



*Advocating for the people of Western Sydney*

# **Public Lighting 2014-19 Framework Discussion Paper**

Submission to:

**Australian Energy Regulator**



Prepared by:



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## Foreword

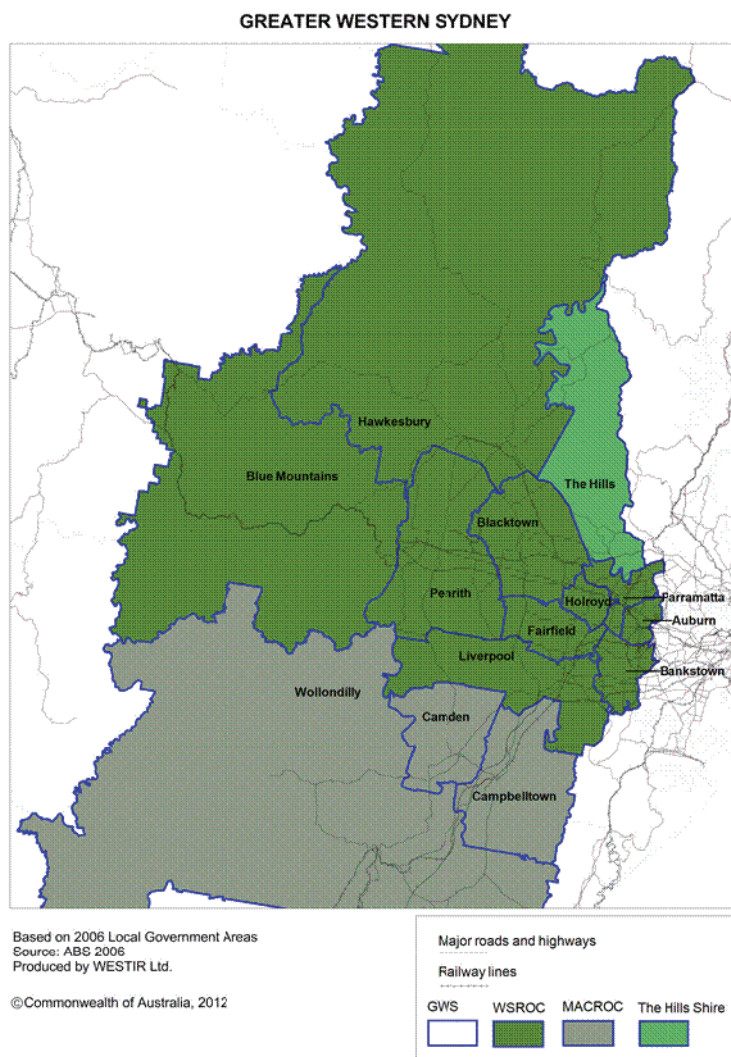
The Western Sydney Regional Organisation of Councils Ltd (WSROC) welcomes opportunity provided by the AER's Paper "Matters relevant to the framework and approach NSW DNSPs 2014-19", (the Paper) of April 2012 and appreciates the AER's efforts to assist Public Lighting Sector development by establishing fair and reasonable public lighting tariff charges for the next regulatory period.

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

This response is subject to final endorsement by WSPROC Executive.

We trust our Submission and the issues we have raised will assist the AER in establishing fair and reasonable public lighting charges for the 2009-14 period.

## WSROC Councils



## Contributing Councils

- Auburn City Council
- Blacktown City Council
- Fairfield Council
- Holroyd City Council
- Parramatta City Council
- Penrith City Council

## Thanks

TTEG appreciates the assistance provided by WSROC staff and WSROC member councils in preparing this report.

We also thank the AER for granting an extension to enable WSROC to prepare our final submission.

## Timing and Submission Objective

We understand the requirement to the tight timelines imposed by the AER and trust the AER appreciates that due to the tight timeframe that our response is not as comprehensive as it would have been if provided more time.

We however trust our Submission and the issues we have raised will assist the AER in establishing fair and reasonable public lighting charges for the 2014-19 period.

## About Trans Tasman Energy Group (TTEG)

Trans Tasman Energy Group Consultants (TTEG) has prepared this Submission for WSROC and its member councils.

TTEG Consultants ([www.tteg.com.au](http://www.tteg.com.au)), provide specialist energy sector advice including commercial, environmental and regulatory aspects pertaining to Public Lighting.

