



Wayne Carter
General Manager

08 August 2008

Mr. Mike Buckley
General Manager
Network Regulation North Branch
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

Dear Mr. Buckley

Bankstown Council's Submission to the Regulatory Review of EnergyAustralia's 2009-2014 Public Lighting Pricing Proposal by the Australian Energy Regulator.

Bankstown City Council would like to acknowledge the opportunity to make a submission to the review by the Australian Energy Regulator (AER) of EnergyAustralia's public lighting pricing proposal for the 2009-2014 regulatory period.

Bankstown Council is one of 34 Councils participating in the SSROC-sponsored Street Lighting Improvement Program. The SLI Program will be making a detailed submission and Council requests that the overall issues raised in this submission and the more detailed issues raised in the SLI Program submission receive careful scrutiny by AER in the process of its determination.

Transparency and Timely Information Provision - Indispensable for Making Submissions

Council strongly welcomes the AER's recent comments at its 30 July public forum in Sydney, which was attended by Bankstown Council officers, about the importance of transparency and the acknowledgement of the significant information asymmetry in the review of public lighting price proposals.

Unfortunately, despite repeated requests from SSROC on behalf of the 34 member Councils of the Street Lighting Improvement Program, as of 07 August 2008, EnergyAustralia has yet to provide underlying *Cost to Serve* modelling to Councils, thereby disadvantaging Councils in making effective submissions. Bankstown Council would therefore like to make another more comprehensive supplementary submission to AER, when detailed *Cost-to-serve* modelling information is made available to councils by Energy Australia.

While Council appreciates that the AER is bound to meet a number of dates within the pricing review timetable provisions, it is also difficult to expect meaningful input from stakeholders without the full disclosure of information by EnergyAustralia and allowing reasonable time to review the information provided in preparing a submission.

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11 AUG 2008

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Council believes that to bring confidence in the regulatory regime for monopoly services pricing, it is essential that pricing reviews are based on clear, timely and open disclosure of cost analysis that are then properly benchmarked and comments of those most likely to be affected are taken into consideration.

Background

While Council welcomes this review by the AER, it would like to take the opportunity to put on record some relevant background information on the state of public lighting services provided to councils by EnergyAustralia. Regrettably, the street lighting services in Bankstown have been far from satisfactory for many years.

In 2003, Bankstown Council developed and adopted its *Public Lighting Strategy* which noted that EnergyAustralia's use of obsolete technology and poor maintenance practices inherent in its operations were affecting Bankstown Council financially and preventing Council from meeting its public lighting standards and expectations of its community. The findings from a review by the Southern Sydney Regional Organisation of Councils (SSROC) were similar to this and resulted in Bankstown joining the SSROC Street Lighting Improvement Program (SLIP). SLIP now has as its members 34 out of 40 Councils serviced by EnergyAustralia across NSW.

It is now five years since Bankstown and the 34-Council-combined SLIP commenced the campaign to achieve long outstanding reforms in public lighting services provided by EnergyAustralia. Although the State Government eventually introduced a Public Lighting Code in 2006, it appeared from a 2007 review that EnergyAustralia remained almost fully non-compliant with the Code and its own Street Lighting Management Plan, developed under the Code. Council's serious concerns were outlined in the 2007 submissions from both Council and the SLIP to the NSW Public Lighting Code Review (**copy attached**).

Council's *Lighting Strategy* recommended that EnergyAustralia withdraw its obsolete and energy-inefficient 2x20 watt (*twin-20*) luminaires from residential streets. It is of note that Victoria and other jurisdictions moved away from these nearly 20 years ago. Council and SLIP have been campaigning for EnergyAustralia to replace these obsolete *twin-20s* with advanced energy-efficient and long-life (T5 or similar) lights, after trialling these in the streets and to do so as quickly as possible.

Although EnergyAustralia recently made a move towards energy efficient lighting, its choice of the standard lighting (42W CFL) and proposed unduly high price much in excess of efficient costs have made its proposal unacceptable to Council.

On 2 June and 28 July 2008, Council wrote to EnergyAustralia (**copy attached**) detailing these concerns, including the apparent lack of compliance with the NSW Public Lighting Code, absence of clarity about the basis of the street lighting service, and finally the need for an independent review of the street lighting arrangements in NSW. Unfortunately, so far, these concerns have remained unheeded by EnergyAustralia.

Essential Need for AER's Effective Regulatory Protection for Councils

No market alternative for councils: NSW Councils serviced by EnergyAustralia need AER's regulatory protection, as the specific public lighting services in question are not contestable, and councils have no market alternative.

It is inappropriate to unduly charge councils, much in excess of efficient costs, for EnergyAustralia's longstanding highly inefficient practices, which were identified in 2005 submissions to IPART from Bankstown Council and the Street Lighting Improvement

Program (**copy attached**). As councils have had no meaningful say in EnergyAustralia's choice of technology or maintenance practices nor has recourse to any alternative, it is therefore essential that councils be provided with clear and strong regulatory protection from monopolistic price increases and practices.

From past experience, it is common for EnergyAustralia to come forward with excessively high price proposals without a satisfactory explanation for the basis of the claim. In 2005, an analysis of EnergyAustralia's proposed price increases by SLIP and Bankstown Council in making submissions to the IPART revealed that EnergyAustralia's proposed prices (excluding consideration of CPI) for several common lighting types were some 44% to 147% above the costs assessed by the Essential Services Commission (ESC) in Victoria. The same exercise by SLIP also found that EnergyAustralia's labour productivity for both repairs and replacements of all types of lights was starkly at odds with the benchmarks developed by the Victorian Essential Services Commission.

During 2003 and 2004, the ESC and its consultant, KPMG, had conducted a rigorous, fully public, transparent, and iterative review of public lighting charges, which included performing a detailed analyses and modelling of public lighting costs covering five Distribution Network Service Providers. EnergyAustralia's assertion in its supplementary February 2005 submission to the IPART was that "ESC productivity assumptions are unrealistic" appeared to have been made with little basis and was not supportable.

More recently, EnergyAustralia's proposed price for the energy-efficient T5 lights has been found to be 84% higher than the price for the same light from Integral Energy. But despite repeated correspondence from Council and the SLIP seeking clarification about this inconsistency, EnergyAustralia has so far not responded to our requests.

In addition to highlighting the importance of assessing EnergyAustralia's proposal against efficient costs, Council would like to emphasise the need to also benchmark EnergyAustralia's proposed prices with those from utilities and regulatory bodies in other jurisdictions as well as with the price from the other service provider in NSW - Integral Energy.

It is within this background that Council comments on EnergyAustralia's pricing proposal for 2009 -2014, and in the absence of any detailed information from EnergyAustralia.

Comment on EnergyAustralia's Excessively High Current Pricing Proposal

Bankstown Council has noted with some very real concern EnergyAustralia's current proposal to the AER for a 38.6% real increase in capital and maintenance charges for public lighting over the next 5 years (i.e. 2009-2014 regulatory period) and a 90.2% real increase in network distribution charges for public lighting over the same period. These proposed increases are in addition to the significant increases in capital and maintenance charges totalling some 40% since 2005.

Council currently pays EnergyAustralia approximately \$2.2 million per annum for public lighting in Bankstown, up from \$1.5 million in 2001/02. While Council and its community has significant concerns regarding the present services provided by EnergyAustralia, granting the increase as proposed would make street lighting unaffordable for the community but would also reward EnergyAustralia for its apparent inefficient practices and exploitative policies in a monopoly situation.

Council requests that the AER take into consideration the following key principles in its scrutiny of EnergyAustralia's price proposals:

Pricing Based on an Efficient Cost of Service

Council supports the AER's comments made at its 30 July public forum at Sydney that pricing is to be fair and reasonable, reflecting efficient cost of service. There are significant concerns that EnergyAustralia's proposed pricing for public lighting is inconsistent with efficient cost of service, and appears to be monopolistic and unsupportable. Therefore, the price increase as proposed should be refused by AER.

In particular, in the current pricing proposal under review, and other recent EnergyAustralia price proposals to Councils, there are large and unsupported EnergyAustralia component price movements, unexplained differences between the pricing for key light types and significant gaps when benchmarking EnergyAustralia pricing against other utilities. A prime example of this is the current EnergyAustralia proposals for pricing the new energy efficient lighting.

Underlining the impact of price increases is the difficulty Councils have in managing large price increases in street lighting under prevailing rate pegging in NSW, infrastructure backlog, and ongoing cost shifting onto local government from the other two levels of government, which have been revealed through a number of recent studies and independent inquiries, including the 2003 Senate Standing Committee Inquiry into cost shifting (the *Hawker Inquiry*). In this context, we particularly note with concern the large first year increase of 11% plus CPI in capital and maintenance charges proposed by EnergyAustralia, besides the cumulative and total impact for councils of the full extent of increase proposed over the regulatory period of 2009-2014.

Link Between Price and Service Level

Council observes that street lighting is a monopoly service of NSW electricity distributors, yet there are no contracts, no binding service regulation and to date no effective regulatory oversight of pricing to protect the interest of councils and their ratepayers. In recent years, there has thus been no clear recourse for non-compliance with the voluntary Public Lighting Code, misinvestment in lighting types not supported by Councils (eg. 80 Watt MV instead of low-wattage long-life lights available) and, unwarranted delays and obstacles to the timely adoption of energy efficient advanced lighting. Councils are in an untenable position of having responsibility for the community safety, security, energy conservation, greenhouse gas reductions and efficient and sustainable costs of lighting, but have no meaningful control over key aspects of the service provided.

While Council recognises that the state's regulatory framework is not under the control of the AER, it is also important to note that there cannot be confidence in pricing decisions unless there is clarity about what the price is for and certainty that the price is based on efficient cost of service and not exploitative or monopolistic, to the detriment of public interest.

Conclusion

Council would like to submit that until EnergyAustralia provides full information relating to its efficient costs of services, which is essential for councils to make effective and meaningful submissions, consideration of its pricing proposal by AER should be suspended. EnergyAustralia should also be required to base its prices on an appropriate *cost to serve* model, which is then able to be benchmarked with costs assessed by regulators and utilities in other jurisdictions.

Should you require further information or wish to discuss anything relating to this submission, please contact Council's Manager City Roads & Infrastructure, Rowan Morrison on 02-9707 9403 or at rowan.morrison@bankstown.nsw.gov.au

Yours faithfully



Wayne Carter
GENERAL MANAGER

Attached:

1. 2007 Submissions to NSW Public Lighting Code Review
2. Council's Letters to EnergyAustralia dated 02/06/2008 and 28/07/2008
3. 2005 Submissions to IPART on EnergyAustralia's Pricing Proposal

17 September 2007

Mr Mark Duffy
Director General - Department of Water and Energy
GPO Box 3889
Sydney NSW 2001

Dear Mr Duffy,

PUBLIC LIGHTING CODE REVIEW

ENERGY AUSTRALIA SUPPLY AND SERVICES OF PUBLIC LIGHTING TO THE BANKSTOWN COUNCIL AND BANKSTOWN COMMUNITY

Council welcomes your recent letter announcing a review of the NSW Public Lighting Code.

