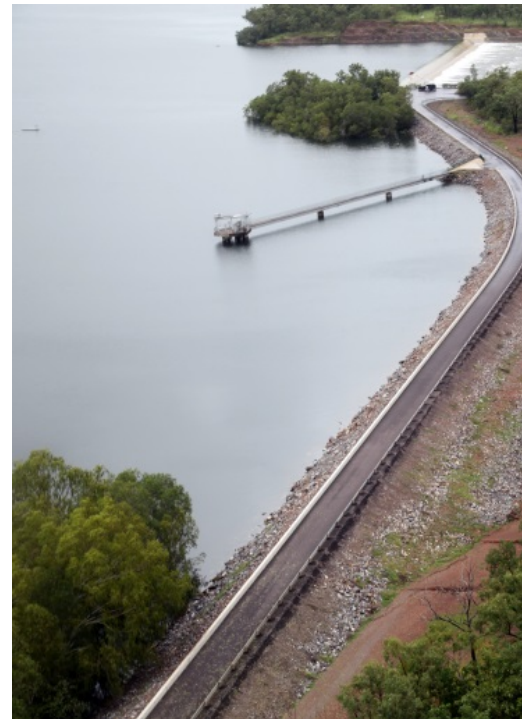




UTILITIES COMMISSION ANNUAL REPORT

2014-15



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Glossary

Term	Definition
Act	<i>Utilities Commission Act</i>
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
Commission	The Utilities Commission of the Northern Territory
DTF	Department of Treasury and Finance (Northern Territory)
electricity network	The electricity network as defined in the <i>Electricity Reform Act</i>
EDL	EDL NGD (NT) Pty Ltd
EPO	Electricity Pricing Order
ERM	ERM Power Retail Pty Ltd
GEMCO	Groote Eylandt Mining Company Pty Ltd
Generation	Generation of electricity as defined in the <i>Electricity Reform Act</i>
GSL	Guaranteed Service Level
GPT	GPT RE Limited
IES	Indigenous Essential Services
Innogen	Innogen Australia Pty Ltd
I-NTEM	Interim Northern Territory Electricity Market
IPP	Independent Power Producer
Jacana Energy	Power Retail Corporation, a government owned corporation established in accordance with the <i>Government Owned Corporations Act</i> and trading as Jacana Energy
MWh	Megawatt hours
NECF	National Energy Customer Framework
NEL	National Electricity Law
NEM	National Electricity Market
Northern Power	Northern Power Opco Pty Ltd
NTEM	Northern Territory Electricity Market
NTC&PC	Network Technical Code and Network Planning Criteria
Power and Water	Power and Water Corporation, a government owned corporation established in accordance with the <i>Government Owned Corporations Act</i>
power system	Refers to the Darwin-Katherine, Alice Springs or Tennant Creek power system
PSR	Power System Review

PV	photovoltaic
QEnergy	QEnergy Limited
Rimfire	Rimfire Energy Pty Ltd
SCTC	System Control Technical Code
SMMP	Safety Management and Mitigation Plan
structural separation	The structural separation of Power and Water's retail and generation business units into Jacana Energy and Territory Generation in accordance with the <i>Government Owned Corporations Act</i> , effective from 1 July 2014
System Control	The System Control business unit of Power and Water
Territory Generation	Power Generation Corporation, a government owned corporation established in accordance with the <i>Government Owned Corporations Act</i> and trading as Territory Generation
The Minister	The Regulatory Minister (the Treasurer) as determined by the Administrative Arrangement Orders
WSPO	Water and Sewerage Services Pricing Order



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The Honourable David Tollner MLA
Treasurer
Parliament House
DARWIN NT 0800

Dear Treasurer

In accordance with section 35 of the *Utilities Commission Act* (the Act), I am pleased to provide you with the Annual Report of the Utilities Commission of the Northern Territory (the Commission) for the financial year ended 30 June 2015.

The Report covers:

- the administration of the Act during the year;
- activities of the Commission under the Electricity Networks (Third Party Access) Code during the year; and
- activities of the Commission under the *Electricity Reform Act* and *Water Supply and Sewerage Services Act* during the year.

From 1 July 2015, the role of regulator and functions under the *Electricity Networks (Third Party Access) Act* were conferred on the Australian Energy Regulator. The 2014-15 year will be the last year that the Commission reports on its activities under this Act.

In June 2015, legislation commenced providing functions for the Commission in relation to port access and price regulation. Under this regime, the Commission's functions only commence with the appointment of a private port operator for a declared port.

The Commission notes that the Act provides that a copy of this report is to be tabled in the Legislative Assembly within six sittings days of receipt.

Yours sincerely

A handwritten signature in black ink, appearing to read "Patrick Walsh", written in a cursive style.

