



Local Government Association Tasmania

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Mr Chris Pattas
General Manager Networks
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

TasNetworks2019@aer.gov.au

Dear Mr Pattas,

Submission on TasNetworks Pricing Reset 2019-24

Thank you for the opportunity to provide feedback on the TasNetworks Pricing reset submission for 2019-24.

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.

The focus of our submission is specific to the public lighting component of the reset. Public lighting is a significant proportion of councils' energy costs, contributing up to 80 percent of a council's total electricity bill. As such, it has been identified as an area where councils can work together to reduce the overall cost of public lighting. This has been achieved through shared procurement of electricity for street lighting and through council led LED street lighting projects. These projects have resulted in up to 80 per cent savings in energy cost, significant greenhouse gas reduction and provided councils with the backbone to support future smart city applications.

The provision of a submission as part of the Australian Energy Regulator (AER) pricing reset process is difficult for many stakeholders, including Local Government. Energy

pricing is an extremely complex area that has undergone significant and ongoing reform and stakeholders would benefit greatly from independent energy expert advice in the development of submissions. However, the cost of such advice is often prohibitive. It is suggested that the establishment of a grant program to enable expert independent advice would likely result in more engagement from stakeholders and ensure greater transparency and accountability from the distribution and network companies.

In saying that, TasNetworks have endeavored to engage with LGAT in relation to the pricing reset, by meeting with LGAT on a number of occasions to discuss the public lighting component of the reset and providing timely responses to queries. However, due to the complexity of the area, references to bespoke accounting models and detailed previous AER decisions it is still difficult for stakeholders to fully understand the complexity of the model and therefore, what they are being consulted on.

LGAT would also like to thank the AER and the Consumer Challenge Panel for taking the time to meet with LGAT prior to the AER forum in Hobart. It is also noteworthy that public lighting was highlighted by the AER as an area requiring greater scrutiny in the reset and it is pleasing that many of LGAT's concerns have also been raised directly with TasNetworks by the AER.

The public lighting pricing reset for the 2019/24 years includes a significant increase from the 2017/19 reset and this is very troubling for councils. LGAT has reviewed the model and has identified a number of areas of concern. These include:

1. A significant increase in overheads since the 2017/19 reset. The overheads are not well explained in the model and it is difficult to interrogate. It is also difficult to compare the overheads charged by TasNetworks by light type with other distribution companies on the mainland due to the differences in the models each distribution company uses. This makes it difficult for stakeholders to determine the 'reasonableness' of the overhead component of the price.

The table below provides a comparison of the overhead charges in 2017/18 and 2019/20 for the major public lighting types in Tasmania. It also includes the percentage increase in overheads and the overhead cost as a percentage of the total cost per annum. The data in the table demonstrates the significant increase in overheads attributed to each light type.

overhead costs per year					
Light Type		2017/18	2019/20	Percentage increase in overheads from 2017/18 to 2019/20	Overhead cost as a percentage of the annual costs of the light
80W mercury Vapour	Private contract	N/A	\$ 29.11	N/A	34.2%

	Public lighting	\$ 27.51	\$ 66.04	140.1%	29.5%
150W sodium vapour	Private contract	\$ 11.22	\$ 29.11	159.4%	29.1%
	Public lighting	\$ 27.51	\$ 66.04	140.1%	33.4%
250w sodium vapour	Private contract	\$ 11.22	\$ 29.11	159.4%	28.9%
	Public lighting	\$ 27.51	\$ 66.04	140.1%	31.4%
42W compact fluorescent	Private contract	\$ 11.22	\$ 29.11	159.4%	33.90%
	Public lighting	\$ 27.51	\$ 66.04	140.1%	38.29%
14w LED	Private contract	N/A	\$ 29.11		43.56%
	Public lighting	N/A	\$ 66.04		41.23%
18w LED	Private contract	\$ 11.22	\$ 29.11	159.4%	43.90%
	Public lighting	\$ 27.51	\$ 66.04	140.1%	39.60%

In the TasNetworks pricing submission to the AER they state that the current public lighting prices fall significantly short of cost recovery: *"thorough analysis of the available asset and expenditure data by TasNetworks, as well as a review of the time and resources being expended by TasNetworks on the delivery of public lighting services, has revealed that the public lighting prices currently on offer fall significantly short of full cost recovery."*

It is pleasing to note that following questioning from the AER, TasNetworks have revised the public lighting model submitted in January 2018 and made some adjustments resulting in a reduction in overheads of approximately \$1.4 million per year (\$1.0 million operating expenditure overheads and \$0.4 million capitalised overheads). The TasNetworks proposal also includes a phased in approach to full cost recovery, rather than a step change. However, LGAT remains concerned that the revised figures, as shown in the table above, still include significant increases compared to the previous period. This appears unreasonable. The substantial overhead component of the cost under the proposal may indicate that the public lighting service is not being run as efficiently as it could be.

