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Seed Advisory

Deep Dive Workshop Two – Summary Report

AusNet Services Electricity Distribution Price Review
2021 – 2025

10 April 2019



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Disclaimer

This report is only a summary of key items discussed at the deep dive workshop held on 27 February 2019.

The information in this report is not necessarily reflective of the views of each attendee at the workshop, AusNet Services or Seed Advisory.



1. Introduction

1.1. Background

AusNet Services owns and operates a regulated electricity distribution network delivering electricity to more than 720,000 customers in Melbourne's north, east and across all of eastern Victoria.

Regulated electricity network businesses must periodically (typically every five years) submit a Regulatory Proposal which outline their plans and proposed expenditure to the Australian Energy Regulator (AER) for assessment. AusNet Services is currently developing its 2021 – 2025 Regulatory Proposal. On 12 February 2019 AusNet Services released its draft Regulatory Proposal.

As part of developing its Regulatory Proposal, AusNet Services is undertaking an extensive customer engagement program. One component of this engagement program is a series of 'deep dive' workshops with attendees including customer representatives, consumer advocates, AER representatives, consumer challenge panel representatives and other stakeholders.

These workshops were designed to:

- share detailed information;
- consult on and enable open and frank discussion of AusNet Services draft Regulatory Proposal and plans with attendees; and
- enable AusNet Services to consider the feedback and views of attendees while developing its plans and respond accordingly.

AusNet Services engaged Seed Advisory to assist in the preparation and facilitation of these workshops and to develop a summary report for each workshop.

At the time of publishing this report, AusNet Services are planning on holding, or will have held the following workshops:

- Workshop 1: Overview of the draft Regulatory Proposal, customer experience, operating expenses and innovation;
- Workshop 2: Public Lighting;
- Workshop 3: Replacement Capital Expenditure; and
- Workshop 4: Innovation and Distributed Energy Resources.

1.2. Purpose of this report

This report summarises the key items of discussion from Workshop Two which was held on 27 February 2019 in Melbourne. The names and organisations represented of the attendees of this workshop are included in Appendix A and the complete agenda for the workshop is included in Appendix B.

In brief, the workshop agenda covered four broad areas:

- An overview of the public lighting draft Regulatory Proposal;
- A discussion on the impact the proposal on local councils and VicRoads; and
- A discussion on key cost drivers, customer service and opportunities for AusNet Services and local councils / VicRoads to work together.



It is important to note that the information in this report is not necessarily reflective of the views of each attendee at the workshop, AusNet Services or Seed Advisory. This report is only a summary of key items discussed at the workshop. The workshop was held under Chatham House rules, so no comments from attendees have been attributed to any one attendee. AusNet Services responses or comments in relation to matters raised by attendees has been noted as such.

1.3. Other related documents

This report should be read in conjunction with three key documents which are co-located on the same page of the AusNet Services website that contains this report. The documents will provide important information and context when reading this report, the documents are:

- Pre-reading materials developed by AusNet Services for the relevant workshop – this document contains background and other information provided to workshop attendees to prepare them for their workshop attendance;
- Presentation materials developed by AusNet Services for the relevant workshop – this document contains the material presented at the workshop; and
- AusNet Services draft Regulatory Proposal for the 2021 – 2025 period – this document contains the actual draft Regulatory Proposal published by AusNet Services on 12 February 2019.



2. Key discussion items

This section contains the key items discussed at the workshop and broadly follows the flow of the agenda. AusNet Services responses or perspectives provided either during or post the workshop are included where relevant and required in the shaded boxes.

2.1. Overall Proposal

The discussion on the overall draft Regulatory Proposal for public lighting covered three key areas.

2.1.1. Current revenue shortfall

There was acknowledgement by attendees that AusNet Services public lighting revenues for the current regulatory period have been and are forecast to remain approximately \$2m per annum below the annual cost to provide the services. This is mainly due to errors in two key input assumptions used in determining the revenue for the current regulatory period:

- An underestimate of the bulk replacement costs and occupational health and safety costs (OH&S); and
- Actual fault rates in lights exceeded previous assumptions.