Bankstown City Council has significant concerns regarding the present services provided by EnergyAustralia. Currently the Council pays EnergyAustralia approximately \$2 million per annum for public lighting in the streets, parks and community lands of Bankstown, up from \$1.5 million in 2001/2.

Regrettably, the service has been far from satisfactory. I have attached a list of the very significant strategic concerns raised by Councillors, Council officers and the community. I am especially concerned at the implications of the service standards the community is receiving in respect of the safety and security of local residents, and of the implications for road safety.

I am also concerned about the charging and billing practices that are being imposed by EnergyAustralia, and by the apparent lack of commitment to a cost effective climate change technology, which would seem to be inconsistent with the Government's commitments on climate change. I wrote to the Minister for Climate Change on some of these matters on 20 June 2007 (letter attached).

I know that many of my concerns are shared by 28 other Councils who have joined the Street Lighting Improvement Program (SLIP) and I have attached a report prepared by an independent consultant for those Councils. I am sure you will agree that the findings are grounds for serious concern.

While council strongly welcomed the introduction of the new Code, much work remains to be done. Urgent action to address the concerns of the Bankstown City Council and the other SLIP Councils is required, and I would appreciate your serious

attention to matters outlined in the attachment of strategic business issues in Bankstown.

Yours sincerely,

Richard Colley
GENERAL MANAGER

Cc:

The Hon Mr Philip Koperberg MP, Minister for Climate Change Environment and Water

The Hon Ian Macdonald MP, Minister for Primary Industries, Minister for Energy, Minister for Mineral Resources, and Minister for State Development

Clr Ron Hoenig, Mayor Botany, President SSROC

Mr George Maltabarow - Managing Director, EnergyAustralia

Mr David Lewis – General Manager, SSROC

ENERGY AUSTRALIA'S PUBLIC LIGHTING SERVICE DELIVERY TO THE BANKSTOWN COMMUNITY AND BANKSTOWN CITY COUNCIL

STRATEGIC BUSINESS AND POLICY ISSUES

Strategic Performance does not meet standards required

Council has endorsed a public lighting strategy to deliver energy efficient, cost effective street and community lands lighting, which provides a safe, secure environment for the Bankstown community. EnergyAustralia has not delivered a cost effective, cost efficient public lighting service, nor a service that delivers a safe secure lighting environment for the people of Bankstown.

Bankstown City Council is a member of a 29 Council member network - the Street Lighting Improvement Program (SLIP) comprising the councils of the Southern Sydney Regional Organisation of Councils, the Northern Sydney Regional Organisation of Councils, the Central Coast Councils and the Hunter Region. Collectively these participating Councils constitute over 85% of EnergyAustralia's street lights and more than 40% of street lights in NSW.

Failure to Implement the NSW Public Lighting Code

EnergyAustralia has not implemented key provisions of the Code. A Report Card prepared by an independent consultant (Next Energy) on implementation of the NSW Public Lighting Code for the 29 Councils confirms this (copy attached).

EnergyAustralia gave clear undertakings to the Department of Energy and Water (then DEUS) in 2005 that it would fully implement the Code and it has not done so.

Areas requiring urgent attention are:

- poor maintenance regime - the failure to institute the maintenance regime required by the Code has resulted in high outage rates on main roads and significant road safety risks. Outages averaging 7.4% on main roads are 50% higher than the maximum allowed under AS 1158 and perhaps three times higher than if the Code had been followed (In Bankstown outages were recorded by one survey in May 2007 at the rate of 12.1%).
- use of energy inefficient lighting - it is estimated that Energy Australia's continued use of energy inefficient light globes is causing at least 65,000 tonnes of additional greenhouse gas emissions on an annual basis - it would be desirable for the Department of Environment and Climate Change to undertake a carbon impact assessment
- lack of transparent charging regimes and billing practice
- Poor reporting, accountability and documentation concerning implementation of the Code

Enforcement, compliance and Strengthening of the NSW Public Lighting Code

In the circumstances all 29 Councils are requesting full implementation of the Code and associated Management Plan, and strengthening the Code. In particular all 29 Councils are requesting that the Code be enforced and strengthened to:

- establish penalties for non compliance including rebates to Councils where Energy Australia's performance has failed to meet Code standards
- enforce maximum times for underground supply faults - the lack of standards has meant delays and risks to public safety
- require the installation of the most energy efficient lighting technology and match the standards of other energy suppliers in NSW and other jurisdictions
- stipulate transparent service obligations for parks and gardens

Failure to implement the Energy Australia Public Lighting Management Plan

Energy Australia has not implemented its own Public Lighting Management Plan as a key requirement under the Code.

Failure to Install Energy Savings Technology and provide Technology Choice compared to other providers such as Integral Energy

Councils have been trying to secure agreement with EnergyAustralia on a portfolio of more energy efficient and better performing lighting for four years.

Despite successful trials with EnergyAustralia, acceptance of new technologies by other utilities such as Integral Energy and a significant Energy Savings Fund (ESF) grant announced by the Premier in March 2006 to progress deployment, Councils continue to experience great difficulty in finalising agreement with EnergyAustralia on new technology and appropriate installation arrangements.

Unless the problems are resolved quickly, the 29 councils may find themselves in breach of their ESF funding agreement with the NSW Government and progress with the grant will fail. This would undermine the NSW Government's ability to secure reductions in greenhouse gas emissions as required under the NSW State Plan.

Failure to Provide Infrastructure in accordance with IPART requirements and overpricing

The 2005 IPART pricing decision:

- allowed EnergyAustralia to increase street lighting charges by 27%+CPI over 4 years;
- required EnergyAustralia to spend \$30 million to remove obsolete street lighting equipment.

However while the charges have risen (and will continue to do so), progress in replacing the obsolete equipment has stalled.

While Councils and the local communities they represent are paying the extra required of them by IPART, Energy Australia is failing to fully deliver what was required of it.

On this basis the Bankstown Council City Council requests an immediate rebate on the prices increases that have occurred in the past 12 months and a freeze on all future price increases until there is demonstrable evidence of installation delivery in the Bankstown LGA

Failure to Deliver Climate Efficient Energy Efficient Lighting in Bankstown

Bankstown City Council developed a Public Lighting Strategy and has a strong commitment to the introduction energy efficient lighting. EnergyAustralia commenced a 2-year trial of more than 1000 energy efficient T5 street lights in 2004 at 10 sites around its service territory. Approximately 100 were in Bankstown. Despite apparently successful results, councils have not been provided with finalised results of the trial and there is as yet no commitment to the introduction of energy efficient lighting.

Council's advice is that the use of available advanced technology lights in residential streets (already used widely by Integral Energy) could result in 50% longer lamp life and nearly double the amount of light output, with up to 65% less power consumption and greenhouse gas emissions.

EnergyAustralia has failed to withdraw obsolescent 2x20 watt globes in residential streets and replace them with energy efficient long life T5 or similar lights - although this obsolete tubular fluorescent have long since been discontinued throughout Australia - Victoria abandoned these luminaires more than 20 years ago.

Council estimates if energy efficient lighting were installed to a comparable standard with Integral Energy in other Western Sydney LGAs that savings of at least \$90,000 p.a. would be achieved (based on approximately 9000 residential road lights in Bankstown's LGA and expected savings of about \$10/yr/luminaire compared to an M80 luminaire). This could have been achieved in the last three years. Council suggests that EnergyAustralia should provide a rebate to Council for the excess costs over the last three years arising from the failure to introduce energy efficient lights immediately following the initial trial

Installation of Climate Risk Technology and Environmental Hazards concerning disposal

EnergyAustralia has installed more than 30,000 high energy intensive outdated 80 watt mercury vapour lighting in recent years, and has flagged replacement of a further 80,000 obsolescent 2x20 watt globes over the next seven years. Such technology has a significant adverse impact on climate change and is counter to State and Federal climate change policy. EnergyAustralia should immediately announce a commitment to replace all globes with either 2x14 watt T5 globes or a 42 watt Compact Fluorescent Globe in its member Council areas. It should do this immediately (and at no cost to Councils) to redress the greenhouse gas emissions caused by its existing installation policy.

EA has an obligation to recycle removed globes - however all lamps contain mercury, a highly toxic chemical - Council requests a commitment that EA not dispose of such lamps in landfill, and that EA disclose its recycling strategy.

Energy Savings Fund \$4.2million Grant - State Climate Change initiative

The Energy Savings Fund allocated \$4.2 million in 2006 to replace up to 42,000 lights in 29 LGA areas supplied by EnergyAustralia as an important initiative in combating climate change. (Premier lemma's made a targeted press release on 21 March 2006). Council is advised that to date the total number replaced amounts to about 1% of the total expected. This is a demonstrable delivery failure of a major Government climate change initiative.

In the circumstances Council requests that EnergyAustralia provide a timetable to replace all lighting covered by the ESF grant in the Bankstown LGA with energy efficient lighting.

Failure to maintain street lighting and consequent security and safety risks, and road safety risks

Council officers report street lighting outages, including whole blocks of streets, are being reported out and are not being fixed some 3 weeks later.

EnergyAustralia has no night patrols on main roads as required under AS1158 and called for under the Code and this is a major safety and risk concern for the Bankstown City Council and the Bankstown community. Bankstown City Council has undertaken its own night time patrols and has found main road outages far exceed the preliminary surveys done by SLI Program (on some main road sections outages have exceeded 20%).

On many occasions there are banks of lights out causing motorists to travel at speed from light to dark and back into light. This is dangerous and could result in death, injury and property damage.

Failure to repair public lighting in community parks and other public areas, cost shifting to Council, and public safety risks

In Bankstown, EnergyAustralia has refused to inspect and rectify vandalised public lighting in public areas such as Greenacre Reserve and Gardenia Reserve. EnergyAustralia's failure to maintain lighting in these areas creates significant public safety and community risk. (Copy of letter attached).

EnergyAustralia have now requested that Bankstown City Council staff inspect vandalised public lights for which Council is paying Rate 1 charges. Rate 1 charges include an 80% fee for infrastructure and maintenance. This represents an inappropriate cost shift in EnergyAustralia's responsibility compared to the assumed tariff definitions under IPART pricing decisions.

Inconsistent and ad hoc Application of EnergyAustralia Policy, and excessive fee regimes

Recently EnergyAustralia advised Council to remove EnergyAustralia assets and replace them with Council lights on a metered system on the basis that Council should undertake maintenance of an EnergyAustralia asset. (Letter attached)

In the face of this withdrawal of service Council undertook the works as advised, EnergyAustralia then charged excessive PDV charges and also refused to rebate 2 years of Rate 1 charges that EnergyAustralia took after the lights were removed. This represented a total capital cost to Council of \$75,000 and Energy Australia charges of over \$25,000.

Council requests refund of these unreasonable charges.

Failure to provide a transparent billing regime

Bankstown City Council has in excess of 10 accounts with EnergyAustralia. Account descriptions are so poor that Council is unable to reconcile many of these bills. Despite many representations to EnergyAustralia, the company has failed to take any remedial action.

