

**LOCAL GOVERNMENT
ASSOCIATION
OF QUEENSLAND INC.**



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25 August 2009

Mike Buckley
General Manager
Network Regulation North Branch
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

Dear Mike Buckley

**LOCAL GOVERNMENT ASSOCIATION OF QUEENSLAND
SUBMISSION TO AUSTRALIAN ENERGY REGULATOR ON REGULATORY PROPOSALS FOR
QUEENSLAND ELECTRICITY DISTRIBUTION NETWORK SERVICE PROVIDERS (DNSPs)**

Background

This submission has been prepared by the Local Government Association of Queensland (LGAQ) in relation to regulatory proposals for Queensland DNSPs. In particular, the submission is focused on proposals in relation to the treatment of street lighting.

At present, councils in the Energex area (SEQ) are treated as market customers while those in the Ergon area are treated as non-market and subject to Tariff 71 gazetted tariffs for street lighting.

Councils in SEQ have faced substantial cost increases for street lighting in recent years as a result of the shift to market customer arrangements. From our understanding of Energex proposals for the treatment of street lighting in the 2010/2015 regulatory period, there will probably not be a significant impact on SEQ councils over and above what has already happened.

However, in the Ergon distribution area LGAQ is concerned that councils will face significant cost increases as a result of proposed changes, and it is in relation to Ergon proposals that this submission is focused.

Ergon Proposals

There are two aspects of Ergon proposals on which LGAQ wishes to make comment.

The first concern relates to the proposal that provision of all new street lighting in the Ergon area will be charged on a quoted fee basis (Ergon Street Lighting Service 1). At present, councils in the Ergon area take advantage of the Rate 1 tariff where the DNSP provides, installs and maintains the street lights. Some 78% of street lights in the Ergon area have been provided under this arrangement.

Without a competitive market for installation in the bulk of the Ergon area, LGAQ is concerned that the proposed change may act to disadvantage many councils, particularly those in more remote parts of the state where costs are high and the quoted price for installing new street lights may be high relative to the current arrangement. At present, under Tariff 71 all councils pay the same rate regardless of their location.

This undoubtedly provides some subsidy to councils away from the major east coast centres.

Under the proposal, the costs for new installations in many parts of the Ergon area could increase substantially. This is a concern to LGAQ. From LGAQ's understanding of what has been presented by Ergon, the potential impact on customers is not addressed.

The second concern for LGAQ relates to the potential for a significant increase in cost of street lighting for all councils under the proposals related to operation, repair, replacement and maintenance of street lighting assets (Ergon Street Lighting Service 2).

A particular concern relates to the proposed increase in revenue in 2010/11 with a factor X indicating a real increase of 66%. If this was the average increase to be passed on to customers, this would have a major cost impact on councils across the Ergon area, estimated to be of the order of \$7 million (based on current Tariff 71 rates). As the Ergon proposal does not include details of current revenue versus proposed revenue, it is difficult to determine the precise increase likely from the proposals.

LGAQ is however concerned that actual price rises for council customers may in fact be much higher than this 66% increase noted above.

Based on figures in the Ergon submission, the average charge per light in 2010/11 is shown as \$198.51. While details of actual charges to councils under Tariff 71 are not available to LGAQ, it has been estimated based on the proportion of minor and major street light assets of councils in the Ergon area, that councils are paying around \$11 to \$12 million for the fixed cost of street lights (before energy costs are included).

At an average fixed charge for operation, repair and maintenance of street lighting of \$198.51 per light, then, if fully passed on to councils, the total cost to councils would jump to around \$24 million, essentially a 100% increase in costs.

Councils in SEQ have reported cost increases of the order of 70% as a result of their transfer to market customers, so the above estimates for increases in the Ergon area appear to be a likely scenario.

LGAQ acknowledges that this is complex in terms of the AER role as the extent of pass through would be impacted by what happens in relation to Tariff 71 as determined by the Queensland Government. However, with the potential for a 100% increase in street lighting costs to councils in the Ergon area, it is essential that AER recognises that such a change would have a major impact on council resources and revenue.

The Ergon proposals do not indicate whether there will be any differentiation in charges based on geographic locality. At present Ergon's published charges include an East and West split. The Ergon fixed charge rates for the Western area are some 25% to 30% higher than for the East. However, councils in the West do not face these higher rates as Tariff 71 applies uniformly across the State.

Street lights in the Ergon West area represent only around 10% of street light assets in the total Ergon area. LGAQ would be very concerned if some mechanisms were not retained to protect western councils from major increases in street lighting costs.

If the average increase in council costs over the whole Ergon area was the 100% noted above, then without some mechanism to cross-subsidise western councils (or provide a CSO), it is possible that these councils could face increases of up to 130%.

Summary

LGAQ is very concerned that the proposals before AER will lead to substantial increases in street lighting costs for councils in the State, and in particular in the Ergon area.

LGAQ is also concerned that the incidence of potential cost increases could place an unfair burden on communities in western Queensland.

LGAQ is happy to discuss these concerns further with AER. Should AER require any additional information please contact Greg Hoffman, Director of Policy and Representation (Greg_Hoffman@lgaq.asn.au or phone 07 30002240 or mobile 0418 756005).

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Greg Hoffman".

Greg Hoffman PSM
DIRECTOR
POLICY & REPRESENTATION