Council of City of Gold Coast

Submission – Energex Regulatory Proposal 2020-25

June 2019

CITY OF GOLDCOAST.

Energex Alternative Control Services 2020-25

Item Number/Name	Energex Proposal	City of Gold Coast Issue	City of Gold Coast Recommendation
Part 2 – ACS – Public Lighting Starting – Page 11			
9. Public Lighting Overview	EQL state they own and operate 325,000 public lights	City notes the 325,000 public lights comprise of both NPL1 and NPL2 and are regarded in the same manner throughout the proposal.	EQL specify the breakdown in the different
10. Customer and stakeholder views	EQL notes LED replacement program target of 47% at moderate adoption by 2020.	City believes this statement is in error and should state target rate adopted by 2025.	Final determination to be amended to reflect correction.
11. Scope an obligations of public lighting services	• EQL notes they have a legislative obligation to connect public lighting to their network. • Their services include provision, installation, operation and maintenance. • There is no legislated service standards for connection and maintenance • No legislated instrument for roles and responsibilities between customers and DNSP • A lack of legislated contestability framework that authorises third party providers • A mix of non-binding operating codes and policies.	• City acknowledges EQL has a legislative obligation to connect public lighting to its network. • City interprets that legislative obligation as facilitating a lighting asset (luminaires, outreach, and bracket) on an Energex (non-contributed) shared asset. • City does not consider asset costs attributed to Energex assets ie poles and wires should be borne by the customer on NPL1 assets (non-contributed assets). • EQL have a monopoly for lighting services, operation and maintenance for public lighting on the NPL1 and NPL2 assets, despite the lack of legislative framework and requirements relating to services standards, maintenance, roles and responsibilities. • Prevention of alternative technology within current monopolistic framework.	• EQL to provide transparency between lighting assets costs and poles and wires on NPL1 assets. • Customer to fund costs of lighting assets only on NPL1 (both current and future assets) with EQL responsible for funding poles and wires. • Network costs to reflect funding of lighting assets only and not poles and wires (being Energex owned assets). • Introduce contestability for services and maintenance on all public lighting assets with roles expanded to allow competition in the market. • Services on Energex assets (NPL1) to be in accordance with EQL standards and policy. • EQL's non-regulated business, Yurika to have opportunity to participate in contestable market to offer its services in lieu of Energex. • NPL2 returned to customers will provide opportunities for customers to deliver alternative technology such as solar/battery solutions where appropriate.

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13. Public lighting – limited building block	• EQL state the limited building block approach is used to determine the allowable revenues, then converted to service charges that are price capped for the regulatory control period. • EQL state the PTRM covering the PLAB is used to create public lighting tariffs.	• It is assumed that EQL will conduct a complete Asset Re-valuation of the portfolio of assets at the time of LED changeover. • Therefore the City is concerned the target 40% LED changeover within the regulatory period will have an effect on the RAB and in turn on the ROI on the building blocks model. • EQL (per item 13.1) have significantly depreciated the network which could greatly affect the amount EQL will seek to recover from customers (LGA's/DTMR) within regulatory period 2020-25 and beyond. • EQL are silent on whether they will seek an CSO to meet the 40% target changeover to LED.	City recommends further discussion directly with customers (LGA's/DTMR) with EQL for complete transparency in this matter to prevent significant cost increases in future years. These discussions to be held between the parties prior to the next submission of the Energex Regulatory Submission 2020-25 to the AER.
13.1 Public lighting regulatory asset base	EQL proposes an opening PLAB value of $155.60M as at 1 July 2020.	City acknowledges the calculation methodology which is not in question. The City disputes the value assumed by EQL to calculate the PLAB value.	EQL provide complete transparency of the RAB value showing public lighting per asset class separately to other assets.
13.2 Forecast capex	• EQL notes the capex in 2020-25 regulatory control period is expected to be driven by customer funded LED program • A proportion of non-network assets and capitalised overhead costs are included in the capex for public lighting	• City acknowledges its own aspiration to have a programed rollout of LED lighting should the ROI be feasible – refer to item 16 for comments • EQL are silent on the total value of the non-network assets and capitalised overhead costs, as well as the proportioned amount/value of each item.	• EQL provide transparency regarding total value of non-network assets and capitalised overheads costs.
13.3 Demand	EQL notes it expects 40% of its 335,000 public lights to be LED.	EQL is silent on its expectations of funding responsibility to achieve this target	• EQL provide its program plan to deliver 40% changeover to LED annually within the regulatory period 2020-25. • EQL provide funding expectation by customers and EQL annually within the regulatory period 2020-25.

