02 March 2017

Mr Sebastian Roberts

General Manager, Network Regulation

Australian Energy Regulator

GPO Box 520

Melbourne 3001

Sent by email to Murraylink2018@aer.gov.au

**CIT Submission to Murraylink Revenue Proposal 2018 - 2023**

As a large energy consumer in South Australia I would like to thank the Australian Energy Regulator for allowing us to make a submission on Murraylink Revenue Proposal 2018 - 2023.

Whilst we have had good service from the electricity distribution and transmission industry we can no longer see unsustainable increases in charges continuing to price gouge customers. The Murraylink proposal is not in the best interest of the end of system customers and we strongly oppose the current proposal believing that there is justification for a significant reduction in the revenue proposals presented.

Please feel free to contact me if you would like to discuss our submission further.

Regards



Gavin McMahon

Chief Executive Officer

**Submission**

**To**

**The Australian Energy Regulator**

**By**

**Central Irrigation Trust**

**on**

**Murraylink Revenue Proposal 2018 - 2023**

CIT strongly object to the 26% increase in smoothed revenue, more than triple inflation, proposed by Murraylink over the pricing period. The electricity industry must bring its expectations and costs under control in order to provide affordable and reliable energy to consumers. Murraylink must be forced to reduce prices to customers in a time of low inflation, low interest rates and low return on investments.

In this proposal we see yet another energy company seeking unrealistic returns to shareholders through not accepting AER guidelines and by producing copious consultants’ reports to validate their position.

In reflecting the Federal Court Tribunal Decision on the SA Power Networks Limited Merits Review, where the Judge ruled that the AER had not erred in determination, we believe that the Rate of Return (proposed 6.54), Return on Equity (proposed 8.6), Beta (proposed 0.8) and Gamma (proposed 0.25) should be reduced significantly to reflect the lower ranges in the AER guidelines. This would see a significant reduction in Murraylink’s revenue which is more in line with commercial reality in a sluggish Australian economy and the level of investment returns being generated by many Australians.

CIT contests the assertion that Murraylink operates in a remote rural location and has significantly higher costs associated with this location. We too operate in the same location and find there are many benefits and cost reductions of operating in rural areas. We find little trouble in attracting employees, be they professional, trades or otherwise. The cost of accommodation is considerably cheaper in regional areas compared with capital cities and facilities such as depots or receival yards significantly less expensive due the lower land costs. The down turn in the mining industry has seen many mining service companies tendering for works in rural and regional Australia, creating greater competition and lower prices for services. This should be reflected in the service agreement Murraylink has with their operator. We would also question if the long term service agreement with the principal contractor is competitive? Was the contract tendered? How is it assessed as to its competitiveness? What are the price escalations? Unfortunately this agreement is not revealed in the document for scrutiny but should be carefully examined by AER.

It is difficult to understand why the proposed RAB continues to increase when the major infrastructure is half way through its nominal life. Does the RAB ever track close to zero at the end of the life of the major assets? At some stage it must be written down fully.

In terms of capital expenditure, a control system for $27 million seems extravagant. I would like to see this large item of expenditure validated to ensure that it is the most cost effective solution and that the service provider is cost competitive.

Any decisions on further interconnection should await the outcomes of the Finkel Review. Interconnection should also be weighed up against the cost of further investment in generation in South Australia.

Central Irrigation Trust (CIT) is a company that extracts water from the River Murray and supplies it to 1500 family farms, 3500 residences and 35 businesses in the Riverland of South Australia. The region is a major irrigated horticultural region producing wine, citrus, almonds, stone fruit and various other crops with a regional farm gate value of $540 million. Much of the regions produce is exported and competes against other producing countries such as Argentina, South Africa, Chile, Peru, Turkey and the US. Consequently our industries must be cost competitive internationally.

In seeking to be a leader in water management our water is supplied through fully automated pumping stations and pressurised pipeline systems. Our entire pumping infrastructure uses electricity as its source of energy and our total energy spend in 2015/2016 was approximately $5 million.

We believe that a 20% reduction in Murraylink revenues in the first year of the pricing path is justified with only CPI increases necessary from the new base in the subsequent years of the regulated period. We look forward with optimism to the outcome of the determination.

Yours truly,



Gavin McMahon

Chief Executive Officer