

Response to AER's Preliminary Decision
Victorian Electricity distribution
determination 2016 to 2020

Submission by

Street Light Group of Councils

Prepared by



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Foreword

The Street Lighting Group of Councils (the Group, SLG) welcomes the AER's request for submissions regarding its preliminary decisions for the Victorian electricity distribution service providers for the Regulatory control period commencing 1 January 2017.

The Group trusts our Submission will assist the AER in establishing a pricing and control régime in Victoria that will enable public lighting users to pay fair and reasonable charges for public lighting services for the period and also aid in the development of the sector.

This Submission has been prepared by Trans Tasman Energy Group (TTEG), to represent the combined interests of Street Light Group member Councils (Attachment A). The views expressed are those of the authors and do not necessarily represent the views of any individual council.

The Street Light Group

The Street Light Group of Councils represents Victorian rural and metropolitan Municipalities, responsible for managing approximately 50% of the public lights in the State.

The Group was formed in December 2002 in the founding member Councils' recognition that their unresolved issues regarding Public Lighting OMR with DNSPs would best be resolved by a unified approach. Imbalances of market power between individual Councils and Distribution Network Service Providers (DNSPs) were preventing negotiation in good faith.

According to their public mandate and statutory empowerment the Groups' member Council's obligations are to deliver balanced economic, social and environmental outcomes, in the public interest of their constituents.

In working in the Victorian Public Lighting sector for more than a decade the Street Light Group member Councils are the most knowledgeable in the Local Government Sector in terms of commercial and regulatory aspects pertaining to Public Lighting.

TTEG Consultants

Trans Tasman Energy Group Consultants (TTEG) has prepared this Submission for the Street Light Group of Councils. TTEG Consultants (www.tteg.com.au), provide specialist energy sector advice including commercial and regulatory aspects pertaining to Public Lighting.

Documents

We have not attached all documents referred to in our submission as most are already with the AER. If required by the AER, these documents will be made available upon request.

Importantly, these documents are to be accepted as forming part of our submission irrespective of whether they are requested by the AER.

Further Assistance

The AER is invited to seek further comments on any points in this Submission from:

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This Submission is by Trans Tasman Energy Group on behalf of the Street Light Group of Councils (the Group, SLG¹) and pertains solely to the Public Lighting and metering aspects of the AER's Attachment 16 (Alternative Controlled Distribution Services) for each of the Victorian Distributors.

Our submission may refer to previous SLG submissions to the AER provided as part of the 2016-20 process, including those of July 2015 and the Supplementary Submission of September 2015, including confidential pricing information provided to the AER.

Recognising the AER's preference to discuss any issues rather than review lengthy submissions, we have kept our submission brief and would welcome the opportunity to discuss any aspects in more details.

This approach may be particularly useful regarding comments pertaining to the public lighting model(s).

1 General Assessment

We commend the AER on its efforts and its approach towards making DNSP's OMR tariffs more cost reflective.

Whilst we have identified some further considerations for the AER in section 2, we generally support the AER's Preliminary Decision as outlined in section 16.2.1 of Attachment 16 for each DNSP.

Our support includes the adjustments to WACC, labour rates, Opex overhead, platform vehicle costs, and the removal of 25% overhead on capital, and the lowering of LED OMR rates as these changes are reflective of the SLG Submissions in which we demonstrated many of the costs claimed by the Distributors were excessive.

Following submissions, and for reasons outlined by the AER, when the AER removed the Negotiated classification for dedicated lights, it provided DNSP's the opportunity to revise their submissions. Several DNSPs significantly changed their proposals providing a significant cost increase to public lighting customers. For example, Powercor increased its proposed MV80W OMR tariff from \$43 p.a. to \$59 p.a. which was subsequently adjusted to \$48 p.a. by the AER. The revised maximums from all DNSPs and the impact of the AER's Preliminary Decision are shown in the table below.

| | DNSP Proposal | DNSP Revised Max | AER PD max |
|-----------------|----------------------|-----------------------------|-------------------|
| MV 80W | \$37 to \$70 p.a. | \$75 p.a. | \$61 p.a. |
| T5 | \$26 to \$61 p.a. | \$63 p.a. | \$46 p.a. |
| LED | \$16 to \$36 p.a. | \$36 p.a. | \$26 p.a. |
| HPS 250W | \$71 to \$115 p.a. | \$159 p.a. | \$104 p.a. |

¹ Formed in 2002 to provide a unified approach to establishing fair and reasonable public lighting operation, with DNSPs, the Group comprises metropolitan and rural Victorian Municipalities responsible for managing approximately 50% the State's Public Lights.

