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Submission - Preliminary F & A - SAPN

Our submission in response to the AER's Preliminary framework and approach, SA Power Networks, March 2018 ("**paper**", "**F & A**") focuses exclusively on unmetered public lighting services.

Time restrictions necessitate our submission represents a high level response focussed on the F & A, however, where possible, we have recognised other AER regulatory developments currently underway, including:

- Power of Choice,
- Ring Fencing
- Service classification and Asset Exemption Guidelines

Positive opportunity for AER

After many years of submissions and dealing with regulated entities, for services and costs other than 'poles and wires' we have formed the view that customers are best served in terms of achievement of the national electricity objective ("**NEO**") where there is choice and competition.

In summary, we do not support the AER's proposed change to Alternative Controlled Distribution Services ("**ACDS**") classification. We propose the continuation of the Negotiated Distribution Service ("**NDS**") classification as a mechanism on the pathway leading to contestability of unmetered public lighting services.

We note in the F & A that Type 1 through 6 metering is to be contestable (unregulated) in the 2020-25 regulatory control period, with only some legacy costs to be treated as ACDS in the period. All metering was originally performed by LNSPs. Like metering, unmetered public lighting, should not require economic regulation as there is no monopoly aspect to public lighting.

Any 'requirement' (regulatory, safety or otherwise) that unmetered public lighting and related services (under the NER or any other implement) must be provided by a local area network service provider ("**LNSP**", "**distributor**") was debunked in 2015 in Tasmania where we facilitated Hobart and Glenorchy councils replacing the previously **TasNetworks owned** streetlights with new LED lights **owned by councils**. And in consideration of the NEO and NER, appropriately the lights we installed on TasNetwork's distribution poles.

Importantly, we facilitated the change as "new technology" under Negotiated Distribution Services ("**NDS**"). However, if LED tariffs had already been in place, then the "requirement" for LNSP's to "replace"¹ lights would have been a problem, with the LNSP retaining ownership/control.

We also encourage the AER to strive to remove regulatory barriers to enable the increase of market competition and to assist in the achievement of the National Electricity Objective.

We fully support AEMO's new restricted asset rule which has been introduced to aid the development of new markets for services. Our view is the regulated DNSP role should be preserved for that solely involved with "distribution" with the test being 'would the distribution network work exactly the same if this service was not provided by the DNSP?' Like metering, unmetered public lighting has no impact on the distribution network which performs exactly the same with or without meters and/or unmetered lights.

Our response to points in the F&A are included (in boxes) in Annex A. Some examples showing the benefit of Negotiated Distribution Services ("**NDS**") classification in South Australia have been included in Annex B.

¹ F & A paper, page 31 "*the operation, maintenance, repair and replacement of public lighting assets*"

Under NDS, Public Lighting Customers (PLC) have negotiated SLUoS charges with SAPN for more than 10 years, initially as an Excluded Service charge under ESCOSA and since 2010 as an NDS under the NER.

As demonstrated in Annex B, since 2004 SLUoS charges for MV80W lights² have increased from \$55.00 p.a. to \$55.40 p.a. whereas other jurisdictions under ACDS have seen material price increases for no change in services. During that period, under the NER, as NDS, there have also been two SLUoS tariff rebalancing processes undertaken by SAPN with the objective of revising tariffs to better reflect individual tariff costs, whilst maintaining SAPN's total revenue requirement.

We submit the effectiveness of NDS classification as demonstrated via the Tasmanian project and minimising SA SLUoS tariff increases, best delivers the NEO. Further, the NDS provides a pathway to contestability with customers able to negotiate with the LNSP on all aspects including changes of technology, data requirements and the like.

We wish the AER every success in the 2020-25 process and welcome any questions you may have regarding our submission.

Yours sincerely

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² Mv80 is a major light type. Rates are "Full SLUoS" in SA ie not CLER or Energy Only

ANNEX A

Our preliminary approach is to classify public lighting services as alternative control services. This is a change from the current classification where public lighting is classified as a negotiated service.

SA Power Networks operates and maintains the majority of public lighting systems throughout SA. It provides these services on behalf of local councils and government departments responsible for public lighting in SA.

