

Response to Distributor regulatory proposals and the AER's proposed negotiated distribution service criteria

Submission by

Streetlight Group of Councils

Prepared by



Level 2, 200 Alexandra Pde., Fitzroy, VIC 3065

Ph: 9418 3907 email: info@tteg.com.au

July 2015

Foreword

The Street Lighting Group of Councils (the Group, SLG) welcomes the AER's request for submissions regarding Response to Distributor regulatory proposals and the AER's proposed negotiated distribution service criteria) and the opportunity to participate in the regulatory process for Regulatory control period commencing 1 January 2016.

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 Streetlight 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 Streetlight Group

The Streetlight 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 Streetlight 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 Streetlight 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:

Trans Tasman Energy Group Consultants

200 Alexandra Parade, Fitzroy Vic 3065

Ph: 9418 3907 Fax: 9418 3940 Email: info@tteg.com.au

Attn: Mr Craig R Marschall, Principal Consultant

Table of Contents

1	Summary	1
2	Regulatory Process	2
3	Issues Paper	3
4	Distributor Cost Proposals	5
4.1	Cost Reflectivity	5
4.2	Capital Component	7
4.3	Other components	9
4.3.1	GSL	9
4.3.2	GIS	9
5	Negotiated Distribution Service Criteria	11
6	Attachment A – List of Streetlight Group Councils	12

GLOSSARY

ABS	Australian Bureau of Statistics
ACCC	Australian Competition and Consumer Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
CAPEX	Capital expenditure
Code	Public Lighting Code, 2005 Victoria
DNSP	Distribution Network Service Provider
EDPD	Electricity Distribution Price Determination
EDPR	Electricity Distribution Price Review
ESCV	Essential Services Commission, Victoria
M	Public Lighting Maintenance
MAV	Municipal Association of Victoria
MDA	Meter Data Agent
NER	National Electricity Rules
O	Public Lighting Operation
O&M	Public Lighting Operation and Maintenance
OMR	Operation, Maintenance, Repair and Replacement (of Public Lights)
Paper	AER Preliminary positions on replacement framework and approach (for consultation), May2014
PLC	Public Lighting Code, Victoria
R	Public Lighting Replacement
RAB	Regulatory Asset Base
SECV	State Electricity Commission Victoria
SGC	Streetlight Group of Councils
SLUoS	Streetlight Use of System, the NSW and SA equivalent of OMR
SPA	SP - Ausnet
TTEG	Trans Tasman Energy Group Consultants
WDV	Written Down Value (of assets retired before their full life)

1 Summary

This Submission by the Streetlight Group of Councils (the Group, SLG¹) is provided to the AER in response to Distributor regulatory proposals and the AER's proposed negotiated distribution service criteria.

Our submission focuses exclusively on unmetered public lighting services.

In response to the AER's question from its Issues Paper *"What specifically do customers want changed in the regime now?"* we provide the following :

ex section 3

1. the retention of negotiated classification for lights where services and charges were previously negotiated and not changed to alternative controlled ("standard") light
2. if shared assets are classified as an alternative controlled assets then the introduction of tiered OMR pricing
3. Adopt a sunset/sunrise approach to the introduction of any tariff changes

ex section 4

4. Information from distributors regarding dedicated lights
5. Revision of distributor pricing proposals to reflect the changes requested by the SLG including:
 - a) Revised capital components and WDV to reflect the distributors' costs
 - b) Removal of any Guaranteed Service Level costs incurred by the distributors, and
 - c) Removal of the GIS component charge from OMR, or if retained, substantially reduced to a nominal cost for only when the spatial location needs to be changed.

We support the AER's Negotiated Distribution Service Criteria but advise the AER of a typographical error which requires correction.

We have raised a number of items in this submission that we trust will assist the AER understand council's thinking regarding public lighting market development in general and also specific aspects pertaining to the distributor proposals.

We appreciate and support the AER's intention to give third party stakeholders an opportunity to provide further submissions on the distributor's revised proposals and the preliminary determinations.

