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**Ms Kimberlee McKay**

Acting Director Utilities Commission  
Utilities Commission of the Northern Territory  
Floor 11, Charles Darwin Centre, 19 Smith Street, The Mall  
GPO Box 915, Darwin, NT 0801

Dear Kimberlee,

**Stakeholder Consultation -System Control Charges Review**

Thank you for the opportunity for Jacana Energy to make a submission on the Issues Paper published by the Utilities Commission (the **Commission**) on the 'Review of System Control Charges and Associated Funding Issues' proposal (the **Proposal**) submitted by Power and Water Corporation (**PWC**).

**1. Introduction**

Jacana Energy supports the Commission in the performance of its functions under the *Utilities Commission Act* which requires the Commission to have regard to (amongst other things) the need to:

- promote competitive and fair market conduct;
- prevent misuse of monopoly or market power;
- promote economic efficiency;
- ensure consumers benefit from competition and efficiency;
- protect the interests of consumers with respect to reliability and quality of services and supply in regulated industries; and
- facilitate maintenance of the financial viability of regulated industries.

Jacana Energy recognises the importance of having efficient, effective System Control and Market Operator functions. In many other jurisdictions, these functions are provided by an independent body, and all activities, costs and cost recovery mechanisms are driven by and subject to scrutiny by all industry participants. This contributes to achieving efficient and effective functions and the transparency of costs and cost recovery mechanisms.

The potential negatives of having an industry participant provide these services in the Northern Territory (**NT**) have been, to date, balanced by the costs not increasing since 2000.

**2. Questions raised by the Commission**

Jacana Energy's responses to the questions raised by the Commission in the Issues Paper, and relevant comments regarding the Proposal, are as follows:

1. ***Do the system control and market operator activities identified by PWC at Appendix A to its submission accurately reflect the regulated services System Control is obligated to provide?***

Jacana Energy notes that there are 70 specific activities listed in Appendix A. The list suggests a large amount of work is required. A list with the key activities synthesised out would be more meaningful, and enable a better view of the quantum of work actually required.

2. ***Does a new Administrative and Control Centre appear reasonable? Are there any other options that could be considered to address the issues with the current control centre?***

There is insufficient information in the Proposal for Jacana Energy to have an informed opinion on the viability or otherwise of the existing arrangements or if the Proposal ensures prudent and efficient expenditure on the proposed new administration and control room.

Jacana Energy does not support the assertion by PWC that changing the perception that System Control is controlled by PWC and unidentified cultural benefits warrant a new administration and control centre (section 2.4.3). Jacana Energy supports the Commission undertaking a rigorous review of the Proposal to ensure that customers' interests are protected.

3. ***Are PWC's demand assumptions reasonable given the Territory government's 50 per cent renewables commitment?***

The increase in behind the meter photovoltaic (PV) systems has and will continue to have an impact on the energy requirements of the network. Residential and small commercial system installed capacity is increasing at about 40% p.a. ( <http://pv-map.apvi.org.au/> ). Taking into account the current installation trend, the extra pressure asserted by the Roadmap to Renewables, and the slowing down in construction of large industrial projects in Darwin, the energy forecast provided by Australian Energy Market Operator and used by PWC appears reasonable.

4. ***Should the system control charge be different across the three regulated power systems, based on the level of services provided for each system?***

Jacana Energy supports transparent cost based charges and accordingly charges based on services provided in a region that reduce cross subsidies between customers and customer classes.

5. ***Should the system control charge be charged to retailers, generators or a combination of both?***

Given that different generators present differing requirements on the network and accordingly system control, charging generators provides an incentive for generators to reduce costs. Additionally, as the type of and mix of generators changes over time so too does the requirement on system control functions. A transparent causer pays charging structure for system control functions ensures the benefits from competition by reducing the possibility of one generator subsidising another.

In addition to retailers and generators being charged, there is a question as to whether networks should also bear some charge. The issue of the dispatch of Katherine Power Station as a network support service suggests that some costs are potentially attributable to networks.

**6. Should a price or revenue control mechanism be implemented and if so what type?**

While price and revenue control mechanisms each have their advantages and disadvantages, the simplicity of a price cap is preferred during periods of relatively stable energy consumption. However, it should be noted that price caps recovered on a c/kWh charge can disproportionately allocate cost to large users.

**7. Is the proposed timing of 1 July 2019 for the commencement of the revised system control charge a concern? If so, why is it a concern and what is a more appropriate start date and why?**

Jacana Energy considers that an increase of the magnitude proposed should be transitioned over a period of at least five years. Please also refer to our comments under section 3 regarding customer impact. If the tariff structure is changed, then adequate time for IT system changes needs to be considered.

