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19 June 2015

Mr Sebastian Roberts
General Manager, Network Regulation
Australian Energy Regulator
GPO Box 520
Melbourne 3001

Sent by email to SAelectricity2015@aer.gov.au

CIT Submission to SA Power Networks Regulatory Proposal (2015 – 2020)

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 the AER's Determination of SA Power Networks Regulatory Proposal 2015-2020. I restate from our original submission that whilst we have had very good service from SA Power Networks we are an unhappy SA Power Networks customer as a result of the unsustainable price increases imposed on our business by SA Power Networks over the last regulatory period.

It was pleasing to see the AER's decision reinforcing many of the issues that CIT raised on the SA Power Networks Regulatory proposal. Whilst we support the AER's determination we do believe that they should have imposed further revenue reductions on the Regulatory Proposal as the current proposal will lead to productivity decreases at SA Power Networks and does not reflect efficient costs but rather builds on inflated costs from the previous regulatory period.

We strongly oppose the proposal put forward by SA Power Networks and we do not believe that there is a valid reason for any attempt by SA Power Networks to reinstate the programs and expenditure that has been disallowed.

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
SA Power Networks Regulatory Proposal 2015-2020

Recommendations

1. The AER decision is implemented in full or with even further revenue cap reductions.
2. That the baseline year for Efficient Operating Expenditure should not be 2013/2014 or any year in the previous regulatory period 2010-2015. The base year should be from the more efficient Regulatory Period such as 2005/2010.
3. In a time of static or low demand basic business principles should apply which would involve finding productivity improvements by reducing operating expenditure in real terms and minimising capital expenditure.
4. We also oppose the way that SA Power Networks is implementing price reductions to customers in the high voltage tariff structure particularly where agreed demand charges are increasing in a time of significant revenue cap reductions.

Who is CIT

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 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.

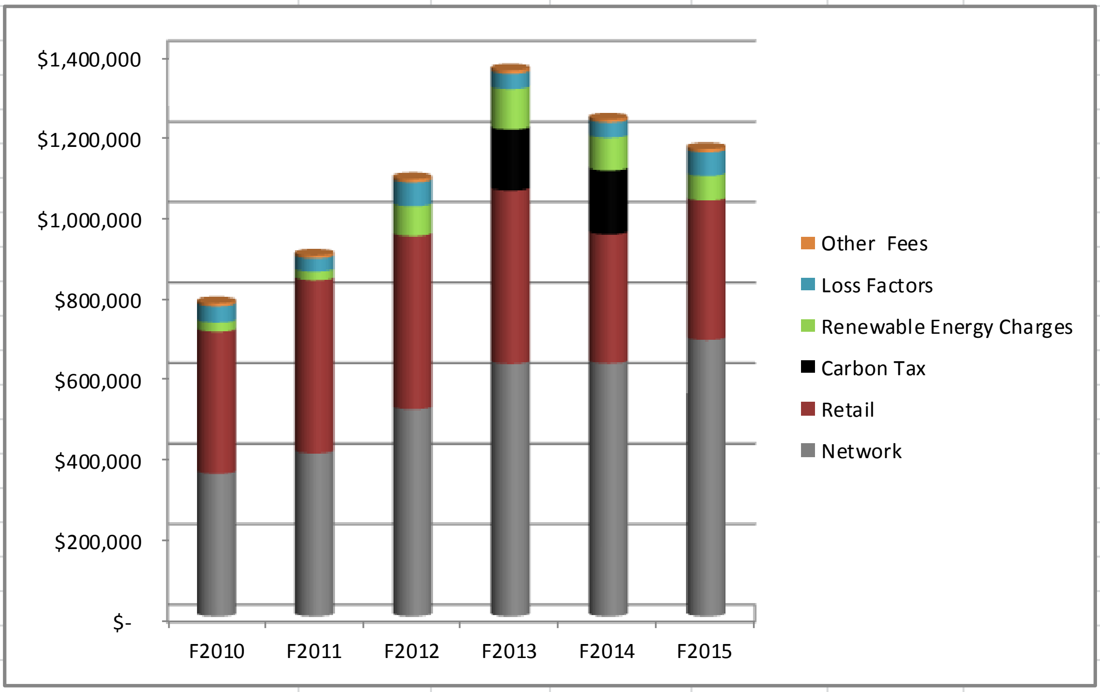
In seeking to be a leader in water management our water is supplied through fully automated pumping stations and pressurised pipeline systems. Our entire pumping infrastructure uses electricity as its source of energy and our total energy spend in 2013/2014 was approximately $4.5 million.