Imposing Inappropriate Asset Charges

EnergyAustralia charges the Council for undepreciated value of a street lighting asset, which is removed or acquired. The charges levied bear little relationship to the appropriate value. They are based on a written-up 'Modern Engineering Equivalent' rather than a straight-line valuation method.

Failure to Provide Appropriate Access to appropriate network and retail tariffs for non EA Lighting assets

EnergyAustralia has asked that Bankstown City Council establish a metered and Special Small Service Connections service to Energy Australia's network.

Regrettably Council is unable to access appropriate retail and network pricing for this council owned lighting. As a consequence higher ongoing charges are being applied.

Public Lighting Code Report Card for EnergyAustralia

The NSW Public Lighting Code¹ came into effect on 1 January 2006 with the support of the Dept of Energy, Utilities and Sustainability (DEUS), Councils and the Local Government & Shires Association and, the commitment of the service providers to fully implement the Code. Implementation was to take place over 12 months for all but one² of the Code provisions and DEUS undertook "to review the Code's effectiveness within two years of its commencement."³

The SLI Program has reviewed key Code measures, EnergyAustralia's Public Lighting Management Plan⁴, held discussions with EnergyAustralia and collected field data to assess progress in implementation. A summary of the findings is as follows:

CODE PROVISION	OVERALL PROGRESS	NOTES
Prepare Management Plan (7)		Published June 2007 following consultation with councils
Reporting Performance against Management Plan (9.1a)	??	Due by July 2007; EA has advised that performance report will be provided in August 2007; No reporting provided in 2006
Provision of current inventories (9.1b)		Copies of current inventories provided to councils in Mar 2007, 11 months after the initial request. Request for current GIS data remains outstanding 15 months after initial request. Council have raised concerns about apparent duplicate Pole IDs and discrepancies between old and new address details.
Report on Code implementation at 6 months (16.1e)		Report apparently provided to DEUS (now DWE) but no report provided to councils
Minimum Service Standards 24 hour call centre (11.2a)		No issues identified by councils
Avg repair times < 8 days (11.2b)	??	Due by July 2007; EA has advised that reporting on repairs will be provided in August 2007; No reporting provided in 2006
Network supply faults (11.2c)		Continued indications of lengthy delays with U/G supply faults (eg North Sydney Council recently documented 165 day+ repair time). Also, EA has informed councils that, due to a lack of resources, it has not established systems to regularly update councils and RTA on timeframes for such repairs.
Bulk lamp replacement (11.2d)		Implemented with Utility Asset Management south of Sydney Harbour and Active Infrastructure on the North Shore and Central Coast. Not implemented in the Hunter.
Quarterly night patrols on Category V roads (11.1,11.2d & PLMP 3.1)		Has not been implemented in Metro Sydney and Central Coast. Appears to be a significant contributor to high outage rates on main roads averaging 7.4% (see attached). In the Hunter there are understood to be night patrols on some roads at unknown frequency.
Standard Luminaires (14.1-14.3)		Some changes made to current practices but available documentation (NS0118 & NS0119) significantly out of date and no recent progress in updating these documents.

General Comments on Code & Management Plan Implementation: A number of issues at EnergyAustralia appear to be contributing to delays in implementing some of the above items. The position of Commercial Manager – Public Lighting was unfilled for approximately 13 months of the 18 months since Code inception and previously had three different managers filling the role over three years. The apparent lack of resource and street lighting expertise within EA Networks, coupled with a number of management reorganisations seems to have impeded progress on the above items. Compounding this is the apparent difficulty in establishing dedicated street lighting crews in some Enerserve regions as per stated intent in 2004. Councils and EnergyAustralia managers have particularly noted the lack of street lighting resources in Southern Sydney.

¹ <http://deus.nsw.gov.au/publications/NSW%20Public%20Lighting%20Code%20-%20140KB.pdf>

² Coincident with likely bulk lamp replacement schedules, Service Providers were granted up to 48 months to update inventories

³ As per email to L.G.S.A and other council representatives from Deputy Director General, DEUS, 14 Dec 2005

⁴ http://energyaustralia.com.au/internet/pdfs/Public_Lighting_Management_Plan_June_2006.pdf

Areas of the Public Lighting Code Requiring Further Strengthening

The SLI Program and its participating councils have identified the following specific difficulties related to implementation of the NSW Public Lighting Code and associated Management Plan:

AREA FOR CODE CONSIDERATION	BACKGROUND
<p>1. Penalties for Non-Compliance</p>	<p>EnergyAustralia has not implemented a number of Code requirements within the required timeframe. This conflicts with "EnergyAustralia's agreement to adhere to the Code in its entirety"⁵ as undertaken to the then Dept of Energy Utilities and Sustainability (now DWE).</p> <p>In the absence of other documentation between the parties or regulations governing the provision of public lighting in NSW, the Public Lighting Code is essentially a <i>de facto</i> services contract. However, unlike a typical services contract, councils do not have meaningful recourse for non-compliance under the Code in its current form.</p> <p>Councils should be entitled to redress for non-performance under the Code and the related Public Lighting Management Plan beyond the current limited provisions related to outages. To encourage and ensure a high level of future Code compliance, the redress for councils needs to be commercially significant.</p>
<p>2. Maximum Repair Times for Underground Supply Faults</p>	<p>Outages involving underground supply faults frequently involve multiple lights and often involve main roads in areas with a large number of pedestrians and high volumes of vehicles at higher speeds. As such, they raise considerable public safety issues. As identified in the SLI Program review of the Public Lighting Code and as foreshadowed by councils at the time of Code formulation, the lack of specific targets for completion of repairs involving underground supply faults is leading to lengthy delays in repairs. Specific maximum repair times are needed under the Code. The SLI Program suggests an absolute maximum of 15 days for such repairs.</p>
<p>3. Clarification of Process for Agreeing on Technology Choice</p>	<p>Councils have been trying for four years to secure agreement with EnergyAustralia on a new portfolio of Standard Lighting. As evidenced by the following, councils are having difficulty in finalising an agreement:</p> <ul style="list-style-type: none"> • In Sep 2003, EnergyAustralia agreed at council request to install 1000 new energy efficient luminaires as trial. As part of this, councils agreed to the interim use of another higher energy consuming luminaire for two years while the new lights were evaluated an alternative. The subsequent March 2006 awarding of an Energy Savings Fund grant to councils to help progress deployment of new energy efficient technologies further supports these efforts. However, agreement on new Standard Lighting choices has not yet been reached and there remains no schedule for resolution. • EnergyAustralia has installed more than 30,000 high energy consuming 80W mercury vapour luminaires in recent years, despite only having agreed to the deployment of 14,000 with councils. • EnergyAustralia's current technical documentation on street lighting (NS0118⁶ and NS0119⁷) refers to luminaires that it has long since agreed to discontinue and to lighting Standards that have been superseded. No current Standard Luminaire list is available. • Councils have requested that a joint Technical Committee be established to resolve issues of lighting choice but EnergyAustralia has not formally agreed to Councils' proposal nor proposed an alternative approach.
<p>4. Clarification of Service Obligations for Parks & Reserves</p>	<p>Over some years, EnergyAustralia has expressed reluctance to continue to provide lighting in parks and reserves. However, there are some 6000 EnergyAustralia lights in such locations and service obligations under the Code require clarification.</p> <p>One example of the current difficulties is occurring in Bankstown. In a number of instances involving vandalism in parks and reserves in Bankstown, EnergyAustralia has withdrawn maintenance services, leaving lighting inoperable over a sustained period but the utility continues to charge council for these assets.</p> <p>Bankstown Council has noted that these parks are in areas of high risk for sexual assaults and other crimes against the person and that lighting is an essential safety feature.</p>

⁵ As per email to LGSA and other council representatives from Deputy Director General, DEUS, 14 Dec 2005

⁶ <http://www.energy.com.au/internet/pdfs/NS0118-NSA1333.pdf>

⁷ <http://www.energy.com.au/internet/pdfs/NS0119-NSA1333.pdf>

	EnergyAustralia may have a reasonable case for compensation for vandalism above an agreed level but withdrawal of service in such situations appears highly inappropriate.
5. Access to Appropriate Network & Retail Tariffs for non-EA Lighting Assets	<p>Over the past decade, councils have been encouraged to install and maintain lighting in locations where EnergyAustralia declined to provide a new or improved lighting service (eg parks, reserves, town squares, CBD upgrades, multi-function pole installations). There may now be a few hundred such installations involving perhaps 10-15,000 luminaires.</p> <p>These installations are either separately metered or "Special Small Services," and are separately billed. The accounts have typically been placed on a General Supply Tariff, and pay network and retail energy charges as if the bulk of their consumption was during peak periods. This results in considerably higher ongoing charges for such installations, even if they use lighting technology identical to EnergyAustralia standard luminaires.</p> <p>Following queries from the SLI Program about these non-cost reflective network and retail charges, and potential competitive neutrality issues, EnergyAustralia introduced a new network tariff in 2004. The tariff definition is:</p> <p>"Public Lighting [401]: Available for metered and unmetered supplies that are deemed to have a similar usage profile to public lighting and have some form of on/off control. The form of on/off control may be photoelectric cell, timer, ripple or other control."⁸</p> <p>In practice, however, councils have been unable to switch to this more appropriate network tariff or correspondingly appropriate retail tariffs for such accounts.</p> <p>In an effort to progress this, a number of "test" accounts were identified by Woollahra and Rockdale Councils in 2004/05 and were checked by council staff to ensure consistency with EnergyAustralia's published tariff definition⁹. Despite various commitments to work through the issues involved, EnergyAustralia has yet to resolve even these "test" accounts.</p>
6. Review of Asset Removal / Acquisition Regime	<p>If councils wish to remove or acquire existing EnergyAustralia street lighting assets that are less than 20 years old, EnergyAustralia levies 'undepreciated asset charges' and asset removal charges on councils. Current EnergyAustralia 'undepreciated asset charges' are based on straight line depreciation from the current cost of a 'Modern Engineering Equivalent' rather than the actual cost of the original installation. This valuation approach, referred to as ODRC, is used for IPART pricing purposes for a portfolio of assets that EnergyAustralia is responsible for the continued maintenance and replacement of. However, this written up value of the assets:</p> <ul style="list-style-type: none"> • Appears to have little relationship to any reasonable valuation of the individual aged assets being removed from the network and for which EnergyAustralia will no longer be responsible; • Results in inappropriately high 'exit charges'; and • Is a significant barrier to competitive alternatives, raising questions about competitive neutrality.
7. Review of Connection and Metering Requirements for Council-Owned Lighting	<p>EnergyAustralia is increasingly requiring new council-owned lighting installations to be separately metered and not allowing the lights to be listed on the Public Lighting Inventory (eg Rate 3) or directly connected to the network (eg as a "Special Small Service").</p> <p>One multi-function pole provider reports that, in working for Randwick Council, it is being asked to separately meter each individual pole despite there being one common point of connection and isolation to the network for a number of poles.</p> <p>In practice, the requirement for metering results in higher installation costs, increased street clutter (eg supply points, metering housings) and increased administrative costs. In addition to being highly inefficient, this also raises questions about competitive neutrality.</p>
8. Lamp & Luminaire Recycling	<p>EnergyAustralia agreed with councils and outlined in its Public Lighting Management Plan (Section 3.2) that it would "Implement an environmentally and economically appropriate recycling program for lamps and luminaires that have been replaced or removed." To date, it does not appear that lamp recycling arrangements have been put in place. All lamps used in street lighting contain mercury and a variety of other toxic compounds. Disposal of lamps to landfill is highly inappropriate and the Code should give consideration to this issue.</p>

