



ENERGY & MANAGEMENT
SERVICES

**Response to
Essential Energy's Revised
Public Lighting Proposal**

20 February 2015

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1 INTRODUCTION

Energy and Management Services (EMS) was engaged by a number of NSW Councils as listed below to assist in the preparation of a submission to Essential Energy's revised Regulatory Proposal with particular reference to Public Lighting.

Clients for whom this submission is prepared:

- Orana Regional Organisation of Councils (OROC) which encompasses the following local Councils:
 - Bogan
 - Bourke
 - Brewarrina
 - Cobar
 - Coonamble
 - Dubbo
 - Gilgandra
 - Narromine
 - Walgett
 - Warren
 - Warrumbungle
 - Wellington

- Namoi Regional Organisation of Councils (NamoiROC) which encompasses the following local Councils:
 - Gwydir
 - Gunnedah
 - Liverpool Plains
 - Moree Plains
 - Narrabri
 - Tamworth Regional
 - Uralla
 - Walcha

- Armidale Dumaresq Council

- Mid-Western Regional Council

2 BACKGROUND

A submission was made to Essential Energy's original proposal challenging the veracity of the basis for charge increases of up to 113% for rural Councils. These increases were not only a shock to Councils, but came at a time when the quality of the service provided by Essential Energy was already in question with widespread criticism over the number of lights not operating for extended periods of time.

Representatives also attended a consultation meeting in Sydney on 24 September 2014 and emphasised three areas of concern:

COST COMPETENCE CHOICE

At this meeting Essential Energy presented data relating to lamp performance and response times which appeared to be at odds with the observations of Council representatives.

Discussion indicated that part of the issue is the reliance of the public (a relatively new initiative) to report light outages. Essential Energy accepted that communications with Councils needed to improve, but also pointed out the impracticality of dealing with over 100 Councils. It was agreed that a Streetlighting Consultative Committee would be established with regional representation. This was welcomed by Councils as a significant step towards improving communication and avoiding future “shocks” such as the proposed price increase.

3 ESSENTIAL ENERGY’S REVISED PROPOSAL

Essential Energy has accepted a few of the issues raised from submissions and in the AER’s Draft Determination, but these changes will only make a minor adjustment to Streetlighting charges and Councils will still see increases in cost up to 100%. The Councils experiencing lower percentage increases have a significant capital component. Councils where the capital cost is borne by developers or Councils will see much greater percentage increases.

A summary of the proposed charges is shown in Appendix 1.

Essential Energy does not accept the benchmarking determined by the AER which clearly impacts the **COST** issue raised by Councils. Whilst the final outcome of this difference of opinion is almost impossible for Councils to influence quantitatively, there is an underlying component which appears to be driving costs – choice of lamp type/luminaire. This choice, made historically, has produced high failure rates requiring a combination of more frequent bulk replacement and an increased number of spot replacements.

4 EVALUATION

In a competitive environment a Service Supplier cannot just recover costs especially if these result from a less than optimal choice of hardware. Uncompetitive prices are unsustainable. Depending on the circumstances, the Supplier would need to reduce prices, lower costs across the board including writing down asset values. The shareholders would “bear the pain” until the situation was righted.

Since asset values represent a proportion of the calculated charges in this instance (quite variable for different Councils), a write down would assist in a reduction in the proposed charges, but would not be sufficient in, and of, itself. It would only be when all aspects of cost have been addressed by Essential Energy that Councils would accept that the **COST** issue has been properly considered.

It is not obvious that Essential Energy has addressed the issue of **COMPETENCE** previously raised. This refers to the high level of complaints about streetlight failures due to extended delays in attending to failures. Analysis of data relating to this issue seems to indicate that the deficiency lies in the reporting process, not the response time. The reliance on the public to report outages clearly requires improved processes to facilitate a high level of acceptance.

The issue of **CHOICE** is two-sided. The users (those who utilise and pay for the service) have not previously had an input into the selection of luminaire or associated lamp type despite attempts to do so. It could also be said that the choice made by Essential Energy in selecting lamp types (especially with respect to timing) was a poor choice (certainly in hindsight). In any case the high failure rates should have allowed for some recompense from lighting suppliers through product guarantees. If Essential Energy bears the full cost of unacceptably high failure rates, this indicates an opportunity for an improvement in the procurement process.

