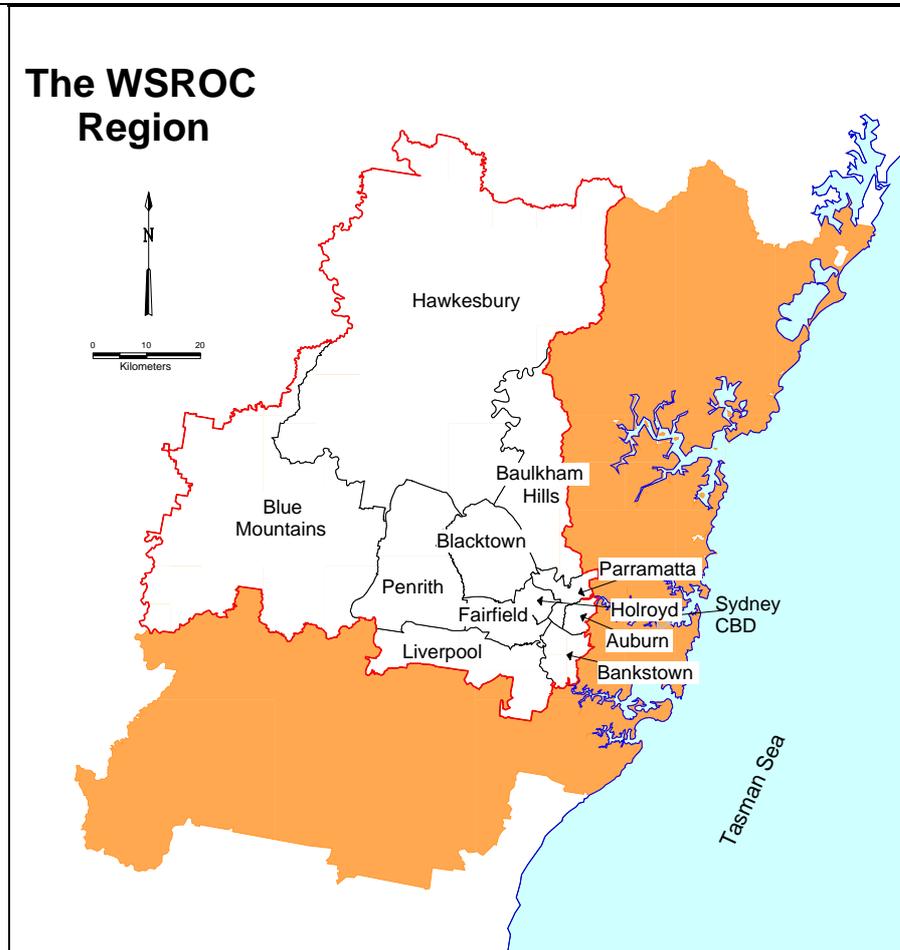


WSROC LIMITED

SUBMISSION TO
AUSTRALIAN ENERGY REGULATOR
DRAFT NSW DISTRIBUTION DETERMINATION
(PUBLIC LIGHTING)

March 2009



Auburn

Bankstown

The Hills

Blacktown

Blue Mountains

Fairfield

Hawkesbury

Holroyd

Liverpool

Parramatta

Penrith

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SUMMARY

The Western Sydney Regional Organisation of Councils (WSROC) represents 11 councils from Western, North Western and South Western Sydney. WSROC, on behalf of its member Councils, wishes to comment on three issues of general concern in the AER Draft Determination, these being:

1. Assumed Labour Productivity;
2. Unexplained Large Differences Between Integral Energy's Tariff Class 2 & Tariff Class 4 Pricing; and
3. Appropriate treatment of Integral Energy Schedule 2 transition to Tariff Class 2 Assets Tariff Class 2 Assets.

WSROC is also commenting upon the proposed pricing of key lighting types on residential roads, these being:

- a) 80W Mercury Vapour Luminaires – Tariff Class 2; and
- b) Energy Efficient T5 & CFL Lighting.

