



Scott Turner/st



8 July 2005

Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB Post Office NSW 1230

Dear Members of the Tribunal,

Re: Energy Australia Proposal to Increase Public Lighting Prices by 27% Plus CPI

I refer to the current proposal before the Tribunal and welcome the opportunity to make a submission. In the first instance I would advise that Mosman Council is a member of the Street Lighting Improvement Program (SLIP), a group of 29 Councils encompassing approximately 90% of the street lights owned by Energy Australia. Mosman Council fully endorses the submission made by Mr Graham Mawer of Next Energy on behalf of the Street Lighting Improvement Program.

Whilst Councils are now able to procure their energy needs from alternative suppliers, the infrastructure that supplies street lighting, including the lights etc. themselves, is provided by Energy Australia and Councils have no alternative. Energy Australia are a monopoly in this area and this appears to have influenced the way in which they do business with Councils, and formulation of their pricing structure. IPART is the only protection that local Councils have from this monopoly.

Mosman Council wishes to raise the following points for consideration, some of which are also outlined in the SLIP submission. The comments can be placed into four areas being:

- The proposal is essentially the same as that lodged previously.
- The proposal seeks tacit approval of future increases over and above what is specifically being sought at this time.
- Inefficiencies in Energy Australia's current business practices in street lighting.
- Consequences for Councils if the increase is approved.

1. Same Proposal

With the exception of a concession on the remaining useful life of certain assets, the proposal is identical to that considered by IPART earlier this year.

1.1 Component Pricing

Energy Australia has divided the pricing increase into various components being:



- An initial price adjustment (as sought by the current submission) to recover the previous subsidy from other parts of the business.
- Alleged cost increases that will result from the introduction of the Public Lighting Code.
- Cost recovery for street lighting assets allegedly not charged for previously.
- Unwinding of alleged cross subsidies for street lighting.

The current proposal seeks the initial price adjustment but indicates quite clearly at several places in the submission that Energy Australia will come back at a later time and seek increases for the other components.

1.2 Nett Effect of Price Increase for Identified Components

It is reasonable to assume that the size of the increases sought for the various components and the arguments used to support them will be similar, if not the same, as those presented to IPART in Energy Australia's November 2004 submission. The combined effect of price adjustments for each component will be the average 70% increase sought in the November 2004 submission.

Energy Australia will argue they are not asking for increases on the other components at this time and IPART will make its determination on those components if and when an increase is sought by Energy Australia. However, their submission clearly states an intention to seek such increases and therefore IPART should consider the nett effect for Councils of these clearly stated additional increases when making its determination on the current proposal.

If IPART did not consider these increases (total increase of the combined components) appropriate in the previous determination, they are not appropriate this time and should again be rejected.

1.3 Revenue Shortfall Recovery

On page five of their submission in the last sentence before paragraph 1.1.3 Energy Australia state "Energy Australia maintains that it is incumbent on IPART to recognise the revenue shortfall created by its change in regulatory treatment of public lighting and to allow its recovery in future public lighting charges." Whilst it may be correct that the previous IPART decision removed a subsidy for street lighting from another part of the business and created a revenue shortfall, it is not incumbent upon IPART to allow this revenue to be recovered in the manner sought by Energy Australia.

The submission for this price increase is simply a matter of attempting to recover a revenue shortfall previously obtained from another part of Energy Australia's business. The SLIP submission has demonstrated the flawed analysis used by Energy Australia in an attempt to justify the proposed increases. Much of this analysis is based on inefficient work practices and continued use of outdated and obsolete technology in the business. Councils must not be forced into paying for this.

2. Tacit Approval for Future Increases and Pricing Trajectory

In the last dot point in the Executive Summary on page 2 of the submission, Energy Australia states ".....we seek formal commitment from IPART that the pricing trajectory will be recognised in future years, and that only deviations to the price path would be the subject of more detailed review...."

It is not clear exactly what this statement means, however it would seem to indicate that Energy Australia is seeking an "in principle" agreement from IPART to future price increases for those components that an increase has not been sought for at this time; and to the various flawed methodologies that have been used to determine the current price increases such that the same flawed methodologies could be used in future submissions. Further that only the amount of the increase would be the subject of any discussion, rather than the methods used to determine it.

If Energy Australia has a legitimate argument for such increases they should be presented in full at the time the increase is sought, whether in principle or for an exact amount. To adopt such an approach is considered to be underhanded, lacks transparency and is totally unacceptable. It could also be considered an abuse of process. It is highly presumptuous of Energy Australia to even suggest that IPART would agree to such a request without being provided and considering the detailed arguments for the increase. The commitment sought should be rejected.

