Victorian Distributor 2011-15 Regulatory Proposals

Submission by

Streetlight Group of Councils

Prepared by

Trans Tasman Energy Group

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Foreword

The Street Lighting Group of Councils (the Group, SGC) welcomes the AER's call for submissions Victorian Distributors Regulatory Proposals and the opportunity to participate in the regulatory process for Regulatory control period commencing 1 January 2011.

The Group trusts our Submission and the issues we have raised will assist the AER in establishing compliant Distribution charges in Victoria that will enable public lighting users to pay fair and reasonable charges for public lighting services for the period.

Whilst the ESC established a process for determining OMR charges in 2004, the fundamental issues pertaining to the establishment of fair and reasonable public lighting charges in Victoria have (unfortunately) never been addressed.

We submit that without a review of key aspects of the framework surrounding these charges, that any process for developing charges will be critically flawed. Through its current process the AER has the opportunity to address these issues.

This Submission has been prepared by Trans Tasman Energy Group (TTEG), to represent the combined interests of Streetlight Group member Councils (Attachment A – List of Streetlight Group Councils). 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 that past 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.

Timeframe

The Group appreciates the ESC extending the closing date of Submissions to February 18th.

Further Assistance

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

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GLOSSARY

AER	Australian Energy Regulator
CAPEX	Capital expenditure
Code	Public Lighting Code, Victoria
CPI	Consumer Price Index
DNSP	Distribution Network Service Provider
DUOS	Distribution Use of System Charges
EDPD	Electricity Distribution Price Determination
EDPR	Electricity Distribution Price Review
EIA	Electricity Industry Act 2000
EIRPA	Electricity Industry Residual Provisions Act 1993 (Vic)
ESCV	Essential Services Commission, Victoria
ESCOSA	Essential Services Commission of South Australia
GSL	Guaranteed Service Level
M	Public Lighting Maintenance
MUT	Maximum Uniform Tariff
NER	National Electricity Rules
O	Public Lighting Operation
O&M	Public Lighting Operation and Maintenance
OMR	Operation, Maintenance, Repair and Replacement (of Public Lights)
OCEI	Office of Chief Electrical Inspector
ODRC	Optimised Depreciated Replacement Cost
ORG	Office of the Regulator-General
PLC	Public Lighting Code, Victoria
R	Public Lighting Replacement
RAB	Regulatory Asset Base
SECV	State Electricity Commission Victoria
SGC	Streetlight Group of Councils
SPA	SP - Ausnet
TTEG	Trans Tasman Energy Group Consultants
WACC	Weighted Average Cost of Capital

1 SUMMARY

This Submission to the Australian Energy Regulator (AER) is in response to the Distributor's 2011-15 Regulatory Proposals, and is lodged by the Streetlight Group of Councils (the Group, SGC)). Formed in 2002 to adopt a unified approach to establishing fair and reasonable public lighting operations and costs, the Group[1] comprises metropolitan and rural Victorian Municipalities responsible for managing approximately 50% the State's Public Lights.

In providing our Submission we recognise that the National Electricity Rules (NER) require the AER to make a distribution determination for each Distribution Network Service Provider for the regulatory control period commencing on 1 January 2011, by following the process set out in Part E of Chapter 6.

Our Submission is solely focussed on the Distributor's proposed public lighting charges.

The proposals from distributors nominate a 61% increase (refer table below) in OMR charges from 2010 to 2011. For the reasons contained in our Submission these increases cannot be warranted and must be critically reviewed by the AER in the current process.

DNSP	2010	2011	% var
United	$ 5,132,283	$ 9,421,047	**84%**
SPA	$ 4,746,513	$ 7,914,625	**67%**
Citipower	$ 3,275,661	$ 5,587,991	**71%**
Powercor	$ 6,133,274	$ 9,412,288	**53%**
Jemena	$ 2,922,397	$ 3,393,903	**16%**
Total	**$ 22,210,128**	**$ 35,729,855**	**61%**

In considering all factors we should look at how realistic the distributor proposals are?

In 2004 the ESC established fair and reasonable OMR charges for the current regulatory period, yet for 2011 distributors have proposed OMR prices that range between 49% and 181% higher than those charges (section 5.3).

We do not believe the ESCV "got it so wrong". Indeed, at the time, we demonstrated that the component costs and the base OMR charges were overly generous even before the permitted 10% surcharge was included in the OMR charge.

In considering specific aspects of distributor proposals we submit the following views and concerns to the AER.

Capital Costs

It is fair and reasonable that councils pay for the replacement cost of the light, poles and brackets in the OMR charge.

<u>All distributor models however incorrectly treat the capital cost of replacement as if it has been funded by the distributor and are therefore critically flawed and must be rejected by the AER.</u>

[1] Attachment A – List of Streetlight Group Councils

We submit to the AER that for compliance with the "1993 Agreement[2]" distributors must recognise that councils have been directly funding the replacement cost of lights via the OMR charge. Therefore there is no valid requirement for replacement assets to be depreciated by distributors as public lighting customers have been paying for replacement lights either as a "prepayment" or "direct payment in the current year".

A discussed in section 3.1, a critical flaw in the modelling applied by all Distributor's in their proposals is that the distributors fund the replacement cost – they don't.

A further concern requiring investigation by the AER is the amount of capital expenditure being claimed by distributors (section 3.2.2), which appears excessive, often by orders of magnitude.

Component and Operational Costs

To meet the requirements of the Public Lighting Code clause 2.1(c), distributors must *"use best endeavours to develop and implement plans to provide OMR in a way which minimises costs to public lighting customers".*

In this submission (sections 3 and 4) we have identified numerous areas where distributors have submitted costs that do not represent fair costs versus 1) the costs that other distributors pay for the same component, and/or 2) a readily available market price.

Examples include:

- MV80W lamp at $4.35 in their model when they cost no more than $1.98.
- PE cells at between $13.50 to $18.45 yet they cost no more than $12.00
- Labour rates typically above those for electrical contractors running their own business – let alone employees (section 4.1.8)

As shown in the following table, anomalies also exist between the distributor proposals which we submit to the AER for investigation. Although distributors should recoup their costs, for compliance with the Public Lighting Code clause 2.1(c), distributors' costs should enable them to provide OMR which minimises the cost to the customer.