In NSW the absence of:

- a truly competitive market in electricity distribution;
- a mandatory Public Lighting Code; and
- formal contracts between councils and electricity distributors,

councils are totally reliant upon the pricing regulatory regime to ensure that ratepayers money spent on streetlighting represents value for money and delivers an effective service.

In these circumstances WSROC believes that in preparing the Draft Determination the AER should consider the issues from the perspective of fairness and equity within NSW itself and comparative equity between NSW and Victoria, given the similarity in market conditions and regulation processes between these two states, and the recent Determination by the AER in Victoria.

WSROC member councils are also very anxious that the Final Determination by the AER ensures that energy efficient lighting technologies are effectively delivered to the market, and that they are available on the most cost effective basis possible.

Hence this submission concentrates on those issues of equity and cost parity that:

- are most significant in terms of absolute cost; and
- that impact upon the capacity of councils to reduce their carbon emissions.

RECOMMENDATIONS

Recommendation 1:

Benchmarking of the key Integral Energy labour assumptions against recent and past approvals in Victoria should be carefully considered in the Final Determination and similar labour productivity rates should be applied.

If the AER maintains that significantly different (i.e. > 20%) labour productivity rates should apply for Integral Energy in NSW and Victorian Distribution Network Service

Providers (DSNPs), an explanation of the reasons for this discrepancy should be provided by the AER.

Recommendation 2:

In the Final Determination, Tariff Class 2 and Tariff Class 4 maintenance-only lighting tariffs for Integral Energy should be identical, as is the case in the Draft Determination with regard to comparable EnergyAustralia tariffs.

Recommendation 3:

In the Final Determination, Tariff Class 2 should include the requirement for Integral Energy to replace assets installed prior to June 30 2009.

Furthermore, the capital cost of the replacement of Tariff Class 2 assets installed after June 30 2009 should be explicit in the Final Determination.

Recommendation 4:

In the Final Determination the Tariff 2 – Tariff Code 315 for M80 lights (and related tariff codes) should correspond with reasonable benchmarks in NSW and Victoria.

Recommendation 5:

The pricing by Integral Energy and EnergyAustralia of T5 and CFL lights should be reviewed and prices in the Final Determination reduced to correspond with pricing in Victoria.

If pricing parity between NSW and Victoria for energy efficient T5 and CFL lighting cannot be achieved then the AER should provide detailed advice justifying this discrepancy.

1 INTRODUCTION

In introducing WSROC's submission to the AER on the streetlighting component of the NSW Distribution Network Service Provider (DNSP) determinations, we briefly reiterate some of the issues raised in our earlier submission in 2008, these being:

- the lack of competitiveness in the electricity distribution market;
- that there is a pressing need to reduce energy consumption derived from high carbon emitting electricity production; and
- the cost impost on councils in NSW who are providing an essential public service yet, through rate pegging, have constraints imposed upon their incomes to pay for this service.

Not only is the electricity distribution market not a competitive one but, with regard to streetlighting, councils are a *captive* market with no opportunity for these services to be supplied by alternative providers for the vast bulk of existing street lighting assets. Only in the case of new installations (eg about 2-4% of assets for Integral Energy) is there any contestability. Under the NSW Code of Contestable Works, maintenance and replacement of existing public lighting assets is not contestable.

In this context it is crucial that there be effective regulation, along with the operation of a Public Lighting Code and the flow on effects of these to clear and binding service contracts between councils and streetlighting providers. Unfortunately in NSW the latter two components of this equation are missing. In this context WSROC and its member councils look to the arrangements in other States and observe (as is detailed below) that there is greater transparency, service standards are higher and as a consequence costs are more favourable to local government.

The Victorian jurisdiction is the only one appropriate to compare with NSW because market conditions and regulation regimes (apart from disclosures processes) are comparable between the two states, and Victoria's evaluation process is also sufficiently robust to provide confidence that a comparison can yield meaningful results.

The inequities between pricing and service arrangements between states is a major cause of concern for councils in Western Sydney, and no doubt in NSW overall. Councils are charged with ensuring that rates levied upon residents are spent in a cost effective manner. As is argued below, this has not been the case for expenditures on streetlighting in the past and WSROC believes that there are aspects of the draft determination that, if not changed, will perpetuate this situation.

