South East Regional Organisation of Councils

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Mr Warwick Anderson
General Manager
Australian Energy Regulator
GPO Box 3131
Canberra ACT

Dear Sir

Submission to Australian Energy Regulator's Public Lighting Discussion Paper

The South East Regional Organisation of Councils (SEROC) represents twelve (12) Councils in the South East of NSW with a regional population of 183,000 and covering an area of 45,400 Sq Kms

SEROC is pleased to make a submission to the recent AER Discussion Paper about options for dealing with public lighting pricing in NSW. We are aware that other NSW ROCs are making submissions and many of the following comments mirror the position of the other ROCs.

GENERAL COMMENTS

HIGH RESIDUAL ASSET VALUATION REMAINS KEY ISSUE

While the AER Discussion Paper focuses on possible approaches to cost allocation, Councils are more concerned about the fundamental issue of pricing and the overall cost of public lighting itself and how the underlying capital base has been determined. The revaluation of existing street lighting assets was the key driver of the huge average increase in capital and maintenance charges from 1 July 2010.

Many Councils viewed asset valuation process as grossly excessive and having little relationship to historic real-world costs or the history of the assets themselves. That neither IPART nor the AER was free to properly consider the fair value of historic street lighting assets has fundamentally undermined the confidence of councils in the pricing review process.

GREATER TRANSPARENCY ESSENTIAL FROM OUTSET OF PRICING PROCESS

A major concern of Councils in the 2009-2014 pricing determination was the withholding of key street lighting pricing assumptions and the overall pricing model throughout the pricing review, appeal and redetermination. This was documented in a number of NSW ROC submissions to the AER in the last pricing reset.

There should also be a need for the actual dividends paid to the State Government (and anyone else) to be publicly displayed as a matter of public transparency. Likewise, future capital works should be published (inclusive of where, how much, and by whom) as part of this transparency approach.

AER Question 1

What has been the experience for customers under the current regulatory approach to public lighting? For example, do the

current arrangements result in pricing that is too complex or lacking in transparency?

Aside from the large price shock resulting from a substantial asset revaluation , the most significant impact of the 2010 AER pricing redetermination has been with respect to pricing complexity and a lack of transparency for Councils. Since the AER redetermination, Councils have received three monthly street lighting bills with network charges spread across all three of them. The feedback is that Councils find both the current bills and forecasting increases complex and unclear. Specific council feedback about items creating confusion included:

Unclear why three bills are needed for one service and the difference between them

Unclear terminology and labelling on bills

Mixing of capital and maintenance charges together without clear distinction is confusing

Splitting of capital charges across two bills is confusing

Lack of clear relationship between bills and particular assets (in particular, the bundling of pre—2009 asset charges)

Councils cannot readily answer questions such as how much does this light cost per year? How much does it cost to light this road per year? How much would Council save by moving to this new type of lighting?

Bills do not meet reasonableness test of NSW Public Lighting Code *"13.1 Bills provided by a Service Provider must identify separately in summary form the charge for each type of Public Lighting Service provided and must contain at least the following information: a) details of the number and type of lights; and b) any other information reasonably necessary for the Customer to verify the accuracy of an amount charged on the bill."*

Should public lighting in NSW continue to be regulated by the AER as an alternative control service or is there merit in classifying the service as a negotiated service or an unclassified

(unregulated)service?

It is essential that public lighting in NSW continues to be regulated as an alternative control service. The vast majority of public lighting assets are owned by the NSW DNSPs and there is no contestability framework for street lighting in NSW at the moment. There ia no right for Councils to choose suppliers or authorise anyone else to climb DNSP poles and remove, modify or add lights. As such, the DNSPS have an almost total monopoly supply position and hence require vigilant regulatory oversight. And, it would be inappropriate to rely on any potential for competition to emerge without significant changes to the current framework.

The contestability provisions of the Electricity Supply Act 1995, the Electricity Supply (General) Amendment (Customer Contracts) Regulation 1996, and the NSW Code of Practice Contestable Works apply to installation of new lighting assets, but not to the maintenance or replacement of the vast majority of existing ones.

This assessment of street lighting contestability in NSW was confirmed by the AER in the lead up to the previous NSW pricing review (*Control Mechanism for Alternative Control Services for the ACT and NSW 2009 Distribution Determinations – Final Decision, AER, February 2008*). There have been no subsequent changes to NSW legislation, regulation or codes that alter this situation.

To achieve meaningful contestability, extensive development of a NSW Lighting Contestability Framework would be required. Given that DNSPs are deemed to have funded and own almost all street lighting assets, there is little comparable precedent to draw on, as current NSW contestability relates to assets owned by the customer.