Inputs - all lamps	Jemena	Powercor	United	SPAusnet	Citipower
Material premium for rural areas	5%	5.0%	5.0%	5.0%	
Labour rate (per hour)	$71.41	$97.74	$71.41	$75.38	$88.95
Labour rate for night patrols (per hour)	$82.12	$112.40	$82.12	$86.69	$102.30
Elevated platform vehicle (per hour) - urban MV	$35.00	$35.00	$35.00	$40.00	$35.00
Elevated platform vehicle (per hour) - rural MV, S-HP	$45.00	$45.00	$45.00	$72.28	$45.00
Patrol vehicle (per hour)	$10.00	$25.00	$10.00	$27.40	$25.00
Number of hours in a day	8.33	8.00	8.33	8.00	8.00
Indirect overheads (exc CitiPower)	25.00%	25.0%	25.0%	25.0%	33.0%
Indirect overheads - CitiPower	33.00%				

We have also identified some other areas for investigation by the AER, including:

- Review of GIS charges as all distributors have included $100,000 p.a. for GIS services which we understand was originally included to enable distributors to establish their spatial

[2] As provided by the SGC to the AER in December 2008

location of the assets over the prior period. We submit that this charge must be removed and that instead a GIS component should fairly be included when public lighting assets are changed or new assets installed and the spatial location needs to be changed

- 10% Surcharge allowed by the ESCV above the model pricing must be seen as "super profit" and be removed by the AER as it cannot fairly be allowed under the NERs.
- 25% to 33% overhead requires review and assessment, particularly as it was established in 2004 based on far lower OMR revenues than proposed for 2011. The OMR service has not changed and the number of lights has not significantly changed, so if charges (revenues) increased by 60% then the overhead should be reduced by ~ 60% less a CPI impact.
- We noted a major increase in OMR is proposed for T5 2x14W lights from all distributors except Jemena and United – yet the fair charge for these lights, which was some 70%+ lower, was only established in 2009 by the AER.

Material Impact

In section 6 we alert the AER to significant issues pertaining to the public lighting sector framework and the "material error" (regarding capital costs) aspect and potential "material deficiency" concerns for consideration in the 2011-15 process, including:

- As we identified in section 3.1, the distributor proposals contain a "material error" regarding the treatment of capital charges for public lighting.
- A tiered pricing structure to be introduced to enable effective recognition of capital financing and remove any concerns regarding Part IV of the Trade Practices Act 1974 (the Act) , particularly sections 45, 46 and 47.
- The Public Lighting Code (PLC) has been used to establish service requirements in the current determination process. The PLC however requires a complete and critical review.
- DNSP's are claiming a cost of residual life for any early retirement of MV80 lights – even though DNSPs have not invested in these lights?

Whilst we recognize that the AER intend to seek OMR prices from the distributors for each year of the regulatory period, we submit to the AER that due to the "material error" and potential "material deficiencies" that the AER considers a process of simply increasing 2010 OMR charges in line with the prior ESCV determination pending the resolution of these issues.

We understand that the AER can consider this process under NER clause 6.11.3.

Alternatively, having identified a "material error" and potential "material deficiencies" we submit to the AER that if it decides to make a determination that the AER provides stakeholders with some direction in that it would undertake the revocation and substitution of the distribution determination (as applied to public lighting) pending resolution of these framework issues.

We understand that the AER can undertake this process under NER clause 6.13.

Conclusion

Based on our Submission we do not believe the AER can be satisfied that the forecast revenues as proposed by the distributors for the 2011-15 regulatory control period meets the appropriate NER expenditure criteria.

We trust this Submission will assist the AER to conduct a critical review of the Distributors' proposals and we look forward to providing any additional information required by the AER to assist in this regard.

2 SUBMISSION OUTLINE

A brief outline of the contents our Submission is stated below.

Section 3: Capital Expenditure. In this section we provide more detailed comments regarding the capital expenditures in the Distributor Proposals.

Section 4: Operational Expenditure. In this section we provide more detailed comments regarding the operational expenditures in the Distributor Proposals.

Section 5: Distributor Revenues. In this section we provide more detailed comments regarding the forecast revenues in the Distributor Proposals.

Section 6: Sector Development Impacting on Charges. Whilst recognising that the AER is an economic regulator, in this section we have identified numerous framework issues which require to be addressed to enable the successful development of the public lighting sector.

The SGC will be pursuing these issues until effectively resolved, and once this occurs then the basis for the OMR charges as proposed for the 2011-15 period will be significantly changed.

3 CAPITAL EXPENDITURE

In this section we provide detailed comments regarding capital expenditure costs and methodologies contained in the distributors' proposals.

Our comments pertain to other obligations required of distributors that are to be considered by the AER, plus specific costing considerations for Capital Expenditure.

We do not believe the AER can be satisfied that the total of the forecast capital expenditure for the regulatory control period as proposed by the distributors meets the capital expenditure criteria, as the costs do not reasonably reflect:

- the efficient costs of achieving the capital expenditure objectives; or
- the costs that a prudent operator in the circumstances of the relevant Distribution Network Service Provider would require to achieve the capital expenditure objectives; or
- a realistic expectation of the cost inputs required to achieve the capital expenditure objectives.

Based on our assessment of the distributor's proposals we believe that the AER must reject the forecast of required capital expenditure of all Distribution Network Service Providers as provided in their building block proposals and therefore reassess the Distributor proposals in accordance with most sub items of NER clause 6.5.7 (e) (2).

We therefore request a significant review of the Distributors' capital expenditure proposals based on the information we have provided in this section.

3.1 Capital Funding

It is fair and reasonable that councils pay for the replacement cost of the light, poles and brackets in the OMR charge.

<u>The distributor models however incorrectly treat the capital cost of replacement as if it has been funded by the distributor and are therefore critically flawed and must be rejected by the AER.</u>

We submit to the AER that for compliance with the "1993 Agreement[3]" is that councils have been directly funding the replacement cost of lights via the OMR charge.

There are two alternative perspectives to be considered regarding the Return of Assets where there is 100% Customer financing of replacement costs of public lights, namely:

- The customer perspective - a fair and reasonable prepayment for the replacement of each light for which the tariff applies, or
- The Distributor perspective - a funding of all current year "as required" replacements of lights.

[3] As provided by the SGC to the AER in December 2008

We submit there is no valid requirement for replacement assets to be depreciated by distributors and that public lighting customers have been paying for replacement lights either as a prepayment or current year basis.

The former State Electricity Commission of Victoria (SEC) advised in a letter, dated 7 April 1993 that:

> "*As from 1 May 1993 all new works associated with the provision of public lighting capital works will be 100% customer financed and tariff contributions for lanterns on current offer will be reduced to reflect removing the capital component from the tariff.*"

In the same letter the SEC advised that this capital component in the existing tariff was to:

> "*…recover the capital cost of public lighting assets, which are primarily financed by the SECV.*"

In considering this arrangement, we submit that between May 1993 and the privatisation of the electricity industry in 1994 the SEC continued to replace Public Lighting assets and to "recover the capital cost" using council's funds paid directly via the SEC's public lighting MUT (tariff).

We submit that Distributors were bound by the Agreement to continue the same practice.

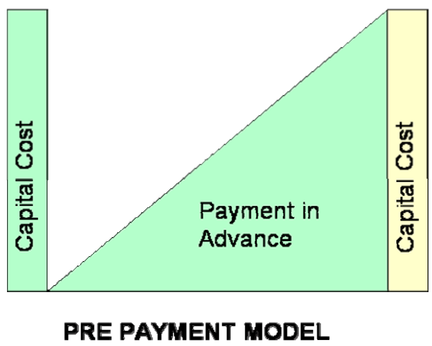
The question becomes, did the SEC treat the customer payments for assets in the tariff as Prepayment as an annuity, or as direct payment for assets replaced in that year?