**8. How long should the Commission approve prices for? Options could include one, three or five years?**

The approval period for prices is a balance between stability and known price path, and the responsiveness to change in costs and cost drivers. With the uncertainty around the requirement of the electricity market, Jacana Energy suggests that a shorter period should be considered, i.e. one or two years initially transitioning to five years once market requirements have settled. An incentive for efficiency should also be included.

**9. Should the Commission provide a mechanism to allow System Control to change costs on an annual basis, such as a yearly consumer price index (CPI) adjustment?**

An annual CPI revision could prevent stepped changes in price from one regulatory price period to another. Jacana Energy supports a CPI adjustment.

**10. If so, on what basis should this adjustment be based on? Options could include CPI, CPI – x, government miscellaneous fees and prices index or labour indexes.**

Jacana Energy supports  $CPI - x$  as a suitable method to encourage improved efficiency overtime.

**3. Other comments**

**Efficiency, Market Operator and System Control Benchmarking:**

The Proposal claims to have implemented reforms to improve transparency and efficiency, while indicating that labour costs have increased by over 50%. However, a review of the FTE reveals a fulsome allocation of FTEs to activities.

PWC benchmarking of the number of staff per desk provides little evidence they are operating efficiently. The ratio can easily be changed by having an extra desk or less desks. Furthermore, PWC claim that current operator levels provide headroom for future requirements which suggests there is an opportunity to improve efficiency. For benchmarking against Horizon Energy and Western Power to be valid, it is assumed they operate efficiently. However, there is no evidence provided to support this assumption. Benchmarking of an independent operator would be more meaningful.

It is claimed that the Market Operator will need to increase from the current 3 staff to 5. This is surprising when considering the size and requirements of the NT market, a consultancy budget of \$2.65 million, and the benefits of systematising market operator activities.

Jacana Energy considers that it is imperative that the Commission undertakes a full review and benchmarking to protect the interests of consumers of electricity, and promote economic efficiency in the provision of these services. An evaluation by an independent expert assessing the complexity and size of the network, number of nodes and customers being managed and the requirements of the market, is the only way to ascertain if the functions are being undertaken at least as efficiently as any comparable business in accordance with section 4 of the Government Owned Corporations Act.

### **Customer impacts:**

Table 5 in section 3 of the Proposal understates the impact of the price increase. For a typical domestic customer the increase is about \$47 p.a. However, for a larger commercial or industrial customer who consumes over 750 MWh p.a. the increase starts at \$3,525 p.a. Approximately 50 Commercial and Industrial customers will experience increases of over \$10,000 p.a., with the largest customer account increase being in excess of \$160,000 p.a.

In tough economic times, the increased cost burden may force closure or interstate relocation of businesses that underpin the NT economy.

Analysis provided in section 3 masks the real increase. Claiming that a large percentage increase in one component has little or no impact is misleading. If it is considered reasonable for one element to increase disproportionately then all large cost increases could be argued by disaggregating into their small elements.

In the interests of providing price stability for customers, increases should be price pathed.

## **4. Conclusion**

Jacana Energy is keen to see System Control and Market Operator functions that provide efficient and effective services with costs that are economic, transparent, understood and reflective of the services provided.

**Jacana Energy has three fundamental concerns with the Proposal, namely:**

- (1) having zero increase from 2000 and then implementing a substantial increase on 1 July 2019 results in price shock and is not an appropriate or acceptable approach;
- (2) that the proposed pricing may not represent efficient costs to meet the requirements of the NT. The proposed pricing includes both operating costs and corporate overheads. The corporate overheads in particular appear high. These are overheads for a water, sewerage and electricity network business, and are not necessarily reflective of System Control and Market Operator functions; and
- (3) the impact on consumer costs (at around \$47 for a typical domestic customer and between \$3,525 and \$160,000 p.a. for a larger commercial or industrial customer) is not in the interests of consumers and will add to the cost burden at a time when the ability to fund such increases is questionable.

**Jacana Energy suggests two alternatives:**

- (1) the level of charge is reviewed and revised downwards (reflecting greater cost efficiency and lower allocation of corporate overheads). The increases are phased in over at least a five year period, commencing 1 July 2019; or
- (2) any increase is deferred until at least 1 July 2020 to allow for the Commission to obtain greater analysis of costs.

Thank you again for this opportunity to provide feedback on the Proposal. Please do not hesitate to contact me should you wish to discuss the contents of this letter.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'DBrown', with a stylized flourish at the end.

David Brown  
Acting Chief Executive Officer  
**Jacana Energy**