Even setting aside full contestability and assuming that the DNSPs were prepared to simply transfer responsibility to councils or other parties for existing assets would present some significant barriers including:

- High valuation of residual assets set in AER pricing determination of April 2010.
- Establishing clear and comprehensive rules by which 3rd parties could repair, modify, replace or add lighting assets to existing distribution poles (e.g. access to DNSP poles & wires, notice, approvals procedures, OH&S issues, information provision, damage clauses, union issues etc). There is clearly no provision for this under the NSW Electricity Act, associated Regulations or Code of Contestable Works at present;
- Establishing pricing certainty for residual monopoly services (e.g. connection charges, connection approvals, metering/billing, inventory management);
- Resolution of potential wiring issues with non-DNSPs (eg councils or ASPs) not allowed to own assets that are not wired to meet the Australian Standard AS3000;
- Lack of council skills or experience in managing electricity assets of this nature;
- Loss of minimum economies of scale in councils owning relatively few assets individually (eg it costs 40-50% more per luminaire to purchase 10 lights vs purchasing 1000-10,000 lights) and a consequent need to re-aggregate the assets which a likely requirement for ACCC approval to do so; and
- Identifying and encouraging prospective competitive service suppliers and developing the commercial framework.

Has the current approach resulted in greater (or less) competition in the construction or provision of public lighting services?

The current regulatory approach has not changed competition or the prospects for competition which are extremely limited. As

discussed above and unlike the provisions in other jurisdictions, there are no NSW provisions allowing a customer to request a third party to alter, relocate, or replace public lighting assets. And, in any event, DNSP customers would have to first pay the DNSPs high claimed residual asset charges to exit current arrangements and these charges present a significant financial barrier to greater competition.

AER Question 2

The AER seeks comments regarding the use of Option 1. (*Existing arrangements with a third capital charge for assets constructed during the 2014–19 regulatory control period)* ***In particular: A. What are the main advantages and disadvantages of this approach?***

SEROC agrees with Endeavour Energy that the introduction of third type of capital charge has the potential to further increase complexity. SEROC also agrees with Ausgrid that there may be opportunities to greatly simplify pricing, avoiding the increasing complexity implied in Option 1. Furthermore, there would appear to be opportunities to do this without significant price shocks or misleadingly price signals because:

Capital costs (and maintenance charges) for many closely related assets are very similar

Many lighting types used in the past are no longer used in new installations and, by the time the next regulatory period commences, it is unlikely that any of the asset types approved for use at the start of the last regulatory period will be accepted Standard Luminaires for new installations in the next regulatory period. It should therefore be possible to draw a line under old asset types, with no need determine new capital charges for anything other than the new asset types.

It is also suggested that asset age assumptions can be considerably improved as the age of all assets from about 2000 is known accurately. In addition, the age range of particular

lighting types is well understood and the age of most 'special installations' (eg parks, reserves and decorative lighting types) should be readily ascertained from the DNSPs inventories and Council records.

~~**AER Question 3**~~

The AER seeks comments on Endeavour Energy's submission. In particular:

A. What are key advantages and disadvantages of the approach proposed by Endeavour Energy?

B. Would the averaging of capital costs used to calculate the annuity for assets constructed in the 10 year period 2009 to 2019 disadvantage third party providers of these assets?

SEROC agrees with Endeavour Energy that the introduction of third type of capital charge has the potential to further increase complexity. However, Councils are not in a position to determine the price distortions that 10 year averaging of capital costs might create but would welcome modelling to assess the potential impact of such an approach.

~~**AER Question 4**~~

The AER seeks comments on Ausgrid's submission. In particular:

A. Would a simplified pricing structure such as this come at the expense of cost reflective prices?

SEROC has no objections in principle to a simplified pricing approach, provided that cost-reflectivity and price shocks are modelled first. However, councils are not in a position to assess the potential windfall gains and losses of Ausgrid's proposed approach nor the degree of potential non-cost reflectivity of bundling. Councils welcome Ausgrid's proposal to model various pricing scenarios.

B. Would this approach permit the entry of third party providers of public lighting services?

SEROC does not believe that moves to simplify pricing would have any material impact for contestability or result in any increase in competition.

OTHER COMMENTS

INTERIM TARIFFS TO FACILITATE ADOPTION OF EMERGING TECHNOLOGIES

Public lighting is entering a period of rapid change with technologies such as LEDs, light emitting plasma, adaptive lighting controls and others emerging quickly and fundamentally changing the mix between capital, energy and maintenance costs. In recent years, LEDs for example, have seen declining capital costs of some 30% per annum and simultaneous increases in efficiency at a similar rate. It is common for major LED luminaire manufacturers to replace models every six months in the current market.

The current regulatory approach, which implicitly assumes relative stability in technologies, progressive increases in costs in line with CPI and a relatively similar maintenance regime for all public lighting assets does not appear well suited to dealing with the next generation of emerging lighting technology. The process for pricing new technology is lengthy and complex. Indeed, by the time a pricing approval process is finished, the product being priced is likely to have been superseded.

It is suggested that, if DNSPs and Councils agree on it, there should be some provision made by the AER for an interim tariff for new technologies to allow trials and initial adoption to take place easily without the need for a lengthy AER pricing approval process. The AER might reasonably set a volume limit on such interim tariffs (eg 500 luminaires) after which a formal pricing approval would be required.

SEROC notes that, if the pricing model used by the DNSPs were

transparent, it is much more likely that DNSPs and Councils could readily agree on interim tariffs for new technologies under such an approach.

Yours faithully

DN Cooper
Executive Officer

South East Regional Organisation of Councils (SEROC)

Representing the Councils of Bombala, Boorowa, Cooma-Monaro, Eurobodalla, Goulburn-Mulwaree, Harden, Palerang, Queanbeyan, Snowy River, Upper Lachlan, Yass Valley and Young