Jemena Electricity Networks (Vic) Ltd

2016-20 Electricity Distribution Price Review Regulatory Proposal

Revocation and substitution submission

Attachment 10-1 Alternative control services and negotiated services

Public

6 January 2016

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ABBREVIATIONS

ACS	Alternative Control Services
ATO	Australian Tax Office
CPI	Consumer Price Index
DNSP	Distribution Network Service Provider
ESC	Essential Services Commission
F&A paper	AER, *Final framework and approach for the Victorian Electricity Distributors – Regulatory control period commencing 1 January 2016*, October 2014
JEN	Jemena Electricity Networks (Vic) Ltd
LED	Light Emitting Diode
NEL	National Electricity Law
NEO	National Electricity Objective
NER	National Electricity Rules
OMR	Operation, Maintenance and Replacement
Optimal NEO Positon	The position which contributes to the achievement of the NEO to the greatest degree and best promotes the long term interests of consumers of electricity
RAB	Regulatory Asset Base
SCS	Standard Control Services
WACC	Weighted Average Cost of Capital

OVERVIEW

Key messages

Ancillary network services

- We do not agree with the preliminary decision to disallow the recovery of tax costs associated with new and temporary connections classified as ancillary network services
- For all other aspects of ancillary network services we accept the position outlined in the preliminary decision
- We welcome the preliminary decision's acceptance of our labour rates for quoted services.

Public lighting services

- Jemena Electricity Networks (Vic) Ltd (**JEN**) accepts all elements of the preliminary decision in relation to public lighting services except for:
  - The forecast rates of bulk change and repairs per day and
  - The forecast traffic management costs.

Negotiated services

- We have amended section 10 of our negotiating framework to refer to Part L of Chapter 6 of the National Electricity Rules (**NER**)
- We have removed references to public lighting services of dedicated public lighting assets in JEN's negotiating framework.

1. We note that our April 2015 proposal (and all supporting evidence and other material contained, or referred to, in it) is incorporated into, and forms part of, this submission.

2. The table below summarises our response to the preliminary decision.

Table OV–1: Overview of our submission response to the preliminary decision on alternative control services and negotiated services

Service category	Preliminary decision	Our response to the preliminary decision	Our submission
Fee based ancillary network services	The preliminary decision did not approve all the prices in our April 2015 proposal. The preliminary decision substituted labour rates and task times.	✓	Adopts the positons from the preliminary decision.
	The preliminary decision disallowed recovery of tax costs for connection services.	✗	We maintain the position from our April 2015 proposal
Quoted ancillary network services	The preliminary decision accepted our April 2015 proposal.	✓	We maintain the position from our April 2015 proposal

Service category	Preliminary decision	Our response to the preliminary decision	Our submission
Public lighting services	The preliminary decision did not approve our public lighting charges in the April 2015 proposal.		Adopts the positons from the preliminary decision, except for traffic management costs and bulk changes and repairs rates for T5 lights.
	The preliminary decision did not approve our traffic management costs and bulk changes and repairs rates for T5 lights.		Adopts the positons from the preliminary decision, however propose further amendments to the model to maintain consistency
Negotiated services	The preliminary decision accepted our April 2015 negotiation framework but required a minor amendment to the dispute resolution reference.		Adopts the positons from the preliminary decision

3. Along with standard control services, JEN provides additional services to specific customers which are subject to economic regulation. These services are classified as either alternative control services (**ACS**) or negotiated services.

4. The preliminary decision categorised ACS into the following categories:

   1) Ancillary network services, comprising:

      a) Fee based services – Services which do not change materially from job to job and therefore a fixed fee can be charged.

      b) Quoted services – Services which do change materially from job to job and therefore a time and materials approach to charging is more appropriate.

   2) Public lighting services – Comprising operation, maintenance, repair and replacement services.

   3) Regulated metering services—comprising type 5, 6 and smart metering and metering exit fees—are covered in Attachment 9-1 of this submission.

5. Our submission on alternative control services represents the amount we consider necessary to achieve the requirements in the NER, efficiently meet our obligations and customers' expectations, and promote the long-term interests of our customers.

6. We consider our negotiating framework for negotiated services achieve the requirements of the NER, and would efficiently deliver services to customers' expectations, and promote the **Optimal NEO Positon**.[1]

[1] The position which contributes to the achievement of the National Electricity Objective (**NEO**) to the greatest degree and best promotes the long term interests of consumers of electricity.

1. ANCILLARY NETWORK SERVICES

1.1 JEN'S APRIL 2015 PROPOSAL

7. In our April 2015 proposal, we proposed to apply fixed prices for fee based ACS. For quoted ACS, we will determine the charge using the labour rates–approved in the preliminary decision–plus material, plant and contractor costs.

8. JEN proposed to escalate prices over time:

   - CPI-X price cap for all fee based ACS
   - CPI-X price cap on labour rates for quoted ACS, plus material, plant and contractor costs.

9. JEN adopted a bottom-up approach to develop prices for most fee based connection and ancillary services. For reserve feeder services the charge was determined on a top-down approach.

10. In deriving the proposed charges for connection and ancillary services, JEN has utilised a method that passes on its forecast costs for providing these services. These costs consist of:

    - Charges we pay our service providers
    - Back office and other direct costs
    - An allocation of JEN's indirect costs (overheads) plus materials costs.