⁸ [www.energy.com.au/energy/ea.nsf/AttachmentsByTitle/Network+Price+List+06_07/\\$FILE/Network_Price_List_FY07.pdf](http://www.energy.com.au/energy/ea.nsf/AttachmentsByTitle/Network+Price+List+06_07/$FILE/Network_Price_List_FY07.pdf)

⁹ **Woollahra Accounts:** 805843340, 910336905, 911351449, 911378528, 911387305, 911435033, 911442321, 911529824, 91175697, 911795833, 916880154, 916880162, 920221005, 920234886, 921040743, 921606498, 829912703, 806180799, 805494482, 821847029; **Rockdale Accounts:** 830886674, 833076814, 830886420, 829837210, 830703581

SLI Program – Main Road Outage Survey May/June 07

#	COUNCIL	ROC	Date of Survey	Streets Surveyed	Outages	Lights Surveyed	% Out
1	Ashfield	SSROC Aff.	25-May-07	Liverpool Rd	3	116	2.6%*
2	Bankstown	WSROC	26-May-07	Juno Pd, Boronia Rd, Waterloo Rd	20	165	12.1%
3	Botany Bay	SSROC	2-Jun-07	Banks Ave, Denison St	5	90	5.6%
4	Burwood	SSROC Aff.	25-May-07	Burwood Rd	6	121	5.0%
5	Canada Bay	SSROC Aff.	25-May-07	Paterson St, Gipps St, Queens Rd	5	130	3.8%*
6	Canterbury	SSROC	25-May-07	Beamish St, Bexley Rd, Kingsgrove Rd	12	192	6.3%
7	City of Sydney	SSROC	25-May-07	Cleveland St	14	185	7.6%
8	Gosford	CCROC		<i>Survey deferred due to storm recovery efforts</i>			
9	Hornsby	NSROC	24-May-07	Edgeworth David Av, Pennant Hills Rd	57	470	12.1%
10	Hurstville	SSROC	3-Jun-07	Queens Rd, Croydon Rd	4	63	6.3%
11	Kogarah	SSROC	2-Jun-07	Railway Pde, King Georges Rd	17	268	6.3%
12	Ku-Ring-Gai	NSROC	23-May-07	Mona Vale Rd, Fox Valley Rd	48	373	12.9%
13	Lake Macquarie	HROC		<i>Survey deferred due to storm recovery efforts</i>			
14	Lane Cove	NSROC	24-May-07	River Rd, River Rd West	7	139	5.0%
15	Leichhardt	SSROC Aff.	26-May-07	Perry St, Darling St, Balmain Rd	8	282	2.8%*
16	Marrickville	SSROC	25-May-07	Marrickville Rd	10	227	4.4%*
17	Mosman	SHOROC	22-May-07	Military Rd, Spit Rd	27	242	11.2%
18	Newcastle	HROC		<i>Survey deferred due to storm recovery efforts</i>			
19	North Sydney	NSROC	24-May-07	Miller St	7	116	6.0%
20	Randwick	SSROC	2-Jun-07	Carrington Rd	3	82	3.7%*
21	Rockdale	SSROC	2-Jun-07	President Av, Bay St, Bestic St, Croydon Rd	12	210	5.7%
22	Ryde	NSROC	26-May-07	Blaxland Rd	10	182	5.5%
23	Strathfield	Fmr IMROC	25-May-07	Cosgrove Rd, The Boulevarde	8	100	8.0%
24	Sutherland	SSROC	4-Jun-07	Kingsway, Taren Pt Rd	13	443	2.9%
25	Warringah	SHOROC	22-May-07	Pittwater Rd, Old Pittwater Rd, Allambie Rd	73	706	10.3%
26	Waverley	SSROC	3-Jun-07	Bondi Rd, Council St, Carrington Rd	3	104	2.9%*
27	Willoughby	NSROC	24-May-07	Archer St, Herbert St, Hampden Rd	9	158	5.7%
28	Woollahra	SSROC	3-Jun-07	Ocean St, Ocean Av	4	62	6.5%
29	Wyong	CCROC		<i>Survey deferred due to storm recovery efforts</i>			
TOTALS					385	5226	7.4%
Analysis By ROC					Outages	Lights Surveyed	% Out
Former IMROC area					30	749	4.0%
NSROC					138	1438	9.6%
SHOROC					100	948	10.5%
SSROC					97	1926	5.0%
CCROC					<i>Deferrea</i>	<i>Deferrea</i>	<i>Deferred</i>
HROC					<i>Deferrea</i>	<i>Deferrea</i>	<i>Deferred</i>
Bankstown (only WSROC participant)					20	165	12.1%
TOTALS					385	5226	7.4%

***NOTE:** In most areas with the lowest outage rates, large portions of the roads surveyed had abutting residential properties. These roads were primarily in inner metropolitan areas and the residents are likely to have reported outages directly, thereby significantly reducing the outages observed.



Wayne Carter
General Manager

28 July 2008

Mr. George Maltabarow
Managing Director
EnergyAustralia
GPO Box 4009
SYDNEY NSW 2001

Dear Mr. Maltabarow

Re: Energy efficient lighting on residential roads

Previously, on 2nd June 2008, I wrote to you on this same matter, as a follow up to a letter dated 11 April 2008 from your Regional Manager Sydney South. I note that Council has not yet received a reply to this correspondence.

My letter of 2nd June (copy attached) detailed Council's concerns, including Energy Australia's choice of 42W CFL as the standard energy-efficient lighting, the unduly high prices proposed being much in excess of efficient costs, the apparent lack of compliance with the Public Lighting Code, absence of clarity about the basis of the street lighting service, and finally the need for an independent review of the street lighting arrangements in NSW.

More recently, I received a letter dated 4 July 2008 from Mr. Geoff Lilliss, EnergyAustralia's Executive General Manager, Network, which is in similar terms to the 11 April letter that I replied to. Regrettably, the letter from Mr. Lilliss also does not offer anything to allay our serious concerns.

As you would probably be aware, it is now five years since Council and the 34 Council-combined Street Lighting Improvement Program (SLIP) began making representations to EnergyAustralia about the urgent need to introduce appropriately priced energy efficient lighting.

Although EnergyAustralia has at last made a move towards energy efficient lighting, its proposed high prices for both CFL and T5s (in the case of T5s, 84% higher than Integral Energy) make its proposal unacceptable. Bankstown also has reservations about EnergyAustralia's proposed choice of CFL as the standard lighting and is very much in favour of the T5. This preference is supported by feedback from Integral Energy and widespread positive feedback from the areas served by Integral Energy, where Council understands that more than 10,000 T5s have already been installed.

Council also notes that EnergyAustralia has not received regulatory endorsement for the proposed high CFL pricing. Therefore, Council is of the view that until such endorsement has been obtained, the capital and maintenance charges for both CFL and T5 can only be set at the level of the current default residential road luminaries (80W mercury vapour).

Until such time as appropriate regulatory scrutiny and approval has been granted for EnergyAustralia's new pricing and you have adequately clarified any data to support your choice of CFL, Council remains strongly opposed to both EnergyAustralia's choice of CFL as the standard lighting and its proposed prices for the CFL and the T5.

Council is of the view that an urgent tripartite meeting between EnergyAustralia, Council and the Street Lighting Improvement Program (SLIP) could be the way to resolve these serious and outstanding issues. Should you be agreeable, Council's Manager Roads and Infrastructure, Mr. Rowan Morrison may be contacted by your nominated staff on 02-97079403 or rowan.morrison@bankstown.nsw.gov.au to make the necessary arrangements.

In the meantime, Council would like to reiterate its earlier position that it does not concur with EnergyAustralia's choice of 42W CFL as its standard lighting nor its new price proposals. Council also does not agree to further installation of energy-inefficient obsolete 80W MV lights in Bankstown Local Government Area, as this will be counterproductive and inconsistent with climate change objectives.

Yours sincerely



Wayne Carter
GENERAL MANAGER

Attached:

Copy of Council letter dated 2/6/2008

CC to:

Mr. Geoff Lilliss
Executive General Manager, Network
EnergyAustralia

Mr. David Lewis
General Manager SSROC

Mr. Graham Mawer
Street Lighting Improvement Program



Wayne Carter
General Manager

2 June 2008

Mr George Maltabarow
Managing Director
Energy Australia
GPO Box 4009
Sydney NSW 2001

Dear Mr Maltabarow

**Use of Energy Efficient Lighting for Residential Roads in Bankstown LGA:
Proposed 44 - 93% Increases in Price for Lighting on Residential Roads.**

I am writing in response to a letter from EnergyAustralia's Regional Manager Sydney South dated 11 April 2008 outlining EnergyAustralia's proposal to replace its current standard street lights for residential roads with an energy efficient alternative and advising of the cost associated with this proposal.

As you may recall, Council previously outlined many concerns about street lighting in Bankstown in our 2007 submission to NSW Public Lighting Code Review (*copy attached*).

Regrettably, the street lighting services in Bankstown have not been adequate for many years. In 2003, Bankstown Council developed and adopted its *Public Lighting Strategy* which noted that EnergyAustralia's use of obsolete technology and poor maintenance practices were affecting Bankstown Council financially and Council failing to meet its public lighting standards. The Strategy found that the use of new energy efficient lighting in residential roads could result in double the light output, less energy consumption and greenhouse gas emission and less operating cost due to substantially longer lamp life.

Council's *Lighting Strategy* recommended that EnergyAustralia should withdraw its obsolete energy inefficient 2x20 watt (*twin-20*) fluorescent lightings from residential streets and replace these with advanced energy-efficient, and long-life (T5 or similar) lights, after trialling these in the streets as quickly as possible.

In 2004/05, when Integral Energy was already deploying in its territory energy efficient and long life T5s in thousands, EnergyAustralia, instead of making a timely decision on the trial, started an accelerated deployment of obsolete 80 watt MV lights, which uses a dead-end technology, consumes more than double amount of energy and contains environmentally hazardous mercury.

It is now five years since Council and the 34 Council-combined Street Lighting Improvement Program (SLIP) have campaigned to emphasize the urgency in introducing appropriately priced energy efficient lighting. This has been in place in LGAs serviced by Integral Energy for several years now. It is also consistent with the

climate change and energy efficiency goals of the NSW Government's *State Plan*. As a positive outcome of SLIPs initiatives, the State Government backed it up with a \$4.2 million grant for deployment of energy efficient street lighting in its member council areas.