TTEG- *We suggest that clarification is required as SAPN **does not** “[p]rovides these services on behalf of local councils and government departments responsible for public lighting in SA”. Rather, for public lighting, SAPN simply “[p]rovides these services to.....”. That is, SAPN’s role can reasonably be seen as that of a contractor, albeit with an usual aspect that SAPN owns some assets, being some luminaires within an economic regulatory environment.*

The NER does not define public lighting services.

TTEG- *This is an important observation. Was the NER designed to accommodate services that are rapidly changing (as lighting, including smart cities) continues to do? We do not believe so as the NER typically set prices for stable services delivered over a (typical 5 year) regulatory period.*

We submit that the NER (and previous regulatory regimes) was never designed for establishing public lighting services and prices. Although this has always been the case, it has become particularly evident when councils wanted to introduce energy efficient lights, and establish different service provisions due to the new light types requiring less maintenance, the consideration of data, and the like. This process is still underway.

Further, the AER definitions used for services are broad, and we believe the “replacement” requirement for example is problematic in terms of market development. Without services clearly defined, we question how an effective price be established for any service by the LNSP, the AER or the customer during the regulatory price review process.

Like metering, public lighting is not a fundamental component of any distribution network or distribution service. That is, the distribution network would behave the same either with or without lights.

We have not read all AER material in detail but we understand that the AER is increasing empowering customers. AER’s actions include Power of Choice, ring fencing, and Service classification and Asset Exemption Guidelines.

Whilst SAPN claim under Ring fencing they can effectively allocate costs we submit to the AER this consideration by as historically the overhead, including corporate overhead for an LNSP’s ACDS is well and truly above that of a business (other than an LNSP) that would deliver the services, which would not typically incur corporate overhead at those of an LNSP.

The Service classification and Asset Exemption Guidelines appears to be providing customers choice of provider beyond the connection point. We submit the same should be provided to public lighting customers for lighting. Although lighting had type 7 metering, the fuse could be considered the connection point.

The AER has increasingly been removing economic regulation, identifying distribution services and encouraging other service providers, eg metering. We submit this should simply be extended to public lighting.

We recognise where LNSPs (distributors) own lights they could reasonably have these prices regulated as an ACDS in a sunset arrangement ie ownership/control all new and replacement lights to be at the customer direction.

We submit to the AER it takes the opportunity during this F and A process to review how it economically regulates public lighting services. We also submit that the AER first (re)establishes which services require regulation.

A result of the ACDS classification is public lighting customers are both price and service takers. Whereas the Negotiated classification enables a dynamic interaction between customers and the LNSP in establishing both service and price.

One item which will be problematic if an ACDS is introduced both in terms of service and cost, is ownership and control of data from ‘smart’ lighting’. NDS however enables the parties to address this issue as it evolves.

However, we have consistently defined public lighting services in other distribution determinations as:

- *the operation, maintenance, repair and replacement of public lighting assets*

TTEG- *We submit that the “replacement” requirement is problematic as if the AER continues to adopt this ‘service’ definition, the AER is effectively saying that the LNSP has the right in perpetuity to provide a light where one they own already exists.*

We submit that this perpetuity is problematic and a key inhibitor of market development.

As TTEG have established in Tasmania, there is no market or technical “requirement” for LNSPs to provide replacement or new lights, other than where directed/required by the customer.

- the alteration and relocation of public lighting assets, and

TTEG- These services should be able to be provided by approved contractors, one of which would be SAPN.

If placed in a context of LNSP owned lights “the alteration and relocation of public lighting assets” may be appropriate, but not so otherwise.

- the provision of new public lighting.

TTEG- This requirement prevents the development of a contestable market and as evidenced in Tasmania, it is simply not required other than potentially as a “supplier of last resort” basis.

While SA Power Networks does not have a legislative monopoly over these services, a monopoly position exists to some extent. This is because SA Power Networks extensive network of poles is integral in the provision of public lighting services.

TTEG- We submit that SAPN only has “monopoly” over the lights they currently own and not any future lights, including replacement or gifted lights which can be owned/controlled by customers.

Any notion a monopoly position exists due to SAPN’s network ownership must be dispelled and certainly not supported by the AER. As evidenced in Tasmania, councils can own lights on the LNSP network.

