

17 April 2019

Gavin McMahon
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FROM THE OFFICE OF THE
CHIEF EXECUTIVE OFFICER

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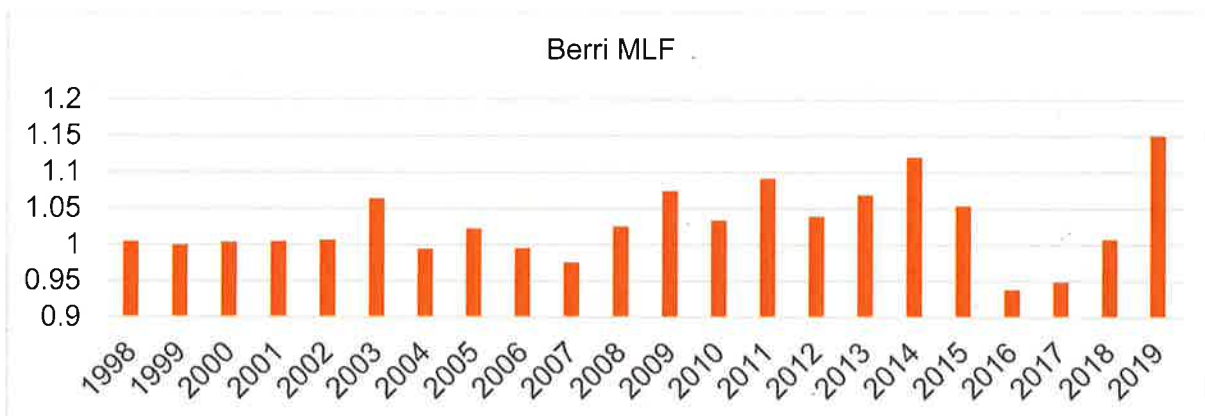
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Dear Mr McMahon,

Volatility of MLFs at the Berri terminus

Thank you very much for your letter and our phone conversation on 8 April regarding the financial challenges that the Central Irrigation Trust is experiencing because of the recently published draft MLFs. 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 MLFs are calculated in accordance with the national electricity rules. When power flows across the interconnector predominantly towards Victoria, losses in the South Australian (SA) system increase as more power travels through an increasingly congested network from the SA Regional Reference Node RRN (Torrens Island) to your pumping stations. If however power-flows over the interconnector are reversed, your consumption decreases the amount of power that flows towards the regional reference node and hence losses in SA decrease. A consumer across the state's border is mapped onto the Victorian RRN and thus experiences the opposite behaviour.

With Australia's energy system becoming increasingly dynamic, swings in interconnector flows are likely to continue.

I fully appreciate this MLF volatility makes it difficult to operate your business predictably and profitably. AEMO is looking forward to continuing to work with you to find a practical way to address this issue.

As discussed, we are in the short-term conducting a review of your MLF to ensure it is based on the latest and most accurate data. AEMO currently aims to publish final MLFs for 2019/20 on 10 May.

In the medium term, we are very sympathetic to supporting you to reduce the MLF volatility. Of all the options suggested in your letter, we believe declaring Berri part of SA's Virtual Transmission Node (VTN) is likely to be the most effective solution. The other options you have mentioned, eg "establishing another node which is the terminus node and then apportioning the losses across the state", would require a rule change in our view and are therefore much harder to implement in the medium term.

We hence recommend you discuss the VTN option with the AER, ESCOSA and the South Australian Government. AEMO is not the decision maker in this allocation but we would be happy to facilitate the discussion.

The AEMC will be commencing a Nation Electricity Rule change process later this year which will consider the framework under which the MLFs are calculated in the longer term. We encourage you to take part in this process.

Please do not hesitate to contact Dr Alex Wonhas, Chief System Design and Engineering Officer at alex.wonhas@aemo.com.au if you would like to proceed with this suggestion following your recent discussions with the SA government; or if have any further questions or suggestions.

Yours sincerely



Audrey Zibelman
Managing Director and Chief Executive Officer