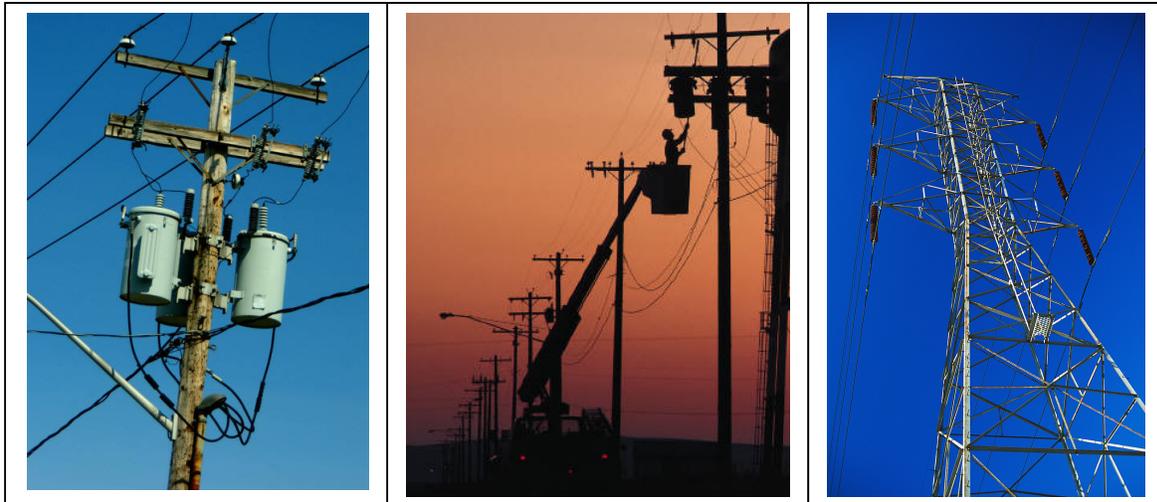


REROC

RIVERINA EASTERN REGIONAL
ORGANISATION OF COUNCILS

Submission on the AER Framework and Approach Paper for Essential Energy and others

Regulatory Control Period Commencing 1 July 2014



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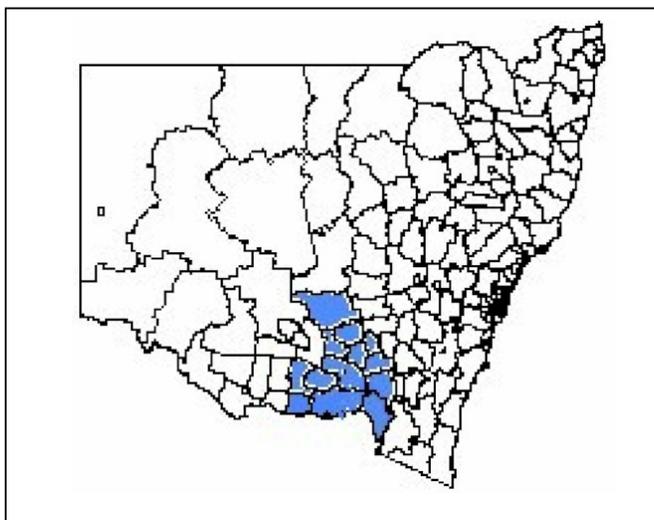
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Introduction

The Riverina Eastern Regional Organisation of Councils ("REROC") welcomes the opportunity to provide feedback on the Framework and Approach for DNSP pricing for the regulatory control period commencing 1 July 2014.

REROC is a voluntary association of 13 General Purpose councils and two water county councils located in the eastern Riverina region of NSW. The members of REROC are the councils of Bland, Coolamon, Cootamundra, Corowa, Greater Hume, Gundagai, Junee, Lockhart, Temora, Tumbarumba, Tumut, Urana and Wagga Wagga as well as Goldenfields Water and Riverina Water.



The REROC region of NSW covers an area of about 43,000 sq kms and a population base of approximately 140,000. It includes the largest inland city in NSW, Wagga Wagga and one of the smallest shires in the State, Urana.

REROC members have grown increasingly concerned about the approach that the DNSPs have taken to the management of their networks and the price increases that have resulted from those approaches. Member councils, representing the concerns of businesses and residents value the opportunity to

provide input to framework and approach that the AER will take for the next regulatory period.

REROC members expend almost \$2 million per annum on some 13,000 street lights which we understand represents about 10% of Essential Energy's ("EEnergy") total inventory. Accordingly REROC members welcome the opportunity to provide feedback to the AER on the future approach to the determination of public lighting pricing.

We believe that the AER's commitment to on-going public consultation on the pricing issue is particularly important to our members and the communities they represent because of the monopoly service provision enjoyed by EEnergy. Given the large distances and relatively small population bases within our region, it would seem highly unlikely that there will be any significant competitors entering the market and consequently our members believe that the opportunity to provide input to the regulatory process is vitally important.