We also support the AER assessing each DNSP's cost components (eg labour, platform vehicle etc) and establishing the lowest cost as a market (benchmark) rate, where it makes sense to do so, fairly reducing other DNSP's costs to reflect the market rate.

The AER's introduction of a tiered pricing system with separate O, M and R tariff components also supported as it provides increased pricing clarity and pricing options similar to other jurisdictions.

Recognising the concerns raised in the consideration of the Negotiated classification, we propose that dedicated assets, and also non-standard lights are identified by DNSPs in their billing.

2 Aspects for Consideration

We submit the following aspects to the AER for further consideration.

2.1 Pricing Caps / Annual Review

The AER has proposed the following regarding the "Form of Control":²

"We are applying caps on the prices of individual services consistent with the current regulatory arrangements in Victoria.

Although the public lighting service is subject to an alternative control classification the control mechanism is implemented through a public lighting model under a building block approach.

Compliance with the control mechanism is to be demonstrated by the Victorian distributors through the annual pricing proposal, by updating the forecast CPI for the actual CPI each year."

For alternative control services, the control mechanism must have a basis stated in the distribution determination.³

The AER has identified price caps on "individual services" as its approach. For clarity, the AER should define what is meant by "individual services". We presume it is the O, M and R tariffs for each light type?

We support the AER in what appears to be its attempt to establish cost reflective tariffs and apply caps, however the detail as to how these caps will be applied and the proposed methodology to establish year on year price changes should be transparent and accepted by stakeholders.

CPI is only one of the many forecasts and estimates in the public lighting models. Indeed most of the inputs to the model could fairly be considered variables.

We submit that a key consideration is the change in inventory, and that on a similar basis (to the CPI) the forecast inventory change should be updated by actual inventory change in the DNSP's annual pricing proposal.

The increase each year in inventory is transparent and important as it dilutes the \$/light cost of fixed costs and overheads and as new lights are funded by others, there is no capital component. If CPI was simply applied to an OMR tariff and applied to all lights (including new lights), then the DNSP's profits will increase by more than CPI.

For simplicity, an appropriate approach may be to apply a CPI minus "A" approach to adjusting the price cap where "A" may represent adjustments due to the inventory change plus any other appropriate changes.

² Including AusNet Services Attachment 16, section 16.2.1 page 21

³ NER 6.2.6 (b)

Public lighting customers do not have access to distributor annual pricing proposals. For example, Citipower's 2015 Pricing Proposal⁴ was marked CONFIDENTIAL and not made public.

2.2 GIS Cost

The AER states⁵ that "We disagree with the SLG's contention that the network use of system charges for unmetered supplies recovers GIS cost."

We agree with the AER that the unmetered network use of system (NUOS) charge does not recover GIS cost.

We submit to the AER that section 4.3.2 of our July 2015 Submission does not refer to NUOS but to metering charges.

- The distributors are required to keep the same data as required by the Public Lighting Code (except possibly spatial location) to meet their obligations as MP and MDA under the Metrology Rules.
- Distributors receive payment of a metering charge for maintaining inventory, light type and customer details. An example is shown in the following table for Powercor.

Powercor Table 17.6: Proposed Type 7 metering charges (nominal)

| Charge Element | 2016 | 2017 | 2018 | 2019 | 2020 |
|----------------|----------|----------|----------|----------|----------|
| Per NMI | \$308.00 | \$316.00 | \$324.00 | \$332.00 | \$340.00 |
| Per Light | \$1.6073 | \$1.6479 | \$1.6895 | \$1.7321 | \$1.7758 |

Source: AusNet Services

- The type 7 meter charges would provide Powercor in excess of \$125,000 p.a on an inventory of around 80,000 lights.

