Submission to Australian Energy Regulator in Response to Essential Energy's 2014-2019 Substantive Regulatory Proposal for Increases in Street Lighting Charges

7 August 2014

The following comments are provided in relation to Essential Energy's proposed increase in street lighting tariffs to collect an additional $5.9 million from NSW Councils. For Richmond Valley Council this means an increase of $70,205 (70%) from $100,096 in 2014/15 to $170,402 in 2015/16.

- It seems like an unacceptable increase over just two years and that Essential Energy is targeting just one aspect of its business, while keeping costs down in other areas (residential). Any large increase to this magnitude, if it is approved, needs to be phased in over a longer period, say five years.

- Essential Energy's business of maintaining street light poles and infrastructure should not be analysed in isolation to its other responsibilities to maintain poles and wires in the electricity network. They service 149,000 street lights which are situated on 63,726 poles. Essential energy maintains 1.4 million poles on 200,000 kilometres of wiring. The street lighting poles are just 4.5% of their total stock.

- There has been radio commentary over the repeal of the carbon tax that over 50% of the increase in electricity costs have been due to costs associated with maintaining and building poles and wires. Commentary suggests this has been poorly handled and a windfall opportunity for providers. The NSW Government is about to sell off this function. Essential Energy is presently a NSW funded energy corporation. Could it be that this proposed stellar increase in charges is an attempt to realise a higher price for the State Government in its pending sale of the business? In other words a cost shifting proposal by stealth.

- Essential Energy's Annual Report 2012/13 shows that the business earned a profit of $819.8 million. Clearly there are synergies in their operations and to separate public street lighting by a cost dissection methodology is flawed.

  In the same report, Essential Energy state that they intend to maintain electricity network prices for residential customers to CPI or below for the next five years. Essential Energy is not responding quickly enough to technology. They have completed testing on LED technology but still have questions about reliability and suitability. The rest of the world has moved on, i.e. Calgary in Canada will replace 80,000 street lamps with LED lights by 2018. As reported in the 'Indian Express' dated 18 July 2014, in India all the cities and towns in 111 municipalities in the State of Andhra Pradesh will change to LED street lights. The multi-billion US dollar investment will be recouped in the form of energy savings. Phoenix in Arizona will convert 95,000 street lights by 2020. (refer http://www.newindianexpress.com/states/andhra_pradesh/All-AP-Cities-Towns-to-Have-LED-Street-Lights/2014/07/18article2336464.ece).

- Whilst Essential Energy may have had their analysis audited by Ernst and Young, have a robust system in PeopleSoft for costing their labour and materials and calculated historic failure rates etc, these are past costs that build in existing inefficiencies.

Regardless of the words within the Essential Energy submission, the performance of Essential Energy in delivering services has to be questioned. When Council changed its street lighting bulbs it discovered a bulk amount of lamps that had not been changed as frequently as claimed and that this contributed significantly to the ongoing failure rates. The lack of reporting and accountability makes it impossible for Council to know if KPI's are being met. This situation leads to a great deal of mistrust with the provider.

- One of the actions in Essential Energy's Corporate Plan is to 'Improve Customer Value'. An action plan was to leverage network prices to CPI or better. They are not achieving this for their local government customers.

- If the street light profit and loss is showing a loss of $7.9 million in 2013/14 than other cost cutting measures and efficiencies need to be found. It is not acceptable to say the only way of running the business is to increase revenue to cover historic costs. There is simply no incentive to invest in the business to reduce long term costs when revenue increases of this magnitude are considered acceptable.

- When it comes to benchmarking the cost of services, they say that they use market tested contract rates that substantially exceed regulated allowance. Perhaps a new approach is needed if contracting or procurement is proving too expensive. They may need to review the cost of utilising non-contract staff for the work. Similarly they say that services being provided for bulk lamp replacement allowed for in the last AER does not cover the cost of the service. (Was the last submission to the AER inaccurate?). This market however seems to have been tested five years ago and has not been retested. Maybe they locked in a poor tender and need to reassess how this service is delivered and operated within in their revenue base. They say material costs allowed in the last AER for the replacement of lamps is too low, yet have not moved to take advantage of new LED technology.

- Essential Energy state that the last AER allowed for 18 defects to be completed in a day. They state that the actual average is just one service per day because their service standard is to spot fix lights within eight days or suffer a $15 penalty.

  However, in reality surely they don't just do one job per day, as they maintain the whole network of 1.4 million poles. It is possible the tender for repairing street lamp maintenance is restrictive and doesn't allow for multi-purpose skilled labour to do other work on their network. This is a business problem that Essential Energy has and should solve and not ask Local Government to pay for this inefficiency. Perhaps the KPI for fixing a light should be varied to meet different distances to travel or local electricians could be skilled to undertake this work. It seems that it would be more cost efficient to incur a $15 penalty for not replacing a light within eight days that is 270 kilometres from a depot. Consequently, this service level needs to be modified. It is noted however, Essential Energy comment that based on consultation with its customers that the current NSW public lighting code which defines their levels of service, should not be reduced. Perhaps this consultation has been too narrow.

The Depot at Casino is one where Essential Energy states that it is forced to mobilise for just one task per mobilisation; Kyogle is also 1.00, Lismore is 3.30, Woodburn is 1.00 and Ballina is 5.60. This seems very inefficient.

- It seems that Essential Energy is building a case for supernormal increases on Local Government based on historical costs but haven't realised structural changes to their business in the last five years. It seems that new management is required to cast fresh eyes on the business. If the business is to be sold by the State, there should be no increases of this magnitude until the new owners are able to make structural changes and find efficiencies not able to be done under the current management.

- It is simply wrong for Essential Energy to say that they cannot operate this part of their business efficiently. They are only dealing with 63,726 poles with 150,000 lights on them; just 4.5% of their poles. Their business is a highly profitable $819 million per year, and yet they say they are losing $7.9 million per year annually doing this task which should integrate with their overall operations.

- The AER should question the Essential Energy submission as it indicates poor business practice or unreasonable selective costings of a service that is perfectly aligned to its core business and simple logic indicates it should be delivered in a more cost effective way through economies of scale.

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