As MV80 lights were installed as part of a large replacement program in the 1980s [4], and considering a 20 year life, the number of replacements by the SEC would have been minimal.

We submit that as there was only one tariff per light type, it is therefore reasonable to that Councils have been continuously (pre)paying for Replacement of Public Lighting assets in their Public Lighting MUTs (Tariffs).

The prepaying concept is as shown in Figure 1.

Figure 1 - Pre Payment model for Light Replacement



<u>A critical flaw in the current assumption as applied by the Distributor's in their proposals is that the distributors fund the replacement cost – they don't.</u>

<u>Councils pay the OMR tariff which includes the replacement cost as a prepayment.</u>

[4] ESC 2004 Final Decision page 61

By treating the cost of replacement lights, poles and brackets as being funded by distributors and not by councils, the ESC model (as largely adopted by the distributors in their proposals) built in an automatic annual increase[5] that will see perhaps a trebling in OMR charges CPI movements and for no changes in the services being received by councils.

A further aspect of customers funding asset replacement through their tariff charges concerns the total number of assets requiring replacement in any given year. The total number requiring replacement (i.e. 20 year old assets) will represent 5% of the asset base 20 years ago, <u>ie 4% of the current inventory and not 5% of the current asset base as applied by the ESCV.</u>

By treating the cost of replacement lights, poles and brackets as being funded by distributors and not by councils, the ESC has built in an automatic annual increase[5] that will see OMR charges increase to $86.90[6] (i.e. more than trebling from $26.69) by 2035 without any consideration of CPI movements and for no changes in the services being received by councils.

Based on the total public lighting inventory of around 450,000 lights, public lighting customers would be paying around $25 million p.a. extra under the ESC's 2004 Annual Review Process methodology.

<u>We submit that this critical flaw in the distributor proposals requires to be addressed by the AER.</u>

Further analysis and insights on this matter has been provided in Attachment B.

IMPORTANT NOTE:

Following our previous Submission where we raised this issue with the AER, we have received an independent opinion that supports our views.

The treatment of capital in accordance with the terms and conditions established via the 1993 Agreement is fundamental to enabling the AER to effectively assess the Distributor's proposals and therefore requires careful assessment and consideration by the AER.

To assist the AER in this regard we intend to provide our findings at a meeting.

3.2 Capital Expenditure

3.2.1 <u>Prepayment/ Direct Replacement</u>

We submit that as a result of the 1993 Agreement[7]councils have been making a prepayment for future light replacements in their OMR payments.

Due to time constraints we have not undertaken the full modelling but considering the prepayment (annuity method) method and allowing for a 3% p.a. return on funds in the annuity, we submit a fair and reasonable OMR charge would include an asset replacement component of not more than approx. $8.00 per 80MV luminaire with higher amounts (estimated) for 150 HPS at ~ $16 p.a. and 250 HPS at ~$20 p.a.

[5] Final Decision August 2004 Essential Services Commission Sections 4.3.1, 4.3.2 and 4.3.3
[6] Attachment B
[7] Section 3.1

Approximately the same amount / light can be used if considering the direct funding model ie when the $ collected in the OMR each year is used to directly fund the replacement of the lights in that year.

3.2.2 Overspending / validation

We have not undertaken the analysis for the current proposals, but in Table 6 (refer below) of our Submission on Energy Efficient Lights in 2008, based on the capital expenditures stated in the Distributor submissions to the ESC[8], we estimated the current rate of light replacement by Distributors and were extremely concerned regarding the extraordinarily high expenditure for all distributors except SP Ausnet and the resulting, extraordinarily high, percentage of replacements.

From Table 6 we learn that distributors may be claiming the equivalent of 0.9% (SPA) to 9.7% (Citipower) replacement Capex.

Table 6 – Distributor Capex (prior SGC Submission)

	Distributor					
	UED	SPA	Jemena	CitiPower	PowerCor	Average
Expenditure (A)	$ 1,755,915	$ 221,900	$ 387,175	$ 1,191,733	$ 1,110,933	$ 933,531
Replacement cost (B)	240	240	240	240	240	240
Replaced lights (C)	7,309	924	1612	4,960	4,624	3,886
Inventory (D)	116,960	102,409	62,944	50,934	120,319	90,713
% replaced (E)	**6.2%**	**0.9%**	**2.6%**	**9.7%**	**3.8%**	**4.3%**

(A) Average luminaire expenditure 2005 to 2007 - Distributor submissions to the ESC
(B) Luminaire replacement cost - for MV80 lights ex 2004 cost model
(C) (A) / (B))
(D) Distributor submissions to the ESC
(E) (C) / (D)

To enable the AER to assess the fairness and reasonableness of the expenditure and to consider the percentage of replacements identified in Table 6 we advise:

- From field audits undertaken by TTEG, we would expect no more than 0.6% of luminaires may be physically damaged at any one time. The vast majority of these will simply have broken "bowls", and that
- From the 2004 Final Decision cost model "inputs" we learn that the proportion of MV80 lamps that fail between bulk change over a four year period is 15% ie 3.75% pa., and that the "% of repairs – luminaires" is 15% . It therefore follows that the annual number of luminaire repairs may be 3.75% of 15% = 0.56%

We submit that no more than 0.6% of luminaires should require repair in any one year with the vast majority of repairs simply for bowl replacement and not the full luminaire.

The 2005-07 average reported by distributors and included in the 2004 model indicate a significant number of replacement lights eg CitiPower have claimed costs equivalent to almost 30% of MV80 lights being replaced. This level of replacement has not been evidenced by public lighting customers.

[8] ESC website http://www.esc.vic.gov.au/NR/exeres/ECF10921-9F8F-49A3-B904-6254FC6180C6.htm

From Table 6, all Victorian DNSP's appear to be spending far more on assets – the equivalent of between 2.6% and 9.7% of their inventory p.a. - than can be considered fair and reasonable on replacement lights

As we have not had the time available to undertake the analysis for the current proposals, we submit to the AER that it should undertake an assessment to establish the reasonableness of the capital expenditures proposed by distributors.

3.3 MV 80 Retirement

A further consideration is the fact that many councils are undertaking processes to replace existing MV80 lights with more energy efficient lights – thereby significantly reducing any requirement for distributors to replace the existing MV80 light.

3.4 Component Costs

We have identified a number of high charges included by distributors in their capital expenditure proposals that require review by the AER.

3.4.1 MV80 Luminaire

Distributors all adopted the ESC's 2004 model input price of $158.55 for an MV80 luminaire[9] whereas a fair and reasonable cost should not exceed $85.65.