1.2 PRELIMINARY DECISION

11. The preliminary decision did not approve all of JEN's proposed prices for fee based services because JEN's proposed prices exceeded what was considered to be efficient costs for providing these services. To determine prices, the preliminary decision substituted labour rates and task times it considers efficient as inputs into our alternative control services price build-up model[2].

12. The preliminary decision did not accept JEN's application of tax recovery to the cost build-up of new and temporary connection network services.[3]

13. The preliminary decision accepted JEN's proposed labour rates for quoted services.[4]

14. The preliminary decision did not accept JEN's proposed real escalation rate.

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2 AER, *Preliminary decision, Jemena distribution determination 2016 to 2020, Attachment 16 – Alternative control services*, October 2015, p 16-11.

3 Ibid, p 16-17.

4 Ibid, p 16-11.

1.3 JEN'S RESPONSE AND THIS SUBMISSION

15. JEN does not agree with the preliminary decision not to accept the proposed prices claiming that some of the task times taken to perform certain ancillary network services is excessive, and we do not consider the preliminary decision has undertaken a proper review of JEN's proposal to come to this conclusion. However, we accept its preliminary decision on this item.

16. Consequently, we have modified the task times modelled in this submission (See Attachment 10-4 of this submission) in accordance with the preliminary decision on ancillary network services.

17. JEN does not agree with the treatment of the tax allowance in the preliminary decision which JEN proposed to recover in the new and temporary connection services. Further explanation is provided in section 1.3.1.

1.3.1 RECOVERY OF TAX COSTS

18. From a regulatory point of view the approach to classification of routine connection services will not be a Regulatory Asset Base (**RAB**) to which the assets created by a routine connection can be added and therefore does not, on first appearance, give rise to the need for a tax allowance. However, given the nature of routine connection assets, JEN must capitalise the costs for tax purposes, thereby incurring a tax liability.

19. Clause 7A(2)(a) of the National Electricity Law (**NEL**) requires that a regulated distribution network service provider (**DNSP**) should be provided with a reasonable opportunity to recover at least the efficient costs the operator incurs in providing direct control network services, be they alternative control services or standard control services.

20. As we cannot avoid incurring the tax liability, we believe the tax liability to be an efficient cost and, therefore, consider that the preliminary decision must provide an allowance in costs build-up model to allow for the recovery of the associated tax liability.

21. The preliminary decision noted:

> *However, we note Jemena has applied the tax recovery rate to the total costs of the applicable services including labour costs. As the labour costs account for between 62 and 73 per cent of the total cost of these services, we consider Jemena's application of the tax recovery rate to all costs overstates its tax liabilities for these services.* [5]

22. JEN submits the total costs of new and temporary connections are capitalised—that is, the labour portion is capitalised to the projects.

23. We refer to an Australian Tax Office (**ATO**) Interpretative Decision (ATO ID 2011/42)[6] made on 12 May 2011.

> ***Issue:*** *Is expenditure incurred by a taxpayer on salary or wages an allowable deduction under section 8-1 of the Income Tax Assessment Act 1997 (ITAA 1997), to the extent that the relevant employees perform work on projects to construct and upgrade depreciating assets of the taxpayer?*
>
> ***Decision:*** *No. Expenditure incurred by a taxpayer on salary or wages is not an allowable deduction under section 8-1 of the ITAA 1997, to the extent that the relevant employees perform work on projects to construct and upgrade depreciating assets of the taxpayer as it is capital or capital in nature.*

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5 AER, *Preliminary decision, Jemena distribution determination 2016 to 2020, Attachment 16 – Alternative control services,* October 2015, p 16-17.

6 https://www.ato.gov.au/law/view/document?docid=AID/AID201142/00001

24. JEN does not agree with the claim in the preliminary decision that JEN should be "able to absorb these negligible costs because the cost build-up method of ancillary network service prices is not a cost of service approach".[7] JEN notes:

- The regulatory framework does not allow for the AER to require a distribution business to absorb costs; this violates the requirement to recover efficient costs
- There is no relevance to the 'cost of service approach' the preliminary decision claims in making this decision to the treatment of tax
- While this amount may be deemed 'negligible' in the preliminary decision, the key revenue and pricing principles enshrined in the NEL should be promoted which does not trouble itself with the levels of materiality but considers efficient cost should be recovered.[8]
- In terms of materiality the preliminary decision estimates[9] the cost however the calculations appear to only account for the materials involved and not the necessary capitalisation of labour. Taking this issue into account JEN estimates the tax liability to be in the order of $1m ($nominal) over the 2016 regulatory period.

25. It is noteworthy that the AER considered this issue in its final decision on JEN's alternative control service prices for the 2011 regulatory period. In that decision the AER noted:

> *"Tax liabilities for routine connection services*
>
> *JEN submitted that, given the nature of routine connection assets, it would have no choice but to capitalise the costs of creating the assets for tax purposes, thereby incurring a tax liability for income received from routine connection services.*
>
> *During the AER's review, JEN indicated that under Division 40 of the Income Tax Assessment Act 1997, it is required to capitalise tangible assets greater than $100 and add them to its low value pool (less than $1,000), to be depreciated within the terms of that pool for taxation purposes.*
>
> *In order to recover the cost of this tax liability, JEN proposed a mark up of 7 per cent be applied to its routine new connections prices, based on some analysis of the likely tax liability. JEN's revised alternative control service model for routine connections prices included a placeholder for such a mark up.*
>
> *The AER has considered this issue as part of its final decision on JEN's alternative control service prices. The AER notes that the mark up is a result of the tax liability incurred due to the capitalisation of JEN's routine connection assets, which is unavoidable under the relevant tax legislation. The AER also notes that this is consistent with tax liabilities for standard control services. The AER therefore accepts JEN's proposal for a 7 per cent mark up on routine connections services."*[10]

26. For these reasons we reiterate our position from our April 2015 proposal for the recovery of the tax associated with offering new and temporary connection services.