Stakeholders also noted that forums and workshops such as this one are valuable because attendees are able to educate other council staff and councils who could not attend.

AusNet Services discussed that the under recovery of costs for the current regulatory period will not be recovered from customers, it will be borne by AusNet Services. However, for future regulatory periods the proposed revenues will need to increase to better reflect actual costs and experience.

2.1.2. Proposed revenue changes

There was discussion and acknowledgement of the proposed revenue changes in particular the need to increase future revenues to better reflect bulk replacement costs and failure rates. There was also acknowledgement that the transition to energy efficient lighting would reduce the impact of these proposed revenue increases. Some stakeholders mentioned that the specific and overall cost impact for a council also depends on future retail electricity costs and their approach to electricity contracting.

Some stakeholders raised concerns that the proposed price increases which are above CPI may have adverse impacts on council budgets and require councils to raise their rates which will have flow on effects for residents. Others commented that they may not be able to fully recover the cost increases beyond CPI. There was discussion on the impact of the proposed price increases on the validity and viability of business cases for (existing) energy efficient lighting replacement programs.

AusNet Services noted the concerns and will continue to engage and work with stakeholders to minimise the impact of any future revenue increases.

The discussion also covered the potential (skewed) impact on early adopters of energy efficient lighting, later adopters of this technology would be less effected as they have an



ability to reduce future costs through transitioning to energy efficient lighting. In addition, some noted that councils that wait to change over to energy efficient lighting till AusNet Services replaces the lights would result in every other council paying for their changeover. Some possible solutions for this issue were mentioned by stakeholders, such as:

- A new tariff for customers just changing over to energy efficient lights. However, some noted that whilst good to send a signal this may not be possible as distribution businesses are expected to base charges on costs and can't discriminate against some customers.
- The changeover to energy efficient lighting could potentially be funded by AusNet Services instead of the late adopter councils. However, it was noted that councils would be better to fund their own changes, allowing upgrades to be paid off by relevant council and not neighbouring councils.
- Changes to the regulated asset base (RAB) to add a new RAB for the energy efficient lighting versus older lighting. However, it was noted that this would make public lighting revenue proposals more complicated.

Some practical issues were noted with the discussed solutions including the planning horizon for councils and the ability for councils to commit to programs too far in advance given their budget approval cycles.

2.2. Major Cost Drivers

The discussion on the major cost drivers focused on the two main items underpinning the future revenue changes, these were:

- The bulk replacement costs of mercury vapour (MV) and sodium lights; and
- The failure rates of the various lighting technologies.

There was also some discussion on the approach to recovering costs for competitively tendered services.

2.2.1. Bulk replacement costs

AusNet Services firstly noted that the main reason for the under estimate in bulk replacement costs stemmed from two sources:

- The Regulatory Proposal for the current period (2016-2020) had zero allowance for LED bulk replacements – which was clearly an under estimate.
- The current Regulatory Proposal also did not incorporate adequate costs for current OH&S requirements which slow down daily bulk replacement rates.

The discussion then moved to the reasons underpinning bulk replacements of MV lights which primarily relate to environmental, health and safety concerns and the Minamata Convention. It was also acknowledged that over time the supply of MV lights would be limited in any event. Stakeholders generally accepted these reasons and noted that AusNet Services should make clearer the reasons underpinning the need for bulk replacement programs to avoid confusion.



AusNet Services noted the need for clarity in communication. In addition, they also commented that all lights other than LED have some levels of mercury, but that the mercury levels are much lower and below the threshold of concern. These lights including T5 and sodium based lights would be replaced as required at the end of life or failure. It is expected that by 2030 sodium lights will be obsolete.

Some stakeholders raised some issues and questions with LED bulk replacements:

- Some councils have been funding materials, project management, installation not AusNet Services and they were unclear on how this interacts with the AusNet Services bulk replacement costs.
- Some councils questioned if any of their plans for replacement programs had been included in the draft Regulatory Proposal.
- It was also raised by some that there is a split incentive between VicRoads and councils for bulk replacements on main roads. This causes a barrier to a coordinated approach and some larger councils are excluding split-funded replacements due to economic inefficiency whilst other councils have different approaches depending on resources and capabilities. Some raised whether or not there was an opportunity for information sharing and better co-ordination between VicRoads and councils to assist in managing this issue.