Another crucial issue is the need for reductions in greenhouse gas emissions resulting from electricity generation. Councils in Western Sydney are committed to reducing carbon pollution derived from their operations and streetlighting is a key area where existing technology can make a significant impact. It is therefore imperative that energy efficient technologies are effectively delivered to the market, and that they are available on the most cost effective basis possible. Councils in Western Sydney have experienced difficulties in negotiating timely replacement of old lighting technology with energy efficient lights and it is a concern that elements of AER's Draft Determination would result in increases in the cost of these replacements, as argued below.

This submission focuses on the determination with regard to Integral Energy (although references are made to EnergyAustralia), as Integral Energy is the principal supplier for WSROC member councils. The submission by Southern Sydney Regional Organisation of Councils concentrates on EnergyAustralia, which is a supplier for two of our councils. WSROC fully supports the SSROC submission with regard to EnergyAustralia.

2 WSROC RESPONSE TO THE AER DRAFT NSW DISTRIBUTION DETERMINATION (PUBLIC LIGHTING)

WSROC, on behalf of its member Councils, is commenting on three issues of general concern and the proposed pricing of key lighting types on residential roads as discussed below.

2.1 Assumed Labour Productivity

As per comments being made by SSROC in its current and recent submissions to the AER, WSROC notes that assumed labour productivity in NSW street lighting pricing models is significantly below that approved in recent and past pricing decisions in Victoria by both the AER and the Victorian Essential Services Commission. This includes both the assumed number of repairs being completed per day and the number of luminaire replacements being completed per day (eg both OPEX and CAPEX related labour assumptions).

In the case of Integral Energy, the recent AER decision in Victoria suggests that Victorian DNSPs are 50-100% more productive in replacing luminaires than Integral Energy (eg 8-12 per day for a 2 person Integral Energy crew vs 13-16 per day for a 2 person crew at CitiPower, Jemena, Powercor, SP AusNet and United Energy. No explanation is apparent or given for this poor level of productivity by Integral Energy. With broadly similar maintenance regimes, it is unclear why labour assumptions for NSW DNSPs should be at a much lower standard.

Recommendation 1:

Benchmarking of the key Integral Energy labour assumptions against recent and past approvals in Victoria should be carefully considered in the Final Determination and similar labour productivity rates should be applied.

If the AER maintains that significantly different (i.e. > 20%) labour productivity rates should apply for Integral Energy in NSW and Victorian DNSPs, an explanation of the reasons for this discrepancy should be provided by the AER.

2.2 Unexplained Large Differences Between Tariff Class 2 & Tariff Class 4 Pricing

For a variety of lighting types reviewed by WSROC, proposed pricing for Integral Energy appears to be much higher for Tariff Class 4 than for Tariff Class 2. Both these tariffs are for maintenance only. Differences for three examples are as follows:

Luminaire	Tariff Class 2	Tariff Class 4
M80 (Tariff Code 315)	\$38.35	\$50.98 (incl \$ 2.42 bracket charge)
T5 2*14 (Tariff Code 415)	\$40.69	\$57.43 (incl \$ 2.42 bracket charge)
150W HPS (Tariff Code 341)	\$45.59	\$72.69 (incl \$14.66 bracket charge)

It is unclear why there should be a significant difference between Tariff Class 2 and Tariff Class 4. In the AER's Draft Determination Table 5.1, the basis for Tariff Class 4 is the annual efficient maintenance charge which is noted as being the "same as those for Tariff Class 2". EnergyAustralia's maintenance charges for Tariffs 2 and 4 are identical.

Recommendation 2:

In the Final Determination, Tariff Class 2 and Tariff Class 4 maintenance-only lighting tariffs for Integral Energy should be identical, as is the case in the Draft Determination with regard to comparable EnergyAustralia tariffs.