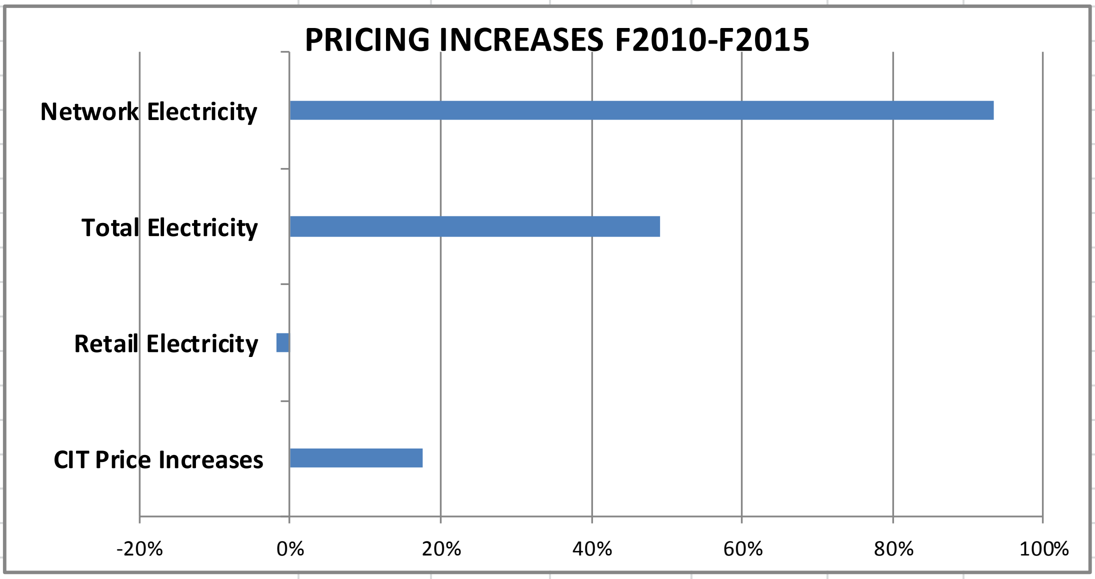
CIT has seen significant and unsustainable increases in its electricity network charges over the last 5 years. We have seen network charges almost double over that period which is substantially greater than forecast in the 2010-2015 SA Power Networks' pricing path. No other input cost in our business has risen anywhere near these levels and in comparison the retail component of our bills has reduced over the same period.

The increases are illustrated below using data from the Loxton Pumping Station, which is 1 of the 13 pumping stations that we manage.

LOXTON PUMPING STATION ELECTRICITY COSTS F2010 to F2015

Annual Expense	F2010	F2011	F2012	F2013	F2014	F2015
Network	$ 354,614	$404,794	$ 514,720	$ 627,484	$ 628,701	$ 686,383
Retail	$ 352,669	$430,008	$ 430,008	$ 430,008	$ 319,779	$ 346,095
Carbon Tax	$ -	$ -	$ -	$ 151,483	$ 159,093	
Renewable Energy Charges	$ 22,789	$ 21,930	$ 73,950	$ 100,927	$ 81,669	$ 61,252
Loss Factors	$ 40,388	$ 32,643	$ 59,307	$ 37,823	$ 37,576	$ 58,821
Other Fees	$ 7,787	$ 7,297	$ 8,465	$ 8,491	$ 7,711	$ 8,164
Total	**$ 778,246**	**$896,672**	**$ 1,086,449**	**$1,356,216**	**$1,234,530**	**$ 1,160,714**





N.B. based on 3,219,920 kwh Peak and 4,098,080 kwh Off Peak usage and 4,545 Kvar Demand each year

The Loxton Pumping Station is our largest energy use site but the trends exhibited at Loxton are replicated at all 13 sites.

At the commencement of the 2010 financial year network and retail charges were approximately the same with each representing 50% of the account. Now network charges make up 75% of the account if the new additional charges, such as the RET charges are excluded. CPI increases over the same time have been less than 15%. How can such increases be justified or more importantly allowed?

Such increases are negatively impacting on the businesses of South Australia and affecting companies' investment decisions. In fact the recent announcement of the closure of the Bradken foundry in Adelaide stated that "After 65 years of operation the Bradken foundry at Kilburn will close at the end of next year because the company says the <u>high cost of power</u> and wages has made the plant globally uncompetitive." (*Alexandra Economou Business Reporter* From*:* The Advertiser December 04, 2014, 4:09PM). Professor Goran Roos – who is on the South Australian Economic Development Board and was a member of the Gillard Government's Manufacturing Leaders Group – said labour and <u>energy costs</u> were crippling the country's manufacturing sector, not the high dollar. (This was reported by Jared Lynch the business reporter in the Sydney Morning Herald on October 13, 2014.) We strongly agree with these sentiments.

As a customer what have we received for this massive increase in investment? Our supply and reliability at the 13 CIT sites has not changed and in fact we are happy with the reliability and supply.

<u>AER determination implemented in full</u>

We believe that the AER determination is the absolute minimum reduction we should see in the revenue caps for SA Power Networks. We believe that the determination is a fair and adequate review of the proposal and will allow SA Power Networks to continue to provide its highly reliable service at a lower cost than was sought. The determination highlighted significant information that was not disclosed in the Regulatory Proposal and not available to customers such as joint programs that are already in progress with the state government. The determination also recognises the view of many consumers that distribution charges were too high and were seeking some relief from the previous price shocks.

<u>Operating Expenditure</u>

We disagree that the base year selected for efficient operating expenditure is 2013/2014. The 2010/2015 Regulatory proposal was one of rapidly escalating operating costs and far exceeds in real terms the operating costs from the previous regulatory periods. We believe that further reductions should occur if the base year for efficient operating expenditure was selected from a regulatory period prior to 2010 and adjusted by CPI.

