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Your Reference:



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Dear Mr Anderson

AER Draft Determination on Essential Energy 2014-2019 Regulatory Period

Council appreciates the opportunity to make a submission on the Draft Determination by the AER on the Essential Energy 2014-2019 regulatory period and Essential Energy's subsequent submission on the same.

Council is also in receipt of correspondence from Essential Energy outlining the possible consequences of the draft determination.

Below please find our submission for your consideration.

Draft Decision Essential Energy Distribution Determination 2015-16 to 2018-19, Attachment 16 Section 16.7 Public Lighting, AER, November 2014.

The AER has not supported Essential Energy's proposed public lighting charges, which would have amounted to a 58% increase in charges in 2015/16 for Tweed Shire Council (similar to the Statewide average). In making this draft determination, the AER considered that many of the inputs to Essential Energy's pricing structure "*do not reflect those of an efficient service provider*".

AER has benchmarked Essential Energy's current and proposed operational inputs, such as bulk light replacement, lamp spot replacement and failure rates against the Victorian distribution businesses and recommended alternate rates. This reflects our Council's experience in a bulk luminaire replacement program in 2011 that failed to produce the savings estimated by Essential Energy, and demonstrated that existing levels of service fail to meet best practice. Essential Energy's proposal to increase the frequency of bulk replacement from 4 to 3 years has not been supported by AER.

AER has also reviewed Essential Energy's proposed labour rates and overheads, which significantly inflated the cost of public lighting. Again, when benchmarked against similar organisations, AER stated that "*we have not seen overheads for distribution businesses set at such high rates and the evidence from other jurisdictions calls into question the quantum of overheads Essential Energy sought*". AER subsequently recommended that overheads be reduced from 41% to 25%.

Generally the findings of the AER are consistent with the concerns raised in Council's submission, and the submission made by NOROC. Under the AER recommended benchmarks, "*public lighting charges will increase on average by 3.8% in 2015-16 from the previous year*". This is an acceptable outcome for Council.

Essential Energy Letters to Council, 10/12/14 and 21/1/15.

Essential Energy has written to Council explaining from their perspective the impacts of the AER's draft determination, which include: significant job reductions of around 1500 staff, reduced vegetation management programs with associated increased bushfire risk, declining network reliability and deterioration in time taken to restore electricity supply interruptions, and limited ability to deliver existing public lighting service levels. These impacts are of significant concern for Council, in terms of impacts on the community, but also as an asset owner and service provider. These forecast impacts will affect essential operations such as water and waste water services. Councils will be required to fund additional capacity in its backup systems to cater for potential increased frequency and/or duration of power outages, and increased response times for service requests. Whilst Council does not have the expertise to thoroughly understand the complexities of the electricity industry pricing models, we would like to draw to your attention to our community's reliance on electricity in light of Essential Energy's claims:-

"However, under its draft determination released on 27 November 2014, the AER proposed significant additional cuts, which imply immediate reductions of around 40 per cent of Essential Energy's total workforce, or 1,503 jobs; reduced customer service levels (including declining network reliability and longer interruptions to power supply); increased risk of network-initiated bushfires; and a significant reduction in general maintenance activities."

I acknowledge the difficult position of the AER, however given the community's heavy reliance on electricity for the essential services which Council provides I would ask that you give due consideration to the concerns raised by Essential Energy.

Essential Energy has provided a revised proposal to AER, which accommodates some of the AER's recommendations, but "*substantially supports*" their initial proposal. This revised proposal maintains a real reduction of 9.1% in average distribution network charges for customers, and a price increase that is 16% less than the revenue requested in the initial proposal. Essential Energy acknowledges "*that the proposed tariff increases will be substantial for some councils*". As such, the revised proposal maintains the initial premise that in order to recover costs of providing public lighting, a significant cost shift away from individual consumers to Local Government is required. However Local Government is constrained by rate capping, budgetary processes, and community concerns in its ability to finance the impacts of Essential Energy's actions.

Revised Regulatory Proposal, Section 9 Alternative Control Services, Essential Energy, January 2015.

The bulk of the revised proposal sets about justifying the inputs in Essential Energy's original pricing proposal, and criticises the AER's attempts to benchmark their operations and costing models against other providers. Council is not in a position to determine the legitimacy of this claim, or many of the technical aspects involved in this report

Essential Energy claims that the AER's intervention in applying "*unilateral changes*" in engineering matters will lead to non-compliant public lighting standards. However as raised above, Essential Energy is yet to demonstrate that its current operations allow for best practice to be achieved (e.g. satisfactorily meeting the 4 year bulk replacement KPI), prior to significant cost increases in order to achieve cost reflective charges.

It is also difficult to assess the impacts of the various changes to the cost inputs, without a comparative table for each Council, as was provided in the original submission.

Conclusion

Many of the recommendations of the AER draft determination support Council's concerns regarding the original Essential Energy pricing proposal. That submission failed to properly justify the quantum of price increases, which would have had to have been absorbed by Council, due to limitations on our own revenue streams. However Council is equally concerned if the potential impacts of the AER decision on Essential Energy operations are realised, as reliable and efficient electricity services are essential to many of Council's own services. Reduced levels of service in these areas are unacceptable.

Council appreciates the opportunity of providing this submission to the AER. If you require any further information please do not hesitate to contact Mr Michael Chorlton, Manager Financial Services, on (02) 6670 2431.

Yours faithfully

Troy Green
GENERAL MANAGER