Overall REROC members strongly support continued pricing oversight by the AER as opposed to the proposed "negotiated" or "unregulated" classifications. REROC firmly believes that a regulated rather than negotiated environment is the best way to ensure there are appropriate protections in the system for councils, businesses and communities in rural and regional NSW.

This submission addresses the questions raised by the AER in relation to the:

1. proposed classification of various services provided by the DNSPs;
2. the proposed control mechanisms to be applied to the services; and
3. the application of the AER STPIS to the NSW DNSPs.

In addition this submission addresses the three public lighting questions that the AER has posed:

1. the proposed classification of public lighting services
2. the preliminary position on the approach to be applied; and
3. the treatment of new luminaire types or new technologies in the provision of public lighting services.

Question One: Classification of Network Services

REROC members agree with the AER's proposal to classify network services as direct control services, and further as standard control services.

NSW DNSPs are a monopoly service provider. REROC agrees with the AER's assessment that the NSW DNSPs possess significant market power and further that it is highly unlikely that any alternative service provider will enter the market. We find it impossible to envisage the creation of a regulatory environment in NSW that would allow the entry of a viable competitor.

Our members are also concerned that anticipated moves to sell the NSW DNSPs will lead to additional market constraints as the Government may be inclined to introduce more controls in order to shore up the sale price/s or to make the sales more attractive to private enterprise.

At this time our members do not have a view on emergency recoverable works.

Question Two: Classification of Connection Services

REROC agrees with the proposal by the AER that Premises Connection Assets and extensions should be unclassified and therefore not regulated by the AER.

REROC strongly agrees with the AER that augmentations should be classified as direct control devices and in turn as standard control services. Our members again are very concerned that there is virtually no competition for augmentation and there is very little chance that this situation will change in the future.

Our members note that there is an assumption that augmentation for dedicated customers occurs in a contestability framework and consequently does not require control. However we believe it is important to state that while the framework might be contestable this does not necessarily mean there is competition. In rural areas there is virtually no competition for this type of work and again the DNSPs become the monopoly provider.

REROC members are concerned that a conflict exists whereby the monopoly DNSP may take the opportunity a dedicated augmentation provides to install a service that is in excess of the capacity required by the customer (who meets the full cost) in order to offset its own costs of augmenting the general network servicing in the customer's area. This may particularly occur in smaller rural communities where the cost of augmenting existing general use infrastructure high but the returns are low and slow.

We request that the AER consider ways in which customers whose only choice for augmentation service provision is a NSW DNSP are protected from this potential practice as well as from opportunity pricing which monopoly service provision encourages.

REROC agrees that Incidental Services should be classified as direct control services and in turn as alternative control services. We agree with the AER's assessment of the market and that current NSW licensing arrangements effectively amount to an absolute barrier to the entry of competitors.

Question Three: Classification of Metering

REROC agrees with the AER's preliminary position to classify metering services (types 5-7) as direct control assets and further as alternative controls services, while all other metering remains unclassified.

We agree that the provision of metering services is more efficiently undertaken as part of the integrated distribution function and that it should be charged through the DUOS. However given the substantial market power the NSW DNSPs it is extremely important that the service is classified as a direct control asset.

Question Four: Classification of Fee Based Services

NSW DNSPs are the monopoly providers of fee-based services and where such services are provided by a third party this only occurs under direct instruction from a NSW DNSP.

Given the lack of competition in the market and the capacity of a DNSP to set any price it determines the market will "bear" for these services, REROC believes that Fee Based services should be classified as standard control services and subject to price monitoring.

Question Five: Classification of Quoted Services

REROC agrees with the AER assessment that there are regulatory barriers in place which preclude third parties from offering Quoted Services. Further we agree with the assessment that existing economies of scale and scope enjoyed by NSW DNSPs are likely to prevent Quoted Services from being competitively provided through an alternative service provider.

Therefore REROC agrees with the AER's proposal to classify Quoted Services as direct control services and further, as alternative control services.

Question Six: New Luminaire Types and Technologies for Public Lighting

REROC agrees with the AER's definition provided for Public Lighting as:

- the operation, maintenance, repair and replacement of public lighting assets;
- the alteration and relocation of public lighting assets; and
- the provision of new public lighting.

REROC recognises and accepts that it would be impracticable to have public lighting classified differently across DNSP distribution districts, given the merger of the NSW DNSPs. Therefore we understand that the AER is seeking clear guidance from councils as to their preferred approach in relation to the classification of Public Lighting.

REROC is totally and absolutely opposed to TTEG's and Essential Energy's proposal that public lighting services should be classified as negotiated distribution services, or unclassified.

REROC does however recognise that there needs to be scope for the adoption of new technologies. REROC members have struggled to get EEnergy to adopt and implement an alternative technologies regime, this despite the fact that in 2009, following the AER's last Determination, EEnergy (then Country Energy) was advised in writing that the default luminaires for the REROC member councils were 32W or 42W CFLs for residential areas and 150W HPS or 250W HPS for arterial roads.

