

The Review (Overview Summary 23/3/12 - pp 34-35) identifies several key areas for action. These include:

- The role of network businesses, retailers and other third parties to engage with customers - how dialogue can take place in a transparent manner when offering different products and services
- Approaches to assist customers when they consider making investments in technology
- Options to provide commercial incentives for distribution network businesses to invest in DSP
- Considering the interaction between energy efficiency regulatory policies and operation of the NEM and take up of efficient DSP

Can I draw your attention to the draft National Energy Efficient Streeting Strategy (the draft Streetlighting Strategy), which has specific relevance to these action areas.

<http://www.energyrating.gov.au/products-themes/lighting/street-and-public-lighting/documents-and-publications/>

The streetlighting strategy is being prepared to address one of the measures in the COAG National Strategy on Energy Efficiency. COAG has assigned responsibility for developing the streetlighting strategy to the Select Council on Climate Change's Equipment Energy Efficiency Committee, chaired by DCCEE. Streetlighting uses around 1,400 GWh of energy annually. The National Strategy proposes that accelerated phasing out of inefficient lighting product classes could save around 27 per cent of the energy used in streetlighting.

The draft Streetlighting Strategy is supported by a document examining market barriers to achieving the phasing out of inefficient lighting product classes. This supporting document, prepared by PricewaterhouseCoopers (PwC), is of particular relevance to the AEMC Review.

It provides advice on the interaction between the NEM and streetlighting, and in particular on cost recovery issues associated with upgrading streetlights.

The PwC report specifically examines whether market barriers may be preventing local councils from retiring inefficient streetlights early, and replacing them with more efficient alternatives.

PricewaterhouseCoopers found (p3) that the 'One of the features of AER's decisions on the residual costs associated with existing streetlight assets is that councils would bear the full cost of upgrading their streetlights upfront in return for a flow of benefits [ie reduced energy costs] over time'. PwC considered that this requirement to pay upfront may dissuade councils from making otherwise efficient decisions because, even if the benefits outweigh the costs, councils are often constrained in their abilities to raise capital.

The Report concludes (p22) 'Given it is not clear there is sufficient justification for a requirement for an upfront payment, we are of the view that there is a reasonable prospect a rule change request relating to the recovery of residual costs would be considered favourably under the NEO. This assessment would be based on improved certainty and transparency for relevant parties and the consequent impact this has on encouraging more efficient investment in street lighting assets'.

We would invite you to consider the PwC findings in the 'Power of Choice' review, and to consider whether AER should be directed to allow multiple approaches for recovery of residual costs associated with roll out of efficient street lights.

The PwC report goes on (pp29-33) to examine the role of the AER in price control for streetlights, particularly in those jurisdictions where streetlighting charges are not a negotiated charge, but rather a charge directly regulated by the AER (ACT, NSW, QLD).

PwC recommends that more certainty could be provided to market participants, thereby increasing the likelihood of retrofits of inefficient lights with alternative, efficient technology. The following specific actions are proposed (p32):

- Require that the AER is to deem that the 'materiality' threshold is met when an energy efficient street lighting event occurs.
- Identify a new type of cost pass through, 'an energy efficient street lighting roll out event', in the definition of a pass through event in Chapter 10 of the Rules.
- Define an energy efficient street lighting roll out event in Chapter 10 of the Rules as: 'a requirement to roll out energy efficient street lighting within a distribution network where the roll out is instigated by either a regulation, a change in legislation, or a request from a street lighting customer'.

These three recommendations should also be considered as part of the Power of Choice Review.

Can I also direct your review to a submission from DCCEE to the AER Consultation Paper: Issues and AER's Preliminary Positions - Connection Charge Guidelines for Accessing the Electricity Distribution Network, 10 June 2011. The DCCEE submission was prepared by Exigency, a specialist, independent energy and carbon advisory firm. In many regards this report contained similar findings to the PwC report. In relation to streetlighting the findings included:

'For street lighting, the initial procurement decision and subsequent upgrade path is often limited by the DNSP. The cost and complexities of implementing replacement programs act as a disincentive for DNSPs to replace street lights with more energy efficient technologies. This is a significant barrier to the adoption of technologies that could provide economic and energy savings' (p2).

In practice, [existing market rules] have meant that the LGAs that have been seeking change have been doing so in an environment where the commercial drivers on DNSPs and retailers actually encourage the status quo and discourage investment in more efficient street lighting technologies' (p7).

The Exigency report recommends (p2) that:

'Light-handed regulatory intervention is recommended to create a better informed market by requiring DNSPs to [inter alia] provide sufficiently detailed calculations and assumptions on the regulatory parameters that underpin the charges to enable the connection arrangement to be adjusted on reasonable terms at some future date, in response to technology innovation'

The DCCEE submission can be found at

<http://www.aer.gov.au/content/index.phtml/itemId/748937>

This recommendation should also be considered as part of the Power of Choice Review.

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