Like metering, lights have nothing to do with the provision of a distribution network. Unlike metering, the AER has yet to embrace this notion for lighting. We encourage the AER, like it has done for metering, to review any LNSP involvement in unmetered lighting.

Other considerations include:

- Poles and wires are already paid for via customers’ DUOS charges so why should SAPN be able to extract “super profit”? Whilst previous regulatory regimes have applied a “P-factor” for (super) profit sharing, our view is a regulatory compliant charge under Negotiated Distribution Service Criteria should be \$0
- The regulatory bargain, where SAPN receives access privileges.

If our interpretation is correct, the AER in its Service classification and Asset Exemption Guidelines is indicating that assets beyond the connection point would not be in any LNSP’s RAB.

Like metering, we submit the same should apply to unmetered lighting, as any assets beyond the connection point (pit or fuse) has nothing to do with distribution.

That is, other parties would need access to poles and easements for instance to hang their own public lighting assets. Therefore, similar to network services, ownership of network assets restricts the operation, maintenance, alteration or relocation of public lighting services to SA Power Networks.

TTEG- Whilst there should be no reason preventing others from accessing SAPN’s poles, it does not follow that SAPN could not hang customer owned /controlled lights. Indeed this is envisaged by SAPN’s Customer Lighting Equipment Rate (CLER).

Further, SAPN has an “Energy Only” SLUOS rate which would be appropriate for customers to install and maintain their own lights.

To develop the market we agree with other parties requiring access to poles, but we disagree this “requires” SAPN to provide services.

We submit to the AER this requires reassessment as Accredited providers can simply install and maintain lights. Note: Accreditation programs (eg NSW ASP) already exist.

Although (prohibiting) access by others to poles appears fundamental to the AER’s determination of SAPN’s services, we do not see it as an economic regulatory consideration, and more so a consideration for a technical regulator in terms of Accreditations.

Based on the above analysis, our preliminary position is to classify public lighting services, including emerging technology, as direct control services.

TTEG- We trust the information we have provided encourages the AER to reassess its approach and not proceed with its proposed ACDS (re)classification.

We submit that the only aspect that may have an aspect of ACDS is SAPN's existing RAB. We however submit this should also be included in NDS as there are aspects customers can/should engage with/negotiate with SAPN.

Examples of customers effectively negotiating with SAPN include two very successful tariff rebalancing processes between customers and SAPN plus also a tariff decrease on 1 July 2016.

We do not believe the AER can effectively include 'emerging technologies' in any ACDS as these technologies might not even be developed as yet or what type of maintenance or other service requirements known.

As direct control services, we must further classify public lighting services as either standard control or alternative control services. Our preliminary position is to classify public lighting as an alternative control service for the following reasons:

- classifying public lighting services as alternative control services provides scope for third parties and new entrants to provide public lighting services for new public lighting assets.

TTEG- We disagree with the AER's view regarding the ACDS appropriateness for market development .

Markets have not developed under ACDS. As discussed earlier, to enable/facilitate third party and new entrants, the AER must adopt a similar approach to that it has adopted for metering.

A good starting point is excluding the "required" replacement of lights, and new lights, by LNSP in SLUOS services.

The only market development (council ownership etc) has been in Tasmania under Negotiated classification. Further, as shown in Annex A the NDCS in SA have kept SLUOS increases well below the ACDS in other jurisdictions.

The NDS will also provide for market development as the market continues to change eg emerging technologies, data and the like.

- classifying public lighting services as alternative control services may encourage other potential service providers to enter the market in the future. In the meantime, an alternative control classification supports the National Electricity Objective by ensuring the distributor provides safe and reliable public lighting services to the community.

TTEG- Please refer to our earlier comments regarding ACDS and (lack of) market development.

Further, under NDS, as shown in Annex B, SA customers have enjoyed far lower price increases than those Victorian and NSW customers have incurred under the ACDS classification.

We submit to the AER that the NDS enables public lighting customers to minimise costs....an important consideration under the National Electricity Objective (NEO).

In considering the NEO, the public lighting in Tasmania is safe and reliable. Further, ownership and control do not impact on either safety or reliability.