Assessment and Response to 11 April Proposal

The introduction of energy efficient lighting is a long over due move by EnergyAustralia, however regrettably Council has some concerns about the technology chosen, the transparency of the evaluation process, and the proposed costs. I am advised that these concerns are shared by all 34 SLIP member councils serviced by Energy Australia. Our detailed concerns are outlined below:

(a) Evaluation Process and Provision of Information for Councils

Council is concerned that EnergyAustralia has chosen the 42W CFL (compact fluorescent) luminaire as its default lighting for residential streets, without proper process due to the absence of either an independent or joint evaluation with councils and/or the SLI Program of the two alternative products trialled, as I understand was originally agreed to.

EnergyAustralia has not shared detailed trial data with councils or the SLI Program (SLIP) on behalf of councils. This may also be seen as non-compliant with the NSW Public Lighting Code's requirement that service providers consult with councils in deciding the core lighting types they are going to offer.

Bankstown Council therefore requests that EnergyAustralia makes available to Councils and the SLI Program the following information to enable an independent comparative assessment of the two alternative energy efficient lights available, before an acceptable determination of standard energy efficient lights is finalised:

- (a) Detail data from the trial of T5s and CFLs and its basis for the selection of 42W CFL over 2x14W T5
- (b) Detail cost analysis justifying its 84% higher price for T5s when compared with Integral Energy.

(b) Price Increase

The other major concern for Council, and undoubtedly all other councils in EnergyAustralia's territory, is EnergyAustralia's move to impose an apparent arbitrary and unreasonably high price for its proposed energy efficient alternatives, particularly for the T5s.

Council would like to register concerns that:

EnergyAustralia's proposed charges for 2008/09, as summarised below, is 44-93% higher than that for its current standard lighting (80W MV):

- 80W MV lamp and luminaire charges (current default): \$41.19/yr
- 42W CFL lamp and luminaire charges (proposed default): \$59.27/yr
- 2x14W T5 lamp and luminaire charges (optional default): \$79.46/yr

Of particular concern to this Council is EnergyAustralia's pricing of \$79.46/yr for the 2x14W T5 lamp and luminaire, its proposed optional default for residential streets, which is 93% higher than the price for the current default 80W MV.

EnergyAustralia's proposed pricing is far higher than appears warranted. In particular, the pricing is:

- Far higher than indicated by EnergyAustralia's own cost analysis (as provided to SLI Program on 21 November 2007)
- Far higher than EnergyAustralia's prior indicative pricing (as provided to SLI Program on 01 June 2007)
- Far higher than current Integral Energy's pricing for councils in western Sydney and the Illawarra region. EnergyAustralia's pricing does not seem to bear any relation to the cost or has increased beyond a reasonable amount, and appears to be at odds with competitive market pricing principles.

(c) Proposed T5 Price is 84% Higher than Integral's

EnergyAustralia's proposed on-pole price for a new T5 luminaire complete with lamp and a bracket is \$105.17, which is 84% higher than Integral Energy's price (\$57.16) for the same product. This will act as a strong disincentive and preclude the use of T5 which is more energy efficient and according to general assessment by the industry offers several definite advantages over 42 watt CFL luminaire.

Since 2004/05 Integral Energy has used T5s as its standard light for residential roads and has already deployed more than 10,000 T5 lights in its territory. Council cannot understand the rationale for the position put forward by Energy Australia.

(d) Greenhouse Gas Implications

The use of 42 watt CFLs instead of 2x14 watt T5s will have considerable greenhouse gas (GHG) implications for councils. Based on data provided by EnergyAustralia late last year, EnergyAustralia will be required to replace 61,602 remaining obsolete fluorescent lights over the next 4-5 years under the 2004/05 IPART decision. The use of 42 watt CFLs instead of T5s will result in an extra 151,273 tonnes of GHG emission over the 20-year life of the luminaires - the equivalent of 1,900 vehicles on the road each year- plus the extra electricity costs for councils.

Importantly, EnergyAustralia's delay in adoption of energy efficient lighting has already come at a considerable greenhouse cost. Based on data provided by EnergyAustralia late last year, 41,057 of 80W MV lights have been deployed since 2004/05. This will remain a big financial and greenhouse liability for council over the next 15-20 years. The net greenhouse gas (GHG) difference between this and having done 2x14W T5s is about 244,959 tonnes of extra GHG over the 20 year life of the luminaires - the equivalent of 3,061 vehicles on the road each year, plus more than double electricity and network distribution costs for councils.

Because of this, in 2004/05 Bankstown Council rejected EnergyAustralia's offer of installing 80 watt MV as replacement lights in Bankstown. Although Council's position was reiterated to EnergyAustralia last year, I have been advised that such lights have subsequently been installed despite an assurance not to do so.

The Need for a Regulatory Scrutiny of the 40 - 93% Price Increase:

By any measure, EnergyAustralia's proposal is a substantial change in the basis of street lighting pricing. This is of particular relevance given that up to half of all residential road lighting will be replaced over the next few years under the IPART-

mandated program to accelerate the removal of obsolete tubular fluorescent lighting on EnergyAustralia's network.

Notably, EnergyAustralia's proposed high pricing regime comes on top of the ~ 40% price rise that Council is already facing over the 2005/06-2008/09 regulatory period since the 2005 IPART determination.

Council currently pays EnergyAustralia in the order of \$2 million annually for the provision of public lighting, up from \$1.5 million in 2001/02, and is concerned that without more efficient lighting and in the context of changes to pricing policies, Bankstown's community will suffer from even further street lighting cost increases.

Bankstown Council is concerned that this fundamental change and 40 - 93% increases in street lighting pricing has not been subject to detailed regulatory scrutiny. Along with other Councils, this Council strongly supports an urgent review by IPART and the new Australian Energy Regulator (AER) of Energy Australia's proposed pricing.

Regrettably, Council is of the view that Energy Australia's 2008/09 pricing proposal, particularly that of T5, does not present an appropriate or cost effective response the long standing requests by local councils to meet the urgent need for energy efficient and appropriate lighting or a fair response to ratepayers and working families across Bankstown and other Council areas.

The Need for a Review of Street Lighting Arrangements in NSW:

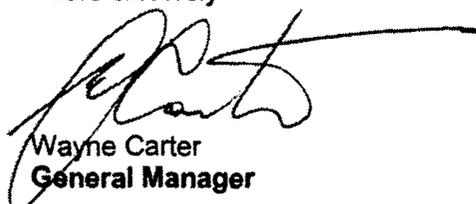
Along with other Councils, Bankstown Council is calling for the NSW Government to undertake an independent review of street lighting arrangements in NSW.

The Report of the NSW Public Lighting Code Review undertaken last year by the Department of Energy and Water should be released and could form the basis of future discussions for reform.

It is now timely that a direct and constructive dialogue between councils, EnergyAustralia and the State Government that aims to put the street lighting arrangements in NSW on a firmer footing should be welcomed by all parties.

At this time, Council does not concur with EnergyAustralia's choice of 42W CFL as its energy efficient standard lighting for residential roads or its new price proposals for CFL and T5 lights. Council also does not agree to further installation of energy inefficient obsolete 80W MV lights in the Bankstown Local Government Area.

Yours sincerely



Wayne Carter
General Manager

Attached: As stated

Cc:
The Hon. Ian Macdonald, Minister for Energy

Mr James Cox, Chairman IPART

Mr Mike Buckley, General Manager, Network Regulation North Branch, Australian Energy Regulator (AER)

Mr Mark Duffy, Director-General, Department of Water and Energy

Ms Carolyn Davies, Director Water & Energy Programs, Department of Environment and Climate Change

Mr David Lewis, General Manager, SSROC

Mr Phil Harmey, Regional Manager Sydney South



Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB Post Office NSW 1230

7 July 2005

Dear Members of the Tribunal,

RE: EnergyAustralia proposal to increase public lighting prices (70% real)

On behalf of Council and as a member of the Street Lighting Improvement (SLI) Program, I thank you for the opportunity to make this submission contesting Energy Australia's (EA's) proposal to increase prices by 27% real + CPI + subsequent increases over the next 37 months for public lighting services.

Firstly, Bankstown City Council would like to unequivocally support the recent representations made on behalf of participating councils by the Street Lighting Improvement (SLI) Program.

Bankstown City Council is extremely concerned that while EA has staged its proposals into smaller chunks, the path laid out by EA has the same endpoint as the previous proposal with no acceptable justification.

Bankstown City Council is widely regarded as an efficiently run organisation, dedicated to the provision of effective and efficient services to its community. In order to achieve this objective, Bankstown provides works and services through a combination of its own workforce but with a strong emphasis on competitive tendering and external contracts. The broad experience in relation to external provision of services qualifies Council to say that our experience with EnergyAustralia over many years has left much to be desired.

By any measure, the inefficiencies inherent in Energy Australia's operations have impaired Council's ability to provide the level of public lighting service that our community expects. Areas where this has been most evident include the following:

1. An inadequate maintenance regime resulting in an unacceptably high level of outages and costs.

This situation has persisted for many years with elected Councillors regularly complaining with respect to substandard lighting for both vehicles and pedestrians.

2. Long delays in relation to requests for upgrading of lighting.
3. Continued use of obsolete technology (i.e. 2x20w fluorescent lighting) long after other authorities had upgraded their standards.

Accordingly, Council objects in the strongest terms to price increases that would effectively reward EA's operational inefficiency and its unsound decision to continue the use of costly obsolete technology.

Bankstown Council currently pays EnergyAustralia \$1.6m annually for the provision of street lighting. Of this amount only the energy component is contestable. The

street lighting asset related charges, or SLUOS, represents the largest component of street lighting charges. These are not only non-contestable but incorporate the inefficiencies and obsolete equipment referred to above.

Bankstown Public Lighting Strategy

In April 2003, following quite extensive investigation and research, Council developed and adopted the "*Bankstown Public Lighting Strategy*". This *Strategy* was undertaken quite separately from the SLI Program but came up with similar findings regarding poor outcomes resulting from Energy Australia's continued use of obsolete technology and unsound maintenance practices. These clearly impaired Local Government's ability to meet its public lighting responsibilities.

Examples of the *Strategy's* findings are:

- If EA abandoned their unsound practice of using assorted makes and types of lamps in 2x20W fluorescent fittings (where the weakest performing lamp determines the bulk replacement time), the bulk replacement time could be extended from 18 months to at least 25 months.
- The use of electronic photocells, instead of continued use of obsolete CS types could double the life of these and 10% reduced burning time (400 hours) annually for each lamp in the network.
- The use of advanced T5 lamps in residential streets could result in 50% longer lamp life and nearly double the amount of light without any extra power consumption.

A copy of the *Strategy* was previously submitted to IPART with Council's submission to Energy Australia's initial attempt at a price increase. Further copies can be obtained by contacting Council's Rowan Morrison on 9707 9403. The *Strategy* clearly demonstrates Council's commitment to effective and efficient provision of public lighting to the community.

Council's adoption of this *Strategy* resulted in Bankstown joining the SLI Program and being one of the first councils to participate in the current trial of improved lighting technology, namely T5 luminaires of which 100 have already been installed.

Street Lighting Assets

Councils rely on EA as the owner and operator of street lighting assets to manage those assets responsibly on behalf of the community. Appropriate asset management practices are the necessary tools to achieve and ensure cost effectiveness and sustainable financial management.