In Australia TTEG currently act as public lighting consultants to over one hundred council municipalities and road authorities in Victoria, South Australia and New South Wales.

## Further Information:

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## Document History and Status

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## GLOSSARY

AER	Australian Energy Regulator
CAM	Cost Allocation Method
The Code	PLC, Public Lighting Code
DNSP	Distribution Network Service Provider i.e. a Distributor, an LNSP, PLSP
IPART	Independent Pricing and Regulatory Tribunal of New South Wales
Luminaire	Lamp and housing
NF	Negotiation Framework
NEL	National Electricity Law
NER	National Electricity Rules
LNSP	Local Network Service Provider, a DNSP
NDSC	Negotiated Distribution Service Criteria
PLC	NSW Public Lighting Code
PLSP	Public Lighting Service Provider, a DNSP
PTRM	Post Tax Revenue Model
RAB	Regulatory Asset Base
SLUOS	Streetlight Use of System (charges, tariffs)
TTEG	Trans Tasman Energy Group (Consultants)
WACC	Weighted Average Cost of Capital
WSROC	Western Sydney Regional Organisation of Councils

### **IMPORTANT NOTE:**

Except where otherwise advised, all references in this submission to the NERs refer to NER version 41.

# 1 SUMMARY

We estimate the public lighting sector spends around \$80 million p.a., or around \$400 million over any 5 year regulatory period, of public funds on SLUOS charges which have been established by the Australian Energy Regulator (AER) for the 2009 to 2014 regulatory period. WSROC Councils incur around \$11 million p.a or 14% of the total SLUOS charges.

We encourage the AER to take the opportunity provided by its 2014-19 review to address the fundamental issues in the sector via the relevant requirements of the NER and NEL.

Of particular concern is the classification of public lighting services under NER Chapter 6 as it is the classification that establishes the regulatory approach to establishing public lighting charges.

In Section 2 we have provided our Recommendations of a general nature being:

**Recommendation 1:** Even if the AER is not required to comply with the distribution consultation procedures under NER Ch 6 Part G (version 41, ie Part F version 49), it is appropriate for the AER to publish models, distributor submissions and sufficient information in its 2014-19 Process to enable effective submissions to be made to these key costs determinants.

Further, the AER should also allow sufficient time for these models and inputs to be assessed.

**Recommendation 2:** Any public lighting RAB must only include any new light installations that distributors have directly funded and be based on the actual cost of that initial installation.

**Recommendation 3:** A simplified tariff approach to be introduced using a pricing building block eg base price for luminaire (by type), with separate column charges (by type) etc to derive the final price. Naturally, the individual (price) components would need to be identified for each light so the customer can reconstruct these prices.

**Recommendation 4:** Negotiated Distribution and unclassified (unregulated) services are more appropriate classifications for public lighting services.

In Section 3 we have responded to the specific requests in the AER's Paper where we have identified the following:

## Classification

Our recommended classifications are summarized in the following Table:

Service	Classification	Comments
New lights, replacement lights	unclassified (unregulated)	with no vesting requirement
Maintenance of DNSP owned assets	Negotiated  but preferably unclassified (unregulated) **	Addresses both service and cost
Written Down Value	Negotiated	Tariff 5
Maintenance of non DNSP owned assets	unclassified (unregulated)	

\*\*DNSPs own most public lighting assets, so DNSP consent required to enable unclassified (unregulated)

### Tariffs - Annuity

The annuity component should be removed, with replacement light costs simply included in future tariffs as incurred. That is, the component included in the tariff for replacement lights in a regulatory period should be spent by the distributor on replacement lights during that period, thereby removing any requirement for replacement lights to be treated as a capital expenditure by the distributor.

If however the AER decides to retain an “annuity” component, we propose that these funds are held in trust and clearly identified as prepayments against a future expenditure.

### Tariffs - RAB

Except for Essential Energy, the class 1, 2 and 5 tariff rates require review to reflect revised RABs as we have outlined in Section 2, including Recommendation 2 and Section 3.1.

We agree with Endeavour Energy (Paper page 14) that “It is important in the development of future prices that an appropriate approach to asset valuation and maintenance expenditures is undertaken.” We do not believe distributors should be paid based “asset valuation” per se, but rather their “costs incurred” in providing the assets.