TasNetworks were unable to provide the AER with detail as to which part of the business the overheads were redistributed from and consequently where subsequent savings to that part of the business were reflected in the pricing and LGAT does not think this is acceptable.

2. Assumptions in the model are not reflective of current stakeholder understanding or knowledge. This includes:
 - a. *The contract price for material staying consistent with current prices (TasNetworks public lighting model).* It is well established and understood by stakeholders that public lighting is in an era of unprecedented change, technology is moving quickly and LED prices are continuing to reduce. These declining materials costs are not being passed onto customers in Tasmania. For example, a current LED bulk change in NSW/Vic materials regularly cost below

\$200. However, in the TasNetworks pricing model, cost for new materials for residential LEDs remains at over \$300 per unit even though we are aware that lower costs can be achieved locally.

- b. *New Technology minor lighting is assumed the same cost as our current latest technology (LED 14W), Major lighting for LED technology has not been trialed, the equivalent LED technology to our 150W and 250W sodium vapour is a 160W LED, maintenance cycles are unknown so have assumed to be the same as the current 250W sodium vapour (TasNetworks public lighting model).* Despite fast technology development and subsequent declining material costs, TasNetworks sets pricing for 5 years with no opportunity for review. It is also noted that TasNetworks could possibly get costs on major light LED technology from other jurisdictions and suppliers and the prices included in the proposal have been identified by council officers as higher than information they have received from suppliers. For new technology it does not seem reasonable that TasNetworks is able to include prices for the five-year period without annual review. It is also understood that TasNetworks have recently completed a tender process for public lighting and the new price for 14W LEDs is approximately \$50 cheaper for minor lights. This needs to be updated in the model.
3. The cost of replacing a luminaire in the TasNetworks model are comparatively high, being \$152 for minor roads and \$220 for major roads. In other jurisdictions the cost are significantly less, typically 1/3 lower than that included in the proposal.
4. Councils involved in a public lighting LED replacement project in southern Tasmania that TasNetwork are being affected by substantial increases in the written down value for luminaires when compared with an almost identical project delivered by northern Councils between 2016/18. For example, across the two projects there has been a written down value increase of 306% for Sylvania B2224 and a 67% increase for CFL Sylvania Suburban. While TasNetworks has reassured LGAT that the public lighting model is an annuity model and therefore would not be impacted by a change in value of the asset base, it is difficult for councils to interrogate the data to determine if councils have effectively paid down the value of the light through existing tariffs, as TasNetworks are unable to provide data on installation dates prior to 2013.

In addition to the issues raised in relation to the pricing model it is also worth noting that at present there are no contracts nor binding service regulations, other than the TasNetworks customer charter which covers public lighting in Tasmania. Under the charter, TasNetworks is committed to fixing faults within 7 business days. If this is not achieved, then TasNetworks may pay the customer a small amount of compensation. Tasmania does not have a public lighting code; however, councils are legally responsible for providing the service, despite limited control over key aspects of the service. This has

led to some councils working together to take over the ownership of lights and advance the roll out of LEDs in Tasmania, providing them with the potential for increased certainty and control over installation and maintenance. However, for the councils that do not own the asset, then a Service Level Agreement with TasNetworks is required to provide the necessary accountability.

LGAT appreciates the opportunity to have input into the AERs review of the TasNetworks proposal and looks forward to seeing the formal response on the proposal by the AER. 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.

If you have any questions in relation to the submission please do not hesitate to contact Georgia Palmer, Senior Policy Officer on georgia.palmer@lgat.tas.gov.au.

Yours sincerely



Dr Katrena Stephenson
CHIEF EXECUTIVE OFFICER