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Mr Warwick Anderson  
General Manager  
Network Regulation North Branch  
Australian Energy Regulator

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Dear Mr Anderson

Thank you for the opportunity to comment on the Australian Energy Regulator (AER) discussion paper of April 2012 regarding options for dealing with public lighting prices for the 2014-2019 regulatory period.

As a member of the Southern Sydney Regional Organisation of Council (SSROC) sponsored Street Lighting Improvement (SLI) Program, Gosford Council would like to express its full support for the issues raised in the SSROC's comprehensive submission to date.

The following submission from Gosford Council reiterates the key issues that were raised in the SSROC's submission.

#### **1 High residual asset valuation**

While the AER Discussion Paper focuses on possible approaches to cost allocation, it is noted that there is a more fundamental issue in pricing: the overall cost of public lighting itself and how the underlying capital base has been determined.

The revaluation of the existing Ausgrid street lighting assets was the key driver of the 49% average increase in capital and maintenance charges from 1 July 2010. Gosford Council views the Ausgrid asset valuation as grossly excessive and having little relationship to historic real-world costs or the history of the assets themselves.

Council would request a full scrutiny of these valuations to enable an objective review for the 2014-2019 regulatory period.

## 2 Greater transparency of pricing process

A major concern of Gosford Council in the 2009-2014 pricing determination was Ausgrid's withholding of key street lighting pricing assumptions and the overall pricing model throughout the pricing review, appeal and redetermination. This issue was documented in Council's submission to the AER in the last pricing reset.

Gosford Council is seeking a release of the full street lighting pricing model and underlying assumptions from the outset of the forthcoming pricing review.

The following responses are also provided in respect of the questions in the Discussion Paper.

### AER Question 1

**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?***

Apart from the large price shock resulting from a substantial asset revaluation, the most significant impact of the 2010 AER pricing redetermination has been with respect to pricing complexity and the lack of transparency.

Since the AER redetermination, Gosford Council has been receiving three separate monthly street lighting bills with network charges spread across all three of them.

The bills have created a lot of confusion specifically in regard to the following:

- Three bills for one service and the difference between them;
- Unclear terminology and labelling on bills;
- Mixing of capital and maintenance charges together without clear distinction;
- Splitting of capital charges across two bills;
- Lack of clear relationship between bills and particular assets (in particular, the bundling of pre-2009 asset charges);
- Councils cannot readily answer specific questions relating to the actual light or the lighting cost over a length of road, or potential savings by moving to a new type of lighting;
- Bills do not meet reasonableness test of NSW Public Lighting Code "13.1 Bills provided by a Service Provider must identify separately in summary form the charge for each type of Public Lighting Service provided and must contain at least the following information: a) details of the number and type of lights; and b) any other information reasonably necessary for the Customer to verify the accuracy of an amount charged on the bill.";
- Guidance on price increases in Ausgrid's public tariffs does not appear to be consistent with AER advice at redetermination.

- 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?*

It is essential that public lighting in NSW continues to be regulated as an alternative control service. The vast majority of public lighting assets are owned by the NSW distribution network service providers (DNSPs) and there is no contestability framework for street lighting in NSW at the moment. The DNSPs have therefore, an almost total monopoly supply position and hence would require vigilant regulatory oversight. It would be inappropriate to rely on any potential for competition to emerge without significant changes to the current framework.

- C** *Has the current approach resulted in greater (or less) competition in the construction or provision of public lighting services?*

The current regulatory approach has not changed competition or the prospects for competition in NSW public lighting. There are no NSW provisions allowing a customer to request a third party to alter, relocate, or replace public lighting assets. In any event, Gosford Council would have to first pay Ausgrid's arbitrary and excessive residual asset values to exit current arrangements and thus presenting a significant financial barrier to greater competition.

#### **AER Question 2**

*The AER seeks comments regarding the use of Option 1 (extension of the current arrangements). In particular:*

- A** *What are the main advantages and disadvantages of this approach?*

Gosford Council is not supportive of introducing a further category of capital charge for assets installed during 2014-2019 as this would have the potential to further increase complexity. Gosford Council is supportive of Ausgrid's proposal to model various pricing scenarios and to explore ways to simplify the current pricing structure. Council welcomes the opportunity to comment on the proposal when details are available in due course.

#### **AER Question 3**

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

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

- B** *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?*

Gosford Council agrees with Endeavour Energy's submission that the introduction of third type of capital charge has the potential to further increase complexity. However, Gosford Council is not in a position to determine the price distortions that 10 year averaging of capital costs might create but would welcome modelling to assess the potential impact of such an approach.

**AER Question 4**

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

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

Gosford Council has no objections, in principle, to a simplified pricing approach, provided that cost-reflectivity and price shocks are modelled first. However, Gosford Council is not in a position to assess the potential gains and losses of Ausgrid's proposed approach for the 2014-2019 regulatory period, or the degree of potential non-cost reflectivity created by bundling. Gosford Council welcomes Ausgrid's proposal to model various pricing scenarios before pricing submissions are made to the AER.

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

Gosford Council does not believe that moves to simplify pricing would have any material impact for contestability or result in any increase in competition.

**Additional Comments:**

**Interim tariffs to facilitate adoption of emerging technologies**

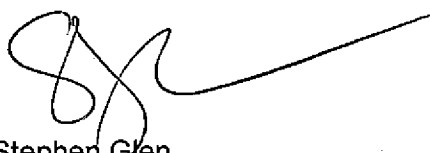
Public lighting is entering a period of rapid change with technologies such as LEDs, light emitting plasma, adaptive lighting controls and others emerging quickly and fundamentally changing the mix between capital, energy and maintenance costs.

The current regulatory approach, which assumes by implication, relative stability in technologies, progressive increases in costs in line with CPI and a relatively similar maintenance regime for all public lighting assets does not appear well suited to dealing with the next generation of emerging lighting technology. The process for pricing new technology is lengthy and complex, and by the time a pricing approval process is finished, the product being priced is likely to have been superseded.

Gosford Council therefore, recommends in favour of interim tariffs for new technologies to enable initial adoption to take place, without the need for going through a full AER pricing approval process.

I ask that the issues that have been raised in this submission and the more detailed issues being raised in the SSROC SLI Program submission receive careful consideration. Should you require further clarification on Council's submission please contact Council's Coordinator Engineering Investigations, Mrs Margie Azmi on telephone 4325 8925.

Yours faithfully



Stephen Glen  
**Acting General Manager**