lismore
city council

All communication to
GENERAL MANAGER

Our ref: VLC:EF09/1462

Your ref:
Contact: Mr Scott Turner

8 August 2014

The General Manager
Australian Energy Regulator
By Email: NSWACTelectricity@aer.gov.au

Dear Sir/Madam

Essential Energy's 2014-19 Substantive Regulatory Proposal for Increases in Street Lighting Charges

Please find attached Council's submission in response to the above proposal.

Should you require any further information or clarification of the issues raised, please do not hesitate to contact me on telephone number 02 6625 0567.

Yours faithfully

S. Turner.

Scott Turner
Acting Executive Director
- Infrastructure Services

cc. Local Government NSW
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Submission to Australian Energy Regulator in Response to Essential Energy's 2014-19 Substantive Regulatory Proposal for Increases in Street Lighting Charges

8 August 2014

Executive Summary

Essential Energy's 2014-19 Substantive Regulatory Proposal for Increases in Street Lighting Charges seeks approval for significant increases in charges for local Councils from 2015-16. For Lismore City Council the proposed increase is $141,509 or 74% compared to existing charges.

Essential Energy is inefficient in the operation of its street lighting business. This is demonstrated both by the benchmarking of their pricing structures with other utilities in NSW and other aspects of their own submission.

Essential Energy is not proactive in pursuing new technology or service level agreements that would potentially reduce costs for their business and their customers.

To approve the proposed increase would reward and further entrench the current complacency and inefficiency in their street lighting business activities.

Given that local Councils in NSW are subject to rate pegging, the only way that such an increase could be met is through reductions in other services.

Lismore City Council is strongly opposed to the proposed increases.

In addition to this submission, Lismore City Council has contributed to the submission prepared by Street Lighting Partners on behalf of a number of regional organisations of Councils (ROCs) in NSW and fully endorses that submission.

Introduction

The provision of street lighting services in NSW is effectively a monopoly business. As such it is subject to regulatory control in terms of pricing to its customers which are local Councils across NSW. The Australian Energy Regulator (AER) is the independent umpire that makes decisions on pricing structures for street lighting services.

Essential Energy has lodged a proposal with the AER to increase charges to its local Council customers in NSW for the provision of street lighting infrastructure. The proposal involves significant increases for all of Essential Energy's customers throughout NSW.

Councils have an opportunity to provide comment and feedback on the proposal prior to the AER making its determination on the proposal.

This submission has been prepared by Lismore City Council. Council is also a member of the Northern Rivers Regional Organisation of Councils (NOROC). NOROC has contributed to the preparation of a joint submission on this issue on behalf of several Regional Organisations of Councils (ROCs). That submission was coordinated by the Central New South Wales Regional Organisation of Councils (CENTROC) and prepared by Street Lighting Partners.

Lismore City Council fully endorses the submission prepared by Street Lighting Partners.

Basis of the Essential Energy Submission

The submission by Essential Energy is stated to be based around full cost recovery, or user pays, for the street lighting services supplied. The submission argues that in the previous determination by the AER, the pricing structure approved did not allow full cost recovery and Essential Energy had to subsidise its street lighting activities to the tune of $5,000,000 per annum from other areas of its business.

This begs the question as to what actions have been taken by Essential Energy to reduce this so-called loss? The submission does not make any reference to any steps that have been taken to address the issue. The response to that situation seems to have been to recover these costs from other customers over that time and wait until the next regulatory proposal to seek an increase to address the shortfall.

Full Cost Recovery Principle

The user pays or full cost recovery principle is not new to street lighting. Over the past 10 years or more all energy companies have relied on this principle in presenting their arguments to the regulator of the day, be it IPART or the AER, for pricing structures.

The regulator has an opportunity to drive efficiency in the industry by setting the pricing structure and no doubt would expect energy companies subject of its decisions to adjust their businesses to balance income and expenditure. Is it reasonable that these companies do not take any action to achieve such a balance and simply subsidise the shortfall from other parts of the business?

