



19 September 2014

On-line submission at: www.rebuilding.nsw.gov.au

Dear Sir/Madam

Re: Rebuilding NSW Discussion Paper – Comments Related to Street Lighting

The Southern Sydney Regional Organisation of Councils (SSROC) is an association of sixteen municipal and city councils, providing a forum for the exchange of ideas between our member councils, and an interface between governments, other councils and key bodies on issues of common interest. SSROC leads the Street Lighting Improvement (SLI) Program on behalf of 35 Councils, including all its member Councils and nineteen others who are all served by Distributed Network Service Provider (DNSP) Ausgrid.

The NSW Government has released '*Rebuilding NSW Discussion Paper*' regarding a plan to invest \$20 billion in infrastructure, which is to be funded from the privatisation of Ausgrid, Endeavour Energy and Transgrid (<http://www.nsw.gov.au/rebuilding>). In response to the consultation process, Councils have highlighted several issues relating to street lighting which I would like to bring to your attention in this context.

h. Are there any other matters that the Government should consider in ensuring network businesses comply with service and reliability standards?

The government should consider the need for reform of street lighting arrangements in NSW where no binding service and reliability standards currently exist and high claimed residual asset values are a significant barrier to the adoption of energy efficient lighting.

Ausgrid provides street lighting services to 41 councils and has some 250,000 street lights on its network. Most street lights are mounted on Ausgrid's electricity distribution poles and are deemed to have been funded by the utility.

Councils in Ausgrid's region paid \$67.6m in 2013/14 for street lighting (\$44.1m for street lighting capital and maintenance charges, \$13.5m for

Lvl 2, Suite 2E, Hurstville House
34 MacMahon Street
Hurstville

PO Box 536
Hurstville NSW 1481

Ph: 9330 6455
Fic: 9330 6456
Email: ssroc@ssroc.nsw.gov.au
Web: www.ssroc.nsw.gov.au

network distribution charges and \$10m in retail electricity charges). Street lighting capital and maintenance charges, the largest component of costs, have increased by about 58% over the last five years.

With extremely limited exceptions, street lighting for NSW councils is provided as a non-contestable monopoly service by the three NSW government-owned electricity distributors. There are neither contracts nor any binding service regulation covering street lighting services in NSW yet more than \$110m/year is changing hands between 152 NSW councils and the three NSW electricity distributors.

At present, there is a limited and non-binding NSW Public Lighting Code but overall, little clarity about what appropriate service levels are, no recourse for councils when things go wrong and no meaningful control over key aspects of an essential public service which councils, not the utilities, are legally responsible for providing to the community under the *NSW Roads Act 1993* and *NSW Local Government Act 1993*. In short, street lighting arrangements in NSW are without a clear governance framework.

Utility ownership of NSW street lighting but council responsibility for the service has inevitably led to a fundamental and growing misalignment of interests.

Street lighting is unlike other aspects of the electricity distributors' businesses because the utility owns the end-user electrical appliance, the street light. Under the current framework, the utilities are incentivised to maximise the returns from their street lighting businesses and minimise liability exposures but little else. In contrast councils have a much wider set of street lighting priorities, but there are no drivers on the utility prioritise. These include:

- minimising total long-term costs to the community;
- reducing energy consumption and greenhouse gas emissions;
- providing good quality lighting for the community with consideration to:
 - Public safety and security
 - All aspects of standards compliance
 - Public amenity
 - Colour and colour rendering
 - Light pollution in all its forms (obtrusive light, upward waste light, and glare)

All stakeholders including councils, utilities and regulators have struggled to deal with the current absence of a clear governance framework for street lighting and the growing misalignment of interests. Recent Australian street lighting pricing reviews have been highly contentious as a result.

In parallel with considerations of governance, valuation and costs, street lighting is undergoing a technology revolution. LED lighting is rapidly becoming the dominant technology for most street lighting categories. This change is bringing much improved lighting, significant energy efficiency gains (typically 30-70%+), safety and security improvements and socio-economic benefits from widespread use of high quality white light. A wave of street lighting re-investment is now underway in cities around the world because of performance and cost benefits of LEDs.

With no current service level agreements, no binding service regulations and high claimed residual asset values of old utility street lights, the proposed privatisation of Ausgrid along with its street lighting assets presents materially increased risks for NSW councils.

Privatisation without further reform in this area would expose councils to a monopoly service provider without a clear basis of service, and would crystallise the high claimed residual value of the old street lighting assets without future scope for government intervention to revise values in line with age and obsolescence.

