CENTRAL IRRIGATION TRUST
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Submission
By
Central Irrigation Trust
on
The manner in which electricity network companies have presented information to the Australian Energy Regulator (AER) and whether they have misled the AER

As a large energy consumer in South Australia I would like to make the following submission to the review committee.

Introduction

Central Irrigation Trust (CIT) is a company that extracts water from the River Murray and supplies it to thousands of family farms, residences and businesses in the Riverland of South Australia. 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.

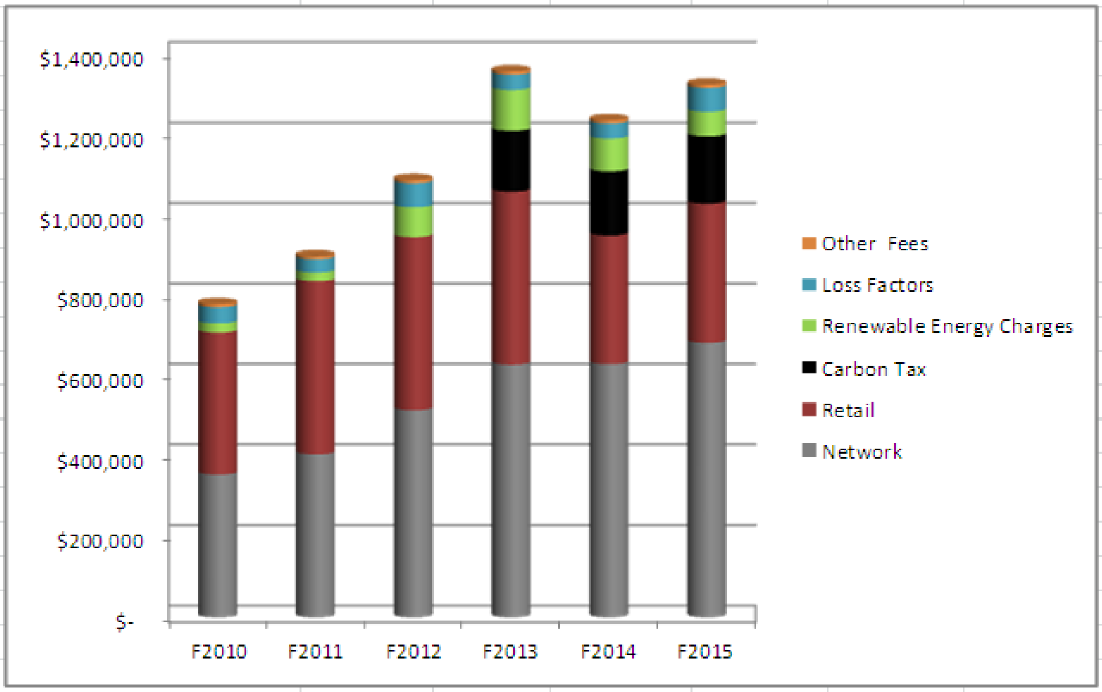
CIT has seen significant and unsustainable increases in its electricity network charges over the last 5 years. We have seen network charges almost double over that period which is substantially greater than forecasted in the 2010-2015 SA Power Networks' pricing path. No other input cost in our business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

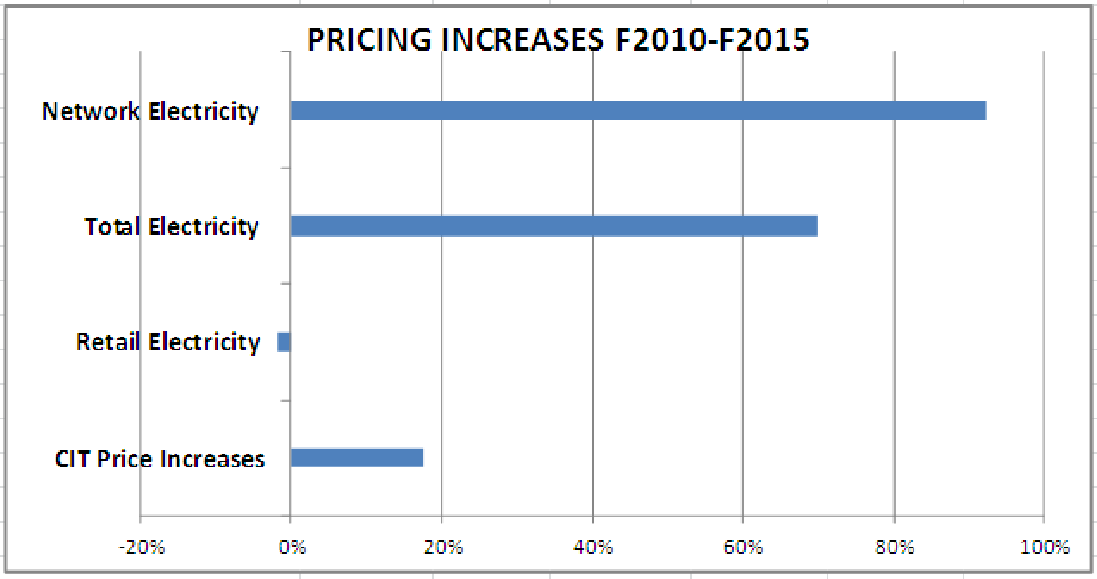
The increases are illustrated below using data from the Loxton Pumping Station, which is 1 of the 12 pumping stations that we manage. The Loxton Pumping Station is our largest energy use site but the trends exhibited at Loxton are replicated at all 12 sites.