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 (Attachment A – List of Streetlight Group Councils) responsible for managing approximately 50% the State's Public Lights.

2 Regulatory Process

On 22 June 2015, the AER held a public forum in Melbourne on the revenue proposals submitted by the Victorian electricity distribution network service providers.

Once the AER has received submissions it will issue a draft determination and seek revised proposal from the Victorian distribution businesses'

Whilst the National Electricity Rules, under transitional provisions, do not provide for consultation on the Victorian distribution businesses' revised proposals, we appreciate and support the AER's intention to give third party stakeholders an opportunity to comment on these revised proposals and allow for further submissions from all stakeholders, on the submissions made by third party stakeholders to the preliminary determinations.

3 Issues Paper

In this section we provide our views in response to the question raised in the AER's Issues Paper regarding "What specifically do customers want changed in the regime now?"

Before addressing the AER's question, we are taking the opportunity to recognize and applaud the AER's desire to continue to provide the market with opportunities to actively engage with distributors to develop the sector. We also support the AER's view:

*"Our preference is to allow the competitive provision of services wherever practicable"*²

Unfortunately, as witnessed at the 22nd June AER forum there is a disparate level of regulatory and commercial knowledge within stakeholders.

The AER forum was a great initiative. The AER stated at the forum, regarding public lighting classification and charges, words to the effect that "the AER want to get this right".

We support the AER's intention.

Whilst we see that all public lighting services should ultimately be fully contestable i.e. "unclassified" there will need to be a period of transition. This period will include development of public lighting customers to understand how best to enable this transition.

We submit to the AER that under the Road Management Act that councils and VicRoads potentially have direct control over road lights including owning and maintaining the lights within the road reserve. We understand the Road Management Act takes hierarchical precedence over other acts, including the National Electricity Rules, and may require consideration by the AER.

Whilst considering market development, if the AER decides to retain shared assets as an alternative controlled classification, then to enable customer choice, the "service" of replacing lights **must** be at the customer's option and a tiered OMR structure **must** be introduced for Victoria³.

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

We note in its 2009 determination that the AER established a Customer lighting tariff in Victoria which excluded the capital component for T5 lights. So this approach simply needs to be extended to all light types.

Unbundling these services will be consistent with tariff reform.

² AER Preliminary positions on replacement framework and approach (for consultation), page 38

³ The same model already operates successfully under the NER in SA

We submit to the AER that it must consider any distributor proposals where distributors may be “requiring” emerging technology lights which had OMR charges established via a negotiation process to be included in the 2016-20 period as an alternative controlled (“standard”) light. We do not support this change in classification and maintain that lights that have had OMR changes established under the negotiated classification should retain that classification.

Recognising the AER’s “...preference is to allow the competitive provision of services wherever practicable” and that this is consistent with the SLG view that public lighting services should ultimately be contestable, a transition will need to occur.

To enable this transition to effectively occur time is required for customers to inform themselves so they can effectively consider these changes.

Where changes to OMR charges are envisaged, we submit that it may be appropriate for the AER to introduce a sunrise/sunset “transition” period to assist councils with budgeting.

4 Distributor Cost Proposals

From our review of the DNSP proposals the separation of the shared assets (alternative control) and the dedicated lights (negotiated), services and costs are not clearly evident. Until this separation of services and costs is completely transparent, in our view any assessment of the DNSP alternative control proposal cannot be effectively undertaken.

Whilst we understand DNSPs have excluded dedicated lights from their costs, we are surprised that DNSPs have detailed information to enable costs to be split as in the past DNSPs have not typically had specific cost information available.

To assist in customers understanding of what has been removed from the alternative controlled charges in the current period, the AER should require DNSP's to provide information regarding how they have removed costs from their alternative controlled changes and the number of dedicated lights classified as negotiated.

Two major issues we initially see are specification of "dedicated lights" and service and cost and services information.

