



**16<sup>th</sup> March 2009**

**Mr Chris Pattas  
General Manager  
Network Regulation South  
Australian Energy Regulator  
GPO Box 520  
MELBOURNE VIC 3001**

**Re: Framework and approach paper: Preliminary Positions, December 2008**

Thank you for providing the opportunity for comment upon the Australian Energy Regulator's (AER's) Preliminary Position Paper (the Paper) on the framework and approach for the forthcoming regulatory control period commencing on 1 January 2011 and the preparation and publishing a framework and approach paper by 30 May 2009 as part of that process.

Trans Tasman Energy Group (TTEG) Consultants provide specialist energy advice and services including regulatory, commercial and greenhouse aspects pertaining to unmetered public lighting to our clients on both sides of the Tasman. We have been active in this regard in a number of Australian jurisdictions since 2000, and commencing before then in New Zealand.

TTEG Consultants prepared a separate and detailed Submission regarding the Paper on behalf of the Streetlight Group of Councils (SGC). TTEG fully supports the views contained in the SGC's Submission but we have taken the opportunity to provide our own brief Submission providing insights based on our experience in the sector.

Paper Recognition

In the transition from state jurisdiction to the AER we expect that the importance of the Paper to the EDPR process for the 2011-15 regulatory period has not been widely known within the consumer groups as they may not as yet have established automatic links to receive notification of AER Papers.

Another contributing factor to the above could be that the Paper was issued in December 2008 while the ESCV was still the Victorian regulator.

Classifications

As TTEG only recently became aware of the Paper we have not had a chance to fully assess all aspects. Indeed we have only had time to assess public lighting and some associated services provided by DNSPs.

Public Lighting Sector – Background

In considering the public lighting sector, we advise the AER that there are numerous and significant sector framework issues and opportunities which require acknowledgement, understanding and resolution to enable clarity and certainty in service and pricing arrangements.

The sector is also potentially undergoing major changes on the customer side with the potential introduction of energy efficient lights.

Unfortunately these issues, although clearly identified, were not able to be addressed by the ESCV before the AER assumed the regulatory responsibility.

We consider the resolution of these issues must be undertaken before a effective service and pricing arrangements (as intended in the AER's EDPR process) can be established.

Some of the key issues/opportunities include:

- Potential to develop a competitive marketplace for all public lighting services.
- Recognition that public light capital works have been 100% customer financed since 1993.
- DNSPs claim only the DNSP can perform maintenance and replacement services on “their” lights which they have acquired ownership by “requiring” customers to vest to the DNSP – thereby holding the customer “captive”. Interestingly some DNSPs engage sub-contractors to undertake this service on their behalf.
- The ESC’s 2004 pricing model contains incorrect data plus allows 10% “super profit” to DNSPs and is currently costing the public sector around \$2.3 million p.a (~ 20%) and the impact of the “Annual Review Process” may see estimated OMR charges increase by around \$25 million p.a. (i.e. trebling) in future years for no additional services.
- Unlike all other jurisdictions, a tiered pricing structure has not been introduced in Victoria
- Public lighting assets prior to 1993 are included in the RAB and charged via DUoS.
- Charges for existing lighting types cannot equitably be compared to new energy efficient types – resulting in critically flawed comparisons.

To assist the AER in its process TTEG would welcome the opportunity to provide additional insights and information on any of the above points.

#### Classifications

Although we have had limited time to consider the new regulations, there does not appear to be a direct equivalent classification to the current “Excluded Services” classification. The options appear to be “Alternative Control Services” or “Negotiated Distribution Services”. We agree with the AER that they are not “Standard Control Services”.

In assessing the appropriateness of the available options in considering the ‘alternative control services’ classification we noted that NER Part C adopts the building block approach based heavily on contributions from asset costs.

This type of approach appears more suited to a sector which has a large number of customers (public lighting has less than 100), and where the capital expenditures by the DNSP are large and the ‘service provision’ component is relatively small but well defined and stable.

As Victorian DNSPs are not funding public lighting the asset aspect of the building block approach would not apply. We also importantly noted that there is no cost transparency or customer involvement other than provided through the EDPR process. This approach has been problematic in NSW as customers require cost data to make decisions in this changing market.

In assessing the appropriateness of the ‘negotiated distribution services’ classification we noted that NER Part D is effectively a cost recovery model focusing on typical network access arrangements and considerations.

In our view the cost recovery approach has a similar focus to the existing Excluded Expenditure approach where DNSPs receive a fair and reasonable profit based on prudent expenditure

The better transparency provided by the cost recovery approach is what customers are looking for and is similar to South Australia where public lighting SLUoS ( ie OMR in Victoria) charges are negotiated.

It also appears more dynamic as costs can reflect various changes to service standards, lighting types etc

We also believe that this type of 'cost recovery' approach would also assist DNSPs ready themselves for contestability and provide an appropriate process for successful resolution of the numerous framework issues.

The AER would however need to give some thought as to how the current wording in the regulations could effectively be applied to public lighting services.

Our assessment is that the 'negotiated distribution services' scenario has a far better fit for Victorian public lighting. It also appears conducive to the introduction of a tiered price structure and in providing a pathway to a competitive market.

We therefore propose the AER adopts the 'negotiated distribution services' classification for the following:

- the operation, repair and maintenance of the existing public lighting assets NOTE: We have removed 'replacement' in accordance with PLC clause 4.1 and included below.
- the alteration and relocation (and replacement) of the existing public lighting assets should be classified as negotiated distribution services.
- new public lighting assets (standard and non-standard provision) we agree with the AER these should be negotiated distribution services.
- Metering for type 7 public lighting installations should be contestable (as for type 1-4 metering) for the 2011-15 period. NOTE: This will require a change to the NERs.

#### Other

- The existing ESCV model cannot simply be applied to provide a control mechanism unless the significant data flaws are recognised and corrected.
- The GSL for public lighting must be retained and increased to \$25 and payable also to public lighting customers

#### Process

We trust the opportunities and issues identified in our Submission will add significant value to the Australian Energy Regulator's (AER) Decision process.

TTEG would welcome the opportunity to work with the AER and other Stakeholders to progress Victorian public lighting sector development and to establish fair and reasonable public lighting service charges.

Yours sincerely,



**Craig R Marschall**  
**Principal Consultant**  
**Trans Tasman Energy Group**

**Direct phone:** 03 9418 3907  
**Email:** cmarschall@tteg.com.au