Council Reference:

TWEED SHIRE COUNCIL

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7 August 2014

Australian Energy Regulator
GPO Box 520
MELBOURNE VIC 3001

Dear Sir/Madam

Essential Energy Substantive Regulatory Proposal 2014-2019

Tweed Shire Council (Council) welcomes the opportunity to make a submission to the Australian Energy Regulator (AER) on the *'Essential Energy Substantive Regulatory Proposal 2014-2019'*.

Justification of price increases

It is important that Essential Energy's case for increases in rates is fully transparent as they contend that "Current public lighting tariffs substantially under-recover the efficient cost of providing the service". This is however in contrast to previous AER investigation and determination; in contrast to Victoria where Distribution Network Service Providers (DNSP's) of similar customer densities exist; in contrast to Essential Energy's "sister" NSW companies Ausgrid and Endeavour Energy; and in contrast to international experience.

Luminaire Type	NSW DNSP Comparison	TOTAL PRICE	Essential Energy Price Premium
CFL 42W Costs	Essential Energy	$ 116.63	
	Ausgrid	$ 96.80	20%
	Endeavour Energy	$ 100.01	17%
150W HPS Costs	Essential Energy	$ 160.43	
	Ausgrid	$ 132.23	21%
	Endeavour Energy	$ 138.78	16%
250W HPS Costs	Essential Energy	$ 162.20	
	Ausgrid	$ 130.88	24%
	Endeavour Energy	$ 143.88	13%

For 2013/2014 Essential Energy pricing is 13-24% higher than Ausgrid and Endeavour Energy.

The 2013/14 figures in the table above bring into question the claim by Essential Energy that future price increases are a catch-up measure to recover from previous pricing that were less than cost reflective.

Despite this, Essential Energy has proposed an average increase in operations charges (Opex) of 94% across all its customers. With such an "outlier" proposal it is very important that the data inputs and methodology are clearly demonstrated to be in the public interest.

In relation to service provision, Essential Energy does not appear to be meeting the objectives of the NSW Public Lighting Code and, with respect to maintenance, may not be meeting the minimum requirements of AS/NZS 1158. Benchmarking against other NSW utilities suggests that Essential Energy customers are receiving a substantially lower level of service in a number of respects as measured against the Code requirements.

The level of maintenance costs are a direct result of labour, material and energy prices yet Essential Energy, with one of the largest and lowest density networks in the world, has been particularly slow to consider new technologies, such as LED street lights. As LED street lights require less maintenance and consume less energy, it would seem that considerable savings to maintenance and operating costs could be achieved by adoption of this technology. Sister NSW DNSP Ausgrid uses LEDs as the default technology for residential roads across all of the 41 councils it serves. However Essential Energy continues to deny market readiness for LEP lighting, despite sharing Ausgrid's CEO, board and owner.

Essential Energy's proposal suggests that in "order to attain cost reflectivity" it needs to increase public lighting prices by an average of 64% (although its own spreadsheets show the average increase is actually 67%) on its total charges (capital and operational charges). If the capital charges are subtracted, the same spreadsheets show that proposed operational charges are being increased by 94%. The evidence provided by Essential Energy ignores the 50% to 70% cost reducing effects of LED lighting and ICT control systems on energy and maintenance used widely and in "mass deployments" in Australia and internationally.

The regulatory role of the AER is to ensure such inefficient monopoly management practice is not paid for by customers who cannot exercise choice.

As the AER observes in its 2009 Determination "There are four key components that influence how the maintenance charge is calculated:

- the length of the cycle between bulk lamp replacements
- the number of lamps that can be replaced per day under a bulk lamp replacement regime
- the expected spot (intermittent) lamp failures between bulk lamp replacements and the relationship between the length of a bulk lamp replacement cycle and the number of spot lamp failures
- the number of spot lamp replacements that can be completed per day"

In order to make a convincing case for an average 94% increase in operational charges, Essential Energy need to demonstrate that their maintenance practices are at least *good* practice. Ideally they should be *best* practice before the AER allows such a large increase. Otherwise completely captive customers are being forced to pay for inferior maintenance practices.