Basic Business Principles

SA Power Networks is faced with a climate of static or falling demand. The optimistic demand forecasts of the 2010/2015 which saw significant increases in revenue allowances did not eventuate however we saw no corresponding revenue returned to customers. With the emanate closure of Holden and many of the support industries, slow economic growth forecast, business investment well below predicted levels, saturation of the residential air-conditioning market there is more downside to electricity demand still to come. In most other businesses during a time of static or falling demand the business seeks ways to improve productivity, reduce costs and only spend on essential capital. We do not see these basic business principles in either the SA Power Networks Regulatory Proposal and the AER determination In fact we will see SA Power Networks productivity decline. We believe that even further revenue reductions should occur in the Operating and Capital Budgets.

Regulated Asset Base

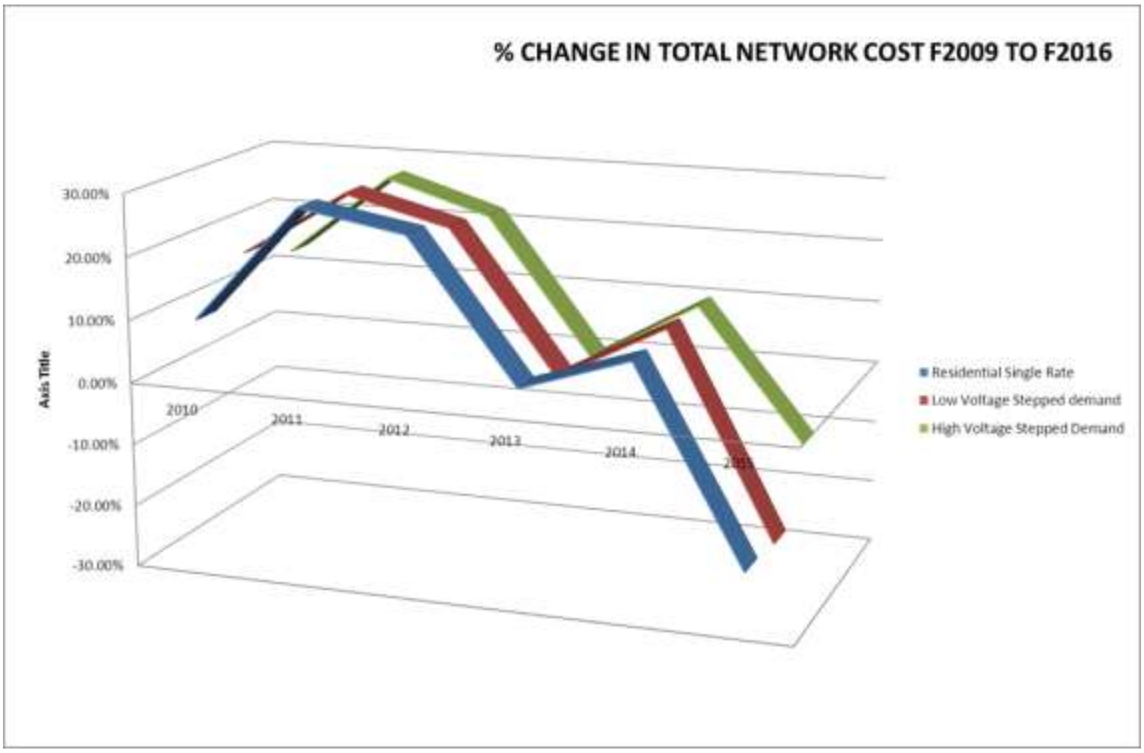
In this proposal the Regulated Asset Base continues to increase above inflation in an environment of falling demand. And whilst the AER's determination sees a reduction in capital expenditure to that proposed we do not see the justification for a real continual increase in the Regulated Asset Base.

Sharing the gains evenly

Our businesses have suffered significantly with unsustainable power price increases over the 2010/2015 regulatory period. We should all now share the gains evenly.

SA Power Networks have indicated to CIT that the average saving in 2015/2016 for high voltage customers is 31% for DUOS whilst CIT will only see a 16% decrease. High voltage accounts for 64% of CIT's DOUS energy costs. The agreed demand charges in our cases are increasing which we find abhorrent in climate of significant price reductions imposed on SA Power Networks. Their explanation is that we have been "rebalanced". This occurs without any consultation or a process indicating what is occurring and over what time frame. We believe that their shift to increasing fixed cost recovery is not valid in an environment of revenue caps provided by the AER and should be rectified immediately.

I have attached a graph showing the movement in our pricing across tariffs and the last five years.



Conclusion

Whilst we support the AER's determination on the 2015/2020 Regulatory Proposal by SA Power Networks we believe that even further reductions are possible in both Operating Expenditure and Capital Expenditure without reducing the current service provided. We look forward to a decision that truly takes into account the long term interests of customers with the price reductions applied evenly to all customers.

Yours truly,

Gavin McMahon
Chief Executive Officer