### Tariffs – Tariff 4

Whilst we recommend the continuation of Tariff 4, as discussed in Section 3.2 we do not support the inclusion of any prepayment annuity. Rather we propose a far simpler approach whereby direct costs are recouped in the tariff – thereby removing any requirement for a RAB and associated costs.

The inclusion of an annuity charge component in this tariff has made this option far less attractive as there is not a substantial decrease in SLUOS tariff versus the class 3 tariff.



As such, the paying “up front” option for councils is not economically attractive. This is actually hampering the development of contestability and the introduction of energy efficient lights where grants are available, but only to assist with ‘up front’ funding.

### **Tariffs - Structure**

The introduction of another tariff is not supported. We suggest simply continuing the current approach for the 2014–19 regulatory control period for Tariffs 1, 2 and 3.

We agree there should be no more than two sets of prices and that a single set of prices would be even simpler.

The class 1, 2 and 5 tariff rates require review to reflect revised RABs as we have outlined in Section 2, including Recommendation 2 and Section 3.1.

Whilst we have not had the time available to fully review and assess Ausgrid’s Table1 (page 6 of its discussion paper), it appears to have merit and is consistent with our views in Recommendation 3 regarding tariffs for asset components.

### **Contestability and Vesting**

The current practice of “forced” vesting (gifting) assets to distributors has created the monopoly positions distributors currently enjoy and effectively prevents competition for maintenance services,

We do not believe that tariffs “per se” impact on contestability other than for the inclusion of an annuity component in current Tariff 4 charges as we have discussed in section 3.2.

We have discussed that framework issues, including classification, (section 3.1), vesting (Section 3.2) and annuity components (Section 3.2) have far greater impact on the development on the development of sector contestability.

### **Other Considerations**

Whilst it may not be a consideration for the AER, we advise that should SLUOS and/or other public lighting services be classified as a Negotiated Distribution Service, councils will need to consider the process of negotiating these services under Section 55 of the Local Government Act 1993 (the Act).

Whilst it may require some further consideration by councils, we do not see any impediments in councils being able to negotiate with DNSPs under the Act.

### **Next Steps**

We would welcome the opportunity to discuss any points we have raised and to providing any further assistance to the AER in the preparation of its Framework and Approach paper.

## 2 GENERAL CONSIDERATIONS

We understand that the 2014–19 regulatory review is the AER’s first opportunity to make a distribution determination under chapter 6 of the NER for NSW DNSPs and give proper consideration to the classification and control mechanisms for public lighting services.

The AER’s Discussion Paper represents a proactive regulatory approach to identifying and considering the issues pertaining to public lighting that have emerged following contestability (of the energy component) in 2001.

We encourage the AER to take the opportunity provided by its 2014-19 review to address the fundamental issues in the sector via the relevant requirements of the NER and NEL.

Of particular concern is the classification of public lighting services under NER Chapter 6 as it is the classification that establishes the regulatory approach to establishing public lighting charges.

In representing council’s interests, our overarching objective is for councils to pay a fair charge for public lighting services.

For the reasons outlined in our March 2009 submission to the AER’s Draft Determination 2009-14 Alternative Controls (Public Lighting), we do not believe the current tariffs represent fair charges.

Full analysis of the models used to establish the tariffs was not possible in the last period as they were not available for scrutiny. We are of the view that in seeking submissions (eg to its Draft Determination), models, inputs, assumptions and in general sufficient information must be provided to allow effective submissions to these key costs determinants.

We have not been able to establish if the AER is required to comply with NER Ch 6 Part G (version 41, ie Part F version 49), for public lighting, and treating WSROC And TTEG as “Interested Parties” in its distribution consultation procedures. What we are requesting however is nothing more than the AER to publish information so the models etc can be effectively reviewed as required by NER Ch 6 Part G.

**Recommendation 1:** Even if the AER is not required to comply with the distribution consultation procedures under NER Ch 6 Part G (version 41, ie Part F version 49), it is appropriate for the AER to publish models, distributor submissions and sufficient information in its 2014-19 Process to enable effective submissions to be made to these key costs determinants.

Further, the AER should also allow sufficient time for these models and inputs to be assessed.

Although we lacked detailed worksheets we were able to form the view that a primary contributor to the high tariffs in the current period was the impact of the capital component cost in the tariff charges.