The graph shows that our network charges have increased approximately 90% over the previous 5 years. 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 carbon tax are excluded. CPI increases over the same time have been less than 15%. (In the data presented for comparative purposes we have left the carbon tax in the 2015 financial year even though it was repealed in 2014).

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	$ 681,605
Retail	$ 352,669	$430,008	$ 430,008	$ 430,008	$ 319,779	$ 346,095
Carbon Tax	$ -	$ -	$ -	$ 151,483	$ 159,093	$ 167,289
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	$ 58,817
Other Fees	$ 7,787	$ 7,297	$ 8,465	$ 8,491	$ 7,711	$ 8,078
Total	$ 778,246	$896,672	$ 1,086,449	$1,356,216	$1,234,530	$1,323,136





How can such increases be justified or more importantly allowed. Such increases are negatively impacting on the businesses of South Australia and in fact impacting on companies' investment decisions.

As a customer what have we received for this massive increase in investment? Our supply and reliability at the 12 CIT sites has not changed.

We do understand that SA Power Networks is a company that seeks to maximise its return for shareholders. Thus the company's management and board would seek to maximise the profit for the business within the rules and the framework provided. This is a common goal for most companies. However the question that must be answered is, have the rules been developed to favour the profits of the network companies over the interests of consumers. We believe this to be the case and the decrease in energy demand nationally supports our conclusion.

As a small organisation employing less than 30 people we find it difficult to dissect the pricing paths of SA Power Networks who have a workforce of thousands and annual revenue of many hundreds of millions of dollars. We do however believe that 3 areas favouring the network companies are, weighted average cost of capital (WACC), regulated asset base (RAB), and the merit review process.

CIT is also a member of the Energy Users Association and the National Irrigators Council and support any proposals submitted by these organisations.

Weighted average cost of capital

Network and Transmission businesses are low risk enterprises with relatively inelastic demand. As a monopoly supplier there are no other suppliers from which the customers can seek similar services and hence the consumers must accept the pricing regime imposed. The demand is relatively inelastic as the only other option available for consumers is substitution and the costs of the alternatives are well known. The situation for consumers is compounded if demand drops as lost revenue is secured from the current customers and hence prices rise yet again. The business fundamentals for network companies are different to other businesses in a competitive environment where in such circumstances they would reduce costs to stimulate demand.

The networks also have a trapped and ready customer base. They are not subjected to competitive forces where they have significant costs in attracting customers.

Consequently their return on capital should reflect the low risk investment environment. Many benchmarks exist in the investment arena that reflects low risk returns. The SA Power Networks pricing path proposal for 2015-2020 uses a rate of return (nominal vanilla Weighted Average Cost of Capital) of 7.62% based on a return on equity of 10.45%. We believe that these values are too high for the risk profile of the business and a reduction would see a significant drop in the price for consumers. Decreasing prices we believe may stimulate demand and in fact return more revenue to transmission companies.

Regulated Asset Base

The regulated asset bases for the networks continue to increase significantly each year as the capital programs spiral upwards. There has also been conjecture whether the original determination for the regulated asset base was inflated as well. We are concerned that the regulated asset base in South Australia has increased by approximately 30% in 2010-2015 pricing path and will almost double over the decade 2010-2020. All of this is occurring during a period of static or falling demand.

Unfortunately the rules reward the network companies for increased asset bases. However it is an insidious position for consumers as inflated asset bases increase the costs of power and the problem is compounded each year. There also appears to be no avenue for a reduction in the asset base due to revaluations, writing off redundant infrastructure or more efficient lower cost assets.

We have endured significant price increases with the promises of upgrading an aged network. We now expect a significant drop in capital expenditure and subsequent network prices. There is no justification for increasing capital expenditure when total demand is decreasing and this trend continuing. Some big energy users such as Holden will close their doors soon and recognition of further demand decreases must occur.

As a customer we find the reliability of the network satisfactory and do not see the need for further upgrades, for changed bushfire prevention activities or hardening of the network against lightening and storms.

Technological advances can have significant impacts for a business. Whilst we do understand the necessity to invest in technology it should only be undertaken where it will lead to a cost reduction in Networks operation. We are seeing significant increases in funding for technological improvements but not the corresponding reduction on business operating costs that should be passed on to the consumer.

Finally we would like to see the Marginal Loss Factors for the interconnectors to be spread across all users in the state rather than discriminating against those who are unfortunate enough to be geographically located at points close to the interconnector. We demand that the Berri node be declared a virtual node and the loss factors subsequently adjusted.

Merit Review Process

The merit review process also favours the network owners. Currently the networks are able to contest specific parts of an AER determination at the tribunal rather than have to appeal the whole decision. We believe that if appeals only involve the whole determination we would see fewer appeals with subsequently less pass throughs to the customers.

Thank you for providing the opportunity to make a submission on an issue we find extremely frustrating and fiscally detrimental on our business.

Yours truly,

Gavin McMahon
Chief Executive Officer