The CF42 and MV80 are basically the same luminaire but with different lamp cost and $45.85 for the ballast for the CF42 which does not apply to the MV80 luminaire. We submit on this basis, the MV80 luminaire should not exceed $85.65 representing the ESCV Paper's $131.50[10] (CF42) less $45.85 (ballast).

Supporting our claim for a lower MV80 component charge is that United Energy adopted $111.62 for 2011.

3.4.2 Other Luminaires

We note that Citipower and Powercor both have a price of $215 for the T5 (2 x 14W) yet all other distributors have $193 per luminaire.

3.4.3 Other Component cost

We have included our assessment of other component cost proposed by distributors in section 4.1.

3.4.4 T5 and 42W CFL lights

We have not checked other distributors but we note that SPA has included capital for T5 and 42W CFL lights – yet these have been funded by public lighting customers.

[9] Including lamp and PE cell
[10] SGC submission on Energy Efficient Lights 2008, Table 3.6

4 OPERATIONAL EXPENDITURE

In this section we provide detailed comments regarding operational expenditure costs and methodologies contained in the distributors' proposals.

Our comments pertain to other obligations required of distributors that are to be considered by the AER, plus specific costing considerations for Operational Expenditure.

We do not believe the AER can be satisfied that the total of the forecast capital expenditure for the regulatory control period as proposed by the distributors meets the capital expenditure criteria, as the costs do not reasonably reflect:

- the efficient costs of achieving the capital expenditure objectives; or
- the costs that a prudent operator in the circumstances of the relevant Distribution Network Service Provider would require to achieve the capital expenditure objectives; or
- a realistic expectation of the cost inputs required to achieve the capital expenditure objectives.

Based on our assessment of the distributor's proposals we believe that the AER must reject the forecast of required capital expenditure of all Distribution Network Service Providers as provided in their building block proposals and therefore reassess the Distributor proposals in accordance with most sub items of NER clause 6.5.6 (e) (2).

We therefore request a significant review of the Distributors' operational expenditure proposals based on the information we have provided.

4.1 Component Costs - General

We have identified a number of high charges included by distributors in their proposals that require review by the AER.

In establishing OMR charges it is not fair and reasonable that customers should pay more simply because the distributor is ineffective in sourcing appropriate prices from the market. It is certainly not consistent with the PLC's requirement to minimise the cost to the customer.

To enable the AER to assess appropriate costs, we have sourced prices for common components based on very modest order amounts and must therefore be considered as the upper bounds of a fair cost as distributors will be purchasing in far greater quantities.

4.1.1 MV80 Luminaire

As discussed in Section 3.4.1, Distributors all adopted the ESC's 2004 model input price of $158.55 for an MV80 luminaire[11] whereas a fair and reasonable cost should not exceed $85.65.

4.1.2 Lamps

Distributors all adopted the ESC's 2004 model input price of $4.57 for an MV80 lamp yet the current market price is not more than $1.98.[12].

[11] Including lamp and PE cell

We note that SPAusnet has a price of $38 for the 250 HPS yet all other distributors have $33.21 and that a current market price is not more than $16.00[12] for a minimum order of 200 with a 14 day delivery time in to the distributor's store, Melbourne.

All distributors have adopted $33.05 for a 150W HPS lamp yet the current market price is not more than $28.00[12] for a minimum order of 20 with a 5 day delivery time in to the distributor's store, Melbourne.

4.1.3 PE Cells

Distributors all adopted the ESC's 2004 model input price of $18.45 for a PE cell for an MV80 luminaire and $13.50[13] for T5 14W.

We submit that the cost of a PE cell in the distributor modelling should be reduced to no more than $13.50, yet the current market price is not more than $11.00[12] for a minimum order of 1,000 with a 5 day delivery time in to the distributor's store, Melbourne.

4.1.4 Inputs – all lamps

We have highlighted anomalies from the distributor proposals in the following table for investigation by the AER.

Inputs - all lamps	Jemena	Powercor	United	SPAusnet	Citipower
Material premium for rural areas	5%	5.0%	5.0%	5.0%	
Labour rate (per hour)	$71.41	$97.74	$71.41	$75.38	$88.95
Labour rate for night patrols (per hour)	$82.12	$112.40	$82.12	$86.69	$102.30
Elevated platform vehicle (per hour) - urban MV	$35.00	$35.00	$35.00	$40.00	$35.00
Elevated platform vehicle (per hour) - rural MV, S-HP	$45.00	$45.00	$45.00	$72.28	$45.00
Patrol vehicle (per hour)	$10.00	$25.00	$10.00	$27.40	$25.00
Number of hours in a day	8.33	8.00	8.33	8.00	8.00
Indirect overheads (exc CitiPower)	25.00%	25.0%	25.0%	25.0%	33.0%
Indirect overheads - CitiPower	33.00%				

4.1.5 GIS

All distributors have included $100,000 p.a. for GIS services.

The basis for this charge needs to be established eg what (if any) ongoing service is provided?

Our understanding is that a charge for GIS was originally included to enable distributors to establish their spatial location of the assets. Over the 5 years of the prior regulatory period this has totaled $500,000 per distributor and all distributors have their locations established.

We submit that this charge must be removed and that instead a GIS component should fairly be included when public lighting assets are changed or new assets installed and the spatial location needs to be changed.

4.1.6 10% Surcharge

The prior ESCV model allowed a 10% surcharge to DNSPs above the model pricing outcome.

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[12] Industry Sources

[13] Except for SPAusnet at $18.95

We do not believe that this "super profit" requires to be removed by the AER as it cannot fairly be allowed under the NERs.

4.1.7 25% to 33% overhead

The very generous allocation of overhead requires review and assessment, particularly as it was based on a far lower OMR as established in 2004.

The OMR service has not changed and the number of lights has not significantly changed, so if charges increased by 60% then the overhead should be reduced by ~ 60%.

4.1.8 Labour rates

We reject the labour rates used by Distributors, particularly Powercor and Citipower, as being appropriate and request the AER to review, particularly as a separate overhead allocation is provided.

The labour rates typically above those for electrical contractors running their own business – let alone employees with a separate overhead allocation.

Our view is supported by the National Electrical and Communications Association (NECA) surveyed charge-out and pay rates of Australia's electrical contractors – an excerpt of which is contained in Attachment 9.

4.1.9 Traffic Control Charges

We noted that SPAusnet, Citipower and Powercor introduced "traffic control charges" totaling around $1.1 million in 2011.

A separate allowance for "traffic control charges" was not included in the ESCV's 2004 model

4.2 Component Costs – Individual

Due to time constraints we have not been able to assess each distributor but have noted the following:

4.2.1 United Energy

It appears that UE have increased their calls from 2,400 in 2010 to 5,000 in 2011 and beyond. This change requires investigation. Further, if the number of calls increased then the $ rate/call should be decreasing as the overheads would remain the same.

United also claims that 37.7% of lamps fail between bulk changes. This is more than 200% above industry standard and well in excess of the ESCV's 15%. If this is occurring then question's need to be asked about United's maintenance practices and the type of components being used.