- i. Specification. Do they include both standard and decorative lights?
- ii. PLC require the DNSP to identify the inventory (number) and type of light, ownership, GIS location and all asset data and cost (removed from ACDS) attributable to these lights. This info should be available by customer and distributor region.

For DNSP owned assets, and indeed for any public lighting services, there should (in theory) be no material difference in the tariffs for a service irrespective of whether the AER classifies public lighting services as either (1) a direct control and then alternative controlled service or (2) as a negotiated distribution service.

Our view is the tariff simply must be "cost reflective" for the service.

The SLG supports the approach outlined by the AER that in reviewing regulatory proposals for the Victorian distribution network for 2016 to 2020 the AER will examine the businesses' proposals to make sure they recover no more than necessary for the delivery of safe and reliable electricity services.⁴

And whilst the following pertains to AER commenting on negotiated services, for the reasons stated above, it should apply equally to alternative controlled services.

"We consider that our approach will enable distributors to offer this service on competitively derived terms and prices that reflect true cost of the service"⁵

4.1 Cost Reflectivity

Despite no change in service from the DNSP, the current regulatory methodology has seen a substantial rise in OMR tariffs

⁴ Page 1 AER Issues Paper, 10 June 2015

⁵ Ex AER Vic F and A Final 24 October 2014, Page 67

SLG Table 1 DNSP Public Lighting Revenues⁶

	A\$'000			Increase		
	2006	2009	2012	2013	2006 - 2013	2009 - 2013
CitiPower	2337		4850	4405	88%	
Jemena	2301		3660	3915	70%	
Powercor		5800	8317	9332		61%
SP Ausnet	3625		7454	7868	117%	
United Energy	3795		7191	7245	91%	
Total	12058			23433	94%	

excl Powercor

excl Powercor

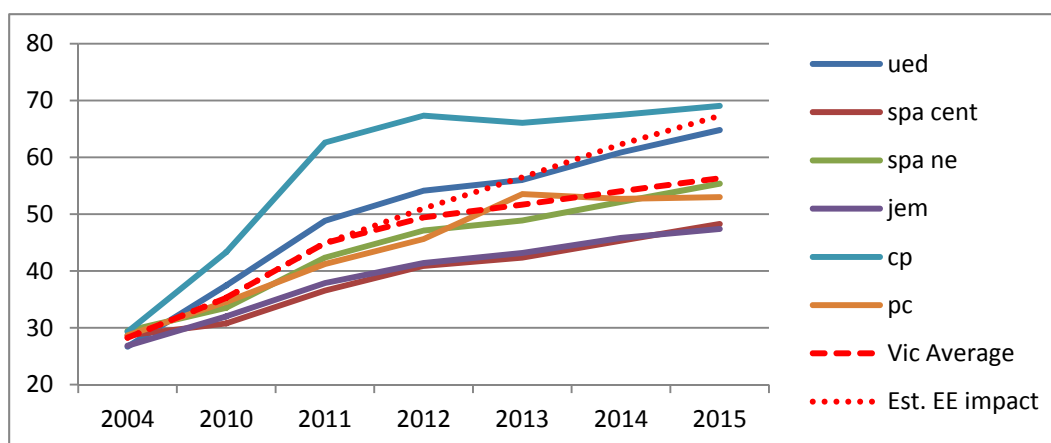
excl Powercor

During the 2006 to 13 period there was no change in distributor services and CPI (Melbourne) increased by around 34%⁷.

In considering the OMR increases we note the Essential Services claimed in 2001⁸ that the DNSP's existing lights were in their DUoS RAB and as such OMR rates would increase over the period but that public lighting customers would benefit from a decrease in DUoS (network) charges. Whilst the OMR increases are evident – the corresponding DUoS decreases have not been realized. We can provide an assessment to support this claim if required by the AER.

The impact on the MV80W light OMR is shown in the following chart with “Est EE Impact” allowing for the impact of customers funding energy efficient lights, primarily since 2012, thereby decreasing the effective capital component in the 80W OMR tariff

Victorian MV80W OMR tariff



As evidenced in the chart there is a wide range of prices for what is effectively the same service.