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13.5 Regulatory Depreciation	EQL state the remaining life of the public lighting asset register is 11.89 years.	• There have been numerous requests by individual councils in QLD to obtain a copy of the public light asset registers for their respective council areas. To date no such register has been provided. • In addition to above, EQL have advised that asset management refers to light poles only and not to luminaires, outreaches, controls.	• EQL provide individual asset registers to respective councils for validation of age and condition of assets. • Asset management consists of individual assets which include end of life age of pole, luminaire, brackets and outreach.
13.7 Revenue requirements	EQL include Tax allowance in building block revenue requirements for all public lighting	• City does not believe a tax allowance is required for NPL 1 and NPL 2. • City has obtained advice from ATO regarding NPL 2 tax treatment. • It would seem this tax treatment is to allow NPL 2 to be regarded in the same manner as NPL 1 in the RAB. • The ATO suggest there is no tax liability. • Most other states do not consider tax allowances in their calculation.	• City recommends no tax allowance in public light by EQL. • Should EQL insist on the tax allowance, justification and calculation to be provided.
16. Indicative prices	• Refer to Table 24 – prices each year - NPL4 Minor and NPL1 Minor • Per Prices in Tables 24 and 25	• Prices in Table 24 for LED Minor roads indicates NPL4 Minor is higher than NPL1 Minor even though funding maybe contributed by the customer. • Prices for all rate and road types from conventional lighting to LED **do not incentivise** funding from customers (refer attached worksheet) • NPL1 conventional lighting to NPL4 LED is minor, yet CAPEX for programed changeover by EQL is quite high. • Prices for conventional NPL2 to LED NPL2 is inadequate to support customer funding. • EQL is silent on transfer of asset from NPL2	• LED NPL4 prices should be much lower than LED NPL1 to incentivise the customer to fund the costs of the LED changeover, as the current model is relying on the costs reduction between the conventional NPL1 to NPL4 which is not adequately feasible. • Customers to be given the choice to have conventional NPL2 assets (contributed assets) returned to the customer and removed from the EQL gifted asset base. • Conventional NPL2 assets to be the customers role and responsibility to change to LED (after return of asset) • No exit fee for conventional NPL2 as asset is contributed. • NPL2 services and maintenance to be contestable and regarded same as NPL3.

16. Con't		• EQL is silent on standalone and reticulated assets. • EQL is silent on conversion of LED NPL4 to alternative rate type at end of life. • EQL is silent on process for customer funded assets at end of life. • EQL is silent on deployment and costs of IoT devices • EQL is silent on data ownership and data sharing options.	• Transparency required on standalone versus reticulated poles being considered in determination of rates. • At the end of life for NLP4, should be converted to NPL2 or alternative rate type for lighting asset only on shared asset. • By returning conventional NPL2 to customers, IoT devices can be deployed with LED and data sharing opportunities available to all parties. • Returning NPL2 to customers to fund their own LED upgrade and allowing contestability for services and maintenance will reduce the gifted asset base, resulting in overall reduction in electricity costs for the City and our respective communities. • Incentivising customers to fund the changeover of lighting assets to LED on conventional NPL1 to LED NPL4 will reduce the RAB (reduced capex), thus reducing costs to the City, community and QLD energy users. • Costs on NPL1 to be reflective of actual services, ie costs to customers to be for lighting assets only (luminaries, bracket and outreach).
18. Customer and stakeholder views	EQL stated a fact sheet on their proposed approach on ACS was provided to stakeholders and customers.	EQL advised LGA's and DTMR that a full draft proposal would be provided in order to assist and provide advice on the public lighting portion of the regulatory proposal. Unfortunately a benign fact sheet was sent instead, not affording stakeholders and customers the opportunity to fully unpack the issues with the cost and asset modelling and management of public lighting.	Robust discussions regarding issues observed by individual customers and as a collective unit to be managed appropriately with information provided to respective bodies as promised by EQL and in a timely manner.

