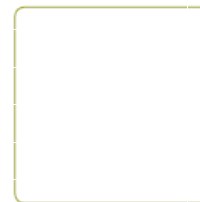


8 August 2008



Our Ref: : Andrew King
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Mike Buckley
General Manager
Network Regulation North Branch
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

Dear Sir

Network Service and Street lighting for New South Wales 2009 - 2014

I refer to the proposals put forward by the NSW electricity distribution service providers for the 2009-2014 period. Council officers have considered the information provided, particularly from our primary electricity and public lighting provider, Integral Energy, and wish to raise a number of concerns about the proposals.

Service standards to public lighting

The current plan by Integral Energy specifies that the company "proposes to maintain the current levels of service performance for the 2009 regulatory control period". The proposed price increases are impossible to justify given that Integral Energy is not presently maintaining service standards in accordance with its own guidelines, nor to the satisfaction of its customers.

The Integral Energy Management Plan 2006 – 2009 specifies (Item 2.6.2 Unplanned Maintenance) that "public lighting assets (excluding network supply faults) will be repaired within eight (8) working days on average per customer per year from receipt of a fault report". Council's recent experience is that not one reported fault was corrected within the specified eight days. Rather, the typical time taken to repair a public light is sometimes up to two months. It is common for Council officers to have to report faults more than once before work is undertaken by Integral Energy.

Council also has concerns over Integral Energy's proposal to maintain current service levels with respect to new projects. Item 2.3.1 Non Contestable Projects of the Integral Energy Management Plan states that "where the customer advises that a project is planned to be completed in the current or next financial year, Integral Energy will provide a quotation within 30 days from the date of provision of a fully detailed design brief by the customer." At



present, no such project is being undertaken by Integral Energy within the specified thirty day period. In Council's dealings with Integral Energy, the reason for the delays is given as a shortage of design engineers.

The wider community regards public lighting as a Council responsibility. When faults are not corrected promptly and new street lights not established in a timely manner, it is Council, rather than Integral Energy, that is held to account.

As the Integral Energy service standards are not presently satisfactory to Council and the community, nor consistent with the company's own commitments, the proposal to "maintain" current standards whilst raising the prices is quite outrageous.

Justification for indicative price changes

Pro forma 2.2.5 of Attachment 1 has been used to calculate likely increased costs to Council for the Integral Energy component of its public lighting and electricity.

It is understood that the cost to Councils of the public lighting network would increase by 22% over the five year regulatory control period 2009 - 2014. It is also noted that prices will already be rising by 5.5% in the current financial year, bringing the total increase to 27.5% from the present.

The Integral Energy proposal lists factors that have influenced the pricing proposals, including implementation of major traffic route and commuter controls, corporate overheads, expenditure reductions and "X factors". The proposal does not state the degree to which each of these factors would affect the costs to Integral Energy, and does not state what is meant by "X factors".

Before the AER agrees to any pricing increases, it should be satisfied that it understands how Integral Energy arrived at the proposed figures. This would entail full disclosure of the underlying pricing models with detailed cost assumptions on aspects including labour, cost components, cost allocations, calculation methods, the inventory on which the proposal is based, asset replacement and maintenance policies and assumptions on asset age.

Council has not seen such justification to date and is hopeful that full disclosure will be forthcoming before any decision is made. In order to ensure that customers have confidence in appropriateness of the proposed prices, it is recommended that the costs and prices be benchmarked against the public price review conducted in Victoria by the Essential Services Commission.

Impact of pricing proposals on climate change

The proposal to increase fixed network costs is counterproductive to the State and Federal Governments' work on reducing Australia's contribution to climate change.

In order to effectively tackle the problem of climate change, it is necessary to provide financial incentives to all electricity users for reducing their electricity consumption. Increasing fixed costs such as networking charges would not assist in this endeavour. On the contrary, the energy providers must set prices so that the highest consumers pay significantly more, with low fixed network charges and large costs for energy consumed.

The proposals put forward by the energy providers will not encourage the majority of consumers to use less power. On a small site with minimal electricity use, the network costs

can account for the majority of the total invoice, which provides no incentive to reduce consumption.

The Integral Energy network charges are made up of both a fixed and a variable component and it is understood from the energy provider that the variable component is included specifically as an incentive to reduce energy consumption. It is therefore surprising to see that the proposed price rises are consistent for both fixed and variable components, totalling 45% by 2014. In order to provide a true incentive for customers to reduce energy consumption, only the variable components should be considered for any price increases.

It is also noted that without sufficient incentives to reduce energy consumption, a greater capital expenditure will be needed in future to service the higher energy demand, which in turn would be used to justify additional pricing increases. The proposal is therefore not a long-term strategy that will benefit Australia.

In addition to the above, Council will consider moving toward purchasing GreenPower. This entails a significant financial outlay but will enable Council to demonstrate its support for alternative energy sources. The proposed price increases by Integral Energy will make it more difficult, if not impossible, for Council to support more sustainable forms of power generation.

Affect on Council budget and services

Concern is raised about the effect of the proposed price rises on Council's ability to maintain its other services.

Council's present expenditure on the network sector of its public lighting is close to a million dollars each year. In the current financial year, this is already set to increase by some 5.5% (an additional cost of \$50 000).

Should the Integral Energy pricing proposal be approved, the cost to council would be increased over the six year period to 2014 by 27.5%, or approximately \$300 000, bringing the total cost of the lighting network to almost \$1.4 M. These figures are based on Baulkham Hills Council's current network inventory and do not take into account significant expansion to the network. In this regard you should note that we will have at least 5000 new residents in new homes and streets by 2014 due to land releases specified by the North West Sector Growth Centres Commission.

The proposal put forward by Integral Energy notes that the NSW Government sets the limit on the income councils can raise from rates and other charges. Rate increases are granted yearly, but always at a lower rate than that of inflation, whereas the Integral Energy proposals are significantly higher than inflation. Council's most recent rate increase was 3.2%, which compares poorly with the rising cost of employees and materials. Balancing the budget therefore typically requires Council to reduce expenses in other areas.

The proposed significant increase in electricity and lighting costs would place additional pressure on Council's other service areas.

Consultation process

While Baulkham Hills Council has received notification from Integral Energy, Energy Australia and from IPART about proposed pricing structures for electricity and street lighting service supply, we did not receive notice of the regulatory proposals and the forum where

they were discussed. We have now been made aware that the information was available on the AER website and in The Australian, but these sources are hardly the type that would be checked by Council staff each week.

Council has serious concerns about the validity of a consultation process where organisations likely to be significantly affected by price rises to both electricity and public lighting are not informed of their opportunity to become involved in the discussion. The very limited timeframe for comment following the forum is also of concern, as there is insufficient time available to assess large amounts of technical information.

Based on our concerns with regard to poor service standards, insufficient justification for the pricing increases, the impact of the proposals on Australia's contribution to climate change, the likely effect of the proposals on Council's service provision and its ability to support alternative energy, and the consultation process, Council has grave concerns about the proposed increases to public lighting and network prices as outlined by Integral Energy. Council would welcome Australian Energy Regulator's involvement in ensuring that these matters are addressed before any pricing increase is permitted.

Yours sincerely

A handwritten signature in black ink, appearing to read 'D Walker', written in a cursive style.

Dave Walker
GENERAL MANAGER