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7 AER, *Preliminary decision, Jemena distribution determination 2016 to 2020, Attachment 16 – Alternative control services,* October 2015, p 16-17.

8 NEL, s. 7A(2)(a).

9 AER, *Preliminary decision, Jemena distribution determination 2016 to 2020, Attachment 16 – Alternative control services*, October 2015, Footnote 27.

10 AER, *Final decision, Victorian electricity distribution network service providers. Distribution determination 2011-15*, October 2010, pp 931-932.

1.3.1.1 Impacts of gamma on WACC

27. The preliminary decision notes that JEN's modelled tax recovery does not account for the effects of gamma,[11] JEN agrees with the observation in the preliminary decision and has amended the tax effect using the weighted average cost of capital (**WACC**) as outlined in Attachment 6-1 of this submission. To this end JEN submits tax recovery mark-up of 5.38% in our new and temporary alternative control services pricing.

1.3.2 CUSTOMER ACCESS TO METERING DATA

28. JEN provides an Energy Outlook Portal[12] through which customers can access their remotely read interval meter data, compare retail offers and download their data for free.

29. Where a JEN customer elects not to use our free self-service portal facility, the AMI Order in Council[13] provides that a we may impose a charge for providing a small customer with access to interval metering data if the request is not the first request made by the small customer within the preceding year, or the interval data relates to a period prior to the preceding two years.[14]

30. This service is currently provided by a number of Victorian distribution businesses including JEN. The preliminary decision recognised this service and made minor additions to the group of ACS.

31. JEN proposes to add this service to the group of fee-based ACS it provides customers on a request basis.

1.3.2.1 Approach to determining prices

32. Between our back office staff in the customer relations team and the meter data management team, this exercise to collate the metering data could span a few days. However, the overall effort on average is estimated to be 35 minutes per customer request.

33. Our proposed charge includes recovery of back office costs incurred by JEN. The back office functions include validation of the identity of the customer requesting the metering data in strict compliance with regulatory obligations relating to privacy. There are a number of file formats used in by the industry for price comparison. Consequently, time is spent discussing with the customer the appropriate file format.

34. Table 1-1 sets out the end-to-end back office tasks, and the average duration to carry out each of the tasks.

Table 1–1: Back office tasks for providing customers access to metering data

Back office tasks	Task Duration (minutes)
Check validity of request received and raise Customer Data Request	5
Validate the identity of customer requesting the data	5
Download data from the application data warehouse	7
Check data for completeness and prepare data in the file format requested by the customer	3

[11] AER, *Preliminary decision, Jemena distribution determination 2016 to 2020, Attachment 16 – Alternative control services*, October 2015, p 16-17.

[12] https://electricityoutlook.jemena.com.au/

[13] Advanced Metering Infrastructure Order in Council made by the Governor of Victoria under section 15A and section 46D of the Electricity Industry Act 2000 (Vic) and published in the Victoria Government Gazette on 28 August 2007, including amendments up to 30 July 2015.

[14] AER, *Preliminary decision, Jemena distribution determination 2016 to 2020, Attachment 13 – Classification of services,* October 2015, p 13-12.

Back office tasks	Task Duration (minutes)
Send the data to customer	3
Maintain customer request register	2
Prepare data in the request file format	3
Manage phone calls and inquiries	5
Administration of Inbox emails, correspondences	3
Other direct costs including performance monitoring and reporting	2.1
Total	**35.1**

35. JEN's proposed fee for customer access metering data is set out in Table A1–1.

1.3.3 REAL PRICE ESCALATION

36. We have adopted the preliminary decision on real price growth rates and incorporated them into this submission.

1.3.4 PRICE CONTROL FORMULA

37. JEN supports the price caps for each individual service for alternative control services described in the preliminary decision. This includes the use of the limited building block model for public lighting operation, maintenance and replacement services to derive annual price adjustments for each light type and the metering exit fee (to the extent the metering exit fee must be adjusted). JEN's proposed price control formulae are outlined in section 1.3 of Attachment 2-2 of this submission.

38. JEN's fee based ancillary service prices are presented in Appendix A1 of this document.

1.4 TRUE-UP FOR PRELIMINARY DECISION

39. Under the NER[15] JEN is afforded an opportunity to recover revenue shortfalls for alternative control services caused by a price differential between the preliminary decision and substitute decision in the 2016 regulatory year on a net present value neutral basis. For each type of ancillary service JEN proposes the substitute decision prices for fee-based ancillary network and metering services is effective upon release of the substitute determination.[16]

1.4.1 FEE BASED SERVICES

40. Should the change in prices not take effect from the day after the release of the substitute determination, JEN submits to adjust it's 2017 to 2020 prices on a time weighted average basis[17] to recover the shortfall in revenues over the 2016 regulatory year using the following approach:

$$P_{2017^*} = P_{2017\text{-}SD+} + (P_{2016\text{-}SD} - P_{2016\text{-}PD}) / 4 * (1+WACC_{nominal})$$
$$P_{2018^*} = P_{2018\text{-}SD+} + (P_{2016\text{-}SD} - P_{2016\text{-}PD}) / 4 * (1+WACC_{nominal})^2$$