This may well be a decision for the energy companies but the consequence of such an approach is an over-reliance on the user pays principle each time a proposal is put to the regulator. The same issues repeat themselves at each subsequent review by the regulator i.e. significant increases being proposed and no apparent efficiency improvements achieved.

Such an approach is contrary to good business practice, indicates a lack of commitment to efficiency gains and it is local Councils and the communities they represent which bear the consequences of this approach.

Pricing Methodology

It is understood that the pricing methodology adopted to determine the costs associated with the provision of the infrastructure is at least partly based upon the quantity of electricity that travels through the network owned by Essential Energy. The costs of running the network are assessed against the total volume of electricity transported and this allows a tariff per kwh to be calculated for the use of the infrastructure. A reduction in the quantity of electricity transported through the network means a reduction in income.

Reductions in electricity usage are a certainty as customers look for ways to reduce their costs. In regard to street lighting, Lismore City Council participated in a bulk replacement of luminaries approximately two years ago. Most of Lismore's old 80W mercury vapour luminaires and some other luminaire types were replaced with compact fluorescent luminaries. This resulted in significant energy savings throughout the network and a payback period of approximately 2.5 years for the capital cost of the work.

The increase proposed from 2015-16 is more than the annual savings achieved by the switch to compact fluorescent luminaires. Because of the methodology used to calculate the charges, Councils are effectively not achieving any cost savings – it is a perpetual roundabout with any savings achieved through reductions in energy usage, eventually lost through later increases in infrastructure charges.

This is why it is vital that the regulator takes a strong stand on pricing structures. The AER should be satisfied that utility companies are taking a genuine, proactive and meaningful approach to improving the efficiency of their businesses, not simply recalculating tariffs based on the fact that a reduced quantity of electricity is being transported through their networks.

Cost Efficiency and Work Practices

The statements within Appendix 1 of Essential Energy's proposal at Section 1.6.1 - *Action undertaken to reduce costs*, do not inspire confidence that the business is efficient. Essential Energy acknowledges that its historical cost base may have been higher than an efficient cost base. Council would suggest their cost base **IS** higher than an efficient cost base. Most of the actions identified in these statements relate to the collection of information and back office processes. Whilst these contribute to cost effectiveness, they are only a small part of cost efficiency in the business.

There is no mention of any review or assessment of work practices, use of improved technology or review of service levels. All of these activities contribute significantly to the overall cost of the service.

One statement made in this section (Appendix 1, Section 1.6.1) of the submission is that Essential Energy conducted a bulk luminaire replacement project, and this activity contributed to reducing costs. It is difficult to understand how this has reduced costs for Essential Energy given other information within the report.

In the Executive Summary of Appendix 1 at Section 1.1, there is a table that states the frequency of bulk lamp replacement is going to change from four years to three years. Coupled with the stated increase (in the same table) of the contract bulk rate for lamp replacement from $16.88 to $28.66, this change will result in significantly increased costs and is therefore in conflict with the claims that the project resulted in reduced costs.

One of the reasons that the bulk luminaire replacement project was undertaken was that the compact fluorescent luminaires and lamps to be installed were supposedly more reliable and had a longer life than the 80w mercury vapour lamps that they were replacing (there were also significant energy savings for Council). Why then has the bulk lamp replacement frequency had to increase? Have the compact fluorescent lamps not achieved the lives expected?

It is noted that the financial projections for 2013-14 contain a contingency expense of $3.78 million for a complete bulk lamp replacement throughout the network. If indeed the compact fluorescent lamps are not meeting the anticipated life, is it fair that Councils be asked to pay for this increased replacement frequency when it was the advice of Essential Energy (Country Energy at the time) that convinced us to make the change to the compact fluorescent luminaires and lamps? Lismore City Council would say this is unfair.

The submission from Essential Energy includes various data such as average response times, number of lights repaired per run etc. An argument is sought to be made at Section 1.6.6.4.2.2 *Defects per Trip,* that the AER's previous models of 18 defect repairs per day is unachievable given the large geographic area covered by Essential Energy. Whilst it is acknowledged that some allowance must be made for this circumstance, the suggestion that the overhead of mobilisation, plant checks, travel and demobilisation should be recovered from every single street light repair is ludicrous. This just further demonstrates that Essential Energy is not interested in examining efficiency within their business, but rather will seek to use the "system" to justify their current inefficient work practices.