We however note that Powercor and Citipower are no longer proposing Type 7 meter charges and that the AER has accepted their proposal. We applaud these DNSP's and their (we expect) recognition that they were largely being paid twice for the same service.

Importantly, removing the meter charge also makes it easier for retailer billing and participation as the Type 7 billing for unmetered public lighting is an anomaly.

The other distributors are however still proposing Type 7 meter charges for unmetered lighting and we encourage the AER to reconsider and assess their approval of these charges in light of the SLG's clarification.

⁴ Citipower's 2015 Pricing Proposal Page 124, Attachment K " CONFIDENTIAL – Public Lighting Operation, Maintenance and Replacement (limited building blocks model)"

⁵ Powercor Attachment 16, page 23 and Jemena Attachment 16, page 24

2.3 Capital (asset) Costs

2.3.1 Depreciation

Whilst we recognise that the public lighting pricing models are pre tax models, we submit that the modeling fails to recognise that the DNSPs are receiving a material cash windfall from the difference in depreciation periods (asset life) of 20 year for luminaires (and 35 years for poles and brackets) used in the models and 15 years (as per the ATO⁶) applied to their balance sheet for taxation purposes.

The DNSP cash windfall is achieved as the DNSP is continuing to recover asset costs via the model on an asset that they have fully depreciated with the ATO.

This windfall from cash flow requires to be recognized in the model. Whilst we have not undertaken a detailed assessment it may simply require the introduction of a factor reducing the annual depreciation in the model.

The SLG submit that introduction of this type of cash flow adjustment would not be inconsistent with approaches to adjustments to recognise cash flows made in previous determinations.

2.3.2 Capital Expenditure

Whilst we have not reviewed all models in the detail we would have liked, we have noticed that PowerCor⁷ has significantly increased capex in 2014 and 2015, particularly on poles and brackets.

| | 2009 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---------------------------------|------------------|---------------------|-----------|-----------|-----------|-----------|-----------|-------------------------|-----------|-----------|-----------|-----------|-----------|
| Capital Expenditure | Submission Model | Nominal \$ - Actual | | | | | | Real 2015 \$ - Forecast | | | | | |
| (Net of customer contributions) | | | | | | | | | | | | | |
| Poles and Brackets | 216,474 20% | 243,214 | 1,063,987 | 735,188 | 1,695,675 | 2,267,621 | 3,028,236 | 4,439,699 | 777,015 | 778,888 | 781,383 | 784,214 | 786,926 |
| Existing Lights | | | | | | | | | | | | | |
| Luminaires | 622,406 58% | 699,288 | 540,539 | 437,173 | 389,009 | 487,489 | 811,892 | 1,346,501 | 1,328,272 | 1,176,314 | 1,626,738 | 1,642,318 | 1,663,816 |
| Energy Efficient Lights | | | | | | | | | | | | | |
| Luminaires and Ballasts | 243,490 22% | 273,567 | 211,463 | 171,025 | 152,183 | 190,709 | 317,618 | 526,761 | 53,526 | 69,072 | 74,488 | 79,859 | 85,065 |
| Total Net Capex | 1,082,369 | 1,216,069 | 1,815,989 | 1,343,385 | 2,236,868 | 2,945,820 | 4,157,747 | 6,312,961 | 2,158,813 | 2,024,274 | 2,482,609 | 2,506,391 | 2,535,808 |

These expenditures are well above their typical annual expenditures yet this anomaly does not appear to have been considered by the AER in section 16.2.4 of PowerCor's Attachment 16.

The SLG submit that the AER should require PowerCor (if they have not done so already) to provide justification for the proposed high expenditure and to provide these reasons for stakeholder review.

2.4 Written Down Value (WDV)

Unfortunately we have not been able to assess the proposed WDV in the detail that we would have liked, but if our understanding is correct, Powercor's 2015 WDV for a MV 80W luminaire was around \$1 and that for the same asset in 2016 it is proposed to be \$77?⁸

⁶ The ATO reference has been provided to the AER

⁷ PowerCor Public Lighting model "DNSP Inputs" sheet

As previously submitted by the SLG, all initial assets prior to 2000 are now fully depreciated on Powercor's balance sheet and indeed every DNSP's balance sheet.

