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Dear Sir

Electricity Network Service and Street lighting Proposals for New South Wales 2009 - 2014

Thank you for the opportunity to comment on the proposals put forward by the NSW distribution service providers for the 2009-2014 period. Council has considered the information provided, particularly from its primary electricity and public lighting provider, Integral Energy, and wishes to raise a number of concerns about the proposals.

Service standards to public lighting

The present proposal by Integral Energy specifies that the company "proposes to maintain the current levels of service performance for the 2009 regulatory control period". The proposed price increases are difficult to justify given that Integral Energy is not presently maintaining service standards in accordance with its own guidelines, nor to the satisfaction of its customers.

The Integral Energy Management Plan 2006 – 2009 specifies (Item 2.6.2 Unplanned Maintenance) that "public lighting assets (excluding network supply faults) will be repaired within eight (8) working days on average per customer per year from receipt of a fault report". Parramatta City Council's recent experience is that not one reported fault was corrected within the specified eight days. Rather, the typical time taken to repair a public light is between 12 – 15 days and sometimes up to two months. It is common for Council officers to have to report faults more than once before work is undertaken by Integral Energy.

Parramatta City Council also has concerns over Integral Energy's proposal to maintain current service levels with respect to new projects. Item 2.3.1 Non Contestable Projects of the Integral Energy Management Plan states that "where the customer advises that a project is planned to be completed in the current or next financial year, Integral Energy will provide a quotation within 30 days from the date of provision of a fully detailed design brief by the customer." At present, no such project is being undertaken by Integral Energy within the specified thirty day period. In Council's regular monthly meetings with Integral Energy, the reason for the delays is given as a shortage of design engineers.

The wider Parramatta community regards public lighting as a Council responsibility. When faults are not corrected promptly and new street lights not established in a timely manner, it is Council, rather than Integral Energy, that is held to account.

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Energy Regulator (AER) re proposed amendments public lighting prices - 2009-2014.doc

As the Integral Energy service standards are not presently satisfactory to Council and the Parramatta community, nor consistent with the company's own commitments, the proposal to "maintain" current standards whilst raising the prices is not acceptable.

Justification for indicative price changes

Pro forma 2.2.5 of Attachment 1 has been used to calculate likely increased costs to Council for the Integral Energy component of its public lighting and electricity.

It is understood that the cost to councils of the public lighting network would increase by 22% over the five year regulatory control period 2009 - 2014. It is also noted that prices will already be rising by 5.5% in the current financial year, bringing the total increase to 27.5% from the present.

The Integral Energy proposal lists factors that have influenced the pricing proposals, including implementation of major traffic route and commuter controls, corporate overheads, expenditure reductions and "X factors". The proposal does not state the degree to which each of these factors would affect the costs to Integral Energy, and does not state what is meant by "X factors".

Before the AER agrees to any pricing increases, it must be satisfied that it understands how Integral Energy arrived at the proposed figures. This would entail full disclosure of the underlying pricing models with detailed cost assumptions on aspects including labour, cost components, cost allocations, calculation methods, the inventory on which the proposal is based, asset replacement and maintenance policies and assumptions on asset age.

Council has not seen such justification to date and is hopeful that full disclosure will be forthcoming before any decision is made. In order to ensure that customers have confidence in appropriateness of the proposed prices, it is recommended that the costs and prices be benchmarked against the public price review conducted in Victoria by the Essential Services Commission.

Impact of pricing proposals on climate change

The proposal to increase fixed network costs is counterproductive to the State and Federal Governments' work on reducing Australia's contribution to climate change.

In order to effectively tackle the problem of climate change, it is necessary to provide financial incentives to all electricity users for reducing their electricity consumption. Increasing fixed costs such as networking charges would not assist in this endeavour. On the contrary, the energy providers must set prices so that the highest consumers pay significantly more, with low fixed network charges and large costs for energy consumed.

The proposals put forward by the energy providers will not encourage the majority of consumers to use less power. On a small site with minimal electricity use, the network costs can account for up to 98% of the total invoice, which provides no incentive to reduce consumption.