- SA Power Networks can directly attribute the costs of providing public lighting services to a specific set of customers. This includes local councils and other government agencies. An alternative control classification allows us to set price caps on these services. We consider that there would be any material effect on the administrative costs to us, the distributor, users or potential users of the network by reclassifying non-standard connections from negotiated distribution services to alternative control services. This is because the administrative and time costs to SA Power Networks and customers in negotiating the price of these services are removed.

TTEG- There will be a cost incurred by the AER in the ACDS process – something which the AER does not currently incur in NDS unless there is a dispute.

The cost increases to customers in other jurisdictions under ACDS (refer Annex B) are material and significant versus those achieved in SA under NDS. That is, the economic benefits for customers from NDS have been material and far outweighed any costs.

As we have established in our submission, despite being in some other jurisdictions, the ACDS classification is not appropriate for street lighting as:

- There is no process for establishing/varying the public lighting services (as required by customers) or appropriate charges,

- *Services are expected to vary over the regulatory period (eg technologies)– something not consistent with the regulatory approach for ACDS prices,*
- *An emerging issue needs to be managed, being the ownership/use of data in “smart cities” applications,*
- *Establishing charges under ACDS are problematic for multiple reasons including:*
 - > *Over the years we have seen LNSP proposals (including MSXL work books) become increasingly complex, potentially an unworkable level recognising submissions need to be submitted by stakeholders within a specified period in the regulatory process.*
 - > *Further, the provision of (confidential) data and costings has been problematic eg lighting proposals in last NSW regulatory period where information simply wasn’t initially provided. Note: I can’t recall if it was eventually provided but time prevents me from checking.*
 - > *The time available during the regulatory process for stakeholder review can be problematic /too short for ACDS as councils typically do not have internal expertise and need to go through their own processes. This could be particularly problematic in SA where since 2004 SLUOS charges have been negotiated.*

We have submitted that NDS has enabled market development in Tasmania with councils now owning lights, and also able to choose service provider for any operation and maintenance.

The NDS has also prevented step jumps and high tariff increases in SA versus other states. (refer Annex B).

Indeed, the NDS has multiple benefits for public lighting customers including it:

- *Delivers lower prices than ACDS (NEO consideration),*
- *Removes the time constraints on the process,*
- *Enables changes to both services (including emerging technologies) and prices during the regulatory period,*
- *Enables customers to access SAPN’s information, including confidential information.*

Further, there are numerous market based issues that need to be addressed including:

- *Emerging technologies – price and service plus technical acceptance*
- *Gifting of assets*
- *Data ownership / control / confidentiality*
- *Use of / access to poles and any perceived “cost/benefit”*
- *New assets / ownership*

These issues need to be resolved for sector development /clarity and can only be done through NDS classification where customers and SAPN can interact without information and time constraints in an ACDS process..

Further, it is our view that without these issues being resolved, the NEO cannot be met in terms of both efficient investment and also the long term interests of consumers of electricity with respect to price.

- *Classifying public lighting services as alternative control is consistent with public lighting's current classification in other jurisdictions.*

TTEG- *Whilst uniformity of any regulation across jurisdictions is desirable, we trust the AER will agree it needs to be an appropriate classification. Please refer the preceding discussion where we established ACDS is not suitable, while NDS has a role to play in market development and a contestable market.*

For all the above reasons, we consider that there is a sufficient basis to reclassify public lighting services in SA as alternative control services.

TTEG- *For all the above reasons we do not support any change to ACDS.*

While SA Power Networks proposed reclassification of public lighting as an alternative control service, it has requested that we identify an approach within the classification framework that will provide some flexibility to tailor its service offering to its customers.

TTEG- *We understand under the ACDS the AER sets price caps, yet SAPN appear to be requiring some flexibility regarding services and (we surmise) price during the regulatory period?*

So we can provide better informed comment we request the AER states SAPN's specific requirements and the AER identifies its proposed approach and how such an approach conforms with the NER.

If SAPN want flexibility we advise there is already a distribution service classification in place under the NER that provides the freedom to negotiate /change services and prices during any regulatory period – it is the Negotiated Distribution Service classification.