3. Current Inefficiencies in Street Lighting Business

Next Energy on behalf of the SLIP has undertaken a range of detailed analyses of business practices and methodologies utilised in Energy Australia's street lighting business. Their submissions on the previous proposal and current proposals have demonstrated that Energy Australia has inefficient business practices in a number of areas. These practices could be improved to minimise or even eliminate any proposed cost increases. Energy Australia appear to have made no attempt to identify, quantify and rectify these inefficiencies. Their only concern appears to be to justify their current business practices and pricing structures and to attempt to discredit anyone who disagrees with them.

3.1 Victorian Essential Services Commission Comparison

The SLIP attended a presentation from Energy Australia on 5 July 2005 where a presentation was made on the methodologies and prices utilised by Energy Australia and the Victorian Essential Services Commission (ESC) to determine pricing of various services. I was fortunate to be invited to attend the presentation. It is understood that Energy Australia will make a submission to IPART on why their costings for similar services are so different from those approved by the ESC. The SLIP will also include in its submission an analysis of this information.

It is our understanding that the process undertaken by the ESC in Victoria to determine the cost of street lighting was a comprehensive and detailed process that involved all of the service providers, local Councils and other interested parties. There were several rounds of consultation and underpinning the entire process was a desire to have pricing structures that reflect current best practice in the industry. It is further understood that all parties involved in the process largely were in agreement with the final outcome. By setting prices at a level

that can be achieved with current best practice, the ESC has ensured that service providers in Victoria examine their businesses and implement current best practice. Without doing this the service providers would be unable to provide the service at the cost they can charge. This approach has ensured that the Victorian community receives value for money in its street lighting services.

3.2 Energy Australia Response to Victorian ESC

The work undertaken by and on behalf of Energy Australia to compare their current proposal to the prices arrived at by the Victorian ESC effectively concluded that the Victorian ESC “got it wrong”. The main areas where there were glaring discrepancies between the two states were in bracket costs, maintenance schedules and workforce productivity. This may be an oversimplification but are NSW Councils to seriously accept that a Victorian State Government authority and all of the Victorian energy/service providers that participated in the considerable process undertaken by the ESC “got it wrong”?

The response of Energy Australia to the ESC clearly demonstrates their attitude to such matters. Rather than take an active interest in how these costs are actually determined and achieved in Victoria with a view to implementing similar strategies in their own business, Energy Australia have stuck their collective heads in the sand and sought to discredit the findings of the ESC. Energy Australia expect the communities that it serves to accept a level of service that is not current best practice in the industry, is not as good as has been achieved in Victoria and further that they should pay substantially more for it.

3.3 IPART'S Opportunity

IPART has a unique opportunity to effectively force Energy Australia to examine its own operations and make some meaningful changes to their street lighting business to provide an efficient and effective service to the NSW community that it serves. This can be achieved by rejecting the current price increases and requiring Energy Australia to undertake a process of self examination in their street lighting business to consider:

- Industry best practice.
- The use of improved technology in the provision of street lighting.
- Greater efficiency in maintenance practices.
- The true economic life of street lighting assets.
- Benchmarking to other energy providers in NSW and Victoria.
- Meaningful consultation with local Councils.

3.4 Return on Investment

Energy Australia has placed a strong emphasis on earning an appropriate return on its investment. A return on investment of 7% has been used in the various analysis undertaken to support their proposals. On page 1 of Energy Australia's submission in the Executive Summary the statement “.... firm belief that a regulatory framework should not institutionalise a loss of shareholder value” is made. This is perhaps true but it does not mean that price increases should automatically be granted to ensure that dividends from the business are maintained, especially when the business is a monopoly and provides essential services to the community.

The regulatory framework should also not institutionalise inefficiency and by granting the price increases requested it could be strongly argued that this would be the case.

All businesses create their "bottom line" through a combination of price increases for their products/services and efficiency gains in the production of those products/services. Energy Australia do not appear to be considering any efficiency gains in their business when there would be considerable opportunity for such gains. Rejection of the proposed price increases would force Energy Australia to examine these opportunities.

An interesting point to note is that local Councils earn zero return on the capital investment they have made in various street lighting infrastructure over the years.