2.3 Appropriate treatment of Integral Energy Schedule 2 transition to Tariff Class 2 Assets Tariff Class 2 Assets

In Integral Energy's service area, a significant portion of street lighting assets are 'gifted' assets constructed by Councils or developers to Integral Energy standards and then gifted on to Integral Energy's asset register. As per Integral Energy's 2008-2009 Public Lighting Price List¹, these are referred to by Integral Energy as Schedule 2 assets. The current definition of Schedule 2 is:

Schedule 2 - *The capital costs of installation are funded by the developer or customer. Integral provides maintenance and replacement of the equipment.*

The current Schedule 2 tariff definition has Integral Energy taking on responsibility for both the maintenance of the asset **and the future replacement of the equipment**. This tariff approach has been used for many years by Integral Energy and its predecessors. That "Integral Energy provides maintenance **and replacement of the equipment**"², for Schedule 2 assets was reiterated in Integral Energy's June 2008 Regulatory Proposal.

The closest comparable tariff definition in the AER's proposed approach, Tariff Class 2, notably does not include replacement responsibility. In Table 5.1 of the Draft Determination Tariff Class 2 is defined as:

Tariff Class 2 - *Capital not funded by DNSP – Annual efficient maintenance costs. DNSP not entitled to a return on or of capital.*

Two important questions arise:

- **What is to happen to the accumulated capital contributions paid by Councils as part of current and past Integral Energy Schedule 2 tariffs to fund the future replacement of Schedule 2 assets?** It would be inequitable for Integral Energy to reap a windfall gain because of a tariff definition change that is inconsistent with the basis of historical charges. The implied sinking fund that has been accumulated by Integral Energy for Schedule 2 assets over periods of up to 35 years (i.e. the life of supports) is likely to be in the millions of dollars; and
- **On what basis are Schedule 2 assets to be replaced in the future if they become Tariff Class 2 assets?** At the time a fault is reported, neither party has any idea whether it will require a repair (i.e. an OPEX cost) or a replacement of a pole, bracket or luminaire (i.e. a new CAPEX contribution). If Integral Energy is not required to replace Tariff Class 2 assets, then in practice, it would be highly inefficient to have the Integral Energy crew who are servicing the fault, have to stop its work and then require a separate process to replace a luminaire, for example, if that is found to be non-repairable.

Moreover, there does not seem to be a feasible contestable regime or precedent for the separation of lighting repair vs replacement work involving existing assets as, under the NSW Code of Contestable Works, Councils are not able to authorise

¹

<http://www.integral.com.au/wps/wcm/connect/integralenergy/NSW/NSW+Homepage/ourNetworkNav/Our+network+area/Network+pricing/>

² Integral Energy's 2009 Regulatory Proposal, Section 19.4, p210

Accredited Service Providers to work on existing Integral Energy assets. In affect then, replacement of contributed assets will be a non-contestable monopoly service of Integral Energy, as it is at present. In this circumstance Tariff Class 2 should include the requirement for Integral Energy to replace assets installed prior to 30 June 2009 and the capital costs of such future replacements of Tariff Class 2 assets should be explicit in the Final Determination. Notably, Integral Energy's current price list gives clear 'Capital Provision' costs for a wide range of current standard equipment.

Recommendation 3:

In the Final Determination, Tariff Class 2 should include the requirement for Integral Energy to replace assets installed prior to June 30 2009.

Furthermore, the capital cost of the replacement of Tariff Class 2 assets installed after June 30 2009 should be explicit in the Final Determination.

2.4 Pricing of Specific Lighting Types

a) 80W Mercury Vapour Luminaires – Tariff Class 2

M80 lights are currently the most common lighting type on residential roads for Integral Energy and across Australia. As they are becoming obsolete, the key tariffs in question are Tariff Classes 1 and 2 applying to lights installed prior to 30 June 2009. WSROC's general concerns about labour productivity noted above are relevant to Tariff Class 1 M80 lights.

The AER's proposed Integral Energy Tariff 2 – Tariff Code 315 for M80 lights of \$38.45 is 41% higher than the equivalent proposed Tariff 2 for M80 lights for EnergyAustralia, this being \$22.53. Given the extensive history with this light across Australia and the similar maintenance regimes being assumed across utilities, such a marked difference in O&M would require specific justification, which is not apparent in the proposal by Integral Energy or in the Draft Determination.

