



12 August 2010

Mr Chris Pattas
General Manager
Network Regulation South
Australian Energy Regulator
GPO Box 520
Melbourne Victoria 3000

**Submission on Street lighting proposals on the
Australian Energy Regulator's Preliminary Positions
Framework and Approach Paper
Aurora Energy Pty Ltd
Regulatory control period commencing 1 July 2012**

Dear Mr Pattas,

Thank you for the opportunity to provide feedback on the Australian Energy Regulator's (AER) preliminary "Framework and Approach" paper for the Regulatory control period commencing 1 July 2012.

The Local Government Association of Tasmania (LGAT), which represents 28 of 29 Councils in the State and the Department of Infrastructure Energy and Resources (DIER) have similar interests in the AER's proposals for the regulation of street lighting and as such have decided to submit the following joint response.

Introduction and General Comments

The majority of the public lighting system in Tasmania is operated and maintained by Aurora on behalf of councils and DIER. A few councils own and manage their own lighting assets, but this would amount to less than 25% of all public lighting. Currently Aurora has a monopoly in distribution services and there is limited competition in the contestable retail electricity market. It is also noted that it is unlikely that this situation will change without some form of regulation.

The Tasmanian community expect that councils and DIER will provide a standard level of public lighting services to ensure their safety. As a result the demand for public lighting is

constant and inelastic, which under the current arrangements makes councils and DIER a “captive” customer of Aurora’s pricing policies. This situation is a significant issue for many councils as energy charges for public lighting is up to 80% of their total energy costs. It is also a significant proportion of emissions outputs for Councils and DIER (and other end users).

LGAT and DIER consider that the current service delivery and billing arrangements for public lighting are less than satisfactory. There are a number of issues that both parties would like to see addressed through this process. These include:

Energy Charges

- there is little or no opportunity to negotiate on prices for public lighting services and network charges;
- there is little transparency in the pricing schedule on which Aurora charging is based; compounded by the fact that:
- end users are billed in a ‘bundled’ manner that does not provide separate line items to break down components of public lighting charges. This means that councils and DIER cannot interrogate their bills and look to make savings or efficiencies for example through the use of more energy efficient globes.

Support Services

- end users have limited range of choices in the globes that Aurora will use for public lights;
- end users have limited ability to determine the upgrade and replacement schedule for public lights; ie to replace with more efficient globes.

1. Feedback on the Australian Energy Regulator’s Preliminary Positions: Framework and Approach Paper

i. The classification of the operation, maintenance, repair and replacement of public lighting Assets

LGAT and DIER support the AER’s intention to use Aurora’s categories of public lighting services as outlined on pages 33 and 34 of the Preliminary Positions Paper.

ii. The AER seeks comment on its preliminary position to classify public lighting as direct control services

LGAT and DIER support the AER’s intention to classify public lighting as a direct control service.

LGAT and DIER agree with the AER’s considerations that unless contestability is introduced during the regulatory period, there is little potential for the development of competition for the provision of public lighting services using Aurora’s assets. As such, although it is not regulated, Aurora in practice has monopoly control over public lighting distribution services. (Note if contestability was introduced during the regulatory period it is likely LGAT and DIER may have a different position).

Given the monopoly situation, as the primary users of public lighting distribution services, LGAT and DIER have little or no power to negotiate on distribution charges. LGAT and DIER consequently agree with the AER's comments that classifying public lighting services as a direct control service would be likely to deliver a superior outcome that could be achieved through a series of negotiated outcomes.

iii. *The AER seeks comment on its preliminary position to classify public lighting as alternative control services.*

LGAT and DIER understand that in accordance with the National Electricity (Economic Regulation for Distribution Services) Amendment Rules 2007 as the costs of public lighting can be directly attributed to specific set of customers, predominantly Councils and DIER, it is more appropriate that public lighting be classified as an alternative control service. This means that only those customers that use the service will incur the associated administrative costs, rather costs being spread across the broader network.

LGAT and DIER understand that Aurora's current charging regime already adopts this approach in regards to its charging for public lights and that, therefore, price increases as a result of public lighting being classified as an alternative control service are unlikely. If this is not the case, however, LGAT and DIER would request further discussion of the price implications of this change.

iv. *The AER has invites comment on its preliminary position forms of control and basis of control for public lighting services.*

"In regard to all public lighting services, the AER's preliminary position, is to apply a price cap form of control" (pg 76).

LGAT and DIER support the AER's preliminary position to regulate all public lighting service prices. The AER's preliminary position to apply a price cap form of control to subject to further clarification of the pricing model and that a full pricing breakdown is provided to end users.

LGAT and DIER understand that the AER intends to examine Aurora's building block model for fees to inform the AER's decision on pricing and appropriate price caps. There needs to be transparency in this process, as with Aurora being a "monopoly" provider for energy distribution, combined with the fact there is no proposed commitment to unbundle costs, there is no guarantee the pricing model will deliver preferable outcomes for Local Government and DIER. Due to the significant costs of public lighting to DIER and councils, even a small percentage increase to distribution costs could have serious budget impacts.

Even if Aurora is to provide separate line items to show charges for public lighting 'distribution', 'fee based' and 'quoted' services, each of these items is further comprised of a number of components. Even if a price cap is applied to each of these grouped categories of service, it is assumed that Aurora will charge up to the maximum of the price cap and councils, DIER and other end users will still not be

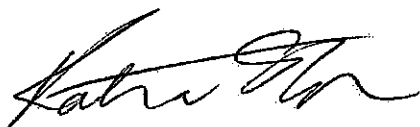
provided "unbundled" billing and so remain in the dark about the real costs of for example, repair, replacement and maintenance. Given that public lighting accounts for a very significant proportions of both DIER and Councils' electricity costs and emissions outputs, it is essential that unbundled billing occurs in order for us to understand our energy use to try and achieve emissions and costs efficiencies.

Another issue is the lack of information on the range, availability, pricing and implementation framework for various type of lighting/globe options. This information is not easily available. Additionally, councils feel that the range of energy efficient public lighting options is very limited. Further, even from the range of more efficient globes, end users have limited ability to influence Aurora's globe replacement regime.

2. Concluding Comments

In general, LGAT and DIER see the AER's proposals for regulating the provision of public lighting services as a positive first step to improving the regulatory and pricing environment for public lighting in Tasmania. However, without contestability for public lighting and a monopoly provider in place for distribution services, there remain significant challenges for end users such as councils and DIER to ensure they are being charged "fair and reasonable" costs for the delivery of this important public service.

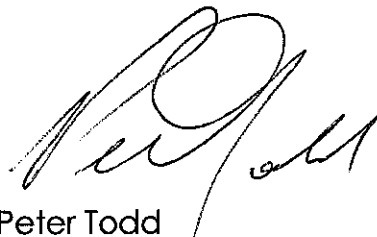
LGAT and DIER appreciate the opportunity to provide feedback on the Australian Energy Regulator's preliminary "Framework and Approach" paper for the Regulatory control period commencing 1 July 2012. Both parties would welcome the opportunity to continue to work collaboratively with the AER, particularly in the area of the building block model for pricing, as the AER makes its final decisions for Framework for the next regulatory control period commencing 1 July 2012.



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