The management of public assets is a primary responsibility of government organisations. Energy Australia has not demonstrated responsible asset management of street lighting facilities in regard to:

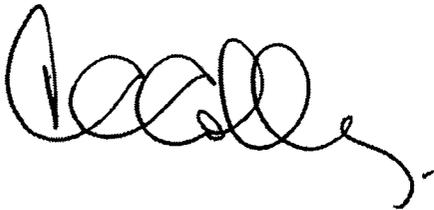
- Life cycle costing
- Choice of assets
- Adoption of a long term and efficient approach to asset maintenance and replacement
- Levels of service to the community

Some of these issues have been addressed in the proposed NSW Public Lighting Code and it is anticipated that on its effective implementation by Energy Australia, significant improvements in asset management practices will result. However, the Code would not address the legacy of poor asset management that has resulted in highly obsolete assets being installed by Energy Australia.

Accordingly, Council would contend that any increases in the street lighting charging regime should not occur until the NSW Public Lighting Code is implemented and "bedded down", appropriate asset management practices are in place and highly obsolete assets are worked out of the system, and not at the cost of Council.

Thank you again for the opportunity to make this submission. Should any members of the tribunal wish to follow-up on any part of this submission please do not hesitate to contact Council's Rowan Morrison on 9707 9403.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Richard Colley', with a stylized flourish at the end.

Richard Colley
General Manager

8 July 2005

Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB Post Office NSW 1230

Dear Members of the Tribunal,

***RE: EnergyAustralia Proposal to Increase Public Lighting Prices by 27% Plus CPI
– Supplementary SLI Program Submission***

Attached please find a supplementary submission to IPART from the Street Lighting Improvement Program regarding EnergyAustralia's public lighting pricing application. This submission consists of an Excel-based analysis derived from the Essential Service Commission Victoria's detailed public lighting cost model (attached file: SLI Program modification of ESC cost model Jul 05.xls).

We have considered the additional input provided by PB Associates at a presentation to councils on Tuesday 5 July and note that there remains a stark comparison between EnergyAustralia's pricing proposal and the recent Victorian ESC analysis. We also note that there appear to be some material errors in the PB Associates February 2005 submission to IPART regarding this pricing comparison. These are summarised in our main submission, and we request an opportunity to discuss this in greater detail with the Secretariat and IPART's consultant.

As discussed previously with the IPART Secretariat, the ESC posted its draft model and this was used as the basis of our work as the ESC did not post its final model. However, the changes made to the model by the ESC were clearly laid out in the Final Determination. We have therefore updated the draft ESC model to incorporate changes in the Final Determination model. These modifications are shown in the attached in blue with accompanying annotations. The SLI Program also made modifications to the ESC model to represent 100% funding of street lighting by EA. These modifications are shown in green with annotations.

Thank you again for the opportunity to make this submission. The SLI Program would be pleased to answer any questions you have related to the matters raised.

Yours sincerely

Graham Mawer
Program Manager

c/o Next Energy
Lvl 12–220 George St
Sydney NSW 2000
Tel: 02 9251 4072
Fax: 02 9247 5103

Participating Councils: Ashfield • Bankstown • Botany Bay • Burwood • Canada Bay
• Canterbury • Gosford • Hornsby • Hurstville • Kogarah • Ku-ring-gai • Lake Macquarie
• Lane Cove • Leichhardt • Marrickville • Mosman • Newcastle • North Sydney • Randwick
• Rockdale • Ryde • Sydney • Strathfield • Sutherland • Warringah • Waverley • Willoughby
• Woollahra • Wyong

8 July 2005



STREET LIGHTING IMPROVEMENT PROGRAM

Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB Post Office NSW 1230

Dear Members of the Tribunal,

RE: EnergyAustralia Proposal to Increase Public Lighting Prices by 27% Plus CPI

On behalf of the 29 councils participating in the Street Lighting Improvement (SLI) Program, I thank you for the opportunity to make this submission contesting EnergyAustralia's (EA's) proposal to increase prices for public lighting services by 27.3% plus CPI. The participating councils represent about 85% of the public lighting in EA's territory, and have been working jointly to achieve reforms to serious longstanding deficiencies in EA's public lighting services.

There are several issues the SLI Program would like to raise for the Tribunal's consideration. In brief, the SLI Program submits that EA's pricing proposal should be denied, as it is inconsistent with cost analyses, would result in inefficient and non-cost reflective prices, and would be inconsistent with regulatory and energy policy objectives.

Our key concerns are summarised below:

ESSENTIAL NEED FOR REGULATORY PROTECTION

1) **No market alternative for councils.** Councils need IPART's regulatory protection, as the specific public lighting services in question are not contestable, and councils have no market alternative.

EA's PROPOSED PRICES OUT OF LINE WITH DETAILED COST ANALYSES

2) **Inconsistent with ESC Victoria analyses.** EA's proposed prices are inconsistent with, and highly inflated relative to, the detailed cost analyses performed by the Essential Services Commission Victoria for its recent public lighting pricing inquiry.

3) **Inconsistent with analyses by EA's consultant.** EA's proposed prices are inconsistent with, and inflated relative to, the analyses performed by EA's own 'cost-to-serve' consultant, which assessed the costs of an efficiently provided service, assuming that certain of EA's highly obsolete practices and technologies were remedied.

4) **Inconsistent with other detailed analyses.** EA's costing contains further material overstatements in asset valuation, depreciation, and operating expenses due to inclusion of several inappropriate items identified by EA's consultant and/or the SLI Program.

5) **Would overcharge by nearly \$80 million over coming decade.** Overall, EA's proposed pricing would overcharge councils by more than \$25 million during the four year proposed pricing period and by \$80 million over the coming decade.

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Participating Councils: Ashfield • Bankstown • Botany Bay • Burwood • Canada Bay
• Canterbury • Gosford • Hornsby • Hurstville • Kogarah • Ku-ring-gai • Lake Macquarie
• Lane Cove • Leichhardt • Marrickville • Mosman • Newcastle • North Sydney • Randwick
• Rockdale • Ryde • Sydney • Strathfield • Sutherland • Warringah • Waverley • Willoughby
• Woollahra • Wyong

ENDORISING EA'S CLAIMS WOULD BE INCONSISTENT WITH ENERGY AND REGULATORY POLICY

6) *Would impede council investments in greenhouse reductions and standards compliance.*

EA's overstated asset valuation and operating expenses would impede councils' investment in appropriate lighting technology that reduces greenhouse gas emissions and improves compliance with Australian Standards for lighting.

7) *Would obstruct future council access to contestability.* EA's overstated asset valuation would obstruct any future efforts of councils to access effective contestability in new public lighting.

8) *Would reward EA and further punish councils for poor EA practices.* It would be inappropriate to charge councils for EA's longstanding highly inefficient practices, particularly as councils have had no meaningful say nor do they have recourse to any alternative.

These issues are discussed in more detail in the remainder of the submission.

1) *NO MARKET ALTERNATIVE FOR COUNCILS*

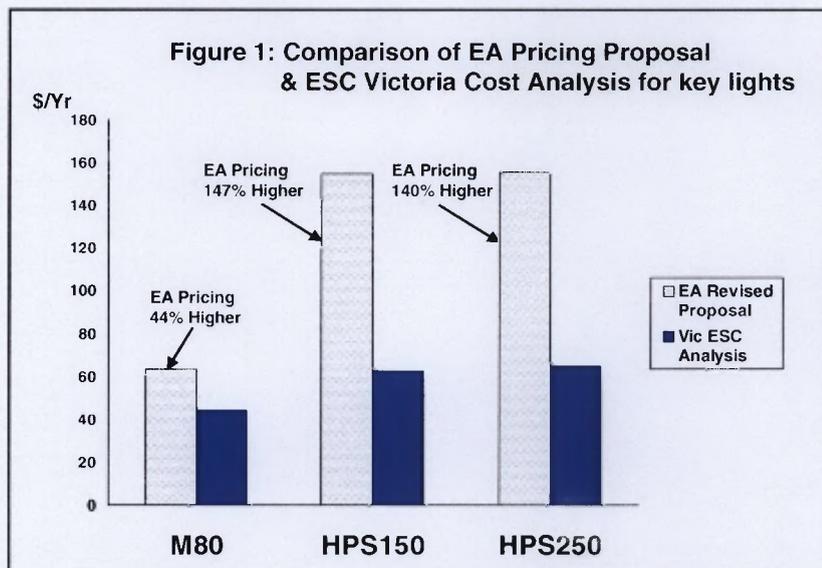
Put simply, Councils have no recourse to a contestable market for public lighting services with respect to the existing 200,000+ lights owned by EA. The SLI Program understands and welcomes the fact that the design, construction and maintenance of *new* public lighting is contestable, as is the supply of retail energy. However, EA's pricing proposal relates to the 200,000+ existing lights currently owned by EA. NSW contestability policy, as established in the Electricity Supply Act 1995 and administered by the Department of Energy, Utilities and Sustainability (DEUS), does not provide for contestability with respect to capital and maintenance charges for existing EA-owned public lighting assets. Furthermore, Councils have no choice with regard to maintenance, modification or removal of these existing lights.

The SLI Program appreciates the Tribunal's efforts to facilitate future contestability by classifying public lighting as an excluded distribution service in the 2004 Electricity Network Price Determination. However, public lighting services related to the EA-owned lights remain a monopoly, and it is therefore essential that councils be provided with clear and strong regulatory protection.

2) *INCONSISTENT WITH ESC VICTORIA ANALYSES*

During 2003 and 2004, the Essential Services Commission Victoria (ESC) undertook a rigorous, fully public and iterative review of public lighting charges, which included performing detailed analyses and modelling of public lighting costs. The ESC's detailed analysis investigated the three main lighting types that are also now the defaults for almost all new and replacement lighting in EA's territory. The results of that in depth ESC analysis are summarised in Figure 1 below. The table shows that EA's proposed prices (incorporating a 27.3% real increase requested and excluding consideration of CPI) for these common lighting types are some 44% to 147% above the costs assessed by the ESC.

The SLI Program will provide IPART with an Excel Workbook detailing the cost comparison as a supplement to this submission. The SLI Program requests an opportunity to make a presentation to the Tribunal Secretariat and its consultant on this aspect of its submission and related matters.

**NOTES:**

- 1) Cost comparison based on Vic ESC estimate of bulk & spot O&M including overhead, installed capital costs for brackets and luminaires in urban areas.
- 2) EA costs assume all M80 use residential road brackets and HPS use traffic route brackets.
- 3) For consistency with NSW approach, VIC ESC analysis adjusted to assume all assets are DNSP funded.

Notably, EA's pricing proposal claims that its own internal analysis "indicates that the proposed public lighting prices would be found to be fair and reasonable according to the ESCV criteria." (Section 2.1 p. 7) and, in a supplementary submission to IPART in February 2005 by EA's consultant¹, it was claimed that "Rates proposed by EnergyAustralia are comparable with ESC rates". These claims are clearly at odds with the above comparison, and the information provided by EA and its consultant has not satisfactorily addressed the key areas of difference underlying these claims. In particular, there appear to be three material issues:

- **Highly Inappropriate to Exclude Consideration of Brackets** – EA's exclusion of bracket costs (including associated labour) from its cost comparison creates significant distortions in the comparison. This is a highly material and inappropriate exclusion given that, unlike ESC Victoria's analysis, EA attributes the great majority (90%) of installation costs to brackets, with only 10% to the luminaires themselves.

