

Mr Sebastian Roberts  
General Manager  
Australian Energy Regulator  
GPO Box 520  
Melbourne Vic 3001  
via email: [Powerlink2016@aer.gov.au](mailto:Powerlink2016@aer.gov.au)

2 May 2016

Dear Mr Roberts,

**Re: Powerlink Electricity transmission revenue proposal 2017–2022 – Issues Paper**

Cotton Australia welcomes the opportunity to provide comment regarding the *Powerlink Electricity transmission revenue proposal 2017–2022 – Issues Paper*.

Cotton Australia is the key representative body for Australia's cotton growing industry. The cotton industry is an integral part of the Australian economy, worth over \$1.25 billion in export earnings in the 2014–15 season, and employing on average 10,000 people. The industry's vision is: *Australian cotton, carefully grown, naturally world's best*.

Cotton Australia has become heavily involved in the electricity public policy arena due to feedback from our members that they have and continued to be subjected to unsustainable increases in electricity prices. To this effect we have made submissions to the AER regarding the Essential Energy and Ergon / Energex Network Determinations and the tariff structure statements.

Given the relative impact of the Powerlink Determination on our members, our submission in response to the issues paper will be comparatively short. However we believe it remains important to highlight our concerns to the AER in order to achieve any material change to tariffs for our members.

We have outlined our major concerns in response to questions outlined by the AER in their issues paper.

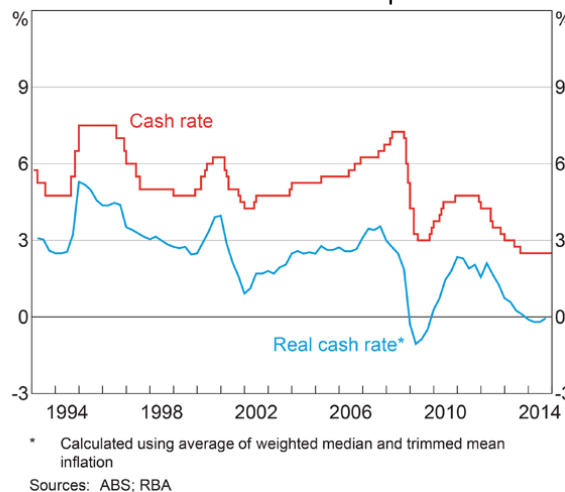
***Rate of return***

Cotton Australia is encouraged to see that Powerlink has adopted a rate of return of 6.04% a significant drop from the previous determination period of 8.61%. We note however that Powerlink is waiting to see what the outcome will be from the AER's appeal of the Australian Competition Tribunal decision and reserving its right to make an adjusted rate of return. We anticipate that this would ultimately result in a higher rate of return percentage for Powerlink and

as such would encourage the AER to apply maximum downward pressure on the rate of return, recognising its importance and overall contribution to the transmission network revenues.

The higher rates of return that were observed within the previous determination period were a reflection of the economic uncertainty generated through the Global Financial Crisis. The nominal risk free rate, which impacts upon both the debt and equity risk premiums has changed substantially since that time. As Figure 1 shows, interest rates collapsed in the wake of the crisis rather than soared. This led to significant profits for Powerlink, and in combination with avoidance of CAPEX spend, have resulted in \$300 million gains over the current determination period. The economic stability currently occurring within the markets and downward forecasts of the cash rate and ten year bond rate forecast should result in the lower rate of return proposed by Powerlink.

Figure 1: Australian Cash Rate for the period 1994–2014



Cotton Australia also wishes to highlight that we believe that the percentage return on equity and percentage return on debt indicated by Powerlink are inherently inflated as a result of the inclusion of the regulatory asset base (RAB) in its calculations.

We ask that the AER consider the true risk of investment posed to investors in a Government owned transmission network. As highlighted by the annual profits and dividends earned by Powerlink we can see no disincentive for investment within the transmission networks that are viewed to provide a guaranteed return.

While we recognise the limitations that the AER faces in relation to any assessment of the RAB, Cotton Australia believes it is important to highlight that returns on the RAB continue to be the major driver for Powerlink's revenue. We believe that in order to see any true material change for consumers, a rule change will be required that allows the AER to determine the efficiency of the transmission network infrastructure. We continue to look towards the COAG Energy Council

and the Australian Energy Market Commission to drive that change, noting that the RAB will continue to grow for Powerlink year on year without any assessment of the actual value and necessity of the transmission network infrastructure assets.

### **CAPEX Proposal**

Cotton Australia is encouraged to see a significant reduction in the CAPEX requested by Powerlink which represents a reduction of 66 per cent compared with the current regulatory period. We wish to highlight that this significant drop is a reflection of the demand to materialise in contrast to previous forecasts.

While we recognise that there is limited proposed CAPEX, we ask the AER to consider the actual requirement for the CAPEX proposed by Powerlink. The CAPEX forecasts appear to be built around standard asset lives as opposed to any actual asset life / replacement assessment.

Cotton Australia also wishes to highlight that a 'contingency' of 50 per cent is being proposed by Powerlink and we have significant reservations with such an approach. We have observed the significant over investment in network infrastructure over previous regulatory periods and we believe that a contingency based approach may not provide the AER with the necessary information to determine the efficiency or effectiveness of such investments. We would ask the AER to carefully consider the implications of a contingency based approach to CAPEX on consumers for the future regulatory period.

### **OPEX Proposal**

The OPEX for Powerlink is growing year on year and we believe is a reflection of the vast transmission network infrastructure assets, and a continued unwillingness of the networks to look at different approaches to management of the network assets.

While the AER has not applied benchmarking to the transmission networks for this determination we would strongly encourage the AER to investigate and implement a benchmarking approach for the next regulatory period. Cotton Australia was strongly encouraged by the data that resulted from benchmarking of the distribution network providers, which highlighted the inefficiencies of the businesses. While we recognise that this has been challenged at the Australian Competition Tribunal, we believe that benchmarking is a sensible and valid approach for the determination of the efficient costs to operate a transmission network and that without such figures it makes it exceptionally difficult to assess the performance of the network.

We would suggest that in line with other observations we have made, the AER investigate issues of labour costs and the effectiveness of incentive schemes to drive transmission network efficiencies.



*Advancing Australian Cotton*

Should you have any questions regarding our submission please do not hesitate to contact me on 02 9669 5222 or [FelicityM@cotton.org.au](mailto:FelicityM@cotton.org.au)

Kind regards,

Felicity Muller  
Policy Officer  
Cotton Australia