



Submission

AER Primary Positions Paper: Replacement Framework and Approach – TasNetworks Regulatory Control Period Commencing 1 July 2017

Local Government Association of Tasmania

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Introduction

The Local Government Association of Tasmania (LGAT, the Association) is the representative body of Local Government in Tasmania. Established in 1911, the LGAT is incorporated under the *Local Government Act 1993* with membership comprising all Tasmanian Councils.

The objectives of the Association are:-

- To promote the efficient administration and operation of Local Government in the State of Tasmania;
- To watch over and protect the interests, rights and privileges of municipal Councils in the State of Tasmania;
- To foster and promote relationships between Local Government in the State of Tasmania with both the Government of Tasmania and the Government of the Commonwealth of Australia;
- To represent the interests of the members of the Association generally, and in such particular matters as may be referred to the Association by its members; and
- To provide such support services to the members of the Association as the Association may by resolution in meeting determine.

General Comments

LGAT would like to thank the AER for the opportunity to make a submission on this matter and for the extension to the submission deadline. This submission refers specifically to Section 1.1.3 of the AER's paper: *Preliminary Positions | Framework and Approach for TasNetworks Distribution 2017-2022*, referring to Public Lighting.

Public lighting is a significant cost for Local Government, as well as a major source of carbon emissions. Historically Tasmanian Councils have been frustrated with the lack of transparency and cooperation provided by TasNetworks, which while not a legislated monopoly, is the only provider of distribution and network services in Tasmania. Recently, however, LGAT has seen a greater openness and willingness to work with Local Government from TasNetworks which the Association supports and wishes to see encouraged.

Tasmanian Councils are keen to embrace new technologies and find efficiencies and savings in their operating costs for public lighting. However, a limited market, provides constant uncertainty and risk and results in the need for a regulatory environment that in its protection, also creates barriers to access in regards to transparency, flexibility, innovation and negotiating capacity.

This Submission aims to raise key issues of concern and identify barriers and opportunities for Local Government in response to the AER preliminary position. This Submission has been developed following feedback from Member Councils. Any omission of comments that Tasmanian Councils have made directly to the AER should not be viewed as lack of support by the Association for that specific issue.

Specific Comments

Classification of Public Lighting as Direct Control/Alternate Control

The current classification of public lighting services (with the exception of new technologies) as Direct Control/Alternative Control provides a number of barriers to Councils wanting to investigate various models of public lighting ownership, maintenance and lighting technology. Further, it also does not allow for technological and pricing changes to be reflected during a regulation period.

In Tasmania where there is only a single Distribution and Network and provider, information regarding the 'real costs' of service provision and maintenance in regards to public lighting is limited. This confines Councils' ability to plan to become more efficient reduce council costs in the long term. Many Councils wish to be able to investigate various models of public lighting ownership, choice of technology and models of maintenance with the goal of finding efficiencies and reducing costs. Further, this lack of information restricts Council's ability to negotiate (where negotiation is possible).

Classification of New Public Lighting Technology as a Negotiated Service

The existing classification of new public lighting technology as a negotiated service has recently been tested by joint project between the Cities of Hobart and Glenorchy and TasNetworks. This project has seen the successful trial and implementation of new LED technology. The negotiated service classification has also proved successful in enabling all

parties to investigate various models of access, ownership and maintenance. While it is recognised that the regulated nature of this process was at times cumbersome to all parties, Local Government recognises the important safety net that a regulated environment has to offer.

LGAT strongly supports that new technology remains classified as a negotiated service and that this classification is applied on a case by case basis referring to individual lighting types, not broad lighting categories. For example, now that a number of LED lights are in the process of being added to TasNetworks priced “suite of lights”, LGAT would not want to see the entire category of LED lose its ‘new technology’ status, given the rapid technological developments in this area. Councils strongly desire the ability examine and potentially trial new technology, ideally with the support of the Distribution and Network provider.

Could all public lighting be a negotiated service?

As noted in their submissions, both Hobart and Glenorchy City Councils propose that a negotiated framework for current as well as new technologies could potentially allow for greater flexibility, innovation and competition. LGAT understands this thinking, the advantages this classification offers and notes that both Councils have invested significant resourcing to building their capacity in this area.

The challenge for local government more broadly, is that there is significant variation in the capacity of Tasmanian Councils to undertake a negotiation process around public lighting as well as significant variation in ‘negotiating power’ with the Distribution and Network Provider. In particular, smaller regional Councils may be particularly vulnerable from both an inequitable negotiation position (due to reduced volume of lights, geographic isolation and resourcing capacity) as well as an inability to wear the potential costs associated with an inability to reach agreement and ongoing mediation.

Under a negotiated service classification for all public lighting, there is clearly a potential role for LGAT to play, representing Members in negotiations with the Distribution and Network Provider. This is something LGAT is willing to explore with Members and has recently been undertaken in regards to the supply of energy for unmetered public lighting.

TasNetwork’s Proposal for an “Un-regulated Environment”

LGAT understands the principle of TasNetwork’s request to shift public lighting into an un-regulated environment. However, while in theory public lighting could be a “competitive activity where bi-lateral negotiation can produce more efficient, customer focussed outcomes”¹. At this point in time, however, LGAT does not believe that the relevant market conditions exist to enable such negotiations to occur in an equitable manner. It is understood that TasNetworks does not have a legislated monopoly, but in practice, they are currently the only provider. Until there is more certainly and visible competition within the Tasmanian market LGAT believes a regulated environment is still required for the protection of Members.

The existence of regulation provides a safety net and risk management for councils, in what is essentially a monopoly market. This is particularly poignant to smaller councils in regional areas. As noted earlier, a market based model works where there is a balance of power in

¹ Source: TasNetworks, *AER Preliminary Positions | Framework and Approach for TasNetworks Distribution 2017-2022*

negotiations. In an unregulated model where there is only a single provider, disagreements or inability to reach agreement would be decided in arbitration and potentially have significant cost impacts for councils.

While it can be argued that removal of regulation may increase the chances of competition for the provision of network and distribution services in Tasmania, the market is comparatively small and it is unclear whether interest from other providers is likely. If regulation were to be removed, a question that the Association believes needs investigation is whether there would be a requirement for a 'provider of last resort'.

Testing the Tasmanian Market and Classification Models

The AER's proposal to maintain the current classification of public lighting services (with the exception of new technologies) as Direct Control/Alternative Control addresses the concerns of Tasmanian Local Government in regards to the risks associated with a limited, uncertain market and a single Distribution and Network Provider. However, this classification maintains the barriers currently experienced in regards to accessing the relevant information to be able to explore various models of public lighting ownership, maintenance and lighting technologies.

The maintenance of the classification of new technology as a negotiated service is strongly supported. The earlier point is that the classification of "new technology" remains true to its original intent is reiterated, however, as we would not want to see categories such as LED treated as 'standard' (or not classified as new technology) when there is significant development continually occurring within this lighting category.

Given the market uncertainty in Tasmania and the apparent likelihood of a single Distribution and Network Provider in the future, LGAT would be very interested to discuss with the AER any opportunities for exploring options to increase Local Government capacity to be able to operate in a negotiated environment in an equitable way. For example, if funding was included within the determination to be used by councils in for analysis and negotiation in collaboration with TasNetworks, LGAT would certainly play a supportive role to facilitate this.