In REROC's experience DNSPs have been very reluctant to adopt new technologies. We are concerned that this reluctance will translate into a practice of pricing new technologies out of contention, ensuring that old luminaire stocks continue to be utilised, thus maximising profit to the DNSP.

Consequently REROC believes that continuing oversight by the AER which supports the introduction of new technologies is vital if new technologies are to be introduced by DNSPs. REROC suggests that there should be some provision by the AER for interim tariffs (based on a building block approach) for new technologies which would encourage the quick trial and adoption of these technologies without the need to resort to a lengthy AER pricing approval process.

We believe that if the AER does not set some pricing parameters around the introduction of new luminaire types and new technologies that DNSPs will use pricing policies to discourage the adoption of these technologies.

Question Seven: Classification of Public Lighting

It is REROC's opinion that there is no scope for competition for the provision of public lighting in country NSW. Following the AER's last Determination the REROC member councils seriously considered the options available to members to take on the role of managing public lighting assets and found that within the current regulatory environment there is no scope for a viable commercial option that would support a move away from the current regime.

Public lighting in NSW is a monopoly service and REROC members who are all based in country NSW believe that this position will not change in the future, either in the short or long term. We believe there is no scope for meaningful contestability at any level and given our experience with negotiating for service provision with EEnergy (in relation to the provision of alternative technologies and the roll out of bulk replacements) we do not believe that there is any real prospects for effective and productive pricing negotiations.

We agree with the AER's assessment that consumers of public lighting services do not have sufficient information to negotiate on an informed basis with NSW DNSPs, further we agree that the lack of transparency regarding the terms on which public lighting is provided makes it impossible for there to be the level playing field required for effective negotiation to place.

Therefore REROC strongly supports the AER's preliminary position to classify public lighting as a direct control service and further as alternative control services. As stated above, REROC is totally and absolutely opposed to TTEG's and Essential Energy's proposal that public lighting services should be classified as negotiated distribution services, or unclassified.

Question Eight: Control Mechanism for Standard Control Services

REROC agrees with the AER's preliminary position to apply a revenue cap control mechanism to standard control services.

The REROC members support the AER's assessment that there are insufficient incentives within the current system for DNSPs to make a real attempt to address demand management. The REROC members have seen little evidence that the DNSPs are prepared to address the rising costs of infrastructure through activities that constructively address demand management. We believe this is because under current arrangements DNSPs' profits are directly linked to the volume of electricity distributed.

There can be no incentive to address demand management while this situation remains unchanged. Consumers do not have a limitless ability to meet price increases to fund more infrastructure. Our members are concerned that without an incentive to address demand management DNSPs will continually call for price increases based on a need for more infrastructure to meet rising demand. Consumers will be caught in an endless loop of price increases which are needed for endless infrastructure needed to fuel unchecked demand.

Question Nine: Control Mechanism for Alternative Control Services

REROC supports the AER's preliminary position to apply price cap regulation in the next regulatory period to:

- incidental services;
- metering services (types 5-7);
- fee based services;
- quoted services; and
- public lighting services.

REROC agrees with the AER's assessment that a price cap promotes accurate price signals to the market through cost-reflective prices. Further we agree that as there is limited opportunity or likelihood of competition in this operation area that price capping will enable potential competitors to at least make an informed decision in relation to market entry.

Question Ten: Application of the National STPIS to NSW DNSPs

REROC supports the AER's preliminary position to apply the AER's national Service Target Performance Incentive Scheme to NSW DNSPs.

If we expect DNSPs to step away from the "business as usual model" then they need to be provided with rewards and penalties to support the shift. REROC believes that the use of the STPIS is an important tool in supporting and encouraging DNSPs to reach optimum levels of service efficiency and to reduce costs to consumers.

Conclusion

REROC members are very concerned about the rising costs of DNSPs' network and distribution services and the flow-on effect to consumers. Our members believe that without a strong regulatory framework which is underpinned by rewards and penalties for achieving targets, reducing costs and addressing demand management issues, costs will continue to escalate without check.

Our member councils remain very concerned about the unchecked rises in pricing for electricity services in NSW. REROC member councils spend millions of dollars every year meeting the cost of electricity for a multitude of community assets. Like our residents we too are consumers of the DNSPs' products, and like DNSPs we are the providers of essential community infrastructure. However councils are not in the same position as DNSPs, we are not able to continually raise prices in order to cover increasing maintenance and replacement costs. We believe it is important that DNSPs learn some restraint, that there is great accountability for their pricing regimes and that they be required to report on their performance and service delivery.

We commend the AER for offering the opportunity to provide feedback on the Framework and Approach for the 2014-2019 Regulatory Control Period. If appropriate our members would welcome the opportunity to enter into discussions with the AER about any of the issues addressed by this submission.