AusNet Services noted that its bulk replacement costs were associated with those that they are obliged to undertake such as with obsolete lights and PV cells and that no council specific plans had been allowed for. AusNet Services encouraged councils to discuss any plans and provide information to AusNet Services to ensure their Regulatory Proposal is based on the most accurate information.

There was discussion on the unique (and higher) costs for replacing decorative lights and that decorative lights represent the majority, but not all of the current MV lights that will require replacement. AusNet Services also noted that the majority of these decorative MV lights requiring replacement exist in only a small number of councils.

These lights have been challenging with councils requesting the lights remain due to their decorative nature. It was noted that it would be preferable for councils to replace these lights especially if they want the replaced light to similarly be decorative.

AusNet Services noted that it would be highly beneficial if these councils would work with AusNet Services to develop a suitable replacement strategy and program so these can be included in the draft Regulatory Proposal and avoid any unnecessary costs.

2.2.2. Failure rates

AusNet Services discussed their assumed failure rates for lights and noted that:

- The forecast failure rate for LED lights in the current Regulatory Proposal was 0.3% but that actual failure rates are closer to 2%.
- The forecast failure rates for other lights were also higher than expected.
- Failure refers to any part of the unit, not just the light itself and also includes poor functioning lights.



- Replacement costs for failures are more expensive in rural areas than metropolitan areas.

Some stakeholders commented that the LED and other failure rates seemed high based on their experience and understanding of failure rates for other distribution businesses. They noted that other distribution businesses experienced issues with LED lights being on during the day due to smart cell failure and questioned if some issues could be the control gear instead of the lighting equipment.

Stakeholders requested further information on the failure rate experience to assist in better understanding this issue such as sample sizes, trends over time and reasons for failure.

AusNet Services noted stakeholders concerns and will provide further information on failure rates.

2.2.3. Cost of competitively tendered services

AusNet Services noted that for their bulk replacement programs they competitively tendered for these services and the selected provider was chosen as it had the best overall proposition and value for money. There is transparency on the fee structure and assumptions underpinning the cost structures. These assumptions are used in the development of future costs and the Regulatory Proposal.

Stakeholders acknowledged AusNet Services approach and the implications of this approach. They requested (if possible) some information on the tender process, outcome and cost estimates.

2.3. Customer experience and opportunities to work together

The discussion on customer experience covered two main areas:

- Stakeholders views on is AusNet Services meeting their expectations and areas for improvement; and
- Opportunities for councils and AusNet Services to work together for mutual benefit.

2.3.1. Stakeholder views on customer experience

Some stakeholders commended AusNet Services for their commitment to customer service and noted that they were 'doing a lot more' than some other networks.

There were some areas identified for improvement and consideration, these included:

- Better communication between AusNet Services and councils regarding public lighting outages and when they are fixed.
- The development of an application / web portal to report faults. It was noted that some networks already have or are in the process of developing such an application.
- The re-instatement of a general email contact for fault reporting. It was noted that such an email used to exist but has since been removed and some stakeholders commented this makes fault notification more problematic as they have to email an individual as opposed to a general email account.
- Currently there is limited to no indication of timeframes to replace non-standard or decorative poles and fittings. There was also no status reporting of progress, again some commented that an application or a portal would be beneficial to provide timeframes and updates on progress. An example was given where a customer called



a council numerous times regarding a timeline and the council was unable to provide an answer.

- In addition, some non-standard replacements have been known to take a significant amount of time, an example of 8 months was given for one such replacement. Some queried if a fast-track approach was available to speed up the time taken.
- Some commented that in addition to the long time taken to replace decorative poles and fittings, councils were expected to make full upfront payment for replacement. This was queried by AusNet Services who said in such examples of long lead times only a deposit should be payable not the full amount.
- Similar lengthy timeframes were also noted and experienced to check and commission newly installed lights. An example was given where traffic signals at an intersection needed to remain disconnected for several months due to the delayed connection of public lighting. Some noted this was due to the need for traffic signals to remain disconnected / switched off until the public lighting is connected.