There is a view by Councils that Essential Energy’s ownership through the transfer of fully contributed assets should be treated as ownership “in trust” and is abused somewhat by excluding Councils from involvement in ongoing decisions. This was evident when many

luminaires were replaced by compact fluorescent fittings to improve energy efficiency. By relying on **ownership** rights and reference to Australian Standards, the option of giving consideration to LED technology or delaying the change (which was probably far too late in the CFL technology cycle) was not given sufficient consideration. This attitude plus the obvious monopoly status enjoyed by Essential Energy and other DNSP's does give rise to a degree of resentment by Councillors intent on doing the best by their constituents.

In reviewing the various tables and comparisons, there is a focus by Essential Energy on comparable statistics with other DNSPs. This is further devalued by comparisons across groups of potentially different asset types. For example, income per luminaire is not a particularly helpful metric.

Benchmarking of any sort is fraught with difficulties when it is not possible to ensure the comparison is apples with apples. Councils are not in a position to comment on the accuracy of such comparisons.

The reduction in charges proposed by Essential Energy in its revised proposal is welcomed, but the weighted average increase is still 54%. This figure is understated due to the inclusion of Councils with a significant capital component which masks the increase in operational charge component.

It is recognised that Essential Energy has locked in some efficiency gains and has reduced corporate overheads applying to these charges in the revised proposal.

As stated above, a modest additional reduction could be achieved if an asset write down was effected in recognition of the poor quality of lighting stock and high failure rates.

It is still necessary for Essential Energy to actively pursue improved reporting procedures and reliability improvements. The latter combined with improved lighting technology should allow longer periods between bulk replacements. All of this would dramatically reduce the OPEX component of charges which is by far the largest component for most Councils.

The most likely solution will come from technology changes. This appears hopeful and the proposed trial will provide confidence about the LED options. However, this will take some years and under the current proposal there will still be increased prices in the short term. An acceptable solution will only come from a mechanism that deals with the present unacceptably high cost situation (and low performance) whilst waiting for the future lower cost and better performing technology to be rolled out.

5 CONCLUSION

Some progress has been made with a modest reduction in proposed charges and the setting up of a Streetlighting Consultative Committee. It is imperative that this committee operates as a genuine two-way communication channel and is not simply "used" by Essential Energy as a ruse to comply with regulatory requirements.

The proposed cost increases are still large and cannot go unchallenged. In a competitive market there would be intense pressure to address the problems – probably well before now.

There is a joint concern over price and quality of service.

Better choices in the future and the opportunities for improved technology offer some hope, but will not address the price shock associated with the current proposal.

There needs to be some mechanism to ameliorate the step change incorporated even in the revised proposal. Future technology savings need to be brought forward and locked in.

6 RECOMMENDATIONS

1. That the proposed charges for street lighting be considered unacceptable for the reasons stated above.
2. That innovative approaches to reducing charges be explored as a matter of urgency addressing the issues of both cost and quality of service.

7 DISCLAIMER

This report documents the results of an analysis by Energy and Management Services. The findings, conclusions and recommendations and all written material contained in the report represents our best professional judgement based on the information made available.

In preparing the report, we have relied upon information provided by Essential Energy, customers and others through referral, to form our conclusions. Whilst we have reviewed this information to assess its reasonableness and internal consistency, we have not allowed for an audit of any of the information provided.

The analyses have been based on actual historic usage data and current prices. No warranty is implied or expressed regarding the accuracy of such data nor regarding movements of future prices and customers should form their own opinions about such matters.

Energy and Management Services warrants that our services have been performed in a professional manner and in accordance with applicable professional standards.

