



4 February 2019

Mr Sebastian Roberts
General Manager, Networks
Australian Energy Regulator
GPO Box 520
MELBOURNE VIC 3001
emailed to: NSW2019-24@aer.gov.au

Dear Mr Roberts

RE: Ausgrid Revised Public Lighting Pricing Proposal 2019-24

Thank you for the opportunity to comment on the public lighting aspects of Ausgrid's Revised Regulatory Proposal for 2019 – 24. SSROC makes this submission in its role of managing a [Street Lighting Improvement Program](#) on behalf of 29 councils served by Ausgrid in metropolitan Sydney, the Central Coast and the Hunter. These councils encompass approximately 90% of all the 250,000 street lights in Ausgrid's distribution area and about 40% of all the street lighting in NSW.

While most NSW public lighting is owned by DNSPs, it is councils and RMS which are empowered to provide this vital public service for the community as the road authorities. Councils and RMS must decide what areas of the public domain to light, to what level and in what manner to light. In having responsibility for providing this service, councils and RMS have a consequent duty of care to ensure that it is delivered efficiently and effectively.

Under Ausgrid's revised proposal, councils and RMS will spend more than \$230,000,000 in the coming regulatory period on capital (\$105.6m), maintenance (\$64.9m) and network distribution charges (~\$63m) for public lighting. Councils therefore have a strong interest in this public lighting pricing determination by the AER and, at a time of rapid change in public lighting technology, a strong interest in the assumptions about technology assumptions embedded in Ausgrid's pricing proposal.

Having reviewed Ausgrid's revised Regulatory Proposal and associated attachments on public lighting, SSROC asks the AER to give consideration to following key points:

1. Ausgrid Stakeholder Engagement

SSROC welcomes Ausgrid's commitment to working with stakeholders¹ and was strongly supportive of Ausgrid's engagement efforts in the lead up to its initial submission (including with respect of improved price transparency, pre-submission consultation on its pricing model and transparent pricing negotiations during the inter-regulatory period – See SSROC submission of 8 August 2018).

¹ Ausgrid Attachment 8.07 Public Lighting Services, Overview, Table 1, Item 2

Unfortunately, engagement by Ausgrid with SSROC on public lighting pricing and the AER determination ceased after the initial Ausgrid submission to the AER. In seeking to re-engage Ausgrid on matters it queried in Ausgrid's submission, SSROC was told by senior Ausgrid management that, "*Ausgrid is being guided by the AER process*" and received no further communication in response to the issues it raised.

While SSROC respects the right of the new management of Ausgrid to manage the company as it sees fit, we query how the cessation of engagement with a key stakeholder of long-standing meets the clearly established engagement objectives established by the AER at the outset of the 2019-24 pricing review process.

SSROC looks forward to re-engaging with Ausgrid on pricing and lighting technology matters as soon as possible. As noted in SSROC's previous submission, increased disclosure and engagement serves to increase trust in both Ausgrid's pricing proposal and in the AER review process.

2. Removal of 'Theoretical Failure Rates' Commended

SSROC welcomes Ausgrid's removal of 'theoretical failure' rates from its public lighting pricing model for some legacy lighting types. The use of these figures, questioned by both SSROC and the AER, would have had the effect of causing substantial step changes in pricing for some common legacy luminaire types. The removal of these 'theoretical failure' rates results in a lowering of opex charges by some \$5.9m².

3. Accelerated LED Replacement Program of 125,000 Luminaires Strongly Supported

SSROC welcomes Ausgrid's reinforced commitment in its revised proposal to rolling out 125,000 LED luminaires during the coming regulatory period and agrees with its conclusion that this will result in substantial operating cost and energy savings (as well as community and road safety benefits). SSROC can confirm, having spent much of the last year in discussions with councils about this proposal, that there is overwhelming support for proceeding with it.

