Meander Valley Council

W O R K I N G T O G E T H E R

Our ref.: 504-05-010

19 May 2015

Mr Chris Pattas
General Manager, Networks
Australian Energy Regulator
GPO Box 520
MELBOURNE VIC 3000

Dear Mr Pattas

RE: Councils submission regarding the AER's framework and approach to the determination of TasNetworks' future revenues and prices

Thank you for the opportunity to comment on the Australian Energy Regulator's (AER) proposed Framework and Approach for TasNetworks' next Regulatory Control Period.

Meander Valley Council has a particular interest in two matters, these being

- the classification of public lighting services, as the current treatment of public lighting as an alternative control service restricts the Council's ability to explore alternative models of ownership and means of service provision;
- the Service Target Performance Incentive Scheme (STPIS) applying to TasNetworks.

Public Lighting

Council notes that in its preliminary position on the replacement framework and approach for TasNetworks, the AER is seeking stakeholder comment on the classification of all public lighting services as negotiated services, rather than alternative control services as proposed. It is the Council's view, however, that rather than classify public lighting services as negotiated services (or alternative control services), it would be preferable for public lighting services to be unregulated (unclassified), so that prices and service standards can be set by a market.

The reasons for the Council's thinking on this matter are as follows:

Firstly, the fundamental conditions already exist for competition to emerge in the provision of public lighting. There are currently no legislative or regulatory requirements that street lighting be mounted exclusively on TasNetworks' poles. Nor does TasNetworks have a legislated monopoly over the provision of public lighting services.

ABN: 65 904 844 993
Council Offices: 26 Lyall Street, Westbury (8.30am - 5.00 pm)
Postal Address: PO Box 102, Westbury TAS 7303
General Enquiries: Tel: (03) 6393 5300 Fax: (03) 6393 1474
General Email: mail@mvc.tas.gov.au **Web:** www.meander.tas.gov.au

Public lighting services mounted on assets not owned by TasNetworks are already contestable and the percentage of public lighting support structures actually owned by TasNetworks is declining over time, as more of the shared distribution network is undergrounded, particularly in new subdivisions.

And while there are safety restrictions on the qualifications of any technicians who work on or near TasNetworks infrastructure, parties other than TasNetworks are already mounting infrastructure on TasNetworks' poles, such as the aerial cables being installed as part of the National Broadband Network (NBN) rollout.

However, the regulation of public lighting is a regulatory barrier to entry that, if continued, may prevent TasNetworks from opening up access to its poles to other service providers in order that competition might develop.

With cost-effective access to TasNetworks' poles, public lighting customers would be free to pursue alternative service arrangements, including undertaking the provision, maintenance and operation of public lighting services ownership themselves. For TasNetworks to continue providing public lighting services, it would have to offer its services at prices that are comparable with those of its competitors, whether they be public lighting customers themselves or third party providers.

Some parts of the Tasmanian public lighting market are already competitive, and the prices charged by TasNetworks for new lighting technologies are being set outside of the AER's pricing determination process. New technologies are likely to make up an increasing component of the installed base of public lighting, such is the pace of development, and the market conditions which once might have justified regulating the prices of the existing public lighting fleet are disappearing.

Classifying all public lighting as Unregulated Services will enable efficient choices to be made by customers with regard to the lighting technology and the service providers they use. Therefore, Meander Valley Council supports TasNetworks' proposal for the reclassification of public lighting services as an Unregulated Service.

<u>Service Target Performance Incentive Scheme</u>

The current STPIS sets the revenue at risk for TasNetworks at ±5 per cent of its annual revenue. Based on an annual revenue requirement of around $275 million, this amounts to a potential revenue swing between years of nearly $30 million dollars.

When factored into TasNetworks' revenue allowances, this represents a potentially significant level of price volatility for customers connected to the network. Assuming that there are around 280 000 customers connected to the electricity network, a difference of $30 million in TasNetworks' revenue between years translates into a potential variation in the networks costs recovered from each customer of nearly $110, although for commercial customers like {Name of writer] the impact would be far greater.

Energy represents a significant cost to Tasmanian homes and businesses, and at a time when many customers are seeking stable, predictable electricity pricing, this potential volatility in TasNetworks' revenue (and prices) makes budgeting for energy costs by end users difficult. The problem is exacerbated by the absence of meaningful trend data, given that network reliability can vary considerably between years due to factors that are entirely unpredictable and beyond TasNetworks' control, such as the weather.

While Council understands that the purpose of the scheme is to discourage TasNetworks from pursuing cost efficiencies at the expense of service quality for customers, Council does not consider that reducing the amount of TasNetworks' revenue at risk to ±2.5 per cent is likely to result in a deterioration in network reliability. TasNetworks is already incentivised to ensure that customers receive service levels which meet the standards set out in the Tasmanian Electricity Code, through the Guaranteed Service Level scheme and customers who receive a level of service that falls short of the standards set out in TasNetworks' customer charter - which cover a range of services not covered by either STPIS or the GSL scheme, including connection services - are also entitled to financial compensation from TasNetworks.

An unexpected and unbudgeted variation in revenue of 10 per cent is a significant variation for any enterprise to manage, and most commercial entities would seek to avoid a variation of that magnitude if they could. That much of the risk to TasNetworks' revenue under the STPIS appears to be outside of its control means that putting ±5.0 per cent of TasNetworks' revenue allowance at risk is unlikely to have a discernible impact on TasNetworks' asset management practices or the reliability of its network. However, it is quite likely to contribute to undesirable, and otherwise avoidable, price volatility for customers.

In the interests of providing more predictable pricing for customers, therefore, Meander Valley Council supports TasNetworks' proposal to reduce the revenue at risk to TasNetworks to ±2.5 per cent of its annual smoothed revenue.

Once again thank you for the opportunity to provide comment on these issues.

Yours sincerely

Craig Perkins
MAYOR