15 NER cl 11.60.4(d)(2).

16 Expected on 30 April 2016.

17 This simplified approach assumes constant levels of service provision for each regulatory year.

$$P_{2019^*} = P_{2019\text{-}SD +} (P_{2016\text{-}SD} - P_{2016\text{-}PD}) / 4 * (1+WACC_{nominal})^3$$
$$P_{2020^*} = P_{2020\text{-}SD +} (P_{2016\text{-}SD} - P_{2016\text{-}PD}) / 4 * (1+WACC_{nominal})^4$$

41. Where:

SD	Substitute determination
PD	Preliminary decision
P	Price
WACC	See Attachment 6-1 to this submission[18]

1.4.2 QUOTED SERVICES

42. As the submitted rates align to those in the preliminary decision JEN does not make any claim for true-up of unrecovered revenues in the 2016 regulatory year.

[18] JEN notes in footnote 11 of the preliminary decision (AER, *Preliminary decision, Jemena distribution determination 2016 to 2020, Attachment 16 – Alternative control services*, October 2015) that there is not an expectation that WACC will be used in price capped alternative control services, however we note that it should be used here as a part of the true-up mechanism.

2. PUBLIC LIGHTING SERVICES

2.1 JEN'S APRIL 2015 PROPOSAL[19]

43. JEN's proposed charges for operation, maintenance and replacement (**OMR**) services of shared public lighting[20] assets over the 2016 regulatory period. The charges were derived by rolling forward the public lighting model for the 2011 regulatory period, and updating model inputs and assumptions to reflect changes in working conditions, cost of material and labour rates.

44. We made adjustments to the public lighting regulatory asset base to reflect the changes to the public lighting services classification in the final **F&A paper**[21]—that is, services related to dedicated public lighting assets[22] were classified as negotiated services.

45. Considering the customer concerns raised by stakeholders after the submission of our April 2015 proposals, on 3 August 2015, the AER advised that it intends to depart from the classification of all dedicated public lighting services as negotiated services and invited distributors to make modelling submissions in light of reclassification. This meant there would be no distinction between shared and dedicated public lighting assets—that is, all lights of which would be classified as an alternative control service in the forthcoming period.

46. On 28 August 2015, JEN submitted a public lighting model including OMR charges for the 2016 regulatory period in accordance with the reclassification. The charges are inclusive of material and labour real price escalators and forecast Consumer Price Index (**CPI**)—actual CPI applied to the charges for each year when they are known.

47. The key adjustments to the inputs of the public lighting charges model relative to those approved in the 2011 regulatory period included:

- Escalation factors for labour and materials consistent with those proposed for Standard Control Services (**SCS**)
- Real pre-tax WACC consistent with the approach taken in the 2011 regulatory period, the real pre-tax WACC rate is the same as for SCS
- Forecast CPI. The actual CPI will apply to the charges for each year when they are known
- Opening public lighting RAB to account for the departure from the classification of all dedicated public lighting services as negotiated services
- Proportions of minor road lights that fail between bulk changes were adjusted to reflect JEN's actual historical failure rates
- The number of repairs and bulk replacement of lamps that can be performed in a day. The numbers were reduced to reflect longer travel times due to congested road conditions and greater focus on traffic management and worksite safety
- Traffic management costs were removed for minor road lights and increased for major road lights

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19 Including subsequent submission in response to AER questions.

20 A shared light is a light that is attached to an electricity distribution pole.

21 AER *Final framework and approach for the Victorian Electricity Distributors – Regulatory control period commencing 1 January 2016*, October 2014.

22 A dedicated public light is a light that is attached to a dedicated public lighting pole, not shared with electricity distribution pole.

- Indirect overheads were applied to asset replacement activities
- Added cost for stakeholder management
- A new energy efficient light emitting diode (**LED**) 18W light type was added to the model.

2.2 PRELIMINARY DECISION

48. The preliminary decision did not approve JEN's proposed public lighting charges, it did not accept the adjustments JEN made to the inputs of the public lighting charges model rolled forward from the 2011 regulatory period.

49. The preliminary decision did not accept the level of JEN's proposed public lighting opex adjustments that resulted from the changes to the inputs and assumptions. The preliminary decision, however, accepted some of the changes and amended Jemena's opex assumptions by substituting opex parameters that were being achieved by other distributors. In summary the preliminary decision:

- Substituted a real pre-tax WACC of 4.13 % instead of the proposed 5.72 %
- Reduced traffic management costs
- Increased number of bulk changes, repairs and patrols per day
- Reduced the failure rate for the T5 (2x14W) light to 11.5 % between bulk change from the proposed 25.6 %
- Substituted labour escalation of 0.80 % from 2016 to 2017
- Disallowed capex overhead and account management costs.

50. In all other respects the preliminary decision approved of JEN's proposal.

2.3 JEN'S RESPONSE AND THIS SUBMISSION

51. We do not agree with the preliminary decision on JEN's public lighting charges. When assessing the inputs and assumptions of JEN's public lighting April 2015 proposal, the preliminary decision has undertaken a simple comparison of costs and performance levels across the Victorian distribution businesses and selected the lowest costs and most optimistic rates as the benchmark for JEN. This approach is overly simplistic as it does not account for the complex contract negotiations covering all the lights in JEN's network.