We have established ranges of distributor proposals for common light types.

⁶ Ex AER website. Extracted from DNSP responses to the AER's RIN

⁷ December 2005 to September 2013 ex ABS website

⁸ Restated in the Essential Services Commission "Public Lighting Information Sheet No 1" 13 August 2004

SLG Table 2 Proposed OMR Ranges by Light type

MV 80W	\$37 to \$70 p.a.
T5	\$26 to \$61 p.a.
CFL	\$31 to \$52 p.a.
LED	\$16 to \$36 p.a.

We submit to the AER that these represent significant variances that require investigation. We note the T5 lights have really only been installed since 2009 and yet some councils will be paying \$26 and others \$61 and this can literally be from one side of a street to the other.

If councils had their choice of distributor provider then they could select the lowest cost provider.

We submit that the distributor proposals require careful review by the AER.

4.2 Capital Component

The SLG submission to the AER Framework and Approach Paper where we identified that the AER's proposed control mechanism for Alternative Control services in section 2.4.6 of its Paper required critical review and if the AER is proposing to adopt the current OMR charges as "P" then this is rejected by the SLG as we do not believe it is cost reflective for the reasons stated in the submission and that the AER required including inventory adjustments in to "A".

The SLG also requested in our submission that to enable stakeholders to effectively assess capital costs for public lighting, we request the AER to seek each the following from each Victorian distributors via a RIN:

- a) if the distributor has/ is treating replacement lights as 'opex' or 'capex',
- b) the distributor's actual depreciation schedules, and
- c) the distributor's (actual) depreciated asset values on its statutory (tax) accounts as this represents the DNSP's 'costs incurred'.

As we have not seen any evidence of this information in the distributor proposals, and recognising the disparity in OMR charges in the above table we suggest the AER seeks the information in items a) through c) above to assess the distributor's proposed charges.

Whilst timeframes have limited our analysis, what we have identified is that the distributor models do not reflect their cost incurred in the capital component, in particular the capital "cost" has been derived via modelling

As mentioned earlier there should be no difference in the tariffs for a service irrespective of whether the AER classifies public lighting services as either (1) a direct control and then alternative controlled service or (2) as a negotiated distribution service.

Our view is the tariff simply must be "cost reflective" for the service and this is consistent with NER 6.7.1 (1)

- (1) the price for a *negotiated distribution service* should be based on the costs incurred in providing that service, determined in accordance with the principles

and policies set out in the *Cost Allocation Method* for the relevant *Distribution Network Service Provider*;

The cost incurred by the distributor is based on its written down value (WDV) on its balance sheet.

In establishing the capital component distributors have not used their balance sheet but have used modelling.

Under Australian Taxation rules between 26/2/1992 and 1/7/2000 Lighting Plant had a 20 year useful life, using a depreciation rate of either

- 13% prime cost (i.e. claiming 13% of original cost each year); or
- 20% diminishing value method (20% of opening written down value each year).

In practice, what this means while the light and bracket had useful life of 20 years the distributor would have fully depreciated the asset possibly within 7.7 years as per the following examples for say a \$10,000 cost purchased 1 July:

13% Prime cost

Every year = \$10,000 x 13% = \$1,300 depreciation per year until written down value = \$0.

That is fully depreciated over 7.7 years.

20% Diminishing value

Year 1 = \$10,000 x 20% = \$2,000 depreciation \$8,000 WDV

Year 2 = \$ 8,000 x 20% = \$1,600 depreciation \$6,400 WDV

Year 3 = \$ 6,400 x 20% = \$1,280 depreciation \$5,120 WDV and so on.

Roughly 80% would be written off by the end of the 8th year.

Either way, what this means is any asset purchased by the distributor prior to 1 January 2001 would now be fully depreciated on the distributor's balance sheet, and as such the distributor would not be incurring any cost. As such the AER should require the distributor to remove any costs from its proposal for any public light assets purchased by the distributor prior to 1 January 2001.