The Integral Energy network charges are made up of both a fixed and a variable component and it is understood from the energy provider that the variable component

is included specifically as an incentive to reduce energy consumption. It is therefore surprising to see that the proposed price rises are consistent for both fixed and variable components, totalling 45% by 2014. In order to provide a true incentive for customers to reduce energy consumption, the variable components only should be considered for any price increases.

It is also noted that without sufficient incentives to reduce energy consumption, a greater capital expenditure will be needed in future to service the higher energy demand, which in turn would be used to justify additional pricing increases. The proposal is therefore not a long-term strategy that will benefit Australia.

In addition to the above, Parramatta City Council has recently committed to moving toward purchasing 100% GreenPower. This entails a significant financial outlay but will enable Council to demonstrate its support for alternative energy sources. The proposed price increases by Integral Energy will make it more difficult, if not impossible, for Council to support more sustainable forms of power generation.

Affect on Council budget and services

Concern is raised about the effect of the proposed price rises on Council's ability to maintain its other services.

Council's present expenditure on the network sector of its public lighting is over a million dollars each year. The cost for the previous financial year (2007-08) is estimated to be \$1,178,841. In the current financial year, this is already set to increase by some 5.5% (an additional cost of \$64,837).

Should the Integral Energy pricing proposal be approved, the cost to council would be increased over the six year period to 2014 by 27.5%, or approximately \$363,479, bringing the total cost of the lighting network to \$1,542,320. These figures, however, are based on Parramatta's current network inventory and do not take into account any expansion or improvement to the network.

It is understood that the Integral Energy network charges are proposed to increase by 45% by 2014, however, Council is unable to calculate their likely financial impost. First, Council has not been able to determine how the retail network prices would be affected by the base network charges currently under discussion. Second, as Council currently pays 181 electricity invoices and purchases electricity through several retail suppliers, the proportion of the invoice that is a network cost varies markedly. In addition, the type of DUOS (distribution use of system) charge is not consistent between the different types of Council's assets.

Nevertheless, given Council's current electricity expenditure (excluding street lighting), Integral energy's proposal could be expected to further increase costs to Council by approximately \$250,000 by 2014.

The proposal put forward by Integral Energy notes that the NSW Government sets the limit on the income councils can raise from rates and other charges ("rate pegging"). Rate increases are granted yearly, but always at a lower rate than that of inflation, whereas the Integral Energy proposals are significantly higher than inflation. Council's most recent rate increase was 3.24%, which compares poorly with the rising cost of employees (5.5%) and materials. Balancing the budget therefore typically requires Council to reduce expenses in other areas.

The proposed significant increase in electricity and lighting costs would place additional pressure on Council's other service areas.

Consultation process

Parramatta City Council did not receive notice of the regulatory proposals and the forum where they were discussed. Upon enquiry, Council was informed that the information was available on the AER website and in *The Australian*, neither of which are regularly perused by the relevant council staff.

Council has serious concerns about the validity of a consultation process where organisations likely to be significantly affected by price rises to both electricity and public lighting are not informed of their opportunity to become involved in the discussion.

The very limited timeframe for comment following the forum is also of concern, as there is insufficient time available to interpret such a large amount of technical information.

In addition to this, it has been disappointing to have to request release of key information that was originally specified as being confidential. This information contained all indicative pricing that enabled Council to calculate the potential effect of the proposals on Council finances. The AER has been very helpful in having the information released, however, this information was vital to any consideration of the proposals and should have been included in the primary document available on the website.

Based on our concerns with regard to poor service standards, insufficient justification for the pricing increases, the impact of the proposals on Australia's contribution to climate change, the likely effect of the proposals on Council's service provision and its ability to support alternative energy, and the flawed consultation process, Council has grave concerns about the proposed increases to public lighting and network prices as outlined by Integral Energy. Council would welcome Australian Energy Regulator's involvement in ensuring that these matters are addressed before any pricing increase is permitted.

Yours sincerely



Dr Robert Lang
General Manager