

7 August 2014

Mr Warwick Anderson
General Manager - Networks Branch
Australian Energy Regulator
GPO Box 3131
CANBERRA ACT 2601

Dear Mr Anderson

Submission to the Essential Energy 2014-19 Regulatory Proposal

Eurobodalla Shire Council wishes to raise a number of concerns in the *Essential Energy 2014-19 Regulatory Proposal*, specifically in *Attachment 8.1 Public Lighting Proposal*. The principal concerns outlined in this submission concern:

1. Significant proposed increases in charges for public lighting cannot be justified and should not be approved.
2. The approval of energy efficiency public lighting and intelligent controls for Essential Energy customers must be introduced.

A key concern is the substantial increases proposed by Essential Energy to public lighting. According to the Proposal, Eurobodalla Shire Council can expect to see a 78% or \$144,221 increase from 14/15 to 15/16. Our Council is not alone with all local government areas in the Essential Energy network experiencing significant increases to their public lighting costs. This large and unexpected increase cannot be borne by rate-pegged rural councils with a relatively small rate base.

The Essential Energy defense that this charge increase is required to better reflect true costs is quite incredible. If current public lighting charges are so grossly underestimated it surely begs the question "Why haven't these costs been better managed in the past?"

The validity of the justifications for the proposed increase in public lighting charges bears further examination. For example in *Attachment 8.1, Section 1.6.6.4* Essential Energy claim that current actual defect maintenance costs are far higher than those approved by the Australian Energy Regulator (AER) in the last determination. The justifications for an increase in charges to recover these costs are not transparent. In *Section 1.6.6.4.2.3* Essential Energy refer to "a desk assessment of likely times to complete tasks" to justify some of these estimates. Why they do not keep track of actual times suggests that far greater

accountability and efficiency could be achieved if they kept records of actual maintenance task times. In addition, the data presented on defects per mobilisation reinforces the perception that current service delivery is inefficient. *Attachment 8.1, Appendix 3* reveals only a very small number of Essential Energy depots (17%) complete more than two defects per mobilization. Surely given the eight day window to repair streetlights, improved planning could achieve more efficient deployment of repair teams.

In order to make a convincing case for a 78% increase in operational charges, Essential Energy need to demonstrate that their maintenance practices are at least *good* practice. Ideally they should be *best* practice before the AER allows such a large increase. Otherwise completely captive customers like Eurobodalla Shire Council are being forced to pay for inferior maintenance practices.

The Essential Energy Proposal to the AER contains a number of apparently inappropriate labour productivity and maintenance costs, assumptions which cannot be conclusively proven until Essential Energy provide significantly more operational information. Another example involves the assumptions made about bulk lamp replacements and spot failures. As the AER observes, "There is a direct relationship between the length of a bulk lamp replacement cycle (BLR) and the number of spot failures that can be expected to occur. In general, the longer the bulk lamp replacement cycle the higher the spot failures that can be expected"¹.

The Essential Energy Proposal to AER does not provide any information on its compliance or otherwise with the 2009 AER determination of BLR rates. This is an important omission as if an incorrect BLR rate is applied then more lamps will be failing before they are replaced, which will in turn require an expensive "spot replacement" trip to rectify. Thus if lamps are not replaced on a "bulk lamp" programme, or replaced too infrequently, the failure rate will be high and the cost of maintenance will rise. The most recent BLR in Eurobodalla Shire was scheduled to begin in "January 2012, in line with your existing Bulk Lamp Replacement schedule" according to correspondence from Essential Energy. This BLR was delayed considerably and was not fully completed until December 2012.

The opaque nature of some of the assumptions and modelling used in the *Essential Energy 2014-19 Regulatory Proposal* makes it difficult to interrogate the justifications for the proposed price increases. For example, in *Attachment 8.1, Table 8 – Streetlight Business Income and Expenses* the 'Overhead (Divisional and Corporate)' line item, which represents a seemingly exorbitant 29% of the total costs on the table and the single largest contributor for the apparent economic loss, has no explanation or breakdown of this line item.

¹ AER *New South Wales distribution determination 2009–10 to 2013–14*, 28th April 2009, Section 17.5 Maintenance charges, page 342

Attachment 8.1, Section 1.3.7 Future Technology specifically discusses LED lighting. Essential Energy acknowledges that it has trialed LED lighting and that benefits include “reliability improvements for the maintenance provider and energy savings for the customer.” Other benefits include better colour rendering, improved public amenity, reduced light pollution and improved public safety and security.

Instead of accelerating this promising new lighting technology, Essential Energy finds reasons to question the “reliability and suitability” of LED lighting. These questions have been satisfactorily resolved by many other networks in Australia and around the world. Widespread use of LED lighting is now underway in a number of other networks within Australia including Ausgrid which shares the same CEO and Board of Directors as Essential Energy. Why the advantages and efficiencies of having a common leadership for the three Distributed Network Service Providers in Networks NSW, cannot be extended to technical lighting approvals needs to be questioned.

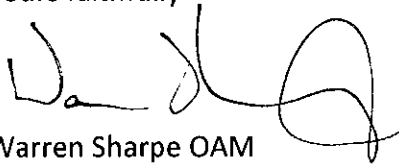
Essential Energy need to accelerate their approval process for energy efficient lighting products. In addition to LED lighting, there are other products awaiting approval which have shown great energy efficiency and maintenance savings for other streetlighting networks. The ‘Active Reactor’ is a device for the efficient control and operation of public lighting. It has demonstrated significant energy savings and also shown to improve lamp life and reduce maintenance costs. This technology has been adopted as a standard issue in many other networks including Ausgrid and ActewACT. Intelligent control systems also promises to deliver excellent efficiency improvements for Essential Energy and their customers. Essential Energy need to deploy and make these types of technology available to customers in their network.

Attachment 8.1, Section 1.6.10 ‘Proposed actions to reduce costs’ is tellingly, at one sentence in length, among the shortest sections in the proposal. Essential Energy must give due consideration to maximizing efficiencies before resorting to passing on costs to their customers. As discussed we have identified several additions we would make to this section:

1. Improve the efficiency of defect deployments for maintenance tasks.
2. Deliver bulk lamp replacements on time to avoid higher lamp failure rates, and inefficient and costly spot replacements.
3. Reduce the Overheads applied to public lighting. They appear disproportionately high to the lay observer.
4. Approve the introduction of LED lighting and energy efficient controls. This will reduce maintenance costs and deliver other benefits to customers.

As a regulated monopoly, it is the regulator that has the capacity to ensure that Essential Energy is operating efficiently and in the interests of their customers. We urge the Australian Energy Regulator to take its responsibilities seriously and deliver a positive determination for their customers.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Warren Sharpe', with a large, stylized flourish at the end.

Warren Sharpe OAM
Acting General Manager