

Scott Turner/st

17 January 2005

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

Dear Members of the Tribunal,

**Re: Energy Australia's Public Lighting Pricing Proposals**

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.

Mosman Council also recognises and acknowledges that the SLIP has received good support from Energy Australia in order to conduct its work and further that Energy Australia has implemented some changes as a result of this work. However, there is still much room for improvement.

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 three categories being:

- The process itself,
- Proposal from Energy Australia,
- Consequences for Council should the proposal be approved.

**1.0 The Process**

Mosman Council received formal advice from Energy Australia of the proposal before IPART on 10 January 2005 giving us 7 days to formulate a submission by the closing date of 17 January 2005. It is understood that all of Energy Australia's customers received similar short notice of the proposal. It is fortuitous that Mosman and other Councils are members of the SLIP and there has been much ongoing research and investigation into street lighting issues. Otherwise we would not be in a position to make a meaningful submission at all. At a time of year when many staff are on leave and the elected Council is in recess, any Council that is not a member of SLIP will have little chance of making a full and proper assessment of the proposal in order to formulate a reasonable submission in such a short time frame.

Mosman Council has also been advised that the consultation purported to be undertaken by Energy Australia has only taken place at the direction of IPART. This suggestion would seem to be supported by the following facts:

- Submission to IPART from Energy Australia is dated November 2004 and was presumably lodged at that time,
- Letter from Energy Australia to its customers advising of the proposal is dated 20 December 2004,
- Letter not received by Councils until 10 January 2005.

Mosman Council would therefore like to thank IPART for requiring the consultation and the opportunity of making a submission. To ensure transparency of the process, there should be an extension of time for any Council to make a submission that does not feel equipped to do so in the short timeframe provided. More importantly, there should also be a mandatory requirement for any future proposals to be the subject of reasonable consultation (including reasonable notice of the proposal) with affected customers.

### **1.1 Transparency**

Transparency in any consultation process is about providing all relevant information to affected stakeholders of your own volition, at a time in the process that gives stakeholders the opportunity to have input before decisions are taken and in a manner that it can be easily understood by all concerned. Transparency is not a word that could be used to describe the process that Energy Australia has followed in proposing these price increases.

The letter received by Council from Energy Australia could be described as misleading. The letter only outlines a proposed price increase to come into effect from 1 March 2005. It makes no mention of the proposed further price increases on 1 July 2005, 1 July 2006 and 1 July 2007. Whilst the letter does refer readers to Energy Australia's IPART submission, that document only deals generally with the concept of transitioning price increases. It does not specifically state that increases will occur in subsequent financial years, although it is understood that information may be contained in the confidential appendix, appendix 3. Given that appendix 3 is confidential, the proposed increases should have been clearly stated in the letter to Councils from Energy Australia.

Energy Australia state directly in their IPART submission at point 2.5.2 that they have been transparent in this process and relate a series of statements to support this assertion. This claim is also considered misleading.

No consultation has been undertaken directly with Mosman Council, or to our understanding, with any Council, on these proposed price increases. The discussions with the SLIP program mentioned at point 2.5.2 were not, to our knowledge, about these proposed price increases. It is our understanding that these discussions relate specifically to the work being undertaken by the SLIP on behalf of 29 Councils and revolved largely around technology improvements, obtaining information from Energy Australia to assist in analysis, identifying and understanding business practices employed at Energy Australia and general issues related to street lighting. Further, these discussions were instigated by the SLIP program, not Energy Australia.

It is acknowledged that Energy Australia has been very cooperative and open in assisting the SLIP program in its work, however, this is a separate process to the current proposal for a price increase.

## **2.0 Energy Australia's Proposals**

As mentioned earlier in this letter Mosman Council fully endorses the submission made by the SLIP Program Manager, Mr Graham Mawer.

### **2.1 Monopoly**

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.

### **2.2 Lack of information**

The SLIP submission is a very detailed one and contains significant analysis of Energy Australia's proposed pricing structure. The submission was only formulated to the level of detail that it contains because of the extensive research already undertaken over the last 2 - 3 years. Much of the information the SLIP relies upon to formulate this analysis does not appear to be contained in the submission made by Energy Australia to IPART. The SLIP submission is heavily reliant on the research already undertaken. It may be that there is additional information that was supplied to IPART by Energy Australia, but it has not been made publicly available. Further, any Council not a member of the SLIP would not have access to the information required to make a reasonable assessment, and therefore submission, about the proposal.

Any future proposals for price increases must contain sufficient information to allow a full and proper assessment of the proposal based on the information provided to IPART. Interested parties should not have to rely on doing their own further research to obtain relevant information about the proposal. In the first instance it would not have been achievable in the timeframe provided for submissions even if Councils had been notified in December as intended. Secondly, the process is not transparent if all of the relevant information is not provided directly in the submission to IPART.

It would have been useful for the Energy Australia submission to include a series of sample calculations for particular activities or assets in order to allow readers the opportunity to see exactly how the proposed charges have been determined.

### **2.3 Efficiencies - Alternative Options to Price Increases**

The document provided to IPART by Energy Australia and available on the IPART website provides much general commentary about the plight of Energy Australia due to earlier decisions of IPART. It provides no other reasons for the proposed cost increases and in particular does not provide sufficient detailed information on how the proposed increases

have been calculated. It simply relies on the fact that Energy Australia has lost revenue in one area of its business and therefore seeks to recover it in another.