4.2.2 SPAusnet

We note that SPA has introduced a living away from home allowance yet rural and remote services already attract a surcharge.

5 DISTRIBUTOR REVENUES

5.1 Overview

The proposals from distributors nominate a 61% increase (refer table below) in OMR charges from 2010 to 2011 which for the reasons contained in our Submission cannot be warranted and must be reviewed by the AER in the current process.

DNSP	2010	2011	% var
United	$ 5,132,283	$ 9,421,047	**84%**
SPA	$ 4,746,513	$ 7,914,625	**67%**
Citipower	$ 3,275,661	$ 5,587,991	**71%**
Powercor	$ 6,133,274	$ 9,412,288	**53%**
Jemena	$ 2,922,397	$ 3,393,903	**16%**
Total	**$ 22,210,128**	**$ 35,729,855**	**61%**

In considering all factors we should look at how realistic the distributor proposals are? And what factors are contributing to these increases.

In 2004 the ESC established fair and reasonable OMR charges for the current regulatory period, and distributors have proposed OMR prices that range between 49% and 181% higher than those charges (section 5.3).

We do not believe the ESCV "got it so wrong", indeed at the time, we demonstrated that the component costs and the overall OMR charges were very generous, particularly when the 10% surcharge was included.

In this submission (sections 3 and 4) we have identified numerous areas where distributors have submitted costs that do not represent fair costs and we can provide additional data to the AER to support our claims if required.

With such obvious overcharging proposed in these areas by distributors, we have no confidence that distributors have adopted a fair charging regime in any other areas of their proposal.

We also note that a major increase in OMR is proposed for T5 2x14W lights from all distributors except Jemena and United – yet the fair charge for these lights, which was some 70%+ lower, was only established in 2009 by the AER.

5.2 Distributor Obligations

We advise the AER that our Submission establishes that the costs and methodologies contained in the distributor's proposals do not only not enable them to meet the requirements of the NERs but also do not enable them to meet the requirements of the Public Lighting Code which requires Distributors in clause 2.1(c) to:

> *"use best endeavours to develop and implement plans to provide OMR in a way which minimises costs to public lighting customers".*

The 61% overall increase for 2010 to 2011 has been proposed by distributors yet there has not been any change to the actual services delivered.

2010 to 2011 OMR tariff changes

	Alinta / UE			SP Ausnet - Central			SP Ausnet - NE		
Light Type	2010	2011	variation	2010	2011	variation	2010	2011	variation
80WCC Mercury Vapour	$37.47	$77.40	107%	$30.78	$47.27	54%	$33.53	$53.96	61%
150WHP Sodium	$60.94	$101.65	67%	$57.01	$93.07	63%	$66.32	$104.23	57%
250WHP Sodium	$61.38	$104.05	70%	$57.07	$95.43	67%	$68.38	$104.78	53%
T5 2x14W	$26.56	$27.60	4%	$28.74	$49.59	73%	$31.48	$55.02	75%
Approx total change			90%			57%			62%

	Citipower			Powercor			Jemena		
Light Type	2010	2011	variation	2010	2011	variation	2010	2011	variation
80WCC Mercury Vapour	$43.33	$85.99	98%	$34.56	$57.47	66%	$32.02	$40.64	27%
150WHP Sodium	$79.64	$127.37	60%	$68.31	$97.95	43%	$61.97	$71.53	15%
250WHP Sodium	$80.85	$128.93	59%	$69.67	$100.00	44%	$64.17	$74.12	16%
T5 2x14W	$30.35	$61.25	102%	$28.52	$48.92	72%	$26.07	$29.32	12%
Approx total change			93%			63%			24%

5.3 Versus 2004

The following tables show the price increases for various types from when the ESCV undertook its OMR review in 2004.

NOTE:

1. The ESCV model included a 10% "surcharge" and numerous incorrect (high) costings (eg 80MV luminaire and lamp and PE cells etc as previously advised to the ESCV) so the increases are understated
2. The wide variation in the distributor increases eg 49% for Jemena versus 181% for Citipower with no change in service provision we expect must raise questions with the AER regarding the suitability of the model – it certainly does with us.

2004 to 2011 OMR tariff changes

	Alinta / UE			SP Ausnet - Central			SP Ausnet - NE		
Light Type	2004	2011	variation	2004	2011	variation	2004	2011	variation
80WCC Mercury Vapour	$26.69	$77.40	190%	$26.96	$47.27	75%	$29.47	$53.96	83%
150WHP Sodium	$47.43	$101.65	114%	$50.26	$93.07	85%	$58.73	$104.23	77%
250WHP Sodium	$47.45	$104.05	119%	$50.26	$95.43	90%	$60.87	$104.78	72%
Approx total change			179%			77%			82%

	Citipower			Powercor			Jemena		
Light Type	2004	2011	variation	2004	2011	variation	2004	2011	variation
80WCC Mercury Vapour	$29.30	$85.99	193%	$28.65	$57.47	101%	$26.85	$40.64	51%
150WHP Sodium	$59.96	$127.37	112%	$59.16	$97.95	66%	$53.45	$71.53	34%
250WHP Sodium	$60.69	$128.93	112%	$60.14	$100.00	66%	$55.38	$74.12	34%
Approx total change			181%			95%			49%

5.4 10% surcharge Removal

The ESC's 2004 process allowed distributors to charge prices 10% above the charge determined by the ESC model[14].

This resulted in an OMR charge from UED of $26.69 in lieu of the $24.53 OMR charge determined by the model.

We note that distributors have retained this surcharge in their proposals.

We submit that the 10% "surcharge" should be removed by the AER for existing lights before the charge can be considered fair and reasonable. Further, whilst we have not investigated in detail, we expect that the inclusion of a "surcharge".

5.5 Classification to "Negotiated Distribution Services"

We understand that the AER has adopted the "Alternative Controlled Distribution Service" classification for the period.

Due to the problems faced in establishing fair charges under this classification we submit to the AER that the classification be changed to "Negotiated Distribution Services"

The "Negotiated Distribution Services" has been adopted in South Australia and provides a simplified and transparent approach to establishing costs.

[14] ESC Final Decision, August 2004 section 2.5.1, page 33

6 MATERIAL IMPACTS ON AER DETERMINATION

In this section we have identified issues which we believe will provide a potential "material error" and/or a "material deficiency" in any determination

As we identified in section 3.1, we advise the AER that the distributor proposals contain a "material error" regarding the treatment of capital charges for public lighting.

Further, we advise the AER there are numerous framework issues (section 6.1) which require to be addressed to enable the successful development of the public lighting sector and fair charging over the period.

The SGC will be pursuing these issues until effectively resolved.

Once resolved, the basis for the OMR charges as proposed for the 2011-15 period will be significantly changed resulting in a potential "material deficiency" in the determination as applied to public lighting.