As per WSROC's March 2009 submission to the AER's Draft Determination 2009-14 Alternative Controls (Public Lighting), , and summarised in the following table, the value of the public lighting asset base (RAB) is the main issue.

The value of the RAB ultimately determines the return on capital (WACC is applied) and depreciation values to be included in the SLUOS tariff. The \$ p.a. impact is also shown in the table (as per WSROC's March 2009 submission).

DNSP	DNSP Proposed		Fair RAB	
	RAB	\$ p.a.(mill)	RAB	\$ p.a.(mill)
Country Energy (Essential Energy)	15.9	2	15.9	2.0
EnergyAustralia (Ausgrid)	111.3	12	33.5	4.5
Integral Energy (Endeavour Energy)	37.5	5	23	2.9

Distributors should only be entitled to receive capital related charges (return on, and depreciation on assets) where they have directly funded new installations, that is, the initial capital outlay.

Further, depreciation must be based on the actual funds distributors have expended and not the current value to provide the asset. NOTE: Even if the AER decides to treat SLUOS as an Alternative Controlled Distribution Service, this approach would be consistent with NEL 7A —Revenue and pricing principles, including NEL 7A(2) (a):

“(2) A regulated network service provider should be provided with a reasonable opportunity to recover at least the efficient costs the operator incurs in—

(a) providing direct control network services; and

This approach to pricing would also be consistent with NER 6.7.1 (1) for a Negotiated Distribution Service which states:

“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*;

In summary, our view is the SLUOS charge should be similar irrespective of the Distribution Service classification ie Alternative Controlled or Negotiated Distribution Service.

In previous submissions, distributors have claimed they have lacked sufficient information to effectively establish age profiles for their lights.

We understand that from around 2000, distributors were required to keep installation dates and costs. As such the age profile and costs from 2000 can be accurately be provided by distributors (in their submission process) to the AER (and in turn public lighting customers) for review.

For assets prior installed prior to 2000, we advise the AER that age information can effectively be approximated by reference to the manufacture date stamped on the luminaire. If this remains an issue then the AER can simply require distributors to record this data during their next visit, or to preferably to undertake an audit prior to establishing asset costs for the 2014-19 period.

In summary, we believe that if the AER classifies SLUOS as an alternative control service, that the RAB (as established for the current period) cannot simply be rolled forward, but must be reviewed to only include any new light installations that distributors have directly funded, and based on the installation costs at the time.

This approach is consistent with NER 6.2.6.

*NER 6.2.6 (c) The control mechanism for alternative control services may (but need not) utilise elements of Part C (with or without modification).*

**Recommendation 2:** Any public lighting RAB must only include any new light installations that distributors have directly funded and be based on the actual cost of that initial installation.

### *Tariffs and Information*

The number and complexity of NSW tariffs are problematic as reconciliations cannot easily be undertaken.

As we have discussed in our specific responses to the AER's Paper, we propose:

**Recommendation 3:** A simplified tariff approach to be introduced using a pricing building block eg base price for luminaire (by type), with separate column charges (by type) etc to derive the final price. Naturally, the individual (price) components would need to be identified for each light so the customer can reconstruct these prices.

NOTE: We have not done any modeling on this approach but expect this approach would provide far fewer actual tariffs, and we believe a simplified approach to reconciliation.

*Classification*

As we have discussed in our specific responses to the AER's Paper, we propose:

**Recommendation 4:** Negotiated Distribution and unclassified (unregulated) services are more appropriate classifications for public lighting services.

*Other Considerations*

Whilst it may not be a consideration for the AER, we advise that should SLUOS and/or other public lighting services be classified as a Negotiated Distribution Service, councils will need to consider the process of negotiating these services under Section 55 of the Local Government Act 1993 (the Act).

Whilst it may require some further consideration by councils, we do not see any impediments in councils being able to negotiate with DNSPs under the Act.

### 3 RESPONSES TO AER'S QUESTIONS

In this section we have provided responses to specific questions provided by the AER in its Discussion Paper.

The AER's questions have been shown in ***bold and in italics***.

#### 3.1 Question 1

*The AER seeks comments on:*

***A. What has been the experience for customers under the current regulatory approach to public lighting? For example, do the current arrangements result in pricing that is too complex or lacking in transparency?***

**Response:**

We have been advised from several WSROC councils (Endeavour Energy region) that transparency in pricing and provision of data to enable (monthly) reconciliation of bills are both problematic.