Another example of this inefficiency is illustrated in Table 8 contained within Section 1.6.6.2. Current public lighting tariffs are well below cost of Appendix 1. The table outlines a cost for dedicated pole inspections and Note 9 to the table indicates a cost of $44.00 per inspection. The inspection of poles is a task required to ensure the integrity of the entire distribution network and any inspection of poles for street lighting related issues could readily be incorporated into the general pole inspection regime. To have a dedicated inspection for street lighting seems inefficient, unnecessary and a case of over-servicing.

A responsible, proactive and efficient business would look at these situations and recognise it is not efficient or sustainable. Alternatives to what is apparently currently happening would include:

- Better organise work crews with staff and equipment so that when they leave the depot, they can do more than just street light repairs.
- Better plan work activities so that a crew is tasked to a range of jobs in the same geographic area, which could include street light repairs.
- Look for tasks that have similar requirements from other parts of the business and bundle this work with the street lighting tasks e.g. pole inspections.

Service Levels

The NSW Public Lighting Code is effectively the accepted service level agreement between Councils and Essential Energy.

If indeed the requirements of the code are contributing to the proposed cost increases, and some of the inefficient business practices that Essential Energy clearly have, it is open to Essential Energy to take proactive action to have the code changed, or to negotiate with its customers about agreed variance to the service levels.

LED Technology

The submission from Essential Energy makes various statements about LED technology. Essential Energy is far from proactive in delivering the most up to date energy efficient technology in its street lighting network. It is a sad indictment on Essential Energy that LED lighting technology is not available to Councils as a standard lighting choice when other providers in NSW have embraced such technology.

Essential Energy does not appear to have a sensible, proactive approach to such technology advances, preferring to wait until other providers complete trials etc. This overly conservative and lazy approach punishes its customers in that they are always the last to benefit from such technology advances. Why can't Essential Energy's customers be among the first?

A perfect example of this was the bulk luminaire replacement project. At the time this project was being planned, all Councils in the Northern Rivers requested Essential Energy (Country Energy at the time) consider providing LED luminaires instead of the proposed compact fluorescent lamps. The project could have been completed for approximately the same capital cost, but delivered significantly higher savings for Councils as result of the even lower energy usage of LEDs compared to compact fluorescent luminaires and their increased reliability and lamp lives.

Councils were told at the time that LEDs were simply not an option as they were not part of the Essential Energy Tariff structure. No trials or other analysis had been undertaken and they would not be considered. It was suggested that because of the relatively short payback period – just over two years, that Councils could come back again at a later time and fund the capital required to again undertake a bulk luminaire replacement program to LEDs, but only once Essential Energy had done its requisite trials etc.

It is now more than three years since those discussions took place. What progress has been made by Essential Energy to assess the capability and suitability of LED technology for street lighting applications? Based on the submission, very little if any.

Conclusion

Essential Energy is seeking approval for substantial increases in street lighting charges from 1 July 2015.

The proposal by Essential Energy to the Australian Energy Regulator seeking to justify these increases contains inconsistencies and inaccurate statements as outlined in this submission.

The proposal also demonstrates that Essential Energy is not committed to delivering an efficient service to its customers. Rather, the objective appears to be the recovery of costs associated with continuing to deliver street lighting services in an inefficient manner.

Statements within the submission that Essential Energy is committed to the use of LED technology are not supported by their actions and they lag sadly behind other utilities in NSW in this regard.

It is regional and rural communities that bear the costs of this inefficiency and the AER is strongly encouraged not to accept the proposal and request Essential Energy re-examine its street lighting business and pricing structures. Essential Energy should be required to demonstrate continuous improvements in productivity and that they are competitive in their pricing structure when benchmarked to other utilities both within NSW and throughout Australia.

Until Essential Energy can demonstrate this, price increases should be restricted to the annual consumer price index.