We are therefore alerting the AER to these significant issues pertaining to the public lighting sector framework and the "material error" and potential "material deficiency" for consideration in the 2011-15 process.

Whilst we recognize that the AER intend to seek OMR prices from the distributors for each year of the regulatory period, we submit to the AER that due to the potential "material error" and "material deficiency" that the AER considers a process of simply increasing 2010 OMR charges in line with the prior ESCV determination pending the resolution of these issues.

We understand that the AER can consider this process under NER clause 6.11.3.

Alternatively, having identified a "material error" and potential "material deficiency" we submit to the AER that if it decides to make a determination then we submit to the AER it would be appropriate for the AER to undertake the revocation and substitution of the distribution determination (as applied to public lighting).

We understand that the AER can undertake this process under NER clause 6.13.

6.1 Framework Issues

Recognsising the AER is an economic regulator that establishes charges, we advise the AER that there are a number of framework issues in the public lighting sector that require resolution before compliant charges within the NERs can be established

We have supporting material for each of these issues and would welcome the opportunity to provide the information to the AER at an appropriate time in their process.

We trust this Submission will assist the AER to understand and accept that the current public lighting framework and the service and charging regime based on that framework are both sadly in need of review.

Whilst there is a number of issues, as they have been clearly identified, in all cases the remedy is known.

Rectification should be straight forward and able to be included in the AER's EDPD process.

The current framework issues we have identified include:

- As we identified in section 3.1, the distributor proposals contain a "material error" regarding the treatment of capital charges for public lighting.
- Unlike all other jurisdictions, a tiered pricing structure has not been introduced in Victoria. A tiered pricing structure enables effective recognition of capital financing and removes the concern regarding Part IV of the Trade Practices Act 1974 (the Act) , particularly sections 45, 46 and 47.

  NOTE: Energy efficient lights have a separate Replacement "R" component. The same should be applied to all lights types.

  As part of the determination process we request the AER considers the Act in terms of the practices in other NEM states (in terms of tiered pricing for public lighting), and compares to the current practice in Victoria in which:

  - DNSP's deny customers the lower cost <u>unmetered</u> supply option if the assets (paid for by the customer) are not vested to the DNSP.
  - The DNSP then claims that only the DNSP can perform maintenance and replacement services on "their" lights – thereby holding the customer "captive".

    NOTE:

    1. We submit that it is not fair and reasonable for councils/others to fund new lighting installations and then be forced to vest the asset to the distributors and then be held to "capture" by distributors for maintenance and then pay asset charges on replacement.
    2. The current process requires critical review in terms of the practice and the DNSP's monopoly position. There is no physical reason why any vesting should occur as ownership is irrelevant to the physical supply.

- The Public Lighting Code (PLC) requires a complete and critical review. The SGC (and others) have requested a critical review of the PLC but this had not been undertaken by the ESCV as yet. The PLC has been used to establish service requirements in the current determination process.
- Replacement of lighting is incorrectly included in OMR charges. It is required to be a separate charge under section 4.1 of the PLC.
- Public lighting assets prior to 1993 are included in the RAB and charged via DUoS.
- DNSP's are claiming a cost of residual life for any early retirement of MV80 lights – even though DNSPs have not invested in these lights?

7 Attachment A – List of Streetlight Group Councils

ALPINE SHIRE COUNCIL

BASS COAST SHIRE COUNCIL

BAW BAW SHIRE COUNCIL

BAYSIDE CITY COUNCIL

BOROONDARA CITY COUNCIL

BRIMBANK CITY COUNCIL

DAREBIN CITY COUNCIL

EAST GIPPSLAND SHIRE COUNCIL

FRANKSTON CITY COUNCIL

GREATER DANDENONG CITY COUNCIL

GREATER GEELONG CITY COUNCIL

HEPBURN SHIRE COUNCIL

HOBSONS BAY CITY COUNCIL

KINGSTON CITY COUNCIL

LATROBE CITY COUNCIL

MANNINGHAM CITY COUNCIL

MAROONDAH CITY COUNCIL

MONASH CITY COUNCIL

MOORABOOL SHIRE COUNCIL

MORNINGTON PENINSULA SHIRE COUNCIL

NILLUMBIK SHIRE COUNCIL

PORT PHILLIP CITY COUNCIL

SOUTH GIPPSLAND SHIRE COUNCIL

STRATHBOGIE SHIRE COUNCIL

WANGARATTA RURAL CITY COUNCIL

WELLINGTON SHIRE COUNCIL

WHITTLESEA CITY COUNCIL

WODONGA RURAL CITY COUNCIL

YARRA RANGES SHIRE COUNCIL

8 Attachment B – Capex Funding – Cost Impact

It is fair and reasonable that councils pay for the replacement cost of the light in the OMR charge. We submit how the payment is treated within current OMR charges establishes an unfair and unreasonable outcome for councils.

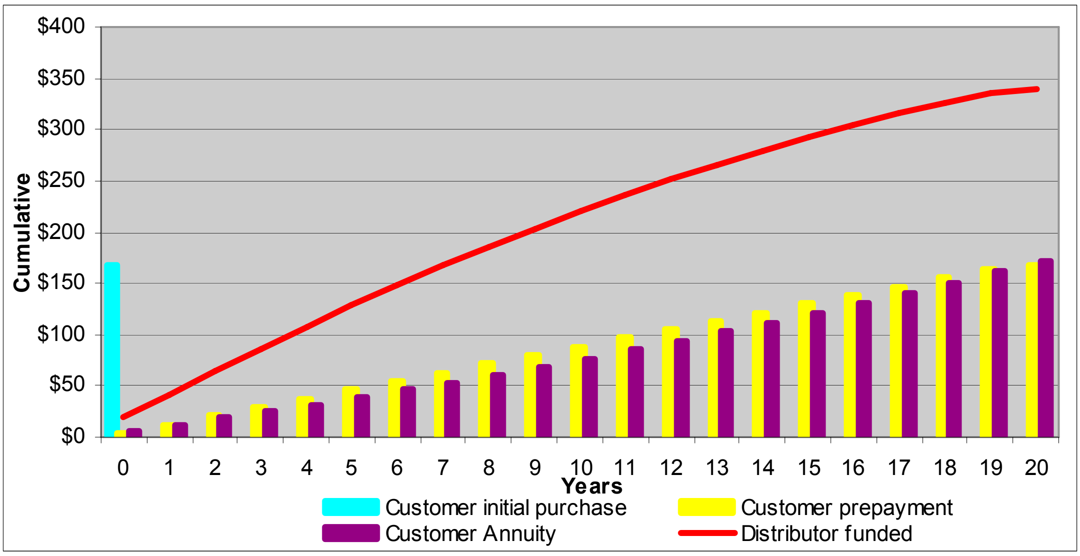
In establishing a fair and reasonable charge the Key Issue is should funding of replacement lights be treated as payment by distributors or councils?