8 APPENDIX 1

Impact of Proposed Revised Streetlighting Charges											
Council	2013/14 Actual Cost	2014/15 Proposed Cost		2014/15 Original Proposed Cost	2015/16 Proposed cost in \$13-14				Variance FY2016 v FY2014		Saving from Original
	Sum of Total Cost	Sum of Count STL (2014/15 Adjusted)	Sum of TotalCost (2013/14 plus CPI)	Sum of Total Cost	Sum of Count STL (2014/15 Adjusted)	Sum of CAPEX total cost	Sum of OPEX total cost	Sum of Total Cost	Variance \$	Variance %	Difference between proposed cost and revised cost
Armidale Dumaresq Council	\$ 278,181	2,415	\$ 278,181	\$ 335,794	2,415	\$ 142,356	\$ 149,879	\$ 292,235	\$ 14,055	5%	\$ 43,559
Bogan Shire Council	\$ 19,582	445	\$ 19,582	\$ 41,432	445	\$ 163	\$ 37,180	\$ 37,343	\$ 17,760	91%	\$ 4,089
Bourke Shire Council	\$ 37,736	526	\$ 37,736	\$ 47,392	526	\$ 12,787	\$ 42,341	\$ 55,127	\$ 17,392	46%	\$ 7,735
Brewarrina Shire Council	\$ 13,408	219	\$ 13,408	\$ 19,361	219	\$ 3,277	\$ 16,946	\$ 20,223	\$ 6,815	51%	\$ 862
Cobar Shire Council	\$ 34,809	752	\$ 34,809	\$ 71,048	752	\$ 1,927	\$ 64,045	\$ 65,972	\$ 31,163	90%	\$ 5,076
Coonamble Shire Council	\$ 24,335	519	\$ 24,335	\$ 51,016	519	\$ 740	\$ 45,329	\$ 46,069	\$ 21,734	89%	\$ 4,947
Dubbo City Council	\$ 248,160	4,878	\$ 248,160	\$ 476,158	4,878	\$ 18,204	\$ 425,836	\$ 444,040	\$ 195,880	79%	\$ 32,118
Gilgandra Shire Council	\$ 26,635	562	\$ 26,635	\$ 55,286	562	\$ 946	\$ 49,869	\$ 50,814	\$ 24,179	91%	\$ 4,472
Gunnedah Shire Council	\$ 81,501	1,198	\$ 81,501	\$ 110,913	1,198	\$ 30,875	\$ 68,472	\$ 99,347	\$ 17,846	22%	\$ 11,566
Gwydir Shire Council	\$ 36,628	477	\$ 36,628	\$ 48,439	477	\$ 15,594	\$ 27,631	\$ 43,225	\$ 6,597	18%	\$ 5,214
Liverpool Plains Shire Council	\$ 32,860	751	\$ 32,860	\$ 67,983	751	\$ 843	\$ 58,133	\$ 58,976	\$ 26,116	79%	\$ 9,007
Mid-Western Regional Council	\$ 73,057	1,574	\$ 73,057	\$ 150,614	1,574	\$ 2,688	\$ 131,158	\$ 133,845	\$ 60,788	83%	\$ 16,769
Moree Plains Shire Council	\$ 108,101	1,785	\$ 108,101	\$ 190,638	1,785	\$ 26,026	\$ 138,681	\$ 164,706	\$ 56,606	52%	\$ 25,932
Narrabri Shire Council	\$ 92,727	1,554	\$ 92,727	\$ 157,248	1,554	\$ 22,188	\$ 111,689	\$ 133,877	\$ 41,149	44%	\$ 23,371
Narrromine Shire Council	\$ 33,678	774	\$ 33,678	\$ 74,360	774	\$ 325	\$ 67,106	\$ 67,431	\$ 33,753	100%	\$ 6,929
Tamworth Regional Council	\$ 243,806	5,473	\$ 243,806	\$ 471,636	5,473	\$ 5,453	\$ 395,723	\$ 401,176	\$ 157,370	65%	\$ 70,460
Uralla Shire Council	\$ 20,586	311	\$ 20,586	\$ 30,154	311	\$ 6,835	\$ 19,704	\$ 26,538	\$ 5,952	29%	\$ 3,616
Walcha Shire Council	\$ 23,859	318	\$ 23,859	\$ 32,533	318	\$ 9,629	\$ 18,699	\$ 28,328	\$ 4,468	19%	\$ 4,205
Walgett Shire Council	\$ 53,432	871	\$ 53,432	\$ 73,228	871	\$ 13,275	\$ 62,861	\$ 76,137	\$ 22,704	42%	\$ 2,909
Warren Shire Council	\$ 21,101	387	\$ 21,101	\$ 40,086	387	\$ 1,716	\$ 33,888	\$ 35,604	\$ 14,503	69%	\$ 4,482
Warrumbungle Shire Council	\$ 31,094	747	\$ 31,094	\$ 67,947	747	\$ 475	\$ 60,273	\$ 60,748	\$ 29,654	95%	\$ 7,199
Wellington Shire Council	\$ 48,709	1,206	\$ 48,709	\$ 106,092	1,206	\$ 109	\$ 94,983	\$ 95,092	\$ 46,383	95%	\$ 11,000
Grand Total	\$ 1,583,986	\$ 27,742	\$ 1,583,986	\$ 2,719,358	\$ 27,742	\$ 316,431	\$ 2,120,424	\$ 2,436,855	\$ 852,869	54%	\$ 282,503

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