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Spreadsheets attached (spreadsheets to remain CONFIDENTIAL)		• City has provided the cost changes based on the information provided in the Energex Alternative Control Services 2020-25 and Energex Regulatory Proposal 2020-25. • City has based the worksheets on its own portfolio of assets and has shown the financial impact of the change in pricing. • City has not included capex required to self-fund the changeover to LED. • Each scenario indicates the change from one NPL type to another depending on the funding arrangement (ie self-funded vs EQL funded) • City has also shown the saving are marginal compared to the potential savings available through a competitive approach (as seen in other international jurisdictions). • City suggests the cost of public will increase significantly in future years to recover capex as LGA's will be unable to fund the change due to the poor ROI and payback.	• City has shown the savings provided by EQL does not support a self-funded approach by the customer. • City suggests an alternative solution to LED changeover whereby a third party delivers, maintains and operates the NPL2 assets base (which would be returned to the customer). • NPL1 and/or NPL4 are charged for lighting assets only with potential 'rental' arrangement. • EQL to have opportunity to participate in the competitive arrangement.

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ICT	Spend for ICT in the regulatory period 2020-25 concentrates on software for internal and external services. However, it has very little allocated for technology advancements.	Suitable funding provision allocated to ensure Energex is current and has the opportunity to facilitate customers' requirements to support technology advancements.
Digital program	• City is concerned Energex plan to participate in the digital sector, which is outside of their business mandate/model. • Provision of these additional services to customers may impact the RAB, increase overhead costs and require capex for hardware. • These additional services will be subject to cost recovery hence further increase to future pricing. • City strongly believes that Energex are a DNSP and should not participate in the telecommunication sector. • Data ownership if Energex participate as a telecommunication provider adds complexity to the business model.	• Digital program and data management should be managed by EQL's non-regulated business, Yurika to ensure ring fencing requirements are met and to further ensure the cost impacts of becoming a telecommunications provider does not directly affect customers. • Energex should focus solely on the business of providing electricity, safely, securely, effectively and efficiently with the objective to reduce cost. • EQL should facilitate regulatory change in conjunction with customers to participate in new markets and new opportunities ie FCAS, two way energy flow for solar, voltage control technology.
Tariff optimisation	Current submission does not allow for effective change in tariff to reflect technology advancements within the regulatory period.	An option for tariff change to be included for advancement in technology and opportunities for customers to actively participate in the NEM.

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General Comments	• Price increases • Regulatory and DNSP policy barriers for technology advancement • DNSP monopoly for services and maintenance • Lack of contestability pertaining to 'network' services • Tax treatment on public lighting gifted assets • Lack of transparency	• Acknowledgement by AER and EQL that public lighting constitutes approx. 60% of most LGA's electricity spend. This significant cost prohibits the opportunity for LGA's to provide additional services to it communities. The revenue requirement by EQL and QLD State Government through public lighting has a direct negative impact on public services. Additionally, the costs for public lighting in Queensland are one of the highest in Australia, and significantly higher than the other eastern states. Protection of price increases by LGA's has become of utmost importance in this area, however is only slightly reflected in the Energex Regulatory Proposal 2020-25 and Alternative Control Services proposal. • **Technology advancement has provided LGA's with the opportunity to seek alternative services and maintenance solutions which could significantly reduce the cost (approx. 50%) to public lighting and subsequently the provision of additional services to the community without impacting the security and safety of the Energex network. The establishment of a competitive market which EQL could participate through its non-regulated business is required for community benefit and reduction in costs.** • Introduction of prudent cost recovery methodology for shared assets ie itemised account or 'rental' arrangement for public lighting assets on Energex owned poles. • Return of NPL2 assets to LGA's with cost recovery limited to tax allowance. • Energex business model to remain focussed on providing safe and secure electricity supply whilst facilitating opportunities for customers to participate in NEM with technology change. • EQL to provide transparency on costing and revenue methodology. • EQL provide flexible tariff to meet technology advancement.