WSROC notes that, allowing for inflation since 2004, the proposed EnergyAustralia O&M charge for M80 lights in the Draft Determination is within 20% of the O&M pricing established in Victoria in the 2004 Final Decision of the Essential Services Commission.

In marked contrast, Integral Energy's O&M charge is 98% to 125% higher than the approved M80 O&M charges in Victoria which, in the 2004 Final Decision for urban areas, were within the range of \$15.15 to \$17.28³.

Recommendation 4:

In the Final Determination the Tariff 2 – Tariff Code 315 for M80 lights (and related tariff Codes) should correspond with reasonable benchmarks in NSW and Victoria.

b) Energy Efficient T5 & CFL Lighting

Proposed pricing for energy efficient T5 lighting at Integral Energy is 64% higher than the cost for installations in 2008/09. The proposed Integral Energy Tariff Class 3 plus associated bracket cost is \$93.95 versus current 08/09 T5 pricing of \$57.16 for Schedule 1 - Tariff Code 218.

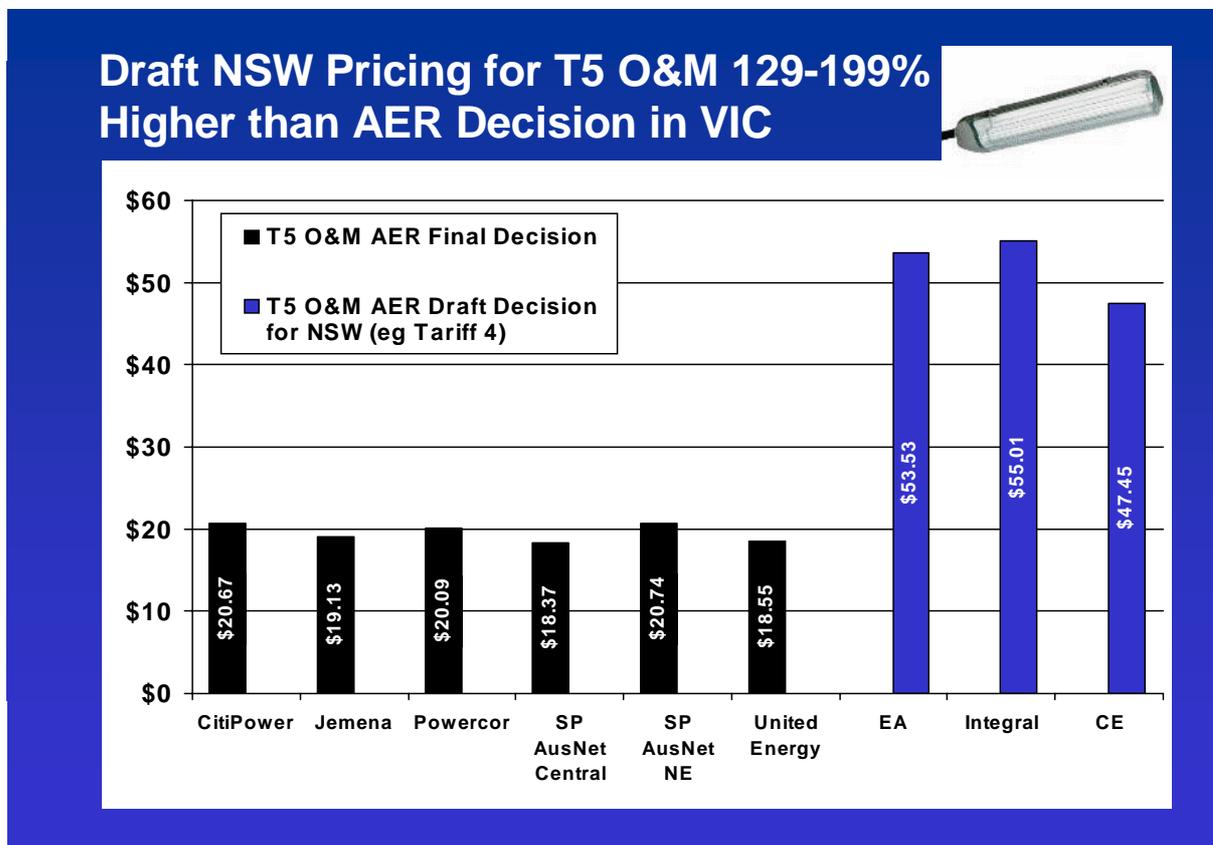
There are already thousands of T5 luminaires installed on Integral Energy's network with the strong support of Councils. They have been standard offerings in this region since 2004/05.