4. The AER Should Not Approve Pricing for Inefficient Legacy Luminaires

As acknowledged by Ausgrid in Attachment 8.07 Section 1.2 of its initial submission, "*LED technology provides significant reductions in energy consumption and minimises the life cycle costs ultimately borne by public lighting customers*". This has been re-enforced with similar statements in Attachment 8.07 Section 1.1.1, Section 1.1.2 and in a number of parts of Section 3 of Ausgrid's revised submission. These conclusions are consistent with SSROC's views and with the Commonwealth-sponsored work undertaken by the Institute of Public Works Engineering Australasia in their Street Lighting & Smart Controls Programme Roadmap³ which found broadly that LED lighting achieved at least a 25% reduction in total long-term costs of ownership as compared to legacy public lighting technologies.

SSROC wishes to restate that non-LED public lighting, whether used for new or replacement lighting, can no longer be considered an efficient investment by DNSPs and continued installation of these legacy lighting technologies is not in the long-term interests of public lighting customers. This case is amply made by Ausgrid itself in both its initial and revised submissions.

SSROC therefore views that any public lighting proposals for use of non-LED technology as standard default lights are now inconsistent with the National Electricity Objective and should not be considered by the AER for approval in this next regulatory period.

² Ausgrid Attachment 8.07 Public Lighting Services, Operating Expenditure, Figure 2

³ <http://www.slsc.org.au/slsc-publications/slsc-roadmap>

In this context, SSROC welcomed Ausgrid's statement in its initial Regulatory Proposal Section 8.1.1 that, "Ausgrid has adopted LED luminaires for all of its new and replacement installations." However, this commitment has been removed from Ausgrid's revised proposal.

Noting the points above about the economic efficiency of LEDs, SSROC is disappointed that Ausgrid has not withdrawn pricing proposals for non-LED lighting nor included in its revised proposal current LED pricing for key lighting categories:

- **LED floodlights** which are not included in Ausgrid's revised proposal (only legacy lighting pricing proposals are included in Revised Proposal Attachment 8.09 capex calculations);
- **LED decorative lights** which are not included in Ausgrid's revised proposal (only legacy lighting pricing proposals are included in Attachment 8.09 capex calculations);
- **LED lights for main roads** are included in Ausgrid's pricing however:
 - The LED technology proposed by Ausgrid and its pricing proposal is based on a 2014-15 Networks NSW Tender which only sought trial volumes of LEDs for main roads (at more substantially higher capital costs than current main road LED luminaires);
 - Neither councils nor NSW Roads & Maritime Services (which has a jurisdictional and financial interest in main road lighting) have been given an opportunity to comment on an updated specification for main road LEDs;
 - No subsequent open tender has been staged by Ausgrid for main road LEDs despite written undertakings to council General Managers to stage such a procurement process by mid-2017 and again in mid-2018; and
 - Public lighting customers have not been given an opportunity to agree to new main road LED technology and pricing as an output of such a tender process.

Councils wish to ensure that main road LED offerings in particular are updated as quickly as possible to ensure both technical and commercial currency. SSROC and councils would therefore be pleased to work with Ausgrid on an updated main road LED specification as a matter of urgency. In the interim, pricing of non-LED luminaires in the above categories should not be approved by the AER as reasonably efficient nor should pricing for LEDs coming out of a 2014-15 Networks NSW tender (which was at the early stages of the LED supply market).

5. Night Patrols Needed on ALL Main Roads

Night patrols are currently costed by Ausgrid for major traffic routes only⁴ and not for all main roads (Category V lighting) as required under AS/NZS 1158 and hence required to maintain compliance with the NSW Public Lighting Code.

AS/NZS 1158 reasonably requires night patrols of all Category V lighting both because of a lack of natural reporting parties on almost all main roads and because of the greater public safety risks of lighting outages on such roads.

SSROC believes that Ausgrid needs to patrol all Category V lighting to achieve compliance with the NSW Public Lighting Code and this should therefore be included in its pricing model. Further, spreading the cost of night patrols across all lighting in its pricing model in Attachment 8.10 creates an inappropriate price distortion between residential and main roads.

This item was raised in SSROC's previous submission but has not been addressed by Ausgrid in its Revised Proposal.