At the same time as consideration is being given to privatisation, there is growing pressure for large-scale re-investment in public lighting now that LED street lighting has matured. The large legacy of aged, obsolete assets and highly overvalued public lighting assets at Ausgrid and the barrier this presents to new technology deployment is an inevitable source of continued pressure under current arrangements.

Most street lighting in the developed world is owned and managed by councils (e.g. in New Zealand, the UK, Europe and about half of North America). The growing pressure on the utility-ownership model of public lighting is not a NSW-specific issue. In the US states of Rhode Island and Massachusetts, legislation has been passed requiring the utilities to sell their street lighting businesses on favourable terms to councils that want to directly manage LED street lighting deployments. Similar legislation has been proposed in other states including most recently in Maryland. Other jurisdictions, such as California have proposed legislation to compel utilities to install LEDs and, in Montana, court action has commenced against a utility aimed at challenging claimed residual values and forcing LED adoption.

In New Zealand and parts of Canada, ownership of the street lighting assets has been left with local governments at privatisation, even if street lights were mounted on wooden utility poles. This approach has avoided the substantial misalignment of interests and subsequent disputes being seen increasingly in parts of the US and most of Australia.

There appear to be broadly two alternative reform models that could better protect councils' and community interests:

1. REFORM OF UTILITY APPROACH

Reform of the utility approach with substantially revised residual values of old street lighting assets (as happened in Victoria where the Victorian Public Lighting Code was made a binding licence condition and residual values were substantially written down at privatisation) and introduction of robust service-level regulation.

Street lighting service-level regulation should, at a minimum, require adherence to an updated and mandatory NSW Public Lighting Code. Key areas needing amendment in the Code or other regulatory instrument are:

- Financial consequences for non-delivery or sub-standard delivery of services
- Limits on retrospective charges consistent with other utility services
- Inventory accuracy requirements and tracking of council-specific lighting requirements

- Clarification of what constitutes a street lighting fault and reasonable fault limits
- As for all other utility customers, requirements to repair underground supply faults in a timely manner (currently excluded from the Code and responsible for some 68% of outages on main road where greatest public safety risks exist)
- Regular provision of maintenance data by region and lighting type
- Enhanced annual performance reporting requirements
- Completion of minor capital works in shorter timeframes

2. RETURN OF CONTROL TO COUNCILS

Control of public lighting by local governments is the norm in most of the world. For a return of control to NSW councils to be viable, street lighting assets would need to be returned to a council-controlled entity on appropriate terms:

- Allowing on-going council ownership of lighting connected to and mounted on distribution network assets including clarification of asset ownership, access rights, responsibilities and liabilities
- Offering permanent protection against utility revenue claw back (e.g. prohibit new charges for pole access, inventory management, approvals, inspections or other new charges)
- Other measures needed to facilitate future council ownership of street lighting (e.g. regulatory change to allow council-controlled entities to jointly own and manage street lighting).

Under either reform model, if it facilitated widespread deployment of energy efficient lighting, it would reduce street lighting energy consumption in Ausgrid's region by at least 45%. However, international experience is that, if councils were in control of street lighting, they would be much more likely to rapidly deploy new energy efficient technology as compared to utilities.

If councils were able to seek third party financing for lighting upgrades, they could reduce financing costs by an estimated 25-30% compared to the capital costs levied by the NSW utilities. Maintenance savings in moving to specialist third-party street lighting service providers may be as much as 30-40% with higher levels of service as compared to NSW utility charges.

i. Considering existing service standard protections for customers will remain in place, what concerns remain about service standards and public safety? Is there any reason why the Government should consider any further conditions, and why?

Overall, councils support the view expressed in the Rebuilding NSW Discussion Paper that, "...regulation is the most appropriate way to protect consumers". Whether street lighting is to be left with the utilities or transferred to council-controlled entities, thorough reform of the sector is needed as no clear governance structure exists at present. The response to question H above, details councils' position on the key reform options and detailed areas requiring consideration.

Conclusion

SSROC appreciates the opportunity to make this submission, and urges the NSW government to address the issues described above before privatisation of Ausgrid. We also note that the issues need to be resolved even privatisation does not eventuate.

If you have any questions or would like to discuss these issues further, please contact me on 9330 6455 or ssroc@ssroc.nsw.gov.au.

Yours faithfully,



Namoi Dougall
General Manager
Southern Sydney Regional Organisation of Councils