³ As per details included in the AER Final Decision Models – Energy Efficient Public Lighting Charges, Feb 09

Most Councils in WSROC have adopted them as standard defaults for new and replacement lighting and are looking to use energy efficient lighting wherever possible and affordable. To date, these have proven very reliable and effective forms of lighting. WSROC and its constituent councils are not aware of any unusual reliability problems with these luminaires that would explain the significant increase in pricing for O&M charges that is being proposed in this Determination. Indeed all the feedback from Integral Energy to date is that they have proven to be very reliable luminaires.

When pricing for T5 luminaires in the Draft Determination is compared with the recent Determination by the AER in Victoria (see graph provided by SSROC below) it is clear that there are no assumptions of high O&M for this lighting. This graph shows that the proposed T5 O&M pricing for Integral Energy and EnergyAustralia is, on average, 177% higher than pricing for T5 lights recently approved by the AER in Victoria.

This example suggests that anomalous O&M assumptions in NSW appear to be a key driver of overall high costs currently being proposed for energy efficient lighting.



Similarly, proposed Integral Energy pricing for energy efficient CFL lighting (\$80.87 for Tariff 3) appears to be similarly high compared to current pricing for comparable T5 (\$57.16 for 08/09 Schedule 1) and M80 (\$46.40 for 08/09 Schedule 1) luminaires being installed this year.

Inappropriately high pricing is a disincentive to the adoption of new technology and warrants careful consideration in light of the high priority placed by all levels of government on achieving cost effective energy efficiency savings and greenhouse gas abatement wherever possible. With the current public policy emphasis on greenhouse abatement, this particular issue will be of significant concern to Councils.

Recommendation 5:

The pricing by Integral Energy and EnergyAustralia of T5 and CFL lights should be reviewed and prices in the Final Determination reduced to correspond with pricing in Victoria.

If pricing parity between NSW and Victoria for energy efficient T5 and CFL lighting cannot be achieved, then the AER should provide detailed advice justifying this discrepancy.

APPENDICES

About WSROC and Western Sydney

The Western Sydney Regional Organisation of Councils (WSROC) was formed in 1973 by Western Sydney councils as a regional advocacy, research and resource sharing organisation. The WSROC Region includes eleven local government areas: Auburn Council, Bankstown City Council, The Hills Shire Council and Blacktown, Blue Mountains, Fairfield, Hawkesbury, Holroyd, Liverpool, Parramatta and Penrith City Councils.

The WSROC Region has substantial residential, rural, industrial, commercial, institutional and military areas. The WSROC Region encompasses a total land area of about 5,800 square kilometres, including national parks, waterways and parklands. The LGA with the largest population in the WSROC Region is Blacktown City, with Hawkesbury City having the smallest population. The LGA with the largest land area is Hawkesbury City, with the Auburn Council area having the smallest land area.

It is anticipated that Greater Western Sydney (GWS which comprises the WSROC region and the additional council areas of Camden, Campbelltown and Wollondilly) will accommodate over half of the population growth of NSW over the next 25 years – approximately 600,000 people – to be added to the existing population of approximately 1.8 Million people. In 2006 GWS accounted for 43.4% of the population of metropolitan Sydney and 27.3% of the population of NSW.

Western Sydney region produces more than \$80 billion in economic output annually, making it Australia's third largest economy (after Sydney CBD and Melbourne). It is therefore one of Australia's most important urban regions.

Western Sydney is not a homogeneous region and in some of the larger local government areas census data reveals pockets of severe socio-economic disadvantage. Recent research has demonstrated that no progress has been made during the economic boom that extended from the mid nineteen nineties to 2007 and the Western Sydney region is now most at risk of further decline as the result of the economic downturn.