The SLI Program notes that, even if EnergyAustralia's capital costs for brackets and luminaires obtained at tender are inserted into the ESC model, the stark differences in pricing remain.

- **Poor EA Labour Productivity** – EA's labour productivity for both repairs and replacements of all types of lights is starkly at odds with the benchmarks developed by the Victorian ESC. Most importantly, EA's assertion in its supplemental February 2005 submission to IPART that "ESC productivity assumptions are unrealistic" appears to be unsupported. The SLI Program notes in particular that the ESC and its consultant, KPMG, conducted a rigorous, fully public and iterative review of public lighting charges, which included performing detailed analyses and modelling of public lighting costs. This work covered five (5) Distribution Network Service Providers (DNSPs) and involved numerous open letters, a public issues paper, a draft determination and a final determination. Dozens of submissions were received at the various stages of this inquiry.
- **Inappropriate Asset Lives for Brackets** – As discussed in 4c below, EA's contention that bracket lives are 20 years appears at odds with the ESC determination and past EA practice.

¹ Supplemental EA submission to IPART, "EnergyAustralia Street Lighting", PB Associates, February 2005 – First presented to council representatives on 5 July 2005

A number of issues raised by EA's consultant in response to the February 2005 model submitted to IPART by the SLI Program appear irrelevant or incorrect. In particular:

- **Pre- 2001 Assets** - The SLI Program model specifically adjusts the ESC model to represent 100% of street lighting assets being funded by the DNSP. As such, the comments in the February 2005 supplemental submission to IPART regarding the ESC treatment of pre-2001 assets appear irrelevant. Any suggestion by EA's consultant that the ESC Vic's cost assessment in some way includes a 'cross-subsidy' from other distribution customers appears incorrect and furthermore overlooks the changes made to the model by the SLI Program to represent 100% funding of equipment by the DNSP.
- **Inappropriate Characterisation and Treatment of Bulk Lamp Replacement** – EA's supplemental submission to IPART appears to have mischaracterised the ESC's treatment of bulk lamp replacement. The actual bulk lamp replacement (BLR) cycles used in the ESC model are four years for residential roads and five years for main roads. As can be verified by leading lamp suppliers, years is a readily achievable BLR cycle for main road high pressure sodium lighting, provided that best practice is used in lamp selection (currently twin-arc HPS with inherent parallel redundancy). As such, the Victorian ESC model is consistent with the National Electricity Code in considering efficient operating and maintenance practices.

3) **INCONSISTENT WITH ANALYSES BY EA'S CONSULTANT**

In 2003 and 2004, EA engaged PBA to assess EA's cost to serve public lighting customers. In addition to examining EA's costs based on then-current practices, PBA also assessed the costs of an efficiently provided service (eg assuming that EA remedy certain specific obsolete practices and technologies that have long been recognised as such by the other electricity companies across Australia). PBA's cost to serve work indicated capital and operating costs that are lower than EA's pricing proposal by about \$5.5 million per year.²

Examples of EA's highly inefficient technology practices that were assessed by PBA include the following:

- a) use of halo-phosphor fluorescent lamps with short lives and high outage rates, rather than much longer lived and more reliable tri-phosphor lamps in all types of fluorescent fixtures;
- b) continued installation of 'tubular fluorescent twin 20 Watt' (TF2x20) luminaires despite their having become technically and commercially obsolete nearly 20 years ago. Notably, in addition to having high overall costs due to high outage rates, these devices provide virtually no compliance with Australian Standards for road lighting (with obvious public liability implications), and poor service levels due to their poor reliability. EA ceased installing new TF2x20 luminaires, only as of July 2004, after the repeated efforts by the SLI Program to inform EA as to the high cost and poor performance of these devices; and
- c) continued use of high wattage mercury vapour lighting on main roads (e.g., MBF 250W and MBF 400W) rather than higher efficiency high pressure sodium (HPS) lamps and, in the interim, HPS retrofit lamps. Again, we note that discontinuation of MBF lighting for most main road lighting tasks began some 15-20 years ago at other utilities. The failure to update practice is reflected in EnergyAustralia's main road lighting portfolio that still consists of some 65% MBF lighting.

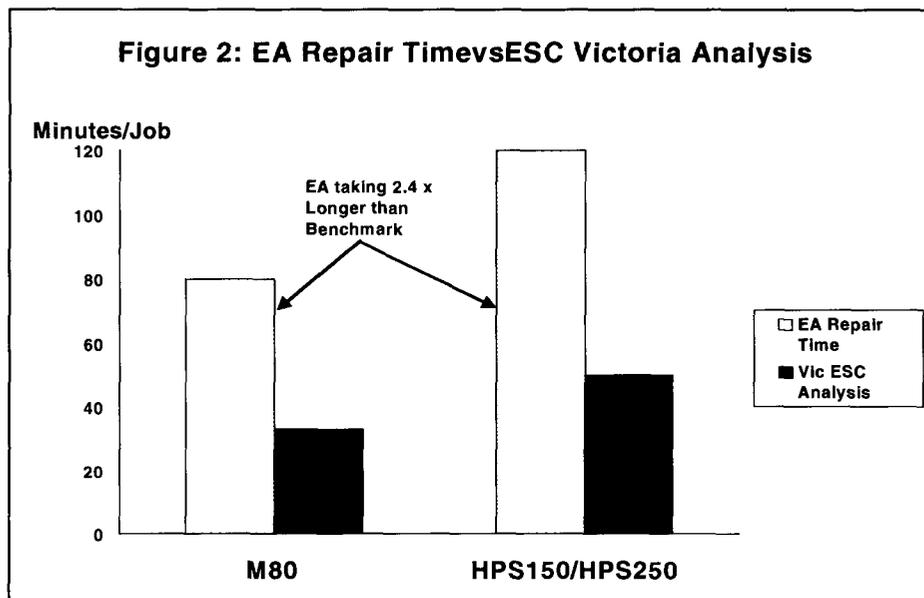
² Based on adjusting PBA's costs analyses for three years of CPI since the report data was gathered, and for a 7% WACC (rather than a 7.5% WACC), and for a building block rather than 'annuity' accounting approach. EA's poor technology practices assessed by PBA also result in excessive energy consumption, which burdens councils with excessive charges for retail energy and network use of about \$0.9million /year which is not included in the \$5.5 million figure, and produces excess greenhouse gas emissions of about 12,000 t CO₂ / yr.

A number of other highly inefficient practices were identified by the SLI Program but were not specifically assessed by PBA. These are discussed in the following section.

4) INCONSISTENT WITH OTHER DETAILED ANALYSES

In addition to the issues specifically assessed by PBA as discussed above, a number of other highly inefficient practices and inappropriate costs have been identified for which adjustments need to be made in PBA's results and EA's proposed prices. These include the following:

- a) **Poor spot repair/replacement scheduling logistics.** Individual failures of luminaires require either repair for minor faults or replacement of the luminaire for more serious defects. As such, the attributed costs can show up as either operating costs (from minor faults) or capital expenditure (from replacements). EA has assumed very poor logistics and scheduling of both spot repairs and spot replacements, resulting in excessive estimates of travel times and labour costs. In particular, EA has assumed that travel times for spot fault repairs/replacements average 40 minutes. This suggests a mean distance between spot repairs/replacements of at least 20 km, which is grossly excessive, assuming reasonable logistics are applied to maintenance practices. Notably, the Victorian ESC's detailed cost analysis and modelling indicates that spot repair/replacement times at Victorian DNSPs – including those servicing areas with similar characteristics to EA - are considerably less than half of that assumed by EA (See Figure 2). *Assuming performance similar to that found in Victoria would reduce spot repair costs by more than \$1.2 m per annum, and reduce asset valuation by more than 10% (due to the high labour component in installed costs);*



- b) **Short bulk lamp replacement schedule.** EA has assumed a 30 month bulk lamp replacement schedule for all roads. This is inconsistent with the maintenance requirements in AS1158, lamp manufacturer's data, assumptions in the Victorian ESCs detailed cost analysis and current practice at Victorian utilities. Life and performance characteristics of key lamps suggest an appropriate bulk lamp replacement schedule is at least 36 months. *A 36 month schedule would have costs about \$0.9 million per annum lower than a 30 month schedule.*

- c) **Unduly short depreciation lives.** EA has adopted 20 years for depreciation of all public lighting assets, including brackets and connections.³ However, while twenty years may be a reasonable assumption for the average life of luminaires, it is not appropriate for brackets and connections. Many brackets and connections still in use today were installed in the early 1960s, and EA's records do not indicate that there are more than a few bracket failures each year. Notably, the Victorian Essential Services Commission has adopted a 35 year average life for brackets in its analysis of public lighting charges.⁴⁵ This would appear more consistent with the average age of brackets on EA's system. EA has estimated the replacement cost of brackets and connections in the existing public lighting inventory at about \$65 million. *Basing the depreciation charge for these \$65 million of assets on an assumed 20 year life, as EA has done, overstates the actual 35 year depreciation charge by \$1.4 million/year.*

Adopting a highly inaccurate depreciation life assumption would be inconsistent with accounting standards and policy. Australian Accounting Standards (AAS4/AASB1021) and NSW Treasury policy (TPP 03-02 May 2003) support the use of more accurate average life estimates in assessing depreciation costs. These documents direct that assets be depreciated over their useful lives and that the depreciation rate be reviewed regularly. Adopting EA's assumed 20 year asset life would be inconsistent with both the AAS and the NSW Treasury policies.

- d) **Overstatement of number of lights.** EA's cost analyses appear to double-count the cost of shared lights at inter-council boundaries. This anomaly in EA's asset valuation was identified by PBA and the SLI Program, but PBA did not have the data needed to account for them at the time it performed its cost to serve analyses. *EA subsequently assessed that the double-counting of these shared lights represents some \$0.9 million/year⁶ in capital and operating costs.*
- e) **Incorrect inclusion of council-contributed lights.** EA claims on page 10 of its submission that it "bears replacement responsibility" for \$39 million of contributed assets, and includes them in its capital expenditure forecast. This appears incorrect. Councils and other parties have contributed extensive lighting assets to EA, which are known as Rate 2 or Rate 3 assets. However, under the definitions of Rate 2 and Rate 3 provided to councils in pricing documentation, EA bears no responsibility, as repairs due to damage or replacements due to age are paid by customers. Accordingly, the \$39 million in customer-contributed assets, which represent nearly 20% of the total replacement of EA's street lighting assets, should not be included in EA's estimated costs nor should any capital expenditures derived from this number or these set of assets.
- f) **Internal inconsistencies in EA calculations.** Several of EA's calculations appear internally inconsistent, and in general, the information provided is inadequate to validate or explain the calculations. The SLI Program understands that EA's pricing proposal is intended to be based upon the cost to serve analysis performed by PBA in 2003. However, it should be noted that there are numerous areas in which the PBA report received by the SLI Program does not appear to reconcile with EA's pricing proposal, e.g., in asset valuation, operating costs, and capital related costs. Furthermore, EA has provided neither an explanation of deviations between its pricing proposal and the PBA report, nor a supporting cost analysis consistent with its pricing proposal. It should also

³ It is, however, unclear how the claimed 20 year life relates to EA's proposed capital treatment in Section 2.2.4, p. 10 and the 'target revenue requirement' in Section 2.4, p 12, and EA's calculations may not be internally consistent.