After reviewing Endeavour Energy's Public Lighting (Street Light Use of System Charges) Effective 1 July 2011, we understand why reconciliation is problematic.

NSW has always had a large number of detailed tariffs. If the AER classifies public lighting SLUOS as an alternative control service then we promote that the number of tariffs be fairly rationalized. From Endeavour Energy's Public Lighting (Street Light Use of System Charges) Effective 1 July 2011, we note numerous "Codes" with the same pricing or with little difference. Surely these could be rationalized.

The Tariff Class 5 tariffs require review to reflect the actual residual asset value, consistent with our "Recommendation 2" in Section 2. Further, regarding Tariff 5, these values must be cost reflective. Recognising each light has a manufacture date the residual value can reasonably be determined – an approach consistent with Negotiated Distribution Service classification.

In summary, the existing tariffs should be rationalised and sufficient data included on the bill, and in the distributor's Public Lighting Price Lists to enable reconciliation. NOTE: A full description of the abbreviations used in pricing tariffs must be included in the distributor's Public Lighting Price Lists.

***B. Should public lighting in NSW continue to be regulated by the AER as an alternative control service or is there merit in classifying the service as a negotiated service or an unclassified (unregulated) service?***

**Response:**

Public lighting is not a '*distribution system*' as defined in the NERs.

In considering classifications, we are not aware of any reason why DNSP's should be considered a monopoly service provider as it is with its 'poles and wires' distribution system.

There are several aspects of public lighting to be considered in determining classifications

Unclassified

As there are a number of service providers (including the three distributors) capable of undertaking public lighting services in NSW, our view is all public lighting services should be contestable and classified as an unclassified (unregulated) service whereby councils could issue a tender for these services like they currently do for many other services including the supply of electricity.

In this regard we agree with Ergon's comment in Table 2.1 of the AER's Paper in that "...public lighting services are not distribution services".

In terms of the electricity industry, public lighting can fairly be seen as similar to large market metering services which are currently contestable in all NEM states.

There is however an issue as distributors currently own most public lighting assets, how can a successful transition to full contestability occur?

Certainly the construction of new lights should be an unclassified (unregulated) service.

Critically, to facilitate the transition to full contestability there should not be any requirement for public lighting customers to vest (gift) assets (either new or replacement) to the distributor. The practice of vesting assets to distributors has created the monopoly positions distributors currently enjoy.

Similarly, replacement lights should be an unclassified (unregulated) service. Assuming a 20 year asset life, round 4% to 5% of lights should be replaced every year. Importantly, to facilitate competition, there should not be any requirement for replacement lights to be vested to the distributor.

NSW distributors are statutory State owned corporations. NSW therefore finds itself in a vastly different position to that which exists in SA and Victoria where distributors have been privatized.

As discussed above, the transition to full contestability can occur gradually through new and replacement lights. New providers would of course not have the economies of scale of the existing distributors, but councils could group together to tender services to assist in this regard.

To remove the distributor's monopoly position, and to fast-track the contestability of services, distributors could simply let councils tender for public lighting replacement and maintenance services. In our view, this approach can be fairly considered, as even though the assets are owned by the distributors (the state) they have ultimately been paid for by councils over the years through their SLUOS charges.

If "ownership" became an issue (eg in terms of liabilities etc), recognizing it is all public money; distributors (the state) could simply bestow public lighting ownership with the public lighting customers.

The only exception would be where distributors have funded new light installations – whereby distributors should fairly be compensated for their capital costs eg via a fairly determined "Tariff 5" for Endeavour Energy.

Although we recognise aspects of what we have discussed are outside of the direct regulatory control of the AER, the introduction of contestability of lighting services is consistent with the objective that existed for these services at the introduction of contestability for energy provision.

Establishing public lighting services as 'unclassified (unregulated) service' would also remove the AER from having to allocate resources to establishing regulated SLUOS charges – a process which has consumed considerable resources over prior regulatory periods.

The contestability of new lighting, replacement public lighting, and potentially the ongoing maintenance of all lights could also be seen as an additional profit opportunity for distributors as they could undertake work in other distribution areas.

In considering the potential for contestability, we recognize some councils may prefer to retain the "status quo" and not engage other providers. In this instance the AER could establish transitional tariffs to represent a default charge ie where the council simply elects to stay with the distributor.