In addition, it means that the distributor cannot reasonably charge any WDV for these assets as this would not be consistent with the National Electricity Objective (NEO) and the NER Principles.

For the AER to effectively address this potential non compliance with the NEO and NER the AER should require distributors (via a RIN if necessary) to provide the distributor's (actual) depreciated asset values on its statutory (tax) accounts and this should be used to establish the capital cost via the application of depreciation and WACC.

We note that the AER has previously requested distributors to provide tax information. Please let us know if you require references for this.

Supporting our approach to overstated public lighting “RAB’s “ is the remaining life in several distributor’s proposal being substantially less than 10 years.⁹

Unfortunately we do not have time to detail the tax treatment from beyond but can provide the following ATO rulings:

- ATO Ruling TR 2000/18 was used for the 2000/2001 year. Lighting plant still had an effective life of 20 years, however there was no accelerated depreciation which meant the depreciation rate reduced to 5% p.a.
- On 1/1/2002 the effective life of street lighting was reviewed and adjusted from 20 years down to 15 years. This remained unchanged as at 30/6/2013. So for the 2001/02 year up to current, any capital expenditure on street lighting was depreciated at 6.67% p.a. (i.e. 100% / 15 years).

What this means is whilst assets may have effective lives well beyond the ATO life, distributors only incur cost over 15 years for any public light assets installed from 1/1/2002. This aspect is not reflected in the models comprising the distributor proposals and must be addressed such that customers do not pay more than a “cost reflective” tariff.

It is generally acknowledged within the NER that prices must lay within the 'stand alone' and 'avoided cost'. The stand alone cost for the distributor is represented by its balance sheet.

Please note that the above represents an overview to establish the principle. We can provide additional information on this if required.

4.3 Other components

4.3.1 GSL

We are not aware if GSL has been included in any proposal, but if it has we reject the inclusion as it is a penalty for failing to provide a service and should be a net cost to the distributor

4.3.2 GIS

We do not support the distributor’s proposed GIS cost of \$100,000 p.a. per distributor can fairly be applied in the 2016-20 regulatory period.

The GIS services were originally included to enable distributors to establish their spatial location of the assets and to provide web based access to public lighting customers over the prior period. This has now been completed by all distributors.

We understand that the \$100,000 p.a. GIS charge is primarily required to maintain accurate inventory data and in addition to the spatial location that “the light type, the network connection details and customer details, among others.”

We propose that the AER can consider the following when assessing these claims by distributors:

⁹ Including Powercor Proposal Table 13.3 of 8.1 years. We can provide additional information on this if required by the AER but our time availability does not allow for this currently.

- The spatial location, type and customer and web based access is now already established. NOTE: The distributors each received \$100,000 p.a. in prior periods to cover these costs.
- There is very little change to this data eg the spatial location, type and customer typically do not change year on year, if at all over the life of the light
- The distributors are required to keep this data (except possibly spatial location) to meet their obligations as MP and MDA under the Metrology Rules – and not the Public Lighting Code.
- 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 charges would provide Powercor in excess of \$125,000 p.a on an inventory of around 80,000 lights
- There was no GIS component charge (only the Type 7 metering charge) prior to 2004.

We submit that the GIS component charge must be removed from OMR, or if retained, substantially reduced to a nominal cost for only when the spatial location needs to be changed.

5 Negotiated Distribution Service Criteria

We have reviewed the AER's proposed distribution service criteria and advise that the criteria appropriately reflect the requirements of NER clause 6.7.1.

We do however advise the AER that there is a minor editing issue under item 8 (below) in that the wording should actually form part of item 7.

"8. then the difference between the price for that service and the price for the shared distribution service which meets network performance requirements must reflect a distributor's incremental cost of providing that service (as appropriate)."

END

6 Attachment A – List of Streetlight Group Councils¹⁰

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	

¹⁰ 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.