52. Despite the deficiencies in the approach taken in the preliminary decision, JEN accepts all of the opex parameter substitutions achieved by other distributors in the preliminary decision public lighting model, except for:

- Traffic management costs allowed for minor road lights[23] and
- The assumed rate of bulk changes and repairs per day for T5 lights.

53. In addition we do not agree with the WACC that the preliminary decision has adopted in its public lighting mode.

[23] MV80, T5 and LED18 light types.

2.3.1 WACC ADOPTED IN THE PUBLIC LIGHTING MODEL

54. JEN does not agree with the WACC used in the public lighting model of preliminary decision. Consistent with the other elements of this submission, JEN proposes adoption of the WACC as outlined in Attachment 6-1 of this submission.

2.3.2 BULK CHANGES AND REPAIRS PER DAY

55. The preliminary decision did not accept the level of reduction we proposed for bulk changes and repairs and patrols per day. The preliminary decision noted:

> *"AusNet Services is achieving the **lowest number of bulk changes and repairs** of the other Victorian distributors and we consider that Jemena should be able to achieve this level of bulk changes and repairs per day for the older light types. For the T5 light we have also substituted in the bulk change and repairs being achieved by Powercor, which we consider Jemena should be able to achieve."*[24,25] *[Emphasis added]*

56. In our experience, the type of light deployed in minor roads—whether it is an older light type or energy efficient light type—has little or no bearing to the effort (labour including travel time) expended in bulk change and repair activities.

57. We accept the substitution of bulk changes and repairs per day being achieved by AusNet Services as the benchmark for JEN in the preliminary decision, however, we do not agree with substitution in the preliminary decision of rates achieved by another distributor for T5 lights.

58. Normally the public lighting contractor is the same for bulk change or repair work of all lights on minor roads and time taken to bulk change or repair is averaged between the light types. In our experience, the type of light deployed in minor roads—whether it is an older light type or energy efficient light type—has little or no bearing to the effort (labour including travel time) expended in bulk change and repair activities. For these reasons, we believe it is appropriate to apply the performance levels achieved by AusNet Services for all lights—not 'cherry pick' the best performance levels of distributors by light types.

2.3.3 TRAFFIC MANAGEMENT COSTS

59. The preliminary decision considers JEN's proposed traffic management costs as inefficient. The preliminary decision did not accept the extent of our proposed increase in traffic management costs—instead it substituted unit costs for traffic management achieved by CitiPower in 2015. The preliminary decision noted:

> *We have reduced the proposed traffic management costs by substituting the unit costs for traffic management achieved by CitiPower in 2015, of $5.63 for a SP 150 luminaire and $5.48 a SP 250W luminaire. This allows an increase in costs but not to the extent proposed by Jemena. CitiPower is an urban distributor that we consider faces comparable traffic control issues to that of Jemena. We see no justification for Jemena not being subject to the same criteria.*[26]

60. We accept the substitution of traffic management in the preliminary decision achieved by CitiPower as an appropriate benchmark for JEN.

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[24] AER, *Preliminary decision, Jemena distribution determination 2016 to 2020, Attachment 16 – Alternative control services*, p 16-22.

[25] We believe the AER may have inadvertently stated 'lowest number of bulk changes and repairs' when it actually meant 'highest number of bulk changes and repairs' as it would result in the lowest cost.

[26] AER, *Preliminary decision, Jemena distribution determination 2016 to 2020, Attachment 16 – Alternative control services*, p 16-23.

61. In our April 2015 proposal[27], JEN stated:

> *An allowance of 45 minutes is conservative for repair of a light on a minor road. In that time the crew perform their own traffic management at the work site utilising traffic management devices such as cones and stop/go bats.* ***We have not sought any allowance for traffic management for light repairs and asset replacement activities on minor road assets****. [Emphasis added by JEN]*

62. We removed the traffic management costs for minor roads because we had reduced the number of repairs per day as traffic management was inclusive in the time taken to repair a minor road light. It is noteworthy that all distributors, except for JEN, have included traffic management costs for minor road lights. We seek to restore an appropriate allowance for traffic management of lights on minor roads.

63. Consistent with the reasoning in the preliminary decision that *CitiPower is an urban distributor that faces comparable traffic control issues to that of Jemena,*[28] and seeing that the preliminary decision has substituted that distribution business's unit costs for traffic management for lights on major roads (SP 150 and SP 250 lights), JEN has adopted the same distribution business's unit costs for traffic management for lights on minor roads (MV80, T5, compact fluorescent and LED18 lights).

2.3.4 FUNDING OF VICROADS SLIP BASE FRANGIBLE LIGHTING POLES

64. The practice to date is for VicRoads to supply the slip base frangible poles as and when they are required for replacement. This practice is a long established practice and is reflected in JEN's public lighting technical standards document.[29] Where JEN identifies the need for replacement of a non-standard pole, either due to crashes involving frangible poles or pole condition based on the asset inspection program, it will notify the relevant public lighting customer of this requirement.