This clearly requires review for all DNSP's and we submit that any WDV must reflect the actual cost to the DNSP, and that any WDV derived from modeling that does not represent the DNSP's balance sheet will be providing the DNSP with a windfall profit - an approach we do not believe to be consistent with the National Electricity Objective.

2.5 Tiered Pricing

The AER advised:

"Preliminary decision prices have also been split out into the replacement (capex) and opex components in the public lighting decision model as requested by stakeholders.⁹"

This is a great initiative by the AER and will provide options to Victorian councils and VicRoads that are already available in other jurisdictions. The splitting of the tariff in to individual components/tariffs as shown in the following table is supported by SLG.

Tiered Tariff model

| Tariff | Funding | Maintained |
|-------------|---------|------------|
| Full Charge | DB | DB |
| Customer | C | DB |
| Energy Only | C | C |

C = Customer or other provide equity/perform DB = Distributor equity/perform

The separation of OMR in to O, M and R components not only provides insights (and clarity) on costs but also provides recognition of customer funding in tariffs.

Public lighting customers incur the financial liability and therefore should fairly and reasonably determine who funds and replaces lights at the end of their economic life. This is not a safety or operational consideration, but a financial consideration and should be addressed via the review of the Public Lighting Code.

Whilst we recognise there are some operating issues claimed by DNSPs regarding maintenance provision by customers, we reasonably expect any issues to be resolved during the regulatory period to 2020.

Whilst the AER claimed the OMR prices had been split, they were combined in the pricing tables in Attachment 16. We submit that the AER requires DNSPs to publish these components.

⁸ Powercor Model "MOD 1.7" on the "tariffs" tab

⁹ Street Light Group of Councils, *Response to Distributor regulatory proposals and the AER's proposed negotiated distribution service criteria*, July 2015, p. 3.

2.6 Tariffs

2.6.1 Models and Component Costs

The AER (with the assistance of submissions, including the SLG) has made a number of changes to component cost inputs and also identified a number of errors in the models.

We advise the AER whilst we have not had the time and resource to review all models and costs in detail, the AER's changes are in principle supported by the SLG.

We also support the AER assessing each DNSP's cost components (eg labour, platform vehicle etc) and establishing the lowest cost as a market (benchmark) rate, where it makes sense to do so. This approach fairly reduces the other DNSP's costs to reflect the "market rate" which can be achieved by at least one DNSP.

2.6.2 LED Tariffs

We submit that the LED OMR costs are excessive.

The AER model for Citipower shows the following for LED in the "Charges Summary" Sheet has been reproduced below.

| <u>Citipower</u> | |
|--|--------------------|
| <u>Category P LED 18 Watt - Cost build-up</u> | <u>2016</u> |
| <u>O & M Charge</u> | |
| Bulk change & repairs | \$8.65 |
| Other costs | \$3.77 |
| | <u>\$12.42</u> |
| <u>Capital Charge</u> | |
| Depreciation and Return | \$ 4.50 |
| <u>Poles & Brackets Charge</u> | \$9.89 |
| <u>Total Charge</u> | <u>\$26.80</u> |

Whilst included in the model, the \$12.42 O & M appears unsupported and materially excessive recognising that a feature of LED lighting is they are very low (negligible) in maintenance. These lower maintenance costs (\$2.05) are shown in AusNet Services proposal¹⁰ and are more reflective of cost expectations.

AusNet Services

| <u>LED 18W</u> | <u>2016</u> |
|-------------------------|--------------------|
| <u>O & M Charge</u> | |
| Bulk change & repairs | \$0.57 |
| Other costs | \$1.49 |
| | <u>\$2.05</u> |

¹⁰ same sheet in AusNet's model

| | |
|--|------------|
| <u>Capital Charge</u> | |
| Depreciation and Return | \$ 6.53 |
| <u>Poles & Brackets Charge</u> | \$9.44 |
| <u>Total Charge</u> | \$18.02 |

2.6.3 Poles and Brackets

As shown in the LED examples above, DNSPs have established a "one tariff component fits all" when considering "poles and brackets" costs. That is, even if a light does not use a standalone (dedicated) pole, the proposed OMR tariff includes a component for a free standing pole.