⁴ Ausgrid Attachment 8.07 Public Lighting Services, Section 2.1.1, Table 4, Item 6

6. Large Column Pricing Movements Warrant Further Review

Ausgrid capital charges for underground supplied dedicated street lighting columns increased by more than 100% in 2014/15 and are now proposed to decrease approximately 30%. While welcoming the proposed decrease, SSROC questions the very large price movements for these high capital cost items.

SSROC has recently staged a tender for councils for a range of steel columns matching Ausgrid specifications as well as for the services of Accredited Service Providers able to install columns to Ausgrid specifications. Based on this, SSROC is of the view that current Ausgrid column charges are far too high and should be cut by something closer to 50%.

SSROC notes the high percentage of such columns in the Central Coast and Hunter. Councils in these regions face dramatically higher street lighting costs over time as large numbers of columns gifted by developers reach the end of their useful life and migrate to Ausgrid-funded columns. SSROC therefore encourages the AER to review this particular issue in some detail given the large price movements including giving consideration to significant over-recovery in the previous regulatory period.

This item was raised in SSROC's previous submission but has not been addressed by Ausgrid in its Revised Proposal.

7. Need for Clarification on 22W LED Capital Charges

Ausgrid is proposing to increase capital charges for some 14,394 previously installed 22W LEDs by 43.8% from 18/19 rates. It is unclear what the basis for this would be as these luminaires are no longer being installed and installations ceased before the LED pricing negotiations concluded. Ausgrid should be asked to clarify the basis for this change.

8. Need for Energy-Only Tariff (eg 'Rate 3')

Ausgrid mentions in its proposal that customers have the option of installing lighting as a privately metered installation however, in a practical sense, this presents a significant barrier to future competition. Councils have advised SSROC that the typical cost of a secure metering enclosure in the public domain with associated footings and conduit is around \$50,000. This cost frequently exceeds the net present value of the future energy charges for the lights to be connected to that meter. Metered lighting installations are therefore considered prohibitively costly by councils and only used when no other reasonable alternative exists.

Ausgrid used to offer an energy-only tariff where the light was on the public lighting inventory for energy billing purposes only and customers owned and maintained the luminaire. Some 'Rate 3' lights remain on Ausgrid's network and this tariff exists at other distributors.

SSROC supports the classification of public lighting by the AER as an Alternative Control Service but believes that a 'Rate 3' tariff is required to facilitate future competition *in lieu* of a contestable public lighting regime. If the AER genuinely wishes to facilitate such competition, it should consider requiring that a 'Rate 3' tariff be offered by Ausgrid and other utilities.

9. Pricing of New Technologies in the Inter-Regulatory Period

A transparent and AER-approved pricing model with all formulas, associated assumptions and inputs visible to customers presents the best possible path to facilitating quick approval of new lighting technologies and pricing during the inter-regulatory period. SSROC can envision that reliance on such a transparent model would work well for approving new LEDs.

A more challenging issue is the forthcoming adoption of smart controls. Smart controls offer a variety of installation, asset management and maintenance cost savings but recognising these benefits would require changing a range of modelling assumptions. With large-scale LED with smart control installations coming in the 2019-2024 regulatory period, a mechanism to agree on

the pricing and cost benefits of smart controls is needed. SSROC would be pleased to work with the AER and Ausgrid over the coming months to explore possible solutions that minimise complexity and delay for all parties while sending good pricing signals for important new technology that is being widely adopted overseas.

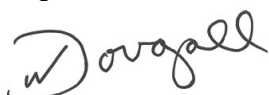
10. Price Impacts for Customers Unclear

Overall, the price impacts of Ausgrid's revised proposal on individual customers is unclear. There are significant price changes in some components yet the impact on these for individual customers is not specified and would be extremely challenging for customers to determine given the wide array of inputs.

The AER should reasonably require that the price impact of this revised public lighting proposal is made clear in Ausgrid customers and more generally, that the impact of DNSP pricing proposals for public lighting customers in this and other determinations is transparent.

SSROC would welcome further discussion with Ausgrid and the AER on all of the above issues.

Regards

A handwritten signature in black ink, appearing to read 'Dougall', with a stylized initial 'N' or 'D' on the left.

Namoi Dougall

General Manager

Southern Sydney Regional Organisation of Councils (SSROC)