65. In September 2015, VicRoads requested JEN add VicRoads frangible poles to JEN's list of standard fittings.

66. VicRoads, Traffic Engineering Manual[30] states:

> *Crashes involving rigid poles tend to be more severe than the average crash. Around 4% of crashes involving poles result in a fatality, compared with 2% of crashes in total. Almost 50% of crashes involving poles result in serious casualties compared with approximately 30% of crashes in total.*
>
> *In the 1980's, the use of slip base poles to reduce the severity of crashes was investigated. Following their success a second type of frangible pole was introduced, the impact absorbing pole. With the success of these types of frangible poles in reducing crash severities, VicRoads now owns very few rigid road lighting poles on the road network.*

67. In order to provide efficient and timely public lighting services to its public lighting customers, JEN maintains replacement stock of a number of standard public lighting fittings including lamps, photoelectric cells, luminaires,

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27 Jemena Electricity Networks (Vic) Ltd, *2016-20 Electricity Distribution Price Review Regulatory Proposal, Attachment 11-3*, 30 April 2015, p 5.

28 AER, *Preliminary decision, Jemena distribution determination 2016 to 2020, Attachment 16 – Alternative control services*, p 16-23.

29 JEN, *Public lighting Technical Standard (JEN PR 0026), revision 5.0*, 12 Feb 2015.

30 VicRoads, *Traffic Engineering Manual Volume 1, Chapter 6 – Edition 5* 16 *June 2014,* section 6.5.2, p 16.

brackets, public lighting poles, supply cable and control equipment. These assets are used in large scale across JEN's network and are classified as approved standard fittings[31].

68. In response to the VicRoads' request, we propose to add VicRoads frangible poles—which are currently considered as non-standard fitting (see extract from our technical standard in Appendix A5)—to our list of standard sittings.

69. Clause 3.2.2 of the Public Lighting Code[32] states:

> *If a public lighting customer proposes the addition of a new item to the list of standard fittings the distributor must add the new item if it complies with the distributor's public lighting technical standards. The distributor must not unreasonably refuse the addition of a new item to the list of standard fittings if the public lighting customer has agreed to pay a fair and reasonable charge for operation, maintenance and repair of the proposed new standard fitting if used in public lighting.*

70. We believe it is more efficient and we can respond more quickly to our customers' needs if we procure and hold stock of these poles as it will reduce time (and cost) when replacing crashed poles in emergencies—for example, we would take a pole from our stock and replace it in a single visit to the crash site. At present there are multiple site visits—first to remove the damaged pole and make the site safe and then a second trip to install a temporary rigid pole and then a further trip to replace the rigid pole with a permanent frangible pole supplied by VicRoads.

71. Our proposal to list frangible poles as standard fittings from 1 January 2016 means we need to include additional forecast replacement capex in our public lighting model to fund procurement of the frangible poles.

2.3.4.1 Approach to forecasting capex for procurement of frangible poles

72. To determine the number of frangible poles required per annum, we identified all dedicated public lighting poles (wood, concrete and steel) on declared roads as all are required to be replaced with frangible poles at the time of replacement.

73. JEN has analysed the age profile of the poles and the number of poles replaced over the past five years with frangible (or impact absorbing) poles. It is VicRoads' policy to use slip base frangible poles or impact absorbing poles in road lighting of arterial roads wherever possible as a safety measure.[33] On this basis, we calculate 50 frangible poles are required per annum.

74. We have obtained a quote from a manufacturer of frangible poles[34] of 11.0 and 13.5 metre slip base steel poles. On the basis of this quote, we submit a capital cost of, on average, $1,800 per pole. We have added 8% to the cost of a pole to recover stores handling and procurement costs.

75. JEN also understands that all the other Victorian distribution network service providers intend to fund the replacement of existing frangible poles in the 2016 regulatory period.

2.3.4.2 Proposed public lighting charges and public lighting model

76. JEN's proposed public lighting charges are shown in Table A3–1 of Appendix A.

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31 Essential Service Commission of Victoria (**ESC**), *Public Lighting Code*, April 2005, section 8 – Definitions: ***standard fitting*** means a lamp, luminaire, mounting bracket, public lighting pole, supply cable or control equipment, normally used by or acceptable to a distributor.

32 ESC, *Public Lighting Code*, April 2005.

33 VicRoads, *Traffic Engineering Manual Volume 1, Chapter 6 – Edition 5,* 16 June 2014, section 6.1.2, p 6.

34 Letter dated 7 December 2015.

77. JEN public lighting model is in Attachment 10-2 of this submission.

2.4 TRUE-UP FOR PRELIMINARY DECISION

78. Under the NER,[35] JEN is afforded an opportunity to recover revenue shortfalls for alternative control services caused by a price differential between the preliminary decision and substitute decision in the 2016 regulatory year on a net present neutral basis. For public lighting OMR services JEN proposes to (in real terms):

- Adjust the model inputs as noted in sections 2.3.1, 2.3.3 and 2.3.4 producing a new set of rates and revenues for the 2016 regulatory period
- Hold the 2016 prices constant (consistent with the prices approved in the preliminary decision)
- Develop a new set of 2017 to 2020 prices in net present value neutral terms.

[35] NER, Cl. 11.60.4(d)(2).

3. NEGOTIATED SERVICES

3.1 JEN'S APRIL 2015 PROPOSAL

79. Our April 2015 proposed negotiating framework was largely unchanged from the framework that related to the 2011 regulatory period, except for some minor adjustments to ensure it covers only services the preliminary decision had classified as negotiated distribution services in its final F&A paper.

