



19 January 2005

Independent Pricing & Regulatory Tribunal  
PO Box Q290  
QVB POST OFFICE NSW 1230

Our Ref: F2004/07681  
ABN 81 065 027 868

Dear Members of the Tribunal

**SUBJECT: ENERGYAUSTRALIA PROPOSAL TO INCREASE PUBLIC LIGHTING PRICES BY 70%**

On behalf of Council, I thank you for the opportunity to make this submission contesting EnergyAustralia's (EA's) proposal to increase prices for public lighting services by some 70% (real) over the next 30 months.

Lake Macquarie City Council supports the submission made by the Street Lighting Improvement Program of which it is a member. In particular, this Council would like to reinforce the following issues raised by the SLI Program.

- 1 Councils urgently need IPART's regulatory protection, as there is simply no recourse to a contestable market for public lighting services with respect to the existing 246,000 lights owned by EA.**

The SLI Program understands that the design, construction, and maintenance of new public lighting is contestable, and that the supply of retail energy for all public lighting is also contestable. However, EA's pricing proposal relates to the public lighting services for the 246,000 existing lights owned by EA. NSW contestability policy, as established in the Electricity Supply Act 1995 and administered by the Department of Energy, Utilities and Sustainability (DEUS), does not provide for contestability with respect to public lighting services for existing EA-owned assets. Councils have no choice with regard to maintenance, modification, or removal of these existing lights.

The SLI Program appreciates the Tribunal's efforts to facilitate future contestability by classifying public lighting as an excluded distribution service in the 2004 Electricity Network Price Determination. However, public lighting services related to the EA-owned lights remain a monopoly, and it is therefore essential that councils be provided with clear and strong regulatory protection regardless of how those services are classified.

- 2. EA's proposed price increase appears to be based on inappropriate costing, and in fact, current prices already appear to exceed, by about 12%, the cost of public lighting services performed in a reasonably efficient manner.**

There are several significant deficiencies in EA's cost analysis and pricing proposal.

*Keep our waterways clean - only water should go down the drain.*

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Inappropriate Costing	Value (\$m/yr)
Excessive costs resulting from obsolete and highly inefficient practices	\$6.7m <sup>1</sup>
Overstated depreciation costs based on inappropriately short assumed asset lives	\$1.4m
Inappropriate proposed new charges for existing dedicated connection assets	\$7.0m
Double counting the cost of fault repairs required by the Public Lighting Code	\$2.3m

The above inappropriate costs total over \$17 million/yr which is slightly more than EA's proposed price increase. Eliminating these proposed charges would result in a price reduction of about 12% from current levels. It is our view that EA should therefore be implementing a price reduction.

- 3) EA's proposed prices for major lighting types are greatly in excess of the costs assessed by the Victorian Essential Services Commission (ESC) during the course of its review of public lighting charges.

During 2003 and 2004, the ESC undertook a review of public lighting charges, and performed detailed analysis and modelling of public lighting costs. The ESC's detailed analysis investigated three main lighting types, which are also now the defaults for all new and replacement lighting in EA's territory. EA's proposed prices for these common lighting types are some 31% to 89% above the costs assessed by the ESC.

- 4) **IPART** approval of EA's proposed price increase would send a poor signal with respect to electricity sector reform.

Approval would be viewed by many as rewarding EA's poor performance, and as burdening councils and the public with inequitable cost shifting that result in reductions in services provided by councils to ratepayers. It would be difficult to reconcile such pricing with public confidence in electricity sector reform. It would also set an unhelpful precedent and may prompt other utilities to lower their standards and seek similar price increases, resulting in a burden to all ratepayers in NSW.

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<sup>1</sup> EA's poor technology practices result in excessive energy consumption, which burdens councils with excessive charges for retail energy and network use of about \$0.9million /year, and produces excess greenhouse gas emissions of about 12,000 t CO2/ yr.

5) **EnergyAustralia proposing additional charges for the removal of obsolete assets.**

In addition to the pricing proposals made in its submission to IPART, EnergyAustralia has proposed to members of the SLI Program that councils be charged \$150 capital recovery charge per luminaire, in addition to labour charges for any removal of obsolete fluorescent lighting, before it has reached 20 years of age. In short, to have EnergyAustralia remove assets it almost certainly should not have installed in the first place, councils would have to pay the company at least \$15-18,000,000 of capital charges for the 100,000-120,000 obsolete fluorescent lights on EnergyAustralia's network, and pay a potentially comparable amount for labour costs associated with the removal of these assets.

6) **While EA's proposed price increase is highly inappropriate, the SLI Program welcomes some of the changes that EA is beginning to undertake.**

These include changes in technology practices such as ceasing to install obsolete equipment, and instituting a planned maintenance regime, both undertaken with the support and urging of the SLI Program. These changes should significantly reduce EA costs and improve lighting outcomes.

In summary, the proposed charges will require this Council to pay EnergyAustralia an additional \$500,000 annually. This increase is far in excess of Council's rate capping as set by the Minister for Local Government annually, and will result in a reduction of service levels in other areas servicing the community.

Lake Macquarie City Council request the Tribunal to reject EnergyAustralia's proposal and request EnergyAustralia to reduce their prices in line with item 2 above

Should you require further information, please contact me on 4921 0354.

Yours faithfully



DAVID PAVEY  
MANAGERASSETMANAGEMENT