Most businesses when faced with this predicament, in addition to seeking to raise revenue, would examine their business and look for efficiencies and improvements that could be made to improve the bottom line. It appears that Energy Australia has not examined any opportunities for improvements in their business practices and simply seeks to increase revenue in the street lighting area to compensate for decreased revenue from other areas as a result of earlier IPART decisions. This would appear, at least in part, to be due to the fact that Energy Australia operates a monopoly for street lighting services. As such Energy Australia has no incentive to look at their business practices and has taken the easy option of simply increasing charges to their customers who have no choice but to pay them.

The SLIP submission demonstrates that Energy Australia has inefficient business practices in a number of areas. These practices could be improved to minimise any proposed cost increase. In fact the SLIP submission demonstrates how current street lighting costs could actually be reduced if Energy Australia were to adopt more efficient business practices which are in line with industry best practice and other energy providers throughout NSW and Victoria.

To approve the proposed cost increases would reward the current inefficiencies in Energy Australia's street lighting business and perpetuate them. There would be little incentive for Energy Australia to examine its operations and make improvements. Based on the SLIP submission, and Mosman Council's general experience of dealing with Energy Australia, there would appear to be considerable opportunity for such improvements to the benefit of the general community.

## **2.4 New and Inappropriate Charges and Methodologies**

The proposal by Energy Australia to introduce new charges primarily for low voltage underground mains servicing street lighting is considered to be unreasonable and grossly unfair. It should not be supported for the reasons outlined in the SLIP submission.

In addition the SLIP submission outlines a number of errors in the methodologies used by Energy Australia to calculate the proposed pricing structure. These errors must be corrected and pricing calculated in accordance with current accounting standards to reflect the true economic life of the assets.

## **3.0 Consequences of Proposed Increase**

Should the current proposal before IPART be approved, there will be considerable ramifications for Mosman Council, and indeed it would seem all Councils. Mosman Council's annual charges for the infrastructure etc. covered by this proposal would increase progressively from the current \$242,076 per annum to \$486,349 per annum in 2007/08. This is an increase of 101%. It should be noted that energy costs for street lighting and the associated network charges are not included in these figures.

Based on Energy Australia's submission to IPART, the general community was previously subsidising the cost of street lighting. If, as Energy Australia contend, the proposed charges are the true cost of supplying street lighting to our local communities (and Mosman Council's

position is that the charges are too high), then those communities should pay the cost of having these street lighting services. In a climate where Councils are subject to annual rate pegging, which approximates to CPI each year, Mosman Council has no ability to pass the cost of the increased charges onto the local community. Council also does not have the capacity to pay the increased charges at present. The only way the charges could be paid would be for other services to be cut. Whilst the short timeframe for submissions has not permitted any detailed assessment of what might be cut to fund the increase, options to be considered would include:

- turning off every second street light (given that our charges will approximately double),
- reduced capital and maintenance expenditure on public infrastructure,
- reduced community services such as library opening hours, meals on wheels etc.
- reduced subsidies to local community and sporting groups.

These service reductions would need to be permanent in order to fund the ongoing commitment to the proposed increase in street lighting charges.

In particular it needs to be noted that generally the level of street lighting provided throughout established residential areas in the Sydney metropolitan area is already well below adopted Australian Standards for street lighting. Improved street lighting is a recognised method of reducing crime and other undesirable activities such as graffiti etc. What would be the effect on crime rates and other undesirable behaviour of further reducing lighting levels? The proposed increase in charges will certainly halt any proposals for a general improvement in the level of street lighting and one off requests for site specific improvements.

#### **4.0 Conclusion**

In conclusion the proposal by Energy Australia to substantially increase charges to local councils for street lighting infrastructure is considered unreasonable and is poorly constructed. It is based on simple mathematics of recovering income lost from previous legitimate decisions of IPART to regulate other areas of Energy Australia's business. No consideration has been given to improving business practices in the street lighting area in an attempt to keep price increases to a minimum.

The SLIP program through research and detailed analysis over a number of years has exposed many gross inefficiencies in Energy Australia's street lighting business operations. Compared to other energy providers in NSW and Victoria, Energy Australia seem to be lagging well behind and it is their customers that are already paying the price for it. To agree to the proposed increases would reward this inefficiency and will actually perpetuate it.

The proposed price increases should be rejected outright and Energy Australia requested to re-examine their street lighting business and come back with a revised proposal. This revised proposal should be based on:


- Industry best practice,
- The use of improved technology in the provision of street lighting,
- Greater efficiency in maintenance practices,
- Current accounting standards

- The true economic life of street lighting assets,
- Benchmarking to other energy providers in NSW and Victoria.
- Consultation with local Councils before any decisions on price structuring are made by Energy Australia

IPART is the only protection that local Councils have from the monopoly that is Energy Australia in the provision of street lighting infrastructure to its customers. Here is an opportunity to ensure that real improvements are made to the street lighting service provided by Energy Australia to the general community by refusing the proposed price increases. If they are approved, local Councils will have no choice but to reduce services in order to fund the increase.

Yours faithfully,

V H R MAY  
GENERAL MANAGER

Per: 

(Scott Turner, Acting Director Environment and Planning)