3.2 PRELIMINARY DECISION

80. In the final F&A paper, the AER proposed approach was to classify dedicated public lighting services as negotiated services rather than alternative control services.[36]

81. However, the preliminary decision departed[37] from its final F&A position and has retained the current classification to public lighting services in Victoria for the 2016 regulatory control period. That is:

- Operation, repair, maintenance and replacement services of all distributor owned public lighting assets (shared[38] and dedicated[39]) remain classified as alternative control services
- New public lighting services, including public lights constructed by developers in greenfield sites and then gifted to the distributors and alteration and relocation of distributor owned public lighting assets remain classified as negotiated services.

82. Section 17.1 of the preliminary decision seeks for JEN to amend its negotiating framework to refer to Part L of Chapter 6 of the NER, rather than Chapter 8 of the NER, as it refers to the correct dispute resolution provisions under the NER.[40] [41]

83. Otherwise the preliminary decision has accepted JEN's proposed negotiating framework.

3.3 JEN'S RESPONSE AND THIS SUBMISSION

84. We welcome the preliminary decision's endorsement and acceptance our negotiating framework submitted as part of our April 2015 proposal including AER's required amendment to the dispute resolution reference to Part L of Chapter 6 of the NER.

85. We have amended section 10 of our negotiating framework to refer to Part L of Chapter 6 of the NER.

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36 AER, *Final framework and approach for the Victorian Electricity Distributors – Regulatory control period commencing 1 January 2016*, October 2014, pp.66−68.

37 AER, *Preliminary decision, Jemena distribution determination 2016 to 2020, Attachment 13 – Classification of services*, October 2015, p 13-12.

38 A shared public lighting assets is defined as a public lighting asset that is attached to an electricity distribution pole.

39 A dedicated public lighting asset is defined as a public lighting asset that is a stand-alone lighting pole with no other electricity infrastructure attached to it.

40 AER, *Preliminary decision, Jemena distribution determination 2016 to 2020, Attachment 17 – Negotiated services and criteria*, October 2015, p 17-6

41 Note the preliminary decision has inadvertently referred to section 6 of our negotiating framework instead of section 10 of our April 2015 proposal.

86. We also welcome the preliminary decision to retain the service classification of public lighting services for 2011 regulatory period.

87. Accordingly, we have removed operation, repair maintenance and replacement services of dedicated public lighting assets from the definition of Negotiated Distribution Services in section 12.1 of JEN's negotiating framework.

88. JEN's negotiating framework is in Attachment 10-5 of this submission.

Appendix A
Ancillary network service prices

Jemena

A1. FEE BASED ANCILLARY SERVICE PRICES

Table A1–1: Fee based ancillary service prices for 2016 ($2015 per service)

	Hours	Preliminary decision price	January 2016 submission price
Connection services where JEN is the *Responsible Person* for metering			
Routine single-phase connection to new premises	Business hours	544.97	574.24
	After hours	544.97	574.24
Routine three-phase connection to new premises	Business hours	706.07	744.08
	After hours	706.07	744.08
Temporary single-phase connection	Business hours	530.80	559.31
	After hours	530.80	559.31
Temporary three-phase connection	Business hours	679.17	715.73
	After hours	679.17	715.73
Connection services where JEN is not the *Responsible Person* for metering			
Routine single-phase connection to new premises	Business hours	544.97	574.24
	After hours	544.97	574.24
Routine three-phase connection to new premises	Business hours	706.07	744.08
	After hours	706.07	744.08
Temporary single-phase connection	Business hours	530.80	559.31
	After hours	530.80	559.31
Temporary three-phase connection	Business hours	679.17	715.73
	After hours	679.17	715.73
Energisation and de–energisation services			
Reconnection after temporary disconnection for non-payment	Business hours	65.20	65.20
	After hours	72.81	72.81
Manual energisation (new and existing premises)	Business hours	34.46	34.46
	After hours	54.76	54.76
Manual re-energisation	Business hours	34.46	34.46
	After hours	54.76	54.76
Manual de-energisation	Business hours	53.17	53.17
	After hours	69.81	69.81
Remote de-energisation	Business hours	9.31	9.31

	Hours	Preliminary decision price	January 2016 submission price
Remote re-energisation	Business hours	9.31	9.31
Ancillary connection services			
Service vehicle visit	Business hours	428.25	428.25
	After hours	562.91	562.91
Wasted service truck visit - not Jemena's fault	Business hours	397.17	397.17
	After hours	562.90	562.90
Fault response - not Jemena's fault	Business hours	428.25	428.25
	After hours	562.91	562.91
Reserve feeder charge ($/kW/per annum)	Business hours	14.74	14.74
Ancillary metering services			
Manual special meter reads	Business hours	30.78	30.78
Remote special meter read	Business hours	No charge	No charge
Re-test types 5, 6 and AMI smart metering installations	Business hours	362.74	362.74
	After hours	596.99	596.99
Remote meter re-configuration	Business hours	48.72	48.72
Type 7 metering (meter data service) ($/light/per annum)	Business hours	0.57	0.59
Customer access to metering data	Business hours	N/A	53.16

A2. QUOTED ANCILLARY NETWORK SERVICES LABOUR RATES

Table A2–1: Hourly labour rates for quoted ancillary network services ($2015 per hour)

Quoted service labour category	Hour	Preliminary decision labour rate	January 2016 submission labour rate
Back office/administration	Business hours	82.22	82.22
Linesperson/field worker	Business hours	102.11	102.11
	After hours	126.40	126.40
Technical officer	Business hours	141.30	141.30
	After hours	165.35	165.35
Engineer	Business hours	183.83	183.83
	After hours	201.24	201.24

Note: Prices are consistent with our April 2015 Proposal and AER, *Preliminary decision, Jemena distribution determination 2016 to 2020, Attachment 16 – Alternative control services*, Table 16.14, p 16-48.