⁴ Essential Services Commission "Review of Public Lighting Excluded Service Charges – Draft Determination" April 2004, p. 48.

⁵ PB Associates letter of 2 June 2005 posted on the IPART web site as a supporting document appears incorrect in stating that "...the range of asset lives for brackets and luminaires ranged from 20 year to 30 years" as is that statement in this letter that "...the effective useful life of the bracket is more commonly set at a similar age to the luminaires."

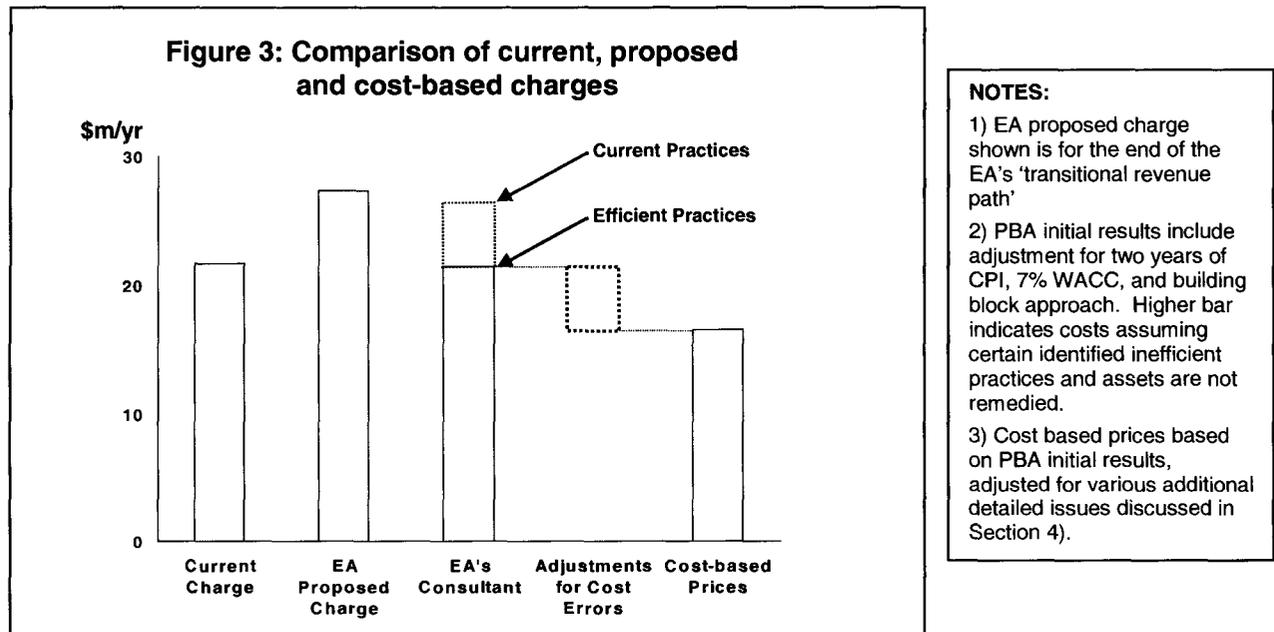
⁶ As detailed in 28 April 2004 EnergyAustralia presentation material to councils

be noted that additional material provided by PBA, such as its letter to EA of 2 June 2005, similarly does not provide sufficient or consistent supporting information.

Illustrative examples include:

- EA's calculation of its "revenue requirement" shown on p. 5 appears internally consistent with the claimed asset value and operating costs. Even assuming those overstated cost components discussed above, the total revenue requirement would be \$0.8 million per year lower than EA's calculations.
- On page 10, EA claims that its street lighting assets have "an approximate replacement value of \$200M," including \$39 million of contributed assets. However, this claim does not reconcile with EA's statement on p. 8 that the opening asset base has a value of \$87 million based on assets being on average 10 years into a 20 year life. Rather, the opening asset base of EA funded assets would more appropriately be \$80.5 million, or 7.5% less.
- EA has provided inadequate information to either explain or validate the calculations in Section 2.4 that modify EA's proposed revenue requirement based on a different asset recovery approach.

Summarising cost inconsistencies identified in Sections 3 and 4 above, Figure 3, compares EA's proposed pricing with current prices, analysis by EA's consultant, and cost-based charges.



5) WOULD OVERCHARGE BY NEARLY \$80 MILLION OVER COMING DECADE

Overall, EA's proposed pricing would overcharge councils by more than \$25 million during the four year pricing period. Assuming steady prices beyond the four year transitional revenue path, EA's proposed pricing would overcharge by \$80 million over the decade to 2004/05.

The SLI Program would be pleased to discuss any elements of the costing and provide additional detailed information to the Tribunal, if that would be of use.

6) **WOULD IMPEDE GREENHOUSE AND STANDARDS COMPLIANCE INVESTMENTS**

There is no question that nearly half of the lighting assets currently in use are obsolete (with most having been obsolete even when installed). Councils recognise that replacing the obsolete assets will yield both greenhouse gas savings and improve compliance with Australian Standards for roadway lighting. They also recognise that considerable investment would be required.

However, endorsing an artificially high asset valuation would obstruct and delay the councils' ability to invest in modernisation.

As a key example, we note that EA has proposed to members of the SLI Program that councils be charged a flat \$150 capital recovery charge per luminaire in addition to labour charges for any removal of highly obsolete fluorescent lighting before it has reached 20 years of age. In short, to have EnergyAustralia remove assets it should not have installed in the first place, councils would have to pay the company at least \$15,000,000 of capital charges for 100,000 highly obsolete lights on EnergyAustralia's network, and pay a potentially comparable amount for labour costs associated with removal of these assets. This proposed charge would be reinforced and supported by an unduly high valuation placed on the existing assets.

7) **WOULD OBSTRUCT FUTURE COUNCIL ACCESS TO CONTESTABILITY**

Some councils may wish to access the contestable options for public lighting in the future, as this may prove to be an effective approach to modernisation of the obsolete network. However, as discussed above, establishing a high asset valuation for obsolete EA assets would support an undue capital recovery charge imposed by EA. This would obstruct councils' ability to use competitive service providers to replace obsolete assets, and effectively tie councils to EA.

8) **WOULD REWARD EA AND FURTHER PUNISH COUNCILS FOR POOR EA PRACTICES.**

As detailed below, it would be inappropriate to charge councils for EA's longstanding highly inefficient practices, particularly as councils have had neither meaningful say nor recourse. The reasons include:

- **Charging for highly inefficient practices such as the continued use of obsolete technology would appear inconsistent with the National Electricity Code (NEC).** A key objective of distribution service pricing as specified in the NEC is to achieve a commercial revenue stream that includes a fair and reasonable rate of return to Distribution Network Owners *on efficient investment, given efficient operating and maintenance practices* of the Distribution Network Owners⁷ (emphasis added). Similarly, pricing regulation is intended to "...seek the same outcomes as those achieved in competitive markets."⁸ EA's longstanding obsolete practices are highly inefficient.
- **EA has had responsibility to ensure that the lighting technology practices in question were efficient and current – and failed in this responsibility.** Historically, councils have had little say on technology selection, and have been dependent on EnergyAustralia for performing public lighting services efficiently. Technical expertise and the vast bulk of technical lighting decisions have rested with EnergyAustralia and its predecessors for some

⁷ National Electricity Code, Section 6.10.2 "Objectives of the distribution service pricing regulatory regime to be administered by the Jurisdictional Regulators"

⁸ National Electricity Code, Section 6.1.1 "Summary of key principles and core objectives of network pricing"

ten decades. This is explicitly illustrated, for example, in agreements dating back decades which specified that EA would "keep the lamps and all appliances...efficient and reasonably in accordance with the latest improvements"⁹ and statements that EA "has been exercising a close control over all aspects of costs with a view to minimising price increases."¹⁰ Councils have had every reason to expect that EA makes appropriate technology choices.

- **EA technology practices fell far below industry norms** – For some decades, there has been long-standing acceptance and use of superior alternative approaches by other utilities, including those in NSW. The proposed alternative approaches are commercially available and well demonstrated. It is particularly notable that the TF2x20W and TF1x40W fixtures have long been recognised as obsolete by virtually all other utilities in Australia. In contrast with EA, which has continued to install these obsolete fixtures right up until 2004, other utilities generally ceased installing them in the 1980s, with some even undertaking active campaigns to accelerate their replacement. Similarly, with respect to main roads, most utilities in Australia and in other parts of the developed world began phasing out mercury vapour lighting up to 20 years ago, generally replacing it with high pressure sodium lighting.
- **Councils have had no input on lighting technology in use across the large majority of existing lighting assets and practices.** With respect to luminaires, the large majority of existing assets in EA's territory involve replacement of failed units. In the case of luminaire replacements, the technology choice has typically been made unilaterally by EA without any council consultation. With respect to lamp selection (e.g., use of short life halophosphor lamps), again, the choice has been made unilaterally by EA without reference to council, as one element of its maintenance activity.
- **On those occasions in which some council input was involved, councils generally requested and relied on EA advice – and we now know that advice was typically incorrect and incomplete.** For example, councils have regularly received requests from the public for additional lighting to be installed. In those cases, the normal practice was for the council to refer the request to EA, seeking advice as to whether and what type of new luminaire would be appropriate. EA regularly recommended use of additional TF2x20s.¹¹ Furthermore, it should be noted that EA also continued to encourage the use of TF2x20s through prices which were lower than those for the better performing mercury luminaires widely used by other utilities, and indicating that such cost differences were cost-reflective.¹² The pricing, based on poor cost analyses, continually and inappropriately encouraged councils to accept TF2x20s.

Thank you again for the opportunity to make this submission. The SLI Program would be pleased to answer any questions you have related to the matters raised.

Yours sincerely

Graham Mawer
Program Manager

⁹ PBA "Streetlighting Cost to Serve" 16 October 2003, which cites that council contracts from the 1970s specified that EA shall "keep the lamps and appliances...efficient and reasonably in accordance with the latest improvements." p. 28.

¹⁰ Sydney Electricity letter to councils, 27 June 1991.

¹¹ See, e.g., a general design guidance provided in a letter from EnergyAustralia to Sutherland Shire Council, 16 April 1997; and numerous specific examples, e.g., EnergyAustralia, letter to Burwood Council, 8 September 2003.

¹² See, e.g., Sydney Electricity, letter to Marrickville Council, 12 May 1995 in response to a query regarding the most cost efficient and lowest cost lighting solution for residential streets.