

CENTRAL IRRIGATION TRUST

Trustee: Central Irrigation Pty. Ltd. ACN 075 446 810
4 Fowles Street PO Box 34
Baramba SA 5345
Telephone 08 8580 7100
Fax 08 8588 2001



Andrew Splatt
Advisor
AEMC
GPO Box A2449
Sydney 1235

Submission lodged through AEMC website.

RE: National Electricity Amendment (Transmission Loss Factors) Rule – submission by Central Irrigation Trust

As an end use customer of the NEM this submission stems from our exasperation at the extreme volatility in MLFs we are experiencing on the Berri terminus of the Murraylink interconnector and what we consider as unfair treatment of our region in the loss factor principles and calculations. This has been an issue for some time and was discussed during the AEMO MLF round table in 2016 however as CIT was the only direct customer at this event the issue was never progressed.

I will comment on the Adani rule change later in this submission but do not believe that the proposed changes address the issue concerning the volatility and allocation of MLF's on the terminal nodes of an interconnector which also have customers assigned to the node.

In correspondence we received from Audry Zibelman, Managing Director and Chief Executive of AEMO, she states "You are correct that MLF volatility has significantly increased since the Murray Link has been commissioned in 2002. This volatility is an unfortunate side-effect of the way the MLF's are calculated in accordance with the national electricity rules." I have attached our letter to AEMO and the reply as supporting documentation for your reference.

The MLFs for the Berri node will see an increase of 12 % in 2019 and a difference of 22% between the Red Cliffs and Berri nodes, both a terminus for the Murraylink interconnector. This defies both logic and explanation as it implies losses of 22% in less than 150 km of transmission line.

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The Berri node has seen losses vary from -6.21% in 2017 to 12.77% for 2019. The cause is not the changing demand or geographical location of our region but simply the changing flow of power across the interconnector. Interconnector flows benefit everyone in the NEM and the ElectraNet SA Energy Transformation RIT-T for the new Energy Connect Interconnector reinforces this principle where it states “benefits will accrue to all residential and business customers in both SA and NSW and deliver benefits to the wider community.” However it seems the losses are only apportioned to a few nodes close to the interconnector terminus in our case North West Bend and Berri. To further exacerbate the issue for medium to large business in our region the virtual transmission node means that residential and small business customers supplied through the Berri node do not have the extra losses allotted to their use and as a consequence large business customers are impacted twice by also having to pay for the losses not attributed to the small business and domestic customers on this node. We are further disadvantaged again by fact that the IRSR collections are collected on a regional loss basis but returned through TUOS reductions, a postage stamp reduction where everyone benefits. This is not a fair or principled system.

The 2019 MLFs will add \$170,000 to CIT’s energy costs and again indicates that the modelling outcomes are flawed.

Everyone that we have spoken to agrees that apportionment of these losses is not principled and in fact has been described as ‘not passing the pub test’. We have discussed the issue with AEMO staff and identified 4 solutions:

1. Declaring Berri as a virtual node
2. Establishing another node which is the terminus node and then apportioning the losses across the state
3. Capping maximum and minimum MLFs
4. Capping rise of falls in MLFs.

As part of this rule change we would like to see option 1 or 2 mentioned above implemented to rectify the anomaly that ours at the Berri node.

After discussion with all agencies involved no one has been prepared to implement any of our suggested changes thus our involvement in this Rule Change process. As an outcome of this current rule change process we would like to see the following:



For each interconnector terminus at a State Boundary establish a node which is the terminus node with no customers and then apportion the losses due to the interstate transfers evenly across all customers in the state.

This would then see that those who benefit from an Interconnector (as outlined in the ElectraNet RIT-T) also sharing the losses.

Comments specifically on the Adani Rule Change

Identifying the problem

In our view the initial question should be, is the system still fit for purpose in a new energy system? We see many changes including:

- Variable energy generation
- Market directions for system security
- Generation being established at the optimal energy source(wind solar hydro) which is distant from the major consumers
- Renewable Energy Zones created
- Interconnectors proposed and being built to allow greater transfer of variable energy across the NEM
- Changing demand profiles
- PPA's where the generator and customer can be very geographically distant and the customer supply not reflecting the PPA financial arrangements.

The AEMC paper also states that “in the current climate MLFs are difficult to forecast accurately.” Our view is that the current **system is not fit for purpose**, state based with some interconnection, overly complex, conservative as it over collects revenue, relies on numerous assumptions, is not reflective of the true situation (PPA's are a great example) and subsequently should be discontinued with a new model developed.

We do not dispute that there are losses in a system and that losses need to be accounted and paid for. However the majority of consumers want energy on demand from a system with increasing variable generation. We are also building systems to transport that energy over longer distances. Our view is that the current MLF process should be discontinued and replaced with a simpler one where transmission losses are shared equally across all system users and possibly looking backward a year. This would be a very simple and inexpensive process and addresses

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the issues raised by the Adani proposal. In such a scenario there would be no over collection of revenues, and hence IRSR collections or returns, and the losses are averaged across all users. It also allows the generation to be located near its most optimal energy source so that the energy production is as efficient as possible.

In terms of IRSR over collections, these are collected only from energy users (customers) and influenced by MLFs, however returned through TUOS reductions to customers.

If the MLFs process remains in its current or slightly modified form the principle should be that IRSR over recoveries should be returned to those who incurred the cost and at a rate the over collection occurred (not a postage stamp price) with interest.

This should be treated as a refund of over collections.

As a customer from whom the IRSR is collected we do not support the Adani IRSR proposal. The only certainty in the Adani proposal is that customers TUOS charges will increase. As a customer in one of the highest priced markets in the world we are sceptical that generators or retailers would reduce their bids as a consequence of a windfall revenue gain. We believe that if the current MLF's process prevails, then errors in MLF's as identified by Adani should be rectified so that those generators who are disadvantaged as suggested by Adani are recompensed by those generators who benefit from the errors.

Averaging of the MLFs

We support the averaging of the MLF's with the proviso that the losses or gains from interstate transfers across the interconnectors are averaged across all users in the state.

As stated in the Electranet RIT-T for the Energy Connect interconnector between SA and NSW, residential business and the wider community all accrue benefits. On principle then all should share the losses. As a consequence of more variable generation in the NEM there will be greater flows across the interconnectors. This change should not disadvantage businesses that are on the terminus nodes of the interconnectors some of which have been in existence for 100 years.

If the current system prevails as a customer our preference is to have advance notice of the loss factors so that we can budget for the coming year as accurately as possible particularly with the volatility we experience. We believe that April 1 is a

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suitable notification date and would prefer to look back. Looking back does not have to be a financial year it could be February to February if you need to be able to notify by April.

Yours Sincerely,

A handwritten signature in black ink that reads 'Gavin McMahon'.

Gavin McMahon
Chief Executive Officer