These tariffs can be established via either classification as Alternative Controlled Distribution Services or Negotiated Distribution Services.

#### Alternative Controlled Distribution Service

The AER must consider NER 6.2.2:

"(c) The AER must, in classifying a direct control service as a standard control service or an alternative control service, have regard to:

**(1) the potential for development of competition in the relevant market and how the classification might influence that potential; and**

(2) the possible effects of the classification on administrative costs of the AER, the Distribution Network Service Provider and users or potential users; and



- (3) the regulatory approach (if any) applicable to the relevant service immediately before the commencement of the distribution determination for which the classification is made; and
- (4) the desirability of a consistent regulatory approach to similar services (both within and beyond the relevant jurisdiction); and
- (5) the extent the costs of providing the relevant service are directly attributable to the customer to whom the service is provided; and
- (6) any other relevant factor.”** (our bolding)

If the AER decided to retain the public lighting services classification as an Alternative Controlled Distribution Service, then we strongly advocate the AER adopts our Recommendations 1 and 2 as established in section 2.

#### Negotiated Distribution Service

TTEG has first hand experience with public lighting in SA where public lighting has been classified a Negotiated Distribution Service.

We see this classification as preferable to Alternative Controlled Distribution Service (a building block approach under NER Chapter 6 Part C) as the Negotiated Distribution Service process addresses both the service requirements and cost components of the service provision.

#### *Service*

Whilst considering the Negotiation Framework (NF) process, NER 6.7.5 (c)(1) requires the distributor and council (the Service Applicant under the NF) to agree the services - something which has been contentious in prior regulatory periods in NSW. We note that a revised Public Lighting Code (the Code) was due for release in 2011 but we are not aware that this process has been finalized. The Public Lighting Code attempts to allow for flexibility by retaining the Service Level Agreement provisions in the Code.

In its 2011 Explanatory Paper the NSW Department of Trade and Investment, Regional Infrastructure and Services conveyed it expected that individual Service Level Agreements provide the best framework and opportunity for PLSPs and Customers to provide public lighting services in a flexible manner. And that both PLSPs and Customers are obliged by section 5 of the Code to enter into negotiations in good faith for a Service Level Agreement if requested by the other party.

In this regard NER Chapter 6, Part D and the Public Lighting Code appear very similar in their objectives.

### Cost

Negotiated Distribution Service costs require compliance with principles in NER Chapter 6 Part D, including 6.7.1 (1) which states:

“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*;”

Please note that in the current SA determination 6.7.1(1) appears slightly modified in the DNSP’s NDSC 5 which states:

“The price for a negotiated distribution service must reflect the costs that a DNSP has incurred or incurs in providing that service, and must be determined in accordance with the principles and policies set out in the DNSP’s Cost Allocation Method.” (our underlining)

Further, NER 6.7.5 (c)(2) requires the provider (the distributor) to provide all such commercial information a *Service Applicant* may reasonably require to enable that applicant to engage in effective negotiation with the provider for the provision of the *negotiated distribution service*, including the cost information. As the AER is aware, the (lack of) provision of cost information has also been problematic in prior regulatory periods.

For any public lighting services that remain with the distributor in the next period, the adoption of Negotiated Distribution Service classification is therefore recommended.

The key instruments critical in establishing negotiated prices are the distributor’s Negotiation Framework (NF) and their Cost Allocation Method (CAM).

We have not had the opportunity (as yet) to review the current NFs and CAMs that apply in NSW so we reserve our comments at this stage other than to advise the AER that following our experience in South Australia that the compliance of the NFs and CAMs with the NER’s may require review.

### Summary:

Our recommended classifications are summarized in the following Table:

<b>Service</b>	<b>Classification</b>	<b>Comments</b>
New lights, replacement lights	unclassified (unregulated)	with no vesting requirement
Maintenance of DNSP owned assets	Negotiated but preferably unclassified (unregulated) **	Addresses both service and cost
Written Down Value	Negotiated	Tariff 5
Maintenance of non DNSP owned assets	unclassified (unregulated)	

\*\* DNSPs own most public lighting assets, so DNSP consent required to enable unclassified (unregulated)

### **3.2 Question 2**

***The AER seeks comments regarding the use of this approach [sic the continuation of the current regulatory arrangement with the introduction of a third capital charge for assets constructed during the 2014–19 regulatory control period]: In particular:***

***A. What are the main advantages and disadvantages of this approach?***

**Response:**

The introduction of another tariff is not supported. We suggest simply continuing the current approach for the 2014–19 regulatory control period for Tariffs 1, 2 and 3.