The Essential Energy Proposal to the AER contains a number of apparently inappropriate labour productivity and maintenance costs assumptions which cannot be conclusively proven until Essential Energy provide significantly more operational information.

Council believes that this proposal is not configured to deliver "efficient pricing" to NSW council public lighting customers.

NOTE: Much of the data and statements above have been sourced from a report by Strategic Lighting Partners Ltd (SLP) that was commissioned by the Regional Organisation of Councils (ROC's) of Central NSW, Riverina Eastern, Riverina and Murray, South East, Mid Coast and Northern Rivers.

Effects on Local Government

While the Substantive Regulatory Proposal (SRP) aims to keep network electricity charges low while maintaining sufficient revenue for its operation and maintenance programs, Essential Energy is shifting the cost of maintaining the street lighting network to Councils through the revised tariff system.

This is acknowledged in the proposed model with the aim of "ensuring that Council's requiring public lighting pay for these services accordingly, rather than the costs having to be passed on and shared by all Essential Energy customers".

Whilst Council acknowledges that Essential Energy operates in a highly regulated industry, is moving towards a more transparent user-pay system and must provide a return on capital invested, unfortunately Councils across NSW do not enjoy the freedom to increase rate revenue to counter these proposed increases.

NSW Councils annual general rate increases (used to fund street lighting charges) are determined by the Local Government Cost Index (LGCI), administered by the Independent Pricing and Regulatory Tribunal (IPART), with electricity costs account for only 2.4% of the total cost index.

Street lighting charges for Tweed Shire Council represents 14% of total electricity costs which will result in the street lighting charges affecting the LGCI index by 0.336% (2.4% x 14%). When this amount of 0.336% is multiplied by the proposed 58% increase ($220,095) it equates to an additional 0.1949% increase in the cost index. This increase when multiplied across Council's $50,000,000 rate base will see Council recoup $97,440 (0.1949% x $50,000,000) in rate revenue of the proposed $220,095. This can only result in Council having to reduce the service levels currently being provided to the community.

If the surpluses Essential Energy enjoy from other areas of their business are indeed used to subsidise street lighting charges, it is hoped that a reduction in this subsidy will equate to a corresponding reductions in the electricity charges paid for by all Essential Energy customers. If this is not the case then this proposal will ultimately result in Essential Energy customers paying the same living costs for a reduction in their Council services.

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Tweed Sire Council Street Lighting with Essential Energy

In late 2010 Council was approached by Essential Energy to participate in the Streetlight Maintenance and Energy Efficient Lighting upgrade. The proposal from Essential Energy was to reduce the financial and environmental impact of Council's street lighting by replacing the older less efficient street lights in the Shire with energy efficient lights.

Council's street light inventory included a combination of tariff 1 and tariff 2 lights with the tariff 1 lights funded and maintained by Essential Energy. If Council were to replace any of these lights, prior to the expiry of their economic life, an amount of unrecovered capital was required in advance of the installation of the new light.

In July 2011 a report was considered by Council on Streetlight Maintenance and Energy Efficient Lighting Upgrade. This report detailed how Essential Energy had advised that the cost of changing the current lamps and associated luminaires (housings) to the most efficient available during the next scheduled bulk lamp replacement programme had been revised to $293,881.72.

The report also detailed how the project would reduce Council's greenhouse gas emissions (1014 tonnes per annum) and provide cost savings due to lower electricity costs. The revised proposal indicated a payback period of around 13 months with an average projected per month saving of $22,750.

Based on the above information Council resolved to accept Essential Energy's revised costing to upgrade existing street lighting lamps for energy efficiency at the July 2011 Council meeting.

In early 2012 it became evident that the cost of street lighting had not decreased in line with the projections provided by Essential Energy and ongoing discussions are still taking place to resolve this issue.

Summary

Before determining the SRP it is suggested that Essential Energy should have clear key performance indicators and business plans in place for measures such as bulk luminaire replacement, introduction of new technology (e.g. LED lighting) and revised service levels. These steps should ensure a reduction in operating and capital costs and be introduced before asking for Councils to bear the apparent 58% increase in street lighting charges.

Yours faithfully

Troy Green
GENERAL MANAGER

cc. State Member for Tweed, State Member for Lismore, Essential Energy.