As shown below in the excerpt from AusNet Services model, the "Poles & Brackets" costs of \$1,306,411 (of which the poles represents \$1,117,084 is significantly greater than all "Existing Lights Luminaires - Real 2015 \$" which was only \$776,738.

| | |
|---|-----------|
| <u>Poles & Brackets - Real 2015 \$</u> ¹¹ | |
| Dedicated poles | 1,117,084 |
| Brackets | 189,327 |
| | 1,306,411 |

We submit that the current (smeared) tariff structure masks the pole costs and does not provide cost reflective pricing. To overcome this issue a separate "pole tariff" could be established and this tariff only billed for luminaires on free standing poles. If material cost differences exist, there may be several "pole tariffs" to recognise different types of poles.

Separation of the pole tariffs can also assist market development as the application of these separate tariffs will provide insight to the number of freestanding poles per customer. Customers can then also reconcile/audit the physical number of poles with their bill - something they currently cannot do.

The SLG has raised this issue with the AER for future consideration as before the introduction of any such tariff it should be done so after broad sector consultation and also via a sunset/sunrise arrangement for the bundled/separate tariffs so that customers can make appropriate adjustments to their operational budgets.

2.6.4 Dedicated and Non Standard Assets Identification

A *standard* light is where the luminaire is attached to a distribution pole via a bracket.

Any other light type needs to be identified by the DNSP.

This is considered further in section 3.

¹¹ AusNet Services Public Lighting model "Capex 2016-20" sheet

3 Classification and Market Development

The SLG note and appreciate the AER's comments regarding classification.

One of the concerns regarding the AER's initial proposal to classify dedicated public lighting assets as negotiated was that no one had any visibility regarding which assets were dedicated assets (which may also be a non standard light) and how this would impact them as a customer.

Identifying to customers the DNSP funded dedicated assets and also non DNSP funded "non-standard" assets, will assist in the development of the sector and requires further consideration by the AER.

This may simply require the inclusion of an identifier for each of these types on the DNSP's bill and on the public lighting data provided to customers.

These assets are already known to DNSPs as they:

- (1) are included the dedicated pole inventory in their models, and
- (2) customers are billed separately for capital works for non standard lights.

4 Attachment A – List of Street Light Group Councils¹²

| | |
|--------------------------------|------------------------------------|
| ALPINE SHIRE COUNCIL | MAROONDAH CITY COUNCIL |
| BALLARAT CITY COUNCIL | MELTON SHIRE COUNCIL |
| BASS COAST SHIRE COUNCIL | MONASH CITY COUNCIL |
| BAW BAW SHIRE COUNCIL | MOORABOOL SHIRE COUNCIL |
| BAYSIDE CITY COUNCIL | MORNINGTON PENINSULA SHIRE COUNCIL |
| BOROONDARA CITY COUNCIL | NILLUMBIK SHIRE COUNCIL |
| BRIMBANK CITY COUNCIL | PORT PHILLIP CITY COUNCIL |
| DAREBIN CITY COUNCIL | SOUTH GIPPSLAND SHIRE COUNCIL |
| EAST GIPPSLAND SHIRE COUNCIL | STONNINGTON CITY COUNCIL |
| FRANKSTON CITY COUNCIL | STRATHBOGIE SHIRE COUNCIL |
| GLEN EIRA COUNCIL | WANGARATTA RURAL CITY COUNCIL |
| GREATER DANDENONG CITY COUNCIL | WELLINGTON SHIRE COUNCIL |
| HEPBURN SHIRE COUNCIL | WHITTLESEA CITY COUNCIL |
| HOBSONS BAY CITY COUNCIL | WODONGA RURAL CITY COUNCIL |
| KINGSTON CITY COUNCIL | WYNDHAM CITY COUNCIL |
| LATROBE CITY COUNCIL | YARRA RANGES SHIRE COUNCIL |
| MANNINGHAM CITY COUNCIL | |

¹² Please note that the views expressed in this Submission are those of the authors and do not necessarily represent the views of any individual council. Membership also changes from time to time.