AusNet Services noted the areas for potential improvement and will discuss and review these internally.

2.3.2. Opportunities to work together for mutual benefit

There was consensus amongst stakeholders that there were opportunities for AusNet Services and councils / VicRoads to work together and share information for mutual benefit. Some of these ideas have been previously discussed in this report.

Other ideas and opportunities raised during the workshop included:

- Stakeholders suggested that a good first step would be for AusNet Services to directly contact the sustainability officer (or equivalent position) at each council to discuss specific opportunities for better collaboration. It was noted that AusNet Services should already have the contact details for these personnel.
- Some commented on whether AusNet Services had the ability to provide a schedule for its maintenance crew managing the replacement program to enable councils to plan around and understand the implications of any such activity. Some also commented that a long-term schedule would be worth providing if possible as it may present opportunities for councils to fast track replacement projects and / or opportunities for councils and AusNet Services to procure together (bulk buying) and save costs.

The ability to work together on technology related trials such as photo electric (PE) cells and controllers was also discussed and there was interest from stakeholders to continue to engage in technology related trials. AusNet Services noted that such smart Cells provide an opportunity to improve efficiency and that Powercor already have a metering module to control these smart cells. AusNet Services were interested to understand if there is an appetite from councils to similarly have smart cell modules and whether customers want the added service. AusNet Services also raised that there are benefits if any such discussions or trials were done with multiple parties simultaneously rather than at a council by council level. Any trials would be funded through specific (direct) charges at cost to any participants and that these costs would be separate to and outside of standard public lighting related charges.



AusNet Services noted the opportunities for collaboration and will work towards improved collaboration for mutual benefit.



A. Workshop attendees

| Name | Organisation |
|------------------------------|---|
| Faye Adams | Manningham City Council & Public Lighting Group |
| Anitha Ajay (by phone) | Casey City Council |
| Bronwyn Chapman | Goulburn Broken Greenhouse Alliance |
| Muhamman Imram | VicRoads |
| Rebecca Lamble (by phone) | East Gippsland City Council |
| Alexi Lynch | Ironbark |
| Raj Manihar | Baw Baw Shire Council |
| Scott McKenry | Eastern Alliance for Greenhouse Action |
| Joanna Rule (by phone) | Wellington Shire Council |
| Sam Sampanthar | Knox City Council |
| Andrew Vedder | VicRoads |
| Helen Bartley | AusNet Services Customer Forum |
| Tony Robinson | AusNet Services Customer Forum |
| Justin Betlehem | AusNet Services |
| Tom Hallam | AusNet Services |
| Stephanie Judd | AusNet Services |
| Deirdre Rose | AusNet Services |
| Tim Baker | Seed Advisory |
| Peter Eben | Seed Advisory |



B. Workshop Agenda

| AGENDA | |
|---------------------|--|
| Workshop: | AusNet Services Public Lighting Workshop |
| Date: | Wednesday 27 th February, 2019 |
| Time: | 10.00am – 1.00pm |
| Location: | CPA Building 28 Freshwater Place, Southbank, Victoria 2006 |
| Security: | Public |
| Pre-Reading: | AusNet Services – Public Lighting Services Draft Proposal |
| Chairperson: | Peter Eben (Seed Advisory) |

| | | |
|----------------|---|------------------------|
| 10.00am | Welcome and Introductions | Peter Eben |
| 10.10am | General overview of Proposal | AusNet Services |
| 10.40am | Open discussion - Initial reactions on Proposal | All |
| 11.10am | Morning Tea (10 minute break) | |
| 11.20am | Deep discussion - Targeted questions on the general overview (30 minutes) - How the proposal impacts Councils and VicRoads? (30 minutes) - How can we work together? (30 minutes) | All |
| 12.50 | Next steps and questions | All |
| 1.00pm | Meeting close | |

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