The ESC's 2004 Final Decision assumed distributors fund public lighting asset replacement, and are therefore entitled to a return on assets (WACC at 9.5% p.a at the time) and to claim depreciation.

We submit to the AER a fair and reasonable view (consistent with the 1993 Agreement[15]), is that councils have been directly funding the replacement of lights in the OMR charge.

The variation between recognising the replacement cost as being funded directly by councils versus being funded by the distributor is shown in Figure 1.

Figure 2 Impact of Funding on Asset Costs



From Figure 1 we see councils/others are paying directly for new lights (shaded). Councils paying for replacement lights are shown as simple "straight line" replacement at 1/20th p.a. (shaded) or as an annuity (shaded). Both replacement scenarios build to $168[16].

The current methodology however for determining replacement costs in the OMR charge (shaded in Figure 1) would see councils pay $343.56 in OMR tariff recovery over the next 20 years i.e. more than a double payment for the $168 asset.

The situation under the current scenario worsens at the end of the 20 year period where councils will have paid 2 x $343.56 = $687.12 in total prepayment at the end of a 40 year period for an asset worth $168[20].

[15] As provided by the SGC to the AER in December 2008

[16] The ESC 2004 model but should be no more than $85.65 - refer section 3.4.1

We submit we have established in our Submission that councils are paying directly for new lights, and replacement lights via prepayment in the OMR tariff.

Calculations used in Figure 1 are listed in Table 1 below and have been determined in accordance with the Annual Review Process established in the ESC's 2004 Final Decision.

<u>The flaw in the current assumption is that it is distributors fund the replacement – they don't.</u> Councils pay the OMR tariff which includes the replacement cost as a prepayment.

Table 1 - Asset Costs p.a. Customer versus Distributor Funding

		Cost under distributor funding				
Year	Council initial payment	Depreciation	Return on Asset (WACC)	TOTAL	Council prepayment	Council Replacement via Annuity
0	$168.00	$4.20	$15.96	$20.16	$4.20	$6.00
1		$8.40	$15.56	$23.96	$8.40	$12.18
2		$8.40	$14.76	$23.16	$8.40	$18.55
3		$8.40	$13.97	$22.37	$8.40	$25.10
4		$8.40	$13.17	$21.57	$8.40	$31.85
5		$8.40	$12.37	$20.77	$8.40	$38.81
6		$8.40	$11.57	$19.97	$8.40	$45.97
7		$8.40	$10.77	$19.17	$8.40	$53.35
8		$8.40	$9.98	$18.38	$8.40	$60.95
9		$8.40	$9.18	$17.58	$8.40	$68.78
10		$8.40	$8.38	$16.78	$8.40	$76.85
11		$8.40	$7.58	$15.98	$8.40	$85.15
12		$8.40	$6.78	$15.18	$8.40	$93.71
13		$8.40	$5.99	$14.39	$8.40	$102.52
14		$8.40	$5.19	$13.59	$8.40	$111.59
15		$8.40	$4.39	$12.79	$8.40	$120.94
16		$8.40	$3.59	$11.99	$8.40	$130.57
17		$8.40	$2.79	$11.19	$8.40	$140.49
18		$8.40	$2.00	$10.40	$8.40	$150.70
19		$8.40	$1.20	$9.60	$8.40	$161.22
20		$4.20	$0.40	$4.60	$4.20	$172.06
Total	**$168.00**	**$168.00**	**$175.56**	**$343.56**	**$168.00**	**$172.06**

* 9.5% on written down value for WACC

Table 1 only considers luminaires, but the same approach can, and must, be applied to poles and brackets.

The calculation in Table 1 is theoretical, based on the ESC's 2004 model, and conservatively not allowing for the extra cost impost from the "Time Value of Money" in the 2004 model[17].

Alarmingly, the situation appears worse when we look at what is actually occurring which we have done by reviewing UED's submission[17] to the ESC.

To determine the impact of the ESC's methodology versus the cost of direct funding of lights by council, in Table 2 we have incorporated the data submitted to the ESC by United Energy and applied the current methodology from the ESC's 2004 decision. NOTE: The Table allows for a WACC of 9.95% as proposed by United Energy but the WACC of 9.5% has been adopted by the ESC.

[17] Ex the ESC's website http://www.esc.vic.gov.au/NR/rdonlyres/AD95E1AB-27D8-4769-B4AEB2FC71BF76DF/0/UEDEnergyEfficientPublicLightingModel2008.XLS

Table 2 – Luminaire Cost Impact of Annual Review Process

LUMINAIRE ASSET COSTS ONLY ie excluding poles and brackets							
	UED RAB Actual						TTEG EST (E)
	2005	2006	2007	2008	2009	2010	2025
Opening RAB	0	1,534,289	3,158,193	4,891,375	6,285,488	7,587,101	30,000,000
Additional Capex	1,573,630	1,746,241	1,947,873	1,700,000	1,700,000	1,700,000	1,700,000
Depreciation	39,341	122,338	214,690	308,387	398,387	488,387	1,800,000
Closing RAB	1,534,289	3,158,193	4,891,375	6,285,488	7,587,101	8,798,714	29,900,000
Average RAB	767,145	2,346,241	4,024,784	5,588,432	6,936,295	8,192,907	29,950,000
Nominal pre tax WACC (A)	9.95%	9.95%	9.95%	9.95%	9.95%	9.95%	9.95%
ROA	**$ 76,313**	**$ 233,395**	**$ 400,370**	**$ 555,916**	**$ 689,997**	**$ 815,000**	**$ 2,979,314**
	DEPRECIATION (D)						
2005	39,341	78,681	78,681	78,681	78,681	78,681	
2006		43,656	87,312	87,312	87,312	87,312	
2007		0	48,697	97,394	97,394	97,394	
2008		0	0	45,000	90,000	90,000	
2009					45,000	90,000	
2010						45,000	
TOTAL Depreciation	**39,341**	**122,338**	**214,690**	**308,387**	**398,387**	**488,387**	**1,800,000**
TOTAL ROA & Dep'n	**115,653**	**355,733**	**615,061**	**864,303**	**1,088,384**	**1,303,387**	**4,779,314**

LUMINAIRE ASSET COSTS ONLY ie excluding poles and brackets INCLUDED IN OMR Charges (B)							
	2005	2006	2007	2008	2009	2010	2025
ROA			76,313	233,395	400,370	555,916	
Depreciation			39,341	122,338	214,690	308,387	
sub - total			39,341	122,338	214,690	308,387	
Time value of money (C)			24,154	74,294	128,454	179,986	1,000,000
TOTAL			**63,495**	**196,632**	**343,145**	**488,373**	**5,779,314**
No of lights say			116,960	116,960	116,960	116,960	116,960
per light			$0.54	$1.68	$2.93	$4.18	$49.41

NOTE:
(A) The Table allows for a WACC of 9.95% as proposed by United Energy but a 9.5% WACC has been adopted by the ESC.
(B) According to UED's worksheet
(C) Time value of money appears to represent a 2 year lag in applying ROA and depreciation
eg 2007 Time value of money = { (1 + 2005 WACC] x [1+2006 WACC]-1 } x 2005 Total ROA & Dep'n
(D) Depreciation @ 1/20 p.a. ,with 50% year 1 ie as per the Annual Review Protocol
(E) TTEG estimates shown in 'tan' colour. All of 2025 is estimated based on the current ESC methodology.

