

11 January 2019

Mr Chris Pattas  
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Email - [Tasnetworks2019@aer.gov.au](mailto:Tasnetworks2019@aer.gov.au)

Dear Mr Pattas

**Submission on TasNetworks Pricing Reset 2019-24  
Response to AER Draft Determination**

Thank you for the opportunity to provide feedback on the TasNetworks Pricing reset in response to the AER determination.

The Local Government Association of Tasmania (LGAT) is incorporated under the *Local Government Act 1993* and is the representative body for Local Government in Tasmania.

The objectives of LGAT are to:

- Protect and represent the interests and rights of Councils in Tasmania;
- Promote an efficient and effective system of Local Government in Tasmania; and
- Provide services to Members, councillors and employees of Councils.

As with the LGAT first submission in May 2018, this submission is specific to the public lighting component of the reset. LGAT supports the AER draft determination which did not accept the TasNetworks public lighting pricing and is concerned that much of the draft determination was rejected by TasNetworks.

The revised TasNetworks submission, as with the first submission, includes a significant increase in public lighting cost for councils. This significant increase will have a large impact on council budgets and consequently the cost to communities. LGAT supports a gradual glide path to any necessary and justified increase in public lighting costs.

It is however, pleasing to see that there has been some downward movement in overheads for various light types. It is understood that this reduction is a result of the January submission being based on the time and resources spent on public lighting for the six months to December 2017 which did not accurately reflect the full year's resource requirements for public lighting.

In developing their revised submission, TasNetworks undertook public consultation with stakeholders through workshops. The focus of these workshops was broad and not specifically covering public lighting. TasNetworks did provide LGAT with a briefing of their submission two days prior to submitting to the AER. It is worth noting that TasNetworks have been open to answering a number of specific questions on the revised proposal.

LGAT would like to thank the AER and the Consumer Challenge Panel for again taking the time to engage with LGAT on the revised proposal.

LGAT has reviewed TasNetworks revised submission and has identified a number of areas of concern.

1. The TasNetworks revised submission continues to include significant increases in overheads from the 2018/19 pricing. Details on cost per activity are not provided as part of the overhead costs in the pricing model and as such stakeholders are unable to scrutinize costs and determine reasonableness. LGAT acknowledges that there has been a slight decrease in overheads per light since the original submission based on actual costs over a year rather than for six months. However, this significant variance in costs that occurred between the 6 month and 12 month periods provides little confidence that the forward estimate of overheads for the next five years will reflect actual costs.
2. LGAT understands that TasNetworks is coming from a position of poor information around costs for public lighting and that a recent internal survey has shown that TasNetworks may have historically under recovered for the service. TasNetworks submission to the AER also states that TasNetworks has limited historical information on their public lighting assets. This, combined with new staff and loss of experienced personnel in the public lighting area, may result in more time and resources being spent on public lighting in the short term. It would be reasonable to expect efficiencies over time as the asset mix changes, processes and procedures improve and capabilities internally increase. This should be reflected in the revised submission.

3. The revised pricing proposal should include the ability to recognize efficiencies as they are realised during the five-year period. This should be built into the approved approach. There is also a need for this approach to apply to lighting hardware, an area where costs are likely to come down during the five-year period. This is not reflected in the model. As the proposal currently stands any savings made will not be passed onto the customer.
4. TasNetworks consultation with the sector on the reset has not included negotiation with the sector on cost. It is understood that other distribution companies look at service level agreements with customers to identify ways to save costs. This is not the case in Tasmania and LGAT is keen to ensure a Service Level Agreement for public lighting is developed with TasNetworks before the next pricing reset.
5. The capital cost for 14W LEDs in the TasNetworks model is concerning. Some Tasmanian Councils are currently undertaking Council funded replacement programs and the cost difference between the TasNetworks cost and the price councils are able to source for the same light type and installation is significant. The inputs excel sheet of the TasNetworks model shows the CAPEX to replace luminaires (bulk replacement) is \$572 . The replacement program is for the 14W LED. It is noted that CAPEX includes materials (\$304.05), labour (\$72.44), contractors (\$183.34) and plant (\$12.18). It is understood that the pricing used in this model is based on prices TasNetworks were quoting councils prior to going into a contract with a new supplier for LED 14W lights, however the new contract has now resulted in additional savings, bringing the price down to \$498. This is not reflected in the model. It is also important to note that the CAPEX costs for each element of the CAPEX are significantly higher than the price (in some instances more than double the price) councils can access through a council funded bulk replacement project. As such LGAT rejects the capital cost input included in their model. LGAT is able to provide the pricing councils are accessing on a “commercial in confidence” basis on request.
6. The TasNetworks funded bulk replacement program for end of life Mercury Vapour lights assumes a Written Down Value of the existing asset of \$0. LGAT requests that the AER confirm with TasNetworks that the same Written Down Value would apply to council funded replacement programs. LGAT also requests the AER to make a determination around the appropriate methodology for determining Written Down Values for the remaining old technology lighting types, specifically 80W Mercury Vapour, 150W High Pressure Sodium, 250W High Pressure Sodium and 42W Compact Florescent Lamps. The “business as usual” replacement luminaire for all of these light types is expected to be LED during the 2019-24 period.

7. TasNetworks' revised submission compares TasNetworks overheads to those of other networks. The main concern of councils is the arbitrary nature of the *increase* in overheads. There has been no detailed information provided by TasNetworks to justify the increases. TasNetworks indicate that they "*conducted a detailed review of the available asset and expenditure data, and the time and resources being expended in providing public lighting services*". This review has been requested by councils during 2018 without being provided, noting that this has also directly impacted on Written Down Values for the existing lights being replaced in bulk LED replacement projects. Unless this is provided and is justifiable, it is considered that there is insufficient evidence for increasing overheads beyond that recommended by the AER.
8. Finally, LGAT has identified what seems to be a mistake in the inputs worksheet of the TasNetworks model at cell H125 and H126. In both cases the lights are identified as major lights (RLMAJ) when in fact they are minor lights. The result being the annual costs are higher. This error needs to be corrected.

LGAT appreciates the opportunity to have input into the AER's review of the TasNetworks revised proposal and looks forward to seeing the final determination. If you have any questions in relation to our submission please do not hesitate to contact Georgia Palmer, Senior Policy Officer, Local Government Association of Tasmania on (03) 6233 5965 or [Georgia.Palmer@lgat.tas.gov.au](mailto:Georgia.Palmer@lgat.tas.gov.au).

LGAT would be happy to further discuss our submission with the AER should it be requested. The price increases included in the proposal will significantly impact Tasmanian councils' budgets and therefore it is imperative that these price increases are transparent and that stakeholders can be confident in the modelling provided by the distribution business.

Yours sincerely



Dion Lester  
**ACTING CHIEF EXECUTIVE OFFICER**