4. Consequences of Proposed Increase

4.1 Energy Australia Analysis

Energy Australia has undertaken an analysis of the proposed price increases for each Council and calculated the amount of the proposed increase per rate payer, as a percentage of the average rate and as a percentage of the Council's overall budget. This is clearly an attempt to demonstrate that the proposed increases are small when examined in those terms. This position could be supported if Councils had the ability to pass on these cost increases directly to its ratepayers.

4.2 Service Reductions

Councils have no ability to pass the costs on due to the practice of rate pegging by the State Government. As such any cost increase above CPI must be absorbed into Council's existing budget and this means cutting other services. To attempt to justify the proposed increases in these terms is considered mischievous and misleading.

As an example of what might have to be cut to fund the proposed increase, the additional \$30,000 per annum for Mosman Council is the equivalent to the cost of:

- Council's annual contribution to the cost of employing its Road Safety Officer.
- Funding to Support 10 of Council's 15 Volunteer Bushcare Groups.
- 90% of Council's annual subsidies to community and charitable organisations including Disabled Alternative Road Travel Service (DARTS), Holyoake, Taldumande Youth Services, Royal Blind Society, Northside Enterprises and the Aboriginal Community Worker (Northern Sydney Region).
- Council's entire annual allocation for new children's books in the library.
- Traffic and pedestrian safety measures around local schools and commercial areas.
- 66% of the budget for a proposed new children's playground.

It should also be noted that this is only the amount of the first increase proposed for August 2005. The total increase for Mosman under the current proposal is not able to be easily calculated and has not been provided by Energy Australia. Based on the average increase stated by Energy Australia of 25% + CPI over the next 3 years, Mosman Council's increase

would be in excess of \$60,000 per annum + CPI. Mosman's increase is typically larger than the average due primarily to the amount of underground power that we have in Mosman.

In addition, Councils face the prospect of additional increases in the future for the other components as outlined in Energy Australia's submission. Under the November 2004 proposal Mosman Council's street lighting charges for the infrastructure etc. would have increased by \$244,273 per annum or 101% of the current charge. This is approximately equivalent to:

- Council's entire annual maintenance budget for passive recreation reserves, gardens and open space (excludes sporting fields).
- Council's entire annual budget for stormwater drainage improvements and maintenance.
- 39% of Council's annual budget for road rehabilitation and maintenance.
- 232% of Council's annual staff training budget
- 708% of Council's annual subsidies to community and charitable organisations including Disabled Alternative Road Travel Service (DARTS), Holyoake, Taldumande Youth Services, Royal Blind Society, Northside Enterprises and the Aboriginal Community Worker (Northern Sydney Region).

5.0 Conclusion

In conclusion the proposal by Energy Australia to increase charges to local Councils for street lighting infrastructure is considered unreasonable. Whilst at first glance it appears considerably less than what was proposed in their November 2004 submission, Energy Australia has clearly indicated that it will pursue increases in the other components of their pricing structure over the coming years. The current proposal for what appears to be a fairly modest increase is the thin edge of the wedge with further increases to come later. The nett effect from all of the proposed component increases will be the same as what was proposed in Energy Australia's November 2004 submission. In particular IPART should not provide the requested "formal commitment ...that the pricing trajectory will be recognised in future years, and that only deviations to the price path would be the subject of more detailed review....". Requested price increases must be fully justified at the time they are sought.

The attempt by Energy Australia to justify their price increases as modest in comparison to Council's overall budgets is misleading as Councils have no ability to pass these increases on to their ratepayers. Council budgets for 2005/06 have already been set and any increase above CPI would have to be absorbed into the existing budget. Other programs and services would need to be cut to fund the increase.

Energy Australia has made no attempt to address inefficiencies in their street lighting business that they have been aware of for some time. The submission from the SLIP outlines these inefficiencies and provides substantial analysis and evidence to support the arguments presented. To agree to the requested price increases would institutionalise this inefficiency and remove any incentive for Energy Australia to address it.


IPART is the only protection that local Councils have from the monopoly of Energy Australia in the provision of street lighting infrastructure. IPART rejected the previous submission and should also reject the current submission because it is essentially the same. The only

mechanism available to encourage and ensure that Energy Australia updates their current inefficient practices in the street lighting business to industry best practice is to reject the requested price increases.

Thankyou again for the opportunity to make a submission on this proposal,. Should you require any further information please contact the undersigned on 9978-4021.

Yours faithfully,

V H R MAY
GENERAL MANAGER

Per: 

(Scott Turner, Manager Assets and Services)