***C. Has the current approach resulted in greater (or less) competition in the construction or provision of public lighting services?***

**Response:**

We understand there has not been any material change to competition.

In our view there are several factors contributing to this phenomenon, including:

- The current practice of “forced” vesting (gifting) assets to distributors has created the monopoly positions distributors currently enjoy and effectively prevents competition for maintenance services,
- A lack of understanding by customers of their options eg Tariff class 4 **IMPORTANT:** The inclusion of an annuity charge component in this tariff has made this option far less attractive as there is not a substantial decrease in SLUOS tariff versus the class 3 tariff.

As such, the paying “up front” option for councils is not economically attractive. This is actually hampering the development of contestability and the introduction of energy efficient lights where grants are available, but only to assist with ‘up front’ funding.

**IMPORTANT** - The annuity component should be removed, with replacement light costs simply included in future tariffs as incurred. That is, the component included in the tariff for replacement lights in a regulatory period should be spent by the distributor on replacement lights during that period, thereby removing any requirement for replacement lights to be treated as a capital expenditure by the distributor.

**IMPORTANT** If however the AER decides to retain an “annuity” component, we propose that these funds are held in trust and clearly identified as prepayments against a future expenditure.

- The class 1, 2 and 5 tariff rates require review to reflect revised RABs as we have outlined in Section 2, including Recommendation 2 and Section 3.1.

### **3.3 Question 3**

*The AER seeks comments on Endeavour Energy’s submission. In particular:*

**A. What are key advantages and disadvantages of the approach proposed by Endeavour Energy?**

**Response:**

We agree there should be no more than two sets of prices and that a single set of prices would be even simpler.

The (in)appropriateness of current annuity pricing and ‘forced’ vesting requires reassessment. Our views on this are in Section 3.2.

As we have discussed in section 3.1 we disagree with the appropriateness of the current regulatory classifications.

We agree with Endeavour Energy (Paper page 14) that “It is important in the development of future prices that an appropriate approach to asset valuation and maintenance expenditures is undertaken.” We do not believe distributors should be paid based “asset valuation” per se, but rather their “costs incurred” in providing the assets. This should be the same for both Alternative and Negotiated Distribution Services, however by classifying SLUOS as Negotiated Services clearly establishes this requirement under NER 6.7.1 (1).

Our views regarding the RAB are classifications are respectively contained in sections 2 (including Recommendation 2) and Section 3.1.

***B. Would the averaging of capital costs used to calculate the annuity for assets constructed in the 10 year period 2009 to 2019 disadvantage third party providers of these assets?***

**Response:**

Whilst we recommend the continuation of Tariff 4, as discussed in Section 3.2 we do not support the inclusion of any prepayment annuity. Rather we propose a far simpler approach whereby direct costs are recouped in the tariff – thereby removing any requirement for a RAB and associated costs.

### **3.4 Question 4**

***The AER seeks comments on Ausgrid’s submission. In particular:***

***A. Would a simplified pricing structure such as this come at the expense of cost reflective prices?***

**Response:**

Our recommended approach to tariff structures is included in section 3.1 and 3.2.

Whilst we have not had the time available to fully review and assess Ausgrid’s Table1 (page 6 of its discussion paper), it appears to have merit and is consistent with our views in Recommendation 3 regarding tariffs for asset components. Changing the approach to tariffs typically require some rebalancing, but if we correctly understand Ausgrid’s approach, then this may not need to occur as it appears Ausgrid are simply proposing to deconstruct existing tariffs in to components (which they have called “Asset Service Pools”) which are then simply summated to reconstruct the tariff.

We disagree that the application of the PTRM to public lighting as replacement lights should be treated as a direct cost paid from the tariff.

***B. Would this approach permit the entry of third party providers of public lighting services?***

**Response:**

We do not believe that tariffs “per se” impact on contestability other than for the inclusion of an annuity component in current Tariff 4 charges as we have discussed in section 3.2.

We have discussed that framework issues, including classification, (section 3.1), vesting (Section 3.2) and annuity components (Section 3.2) have far greater impact on the development on the development of sector contestability.