From Table 2 we can see that the full depreciation in 2025 is $1.8 million. This represents an estimated cost of the public lighting luminaires to be replaced in that year. Yet based on the ESC's current Annual Review Process councils would be paying $5.45 million, including ROA of $2.9 million, $1.8 million depreciation and $1.0 million for the "value of money".

On a per luminaire basis, in 2025 councils would end up paying $49.41 p.a. for an asset that cost ~ $167.35[18] to install. Over the 20 year life this is significantly more than the $343.56 theoretical calculation in Table 1.

This "overpayment" situation becomes even worse when we look at including the impact of poles and brackets as shown in Table 3 which shows that OMR charges would increase to $82.20 by 2025 with asset charges comprising $53.86 per light.

[18] As established in this Submission versus the $248.10 established by the ESC in 2004.

Table 3 - Full Asset Cost Impact of Annual Review Process on OMR

TOTAL including Luminaire, poles and brackets (A)						
	2007	2008	2009	2010		2025
Total Depreciation	45,446	139,259	238,540	336,240		1,900,000
ROA	97,266	290,861	479,930	655,421		3,300,000
Time value of money	29,805	89,830	150,051	207,106		1,100,000
Total to be recovered	**172,517**	**519,950**	**868,521**	**1,198,767**		**6,300,000**
No of lights say	116,960	116,960	116,960	116,960		116,960
TOTAL per light inc. poles and brackets	**$1.48**	**$4.45**	**$7.43**	**$10.25**		**$53.86**

IMPACT ON OMR Charges (B)								
	2005	2006	2007	2008	2009	2010		2025
OMR MV80	$26.69	$26.69	$26.69	$32.78	$35.76	$38.58		$82.20

NOTE:
(A) UED model workings ex ESC website for total luminaires, poles and brackets
(B) 2008 OMR for 80MV approximates 2007 OMR + 2007 +2008 TOTAL ie $26.69 + $1.48+ $4.45
2005 to 2008 OMR actual, others estimated.
(C) TTEG estimates shown in 'tan' colour. All of 2025 is estimated based on the current ESC methodology.

As poles and brackets have a 35 year life, to assess the full impact of the 2004 Annual Review Process on asset costs we need to extend the calculations to 2035 which we have done in Table 3.

Table 4 - Full Impact of Poles and Brackets on OMR in 2035

FULL IMPACT of Poles and Brackets (A)	
Asset Cost Component	**2035 (B)**
Total Depreciation	2,100,000
ROA	3,600,000
Time value of money	1,150,000
Total to be recovered	**6,850,000**
No of lights say	116,960
TOTAL per light inc. poles and brackets	**$58.57**

NOTE:
(A) Poles and brackets have 35 year life so a cost estimate for 2035 is required
(B) All of 2035 is estimated based on the current ESC methodology.

The $58.57 asset component in Table 4 then enables us to establish in Table 5 that an OMR charge of $86.90 would apply in 2035.

Table 5 – ARP Impact on OMR Charges to 2035

IMPACT ON OMR Charges (A)								
	2005	2006	2007	2008	2009	2010		2035 (B)
OMR MV80	$26.69	$26.69	$26.69	$32.78	$35.76	$38.58		$86.90

NOTE:
(A) 2008 OMR for 80MV approximates 2007 OMR + 2007 +2008 TOTAL ie $26.69 + $1.48+ $4.45
2005 to 2008 OMR actual, others estimated as per "IMPACT ON OMR Charges" Table earlier
(B) All of 2035 is estimated based on the current ESC methodology.

From Table 5 the AER can fully assess the financial impact on councils from the introduction of the Annual Review Process by the ESC in 2004.

By treating the cost of replacement lights, poles and brackets as being funded by distributors and not by councils, the ESC has built in an automatic annual increase[19] that will see OMR charges increase to $86.90 (i.e. more than trebling from $26.69) by 2035 without any consideration of CPI movements and for no changes in the services being received by councils.

[19] Final Decision August 2004 Essential Services Commission Sections 4.3.1, 4.3.2 and 4.3.3

Based on the total public lighting inventory of around 450,000 lights, public lighting customers would be paying around $25 million p.a. extra under the ESC's 2004 Annual Review Process methodology.

<u>We submit that the current Annual Review Process methodology for determining replacement costs in the OMR is critically flawed as it assumes distributors fund the replacement light.</u>

We submit that the OMR tariff must be structured to recognise that it is councils that pay for the capital component of replacement lights. This approach is also consistent with the 1993 Agreement between the SEC, councils and the Minister[20].

[20] As provided by the SGC to the AER in December 2008

9 Attachment C – NECA Electrical contractor charge-out survey

Excerpt from posting of Feb 20, 2009 at http://www.electricalsolutions.net.au/articles/29709-Electrical-contractor-charge-out-survey.

In September and October 2008, as part of its Market Monitor 2008 survey, the National Electrical and Communications Association (NECA) surveyed charge-out and pay rates of Australia's electrical contractors. Some 2235 contractors responded, providing an excellent report on the industry's charging methods and hourly rates for tradesmen and apprentices and these were compared on a state-by-state basis.

The report provided some valuable information for NECA in helping to build a profile of the electrical industry and identify key concerns and challenges which contractors face, and which the industry should be addressing.

Of the respondents, 47% had 2–5 employees, 13% had 6–10 employees and 16% had 10+ employees. NECA members made up 57% of respondents, while the other 43% were non-NECA members.

Hourly rates

The average hourly rate for an electrical tradesperson in Australia is $66, but there are wide variations above and below this figure. Again, the great disparity and lack of uniformity leads to many charges of undercutting and unprofessionalism in the industry.

Western Australia has by far the highest overall average of $80, while the other states averaged in the vicinity of $65–70, not varying much from each other. Note that the survey was conducted in September/October 2008, before the worst of the current economic problems had occurred and while Western Australia's mining industry was still healthy.

Statistics from the survey indicated that, on a national scale, 7% charged $50 or less, 23% charged $50–60, 29% charged $60–70, 19% charged $70–80, 12% charged $80+ and 10% were not applicable (didn't charge out on an hourly basis).

More details on the survey can be downloaded from www.neca.asn.au.

NECA has developed recommended charge-out rates for most states and they reflect what NECA considers to be a fair return on the investment, risk and effort involved in running a contracting business, rather than a basic recovery of costs. These recommended rates are often higher than what the average contractor is currently charging. NECA members are encouraged to use these recommended rates as their minimum charge-out rates to enable them to run a profitable business.