12 January 2018

Mr Sebastian Roberts
General Manager
Australian Energy Regulator
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Business SA
Chamber of Commerce
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Working for your business.
Working for South Australia

Dear Mr Roberts

I write in response to the AER's request for submissions on its draft decision for Murraylink's revenue proposal for the regulatory period 2018-23, and Murraylink's revised proposal. This letter is provided subsequent to our initial submission on Murraylink's original proposal.

At present, electricity costs and reliability are the number one issue impacting Business SA members and following the 2016 state-wide blackout which we estimate cost businesses approximately $450 million, it is important that reliability is assured, but not just at any cost. The South Australian Government is already spending $550 million on a plan to improve electricity reliability and affordability which will be paid for by taxpayers, including businesses, and Business SA is very mindful of how future regulated revenue proposals impact electricity costs.

Business SA welcomes Murraylink's willingness to provide a sharper capital expenditure (CAPEX) estimate, down $3.8 million on its original estimate and much closer to the AER's draft decision of $26.8 million. Considering the step change required for CAPEX to replace obsolete control systems, it is important that Murraylink are prudent in undertaking this project to ensure this interconnector can be relied upon by South Australian businesses without unnecessary additional costs.

Business SA acknowledges that Murraylink forecasts its $114 million regulatory asset base (RAB) to grow marginally over the next regulatory period, at approximately 9.6% in nominal terms, and we would expect that the rate of return from the AER's draft decision is not adjusted from its current 5.7% to meet Murraylink's revised proposal of 6.4%. This position is reinforced by ElectraNet's December 2017 revised proposal where its rate of return came in at 5.75%.

More particularly, Business SA disagrees with Murraylink that the AER estimate of beta should remain the same as was estimated in 2013, 0.8. Clearly a range of financial metrics related to energy network businesses, including their relative risk profile compared to the entire share market, have not remained constant over the past 5 years and the AER approach should be consistent with that applied across other regulated networks. Business SA endorses the AER's estimate for beta at 0.7 which is consistent with the recent draft determination for ElectraNet, and which was actually suggested by ElectraNet in its original proposal.

Business SA encourages all networks to speak directly with their customers, including Murraylink, but we also accept that there is a relativity aspect to such an approach and that we would not expect Murraylink to consult to the same extent as an SA Power Networks or ElectraNet. While we agree with the AER that consumer engagement is a critical element to ensuring regulated revenue proposals meet the long-term interests of consumers, we are also mindful that all costs of network consumer engagement are ultimately borne by energy consumers.

Business SA welcomes Murraylink's willingness to improve its engagement with consumers and believe that a strategic approach, potentially via an existing network like ElectraNet, would be a pragmatic way to engage consumer representatives who otherwise sit on an existing panel.

Should you require any further information or have questions, please contact Andrew McKenna, Senior Policy Adviser, on (08) 8300 0000 or andrewm@business-sa.com.

Yours sincerely,

Anthony Penney
Executive Director, Industry and Government Engagement