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21 May 2012

Mr Warwick Anderson  
General Manager – Network Regulation Branch  
Australian Energy Regulator  
GPO Box 3131  
**CANBERRA ACT 2601**

Email: NSWACTelectricity@aer.gov.au

Dear Mr Anderson

**Matters relevant to the framework and approach NSW DNSPs 2014-2019 – Discussion Paper April 2012 (Public lighting services)**

Essential Energy appreciates the opportunity to respond to the Australian Energy Regulator's (AER's) April 2012 discussion paper on public lighting services ('the discussion paper'). Essential Energy's responses to the questions contained in the paper are detailed below.

**Question 1**

The AER seeks comment on:

- A. What has been the experience for customers under the current regulatory approach to public lighting? For example, do the current arrangements result in pricing that is too complex or lacking in transparency?
- B. Should public lighting in NSW continue to be regulated by the AER as an alternative control service or is there merit in classifying the service as a negotiated service or an unclassified (unregulated) service?
- C. Has the current approach resulted in greater (or less) competition in the construction or provision of public lighting services?

Based on the quantity and nature of the enquiries received by Essential Energy, there appears to be some confusion about how public lighting tariffs are structured, and what the permutations of each tariff are for individual customers.

Essential Energy believes that services should be subject to competition wherever possible. There is significant potential and opportunity for contestability to develop in public lighting services. Therefore, the AER should further explore this potential with all stakeholders over the course of the framework and approach process, to investigate whether classification of these services as negotiated or unregulated

would be more appropriate. Essential Energy is certainly not ruling these classifications out as a possibility at this early stage of consultation. Classification of public lighting services as negotiated or unregulated may provide a better opportunity for competition to develop for these services.

Current regulation of public lighting services as an alternative control service places caps on prices that can be charged for these services and will restrict the likelihood of new competition entering the market where these caps are set below cost reflective levels.

There are likely to be other issues that would have to be addressed if competition is to be fully embraced including provider of last resort in the event that an alternative provider exits the market or cannot be found in some regional locations.

Essential Energy promotes contestability in streetlight design and construction and no longer promotes itself for these services. However, Essential Energy has not witnessed an increase in competition in public lighting maintenance under the current alternative control approach.

### **Question 2**

The AER seeks comments regarding the use of Option 1. In particular:

What are the main advantages and disadvantages of this approach?

Essential Energy does not support the introduction of a new set of prices at every new determination, an inevitable outcome under this approach. Each and every subsequent set of prices will further complicate the pricing model, adding additional costs and confusion for customers, for little benefit. Essential Energy's two current price lists include a significant number of individual prices, and it would be unwieldy to have additional price lists determined every five years.

### **Question 3**

The AER seeks comments on Endeavour Energy's submission. In particular:

What are key advantages and disadvantages of the approach proposed by Endeavour Energy?

Would the averaging of capital costs used to calculate the annuity for assets constructed in the 10 year period 2009 to 2019 disadvantage third party providers of these assets?

The key advantage of the model is the lack of a requirement to modify models and systems, and the continuation of a somewhat understood model. Whilst Essential Energy has expressed initial support for this approach, if a simpler and easily understood alternative is found during the framework and approach consultation process, Essential Energy would be open to adopting such a new approach.

A disadvantage of Endeavour Energy's proposed approach is the potential for gains or losses to customers at each determination as annuity prices are reset. Noting that the approach is yet to be tested, in Essential Energy's opinion, the impact of this is likely to be immaterial, and may be outweighed by the benefits of retaining the current approach.

In Essential Energy's view, there may be merit in simply updating the annuity calculation at each determination with current capital costs, rather than using an averaging of capital costs. This would mean prices reflect current market conditions and therefore would not disadvantage third party providers.

#### Question 4

The AER seeks comments on Ausgrid's submission. In particular:

Would a simplified pricing structure such as this come at the expense of cost reflective prices?

Would this approach permit the entry of third party providers of public lighting services?

All of the approaches presented in the discussion paper present potential advantages and disadvantages to stakeholders in one form or another. Essential Energy believes that the Ausgrid approach may have the potential to provide a model that is consistent with the regulation of standard control services, can be easily understood and explained to customers, and reduce administration costs. The approach may also be able to be used for any other services which become regulated as alternative control services in future regulatory control periods. However, it is difficult for Essential Energy to make further comments until the proposed approach can be further investigated and assessed in detail to gauge the impact on stakeholders.

#### **Competition in, and funding of, public lighting design and construction services**

Essential Energy no longer promotes its streetlight design or construction services. Customers are actively encouraged to seek the services of a suitably qualified Accredited Service Provider. This approach appears to be performing satisfactorily to date.

Essential Energy also promotes the self-funding of replacement public lighting infrastructure by its customers. For example, the new hardware required for the current bulk luminaire replacement program is being directly funded by customers.

Essential Energy would be pleased to discuss this matter further. Should you require further information or clarification please feel free to contact Natalie Lindsay on 02 6589 8419 or Jason Cooke on 02 6338 3685.

Yours sincerely



Col Ussher  
**Executive General Manager Infrastructure Strategy**