

INDEPENDENT PRICING AND REGULATORY TRIBUNAL OF NEW SOUTH WALES

Statement of Reasons for Decision

Matter: Country Energy's application for price increases for the construction, maintenance and asset management components of its public lighting business

Application under clause 2.3 of the Regulation of Excluded Distribution Services Rule 2004/01.

Details of Decision:

Tribunal Member: Mr James Cox (Chief Executive Officer and Full Time Member)

Decision: The Tribunal approves Country Energy's application dated 11 April 2007 to increase public lighting charges.

Background

On 11 April 2007, Country Energy submitted an application to the Tribunal under clause 2.3 of the *Regulation of Excluded Distribution Services Rule 2004/01* ("Rule") to increase its charges for the construction, maintenance and asset management components of its public lighting business. Country Energy proposed an average nominal increase in its public lighting charges of 5.22 per cent, with a maximum increase for any council of 8.04 per cent (CPI plus 4.50 per cent) to take effect on 1 July 2007.

Public lighting services are an "Excluded Distribution Service" within the meaning of the Rule. Pursuant to clause 2.3 of the Rule, on each occasion that there is a change in prices for public lighting services, the Tribunal must be satisfied that the Distribution Network Service Provider's (DNSP's) proposal complies with clause 2.3 (which incorporates the requirements of clause 2.2(a)(1) and (2) of the Rule) and if not satisfied, the Tribunal may require the DNSP to submit alternative prices.

Decision

The Tribunal is satisfied that Country Energy's proposed average nominal increase in its public lighting charges of 5.22 per cent, with a maximum increase for any council of 8.04 per cent (CPI plus 4.50 per cent), to take effect on 1 July 2007, complies with the Rule in all relevant respects. The Tribunal approves Country Energy's application.

Reasons for the Tribunal's Decision

In reaching its decision, the Tribunal had regard to the requirements of the Rule including that:

- the DNSP must use its reasonable endeavours to ensure that prices signal the economic costs of service provision (clause 2.2(a) (1) of the Rule); and
- if the DNSP's prospective price changes would reasonably be expected to impose significant adjustment costs on those that must bear those price changes, the DNSP must implement transitional price options, a phased approach or other measures (whether as part of its prospective price changes or otherwise) which in the Tribunal's opinion are reasonably necessary to mitigate the effects of those adjustment costs, having regard to the nature and extent of those adjustment costs and the prospective changes (clause 2.3(a)(3) of the Rule).

In making its decision the Tribunal has considered all material provided by Country Energy in support of its application. The Tribunal also considered carefully all submissions by stakeholders, including concerns raised by the Local Government Shires Association of NSW (LGSA) as to customer impacts and whether Country Energy's proposed prices reflect economic costs (in the light of public lighting prices charged elsewhere in NSW and in Victoria). After weighing the available evidence, the Tribunal is satisfied that County Energy's proposal meets the requirements of the Rule for the following reasons:

- The Tribunal accepts Country Energy's submission that at present some public lighting customers pay less than the cost of supply for the services that they receive. The Tribunal has examined the costs associated with Country Energy's public lighting infrastructure and finds that the proposed increase is necessary to move prices towards signalling the costs of service provision. However, before any further price proposal will be considered by the Tribunal, it will be necessary for Country Energy to provide the Tribunal with a detailed analysis of its economic costs associated with the provision of its public lighting services. If the Tribunal receives a further price proposal, it will engage an independent expert to review the efficiency of these costs prior to making a decision.
- The Tribunal is satisfied that Country Energy has taken into account customer impacts by proposing a transitional price path, as envisaged by Clause 2.3(a) (3) of the Rule. The Tribunal notes Country Energy's submission that an average price increase of 5.22 per cent would be insufficient to bring revenues up to costs (Country Energy will under-recover by \$1 million in 2007/08), but that it has limited the proposed 2007/08 price increase for any council to a maximum of CPI plus 4.5 per cent in light of the concerns of the Tribunal and the councils.

26 June 2007