Under the negotiated distribution service classification, SA Power Networks negotiates with customers and charges for specific types of services—ranging from fully integrated services where they provide full luminaire and infrastructure maintenance and replacement of lights on their poles, to charges for maintenance of luminaires and systems management for lights on customer (i.e. council and State Government) owned infrastructure.

TTEG- *As discussed earlier, the services SAPN provide need to be reassessed by customers, including the “automatic” replacement for example.*

With the known issues (eg replacement, gifting of lights, data etc) plus the changing technologies, the ability to consider these and any other issues as required, rather than in a short regulatory window, in no doubt favour NDS classification which provides flexibility in terms of service and price offering.

END

ANNEX B

SA Public Lighting "SLUoS" Negotiated Service

In 2015 we prepared a "2015 Assessment" being a draft analysis to consider the economic benefits of Negotiated Distribution Services ("NDS") in South Australia.

2018 UPDATE: Whilst we have not updated the tables and data in the "2015 Assessment" (below) we have provided the following tables to provide an update. The tables compare SLUOS (SAPN, SA) under NDS versus OMR (Vic) price changes under Alternative Controlled Distribution Services ("ACDS").³

Please note:

1. The MV80W SLUOS at 1 July 2016 of \$55.40 is below \$68.80 in the "2015 Assessment"
2. Whilst dates may be approximated they do not materially change the outcomes
3. The lights chosen are typical category "P" and "V" light types

MV80wCC lights⁴

	2004	2016/17	Var \$	Var %
SAPN	\$ 55.00	\$ 55.40	\$ 0.40	1%
Citipower	\$ 28.65	\$ 59.34	\$ 30.69	107%
United	\$ 26.69	\$ 51.28	\$ 24.59	92%

HPS 250W lights⁴

	2004	2016/17	Var \$	Var %
SAPN	\$ 89.10	\$ 60.70	-\$ 28.40	-32%
Citipower	\$ 60.14	\$ 103.02	\$ 42.88	71%
United	\$ 47.45	\$ 69.97	\$ 22.52	47%

TTEG Conclusion:

Whilst services are effectively the same and unchanged over the period, Victorian OMR rates under ACDS have increased materially greater than the SA SLUOS rates under NDS over the same period.

2015 Assessment

TTEG SA Public Lighting Customers (PLC) have been able to negotiate SLUoS charges with SAPN for more than 10 years, initially as an Excluded Service charge under ESCOSA and since 2010 as an NDS under the NER.

Since 2004 SLUoS charges for MV80W lights⁵ have increased from \$55.00 p.a. to \$68.80 p.a., representing an increase of 25%. During that period, under the NER, there have also been two SLUoS tariff rebalancing processes undertaken by SAPN with the objective of revising tariffs to better reflect individual tariff costs, whilst maintaining SAPN's total revenue requirement.

In Table 1 we have compared the MV80W tariffs in SA and Victoria 2004 to 2015. In Victoria, the OMR tariffs are classified as an Alternative Controlled Distribution Service ("ACDS").

In the Table we have also included an "Est EE impact" which is purely an estimate from 2012 making an allowance for the significant shift to energy efficient lights (including T5, CFL and LED) in lieu of MV80W lights, reducing the capital component in the MV80W OMR tariff. Such a move to energy efficient lights has not yet occurred in SA.

³ Full SLUoS in SA ie not CLER or Energy Only

⁴ SAPN 2003 and 1 July 2016. United (ex Public Lighting Services – Fee Based brochure) and Citipower (ex ex CitiPower 2017 General Service Charge Pricing Schedule) 1 January 2017.

