently captured within the ISP cost benefit analysis"

These technical difficulties do not absolve distributors from their responsibilities and continuing with business-as-usual planning presents a material risk to the Victorian community. The AER is urged to consider Infrastructure Victoria's Draft 30 Year Strategy which identifies a number of resilience measures for managing risks to the State's energy supply systems.²

There is a clear need for DNSPs to integrate vulnerability assessments across a range of different network decisions. These decisions can have compounding impacts across assets managed by councils, particularly with regard to street trees and the urban heat island. There remains a pressing need for the distribution businesses to work collaboratively with councils to investigate solutions that enable mature trees to remain and be managed in close proximity to power lines in low bushfire risk areas. These crucial issues should be carefully considered in all future determination processes.

Recommendation:

- The AER requires DNSPs to report on how climate vulnerability assessments have been applied within decision making in their pricing proposals

¹ [AEMO, 2020 Integrated System Plan, Appendix 8](#)

² [Victoria's Draft 30 Year infrastructure Strategy](#)

6. GLOSSARY

Term	Definition
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator. Responsible for regulating pricing for electricity in the National Electricity Market (exc. WA and NT), including street lighting
Augex	Augmentation expenditure
Capex	Capital expenditure
CFL	Compact Fluorescent lamp
DMIS	Demand Management Incentive Scheme
DNISP	Distribution Network Service Provider
EPV	Elevated Platform Vehicle
ESC	Essential Services Commission
ESV	Energy Safe Victoria
Lamp	The light bulb in a luminaire
LED	Light emitting diode/luminaire
Luminaire	The lamp, fitting and control gear of the light
MAV	Municipal Association of Victoria
MV	Mercury Vapour lamp/luminaire
Opex	Operating expenditure
Repex	Replacement expenditure
SHP/HPS	High Pressure Sodium lamp/luminaire
Street Lighting	Street lighting found in residential streets and main roads
T5	Efficient lineal fluorescent lamp/luminaire
VESI	Victorian Electricity Supply Industry
VLED	Vertical light emitting diode/luminaire
WDV	Written Down Value