A3. SUBMISSION PUBLIC LIGHTING CHARGES

Table A3–1: January 2016 submission public lighting OMR charges ($ nominal)

Light type	Public lighting OMR charges ($per light / per annum)				
	2016	2017	2018	2019	2020
Mercury Vapour 80 watt	48.21	57.94	59.77	60.48	61.63
Sodium High Pressure 150 watt	95.33	104.55	107.96	109.19	111.44
Sodium High Pressure 250 watt	96.51	105.93	109.36	110.60	112.85
55W Incandescent	60.26	71.08	73.26	74.03	75.34
Fluorescent 20 watt	60.26	71.08	73.26	74.03	75.34
Fluorescent 40 watt	60.26	71.08	73.26	74.03	75.34
Fluorescent 80 watt	60.26	71.08	73.26	74.03	75.34
Mercury Vapour 50 watt	60.26	71.08	73.26	74.03	75.34
Mercury Vapour 125 watt	70.86	85.17	87.87	88.91	90.59
Mercury Vapour 250 watt	92.65	101.70	104.99	106.18	108.34
Mercury Vapour 400 watt	104.23	114.41	118.11	119.45	121.88
Sodium High Pressure 50 watt	119.16	128.26	132.31	133.65	136.23
Sodium Low Pressure 90 watt	101.05	108.76	112.20	113.34	115.52
Sodium High Pressure 100 watt	130.60	143.23	147.90	149.60	152.67
Sodium High Pressure 400 watt	128.36	140.89	145.45	147.10	150.09
Metal Halide 70 watt	123.89	148.91	153.62	155.45	158.38
Metal Halide 150 watt	211.63	232.10	239.66	242.41	247.39
Metal Halide 250 watt	207.50	227.76	235.13	237.80	242.63
Incandescent 100 watt	75.20	88.71	91.43	92.39	94.02
Incandescent 150 watt	94.00	110.89	114.29	115.49	117.53
Sodium High Pressure 250 watt (24 hrs)	150.56	162.19	167.28	168.95	172.17
Metal Halide 100 watt	211.63	227.78	234.99	237.37	241.94
T5 2X14W	32.03	38.43	40.46	41.58	43.00
T5 (2x24W)	36.07	43.28	45.57	46.83	48.43
LED 18W	18.69	24.53	26.73	27.97	29.22
Compact Fluoro 32W	27.62	33.14	34.90	35.87	37.09
Compact Fluoro 42W	31.16	37.38	39.36	40.45	41.83

A4. NON–STANDARD VICROADS FRANGIBLE POLES

JEN Public Lighting Technical Standard

C3. Non-Standard Frangible Poles - (Supplied by Customer)

JSAP ID	Description	Supplier	Photo / Drg No
11002821	8.5 metre – Slip Base (10 metre luminaire mounting height with Standard spigot mounting brackets, Appendix A1.3, Photo: shown with VicRoads bracket which is not approved for VESI use)	INGAL EPS: VRSB3-86 (Drg: GA769) (VR:PA030 0122) * Saferoads: F18-VR-SB10.0/11.0/G (VR:PA030 0234) Coslee: SB8.5 (VR:PA030 0086)	
11002822	8.5 metre – Impact Absorbent (10 metre luminaire mounting height with Standard spigot mounting brackets, Appendix A1.3) Note: Impact Absorbent poles are:, Ingal #1 - flange/stub type two piece; Ingal #2 - direct buried two piece; Coslee - flange/stub type two piece; Saferoads - direct buried single piece.	INGAL EPS #1: VRIA3-86 (Drg: GA4800, VR:PA030 0123) INGAL EPS #2: VRIA9-86 (Drg: GA5700, VR:PA030 0274) Saferoads: F18SAFE8.5 (VR:PA030 0227) Coslee: IMP85 (VR:PA030 0105)	
11002824	11 metre – Slip Base (12.5 metre luminaire mounting height with Standard spigot mounting brackets, Appendix A1.3)	INGAL EPS: VRSB4-86 (Drg: GA770, VR:PA030 0122) Saferoads: F18-VR-SB12.5/13.0/G (VR:PA030 0234) Coslee: SB11 (VR:PA030 0085)	
11002823	11 metre – Impact Absorbent (12.5 metre luminaire mounting height with Standard spigot mounting brackets, Appendix A1.3) Note: Impact Absorbent poles are:, Ingal #1 - flange/stub type two piece; Ingal #2 - direct buried two piece; Coslee - flange/stub type two piece; Saferoads - direct buried single piece.	INGAL EPS #1: VRIA4-86 (Drg: GA4569, VR:PA030 0123) INGAL EPS #2: VRIA8-86 (Drg: GA5697, VR:PA030 0274) Saferoads: F18SAFE11.0 (VR:PA030 0227) Coslee: IMP11 (VR:PA030 0105)	
11001980	13.5 metre – Slip Base (15 metre luminaire mounting height with Standard spigot mounting brackets, Appendix A1.3)	INGAL EPS: VRSB20-86 (Drg: GA771, VR:PA030 0122) Coslee: SB13.5 (VR:PA030 0099)	

(* VIC ROADS Product Evaluation Number)

Source: *JEN Public lighting Technical Standard (JEN PR 0026), revision 5.0*, 12 Feb 2015.