⁵ Full SLUoS in SA ie not CLER or Energy Only

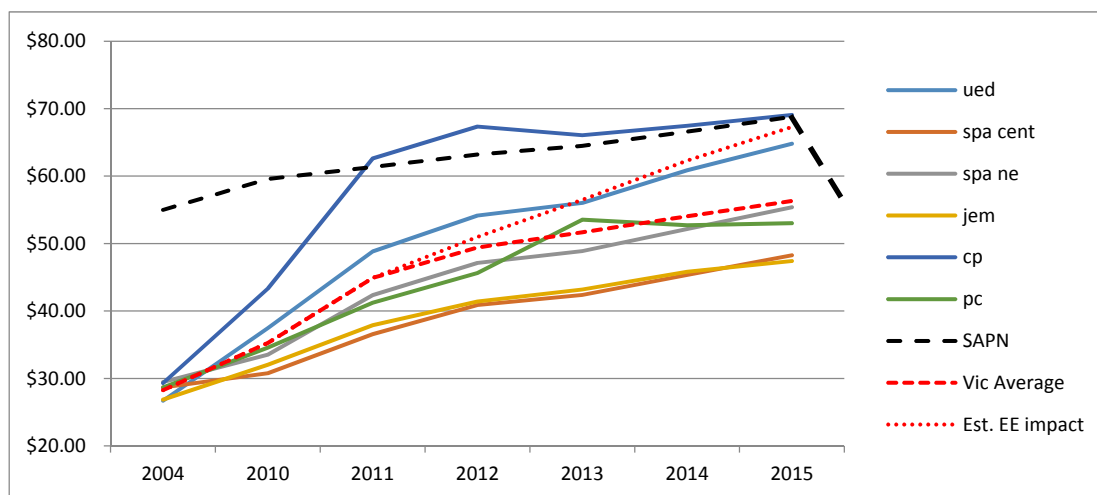
As the Victorian CPI for the period is ~ 34%, the Victorian OMR has **increased** ~ 66% above CPI and the "Est EE impact" has **increased** ~ 104% above CPI, while the SA SLUoS has **decreased** around 9% over the same period.

If the same rate of change to SA SLUoS MV80W tariff since 2004 was applied to Victorian MV80W OMR tariffs, based on an estimated 300,000 MV80W lights then Victorian PLC would be paying ~ \$6.3⁶ million p.a. lower in 2015 OMR and ~ \$9.5⁷ million p.a. lower in the Victorian "Est EE impact" OMR.

Table 1 -Vic and SA MV80W tariffs since 2004⁸

	2004	2010	2011	2012	2013	2014	2015		
UED	\$26.69	\$37.47	48.84	54.14	\$56.01	\$60.86	\$64.80		
spa cent	\$28.65	\$30.78	\$36.56	\$40.89	\$42.37	\$45.34	\$48.26		
spa ne	\$29.47	\$33.53	42.36	47.13	\$48.88	\$52.16	\$55.38		
jem	\$26.85	\$32.02	37.88	\$41.40	\$43.19	\$45.81	\$47.40	Variation	Versus
CitiPower	\$29.30	\$43.33	\$62.61	\$67.35	\$66.06	\$67.47	\$69.07	2015 vs	CPI of
PowerCor	\$28.65	\$34.56	\$41.22	\$45.62	\$53.53	\$52.70	\$53.01	2004	34%
Vic Average	\$27.99	\$35.28	\$43.95	\$42.61	\$44.61	\$53.56	\$55.83	99%	66%
Est. EE impact	\$27.99	\$35.28	\$45.69	\$51.00	\$56.50	\$62.30	\$67.30	140%	107%
SAPN	\$ 55.00	\$ 59.57	\$ 61.36	\$ 63.20	\$ 64.50	\$ 66.60	\$ 68.80	25%	-9%

The Table is shown graphically below⁸



NSW

NSW also has the MV80W light classified as an ACDS. Whilst we have not undertaken the analysis (due to time constraints) we reasonably expect any analysis will show similar or potentially worse results eg (by memory) Ausgrid increased SLUoS by ~ 49% in 2009.

TTEG Assessment

Since the introduction of negotiation under the ESCOSA, SAPN has established SLUoS tariffs which have been incremented and rebalanced under the NER since 2010.

These changes have all been negotiated between PLC and SAPN and have resulted in SA SLUoS charge increases significantly below those in Victoria (and we expect NSW) where the AER has also classified public lighting services as an ACDS.

END

⁶ 300,000 x (\$56.32 - [\$28.27 x (1+25%)])

⁷ 300,000 x (\$67.30 - [\$28.27 x (1+25%)])

⁸ SAPN MV80W SLUoS decreased to \$55.40 on 1 July 2016. Inserted later ie was not in original 2015 Assessment.