Dr Patrick Walsh
Utilities Commissioner
30 September 2015

Chapter 1: Commissioner's Overview

I am pleased to present the Annual Report for 2014-15 for the Utilities Commission of the Northern Territory (Commission), recording key achievements and activities of the Commission for that year.

Substantial achievements in electricity market reform in the Territory occurred in 2014-15. These included the structural separation of Power and Water Corporation (Power and Water), commencement of operations for Territory Generation and Jacana Energy, implementation of an interim wholesale electricity market (I-NTEM) and the transfer of network access and price regulation to the Australian Energy Regulator (AER) effective from 1 July 2015.

The Commission supports the objectives of the Territory Government's electricity market reform program and, during the year, provided advice and assistance on various aspects of the reform program, within its legislative authority, including the transfer of network access and price regulatory functions to the AER, and implementation of the I-NTEM. In May 2015, the Commission considered and approved amendments to the System Control Technical Code (SCTC) to facilitate the I-NTEM.

A key objective for the Commission in 2014-15 was to contribute, as far as possible, to a measurable improvement in the technical performance of the Territory's power system. In particular, the reliability of the Darwin-Katherine power system in recent years has been inadequate, with frequent power system incidents involving customer load shedding. The Commission has worked closely with the relevant bodies to understand the reasons for these incidents and to establish the basis for improved performance.

In the second half of 2014-15, there was a significant improvement in the reliability of the Darwin-Katherine power system, with fewer load shedding incidents (as a result of a single generator outage) and reduced severity of outages. The Commission acknowledges the significant work undertaken by Power and Water System Control and Territory Generation in 2014-15 to better understand the performance of generation and transmission assets in the Darwin-Katherine region.

As part of its licensing functions for the regulated industries, the Commission issued an electricity retail licence to Rimfire Energy Pty Ltd (Rimfire) and approved electricity generation and retail licences for EDL NGD (NT) Pty Ltd (EDL) pending network access agreement finalisation. The Commission continued discussions with Northern Power Opco Pty Ltd (Northern Power) on its application for a generation licence.

During 2014-15, the Commission focused on ensuring that its existing functions were undertaken in an effective and efficient manner, including through collaborative work with Territory Government agencies and regulatory bodies in other jurisdictions. The Commission acknowledges advice and assistance from the Australian Energy Market Operator (AEMO), AER and the Essential Services Commission of South Australia on a variety of regulatory matters.

During the year, the Commission focused on the need for licensees to maintain adequate compliance systems and processes to ensure compliance with the relevant regulatory obligations. In 2015, the Commission prepared draft Compliance Framework and Reporting Guidelines to complement its Statement of Approach on Compliance. The draft guidelines were published for consultation in July 2015 and will be finalised in October 2015. The Guidelines include a requirement for annual compliance declarations by licensees.

The Territory Government has previously indicated that, subject to suitable arrangements for the transfer of network access and price regulation to the AER, the Commission would be wound up, during 2015-16, with licensing, technical, network reliability standards and performance monitoring, and economic regulation of water and sewerage services being assigned from that time to relevant agencies.¹

The Commission's view is that, as far as possible, regulation of the Territory's electricity sector should be transferred to institutions in the National Electricity Market (NEM) (that is, AER, AEMO and Australian Energy Market Commission), in effect through the Territory joining the NEM. These institutions would have similar roles in the Territory as in current NEM jurisdictions, although it may be necessary to incorporate some specifics for the Territory electricity market. Such an undertaking would likely require a transitional period of up to four years, as well as a concerted, coordinated and well-resourced effort with extensive engagement with relevant stakeholders. At present, the Commission continues to have a significant regulatory and advisory role, a situation that is likely to continue for several years.

Legislation commenced in June 2015 establishing a port access and price regulation regime to apply to the Port of Darwin once a private port operator is appointed. Under the new regime, the Commission will be the economic regulator with responsibilities including approving a port operator's access policy, undertaking price monitoring and reviewing the operation of the regime in three years, and then every five years thereafter.

Recognising the ongoing work of the Commission, the Minister reappointed Associate Commissioners Peter Caldwell and Mike Robson for a further 12 months to 30 June 2016. I welcome the reappointments and the experience, knowledge and professionalism both Associate Commissioners bring to the work of the Commission.

I thank my fellow Commissioners, Peter Caldwell and Mike Robson, for their contributions to the work of the Commission during the year and the staff of the Commission for the assistance and support they have provided to all Commissioners. I commend the staff for their commitment and professionalism as displayed through the conduct of their work and the achievements of 2014-15. I also thank the various stakeholders who have engaged with the Commission during its various regulatory processes in 2014-15.

Dr Patrick Walsh
Utilities Commissioner

¹ Northern Territory Electricity Market Reform, Information Paper, Department of Treasury and Finance, February 2014, www.treasury.nt.gov.au/Pages/Northern-Territory-Electricity-Market-Reforms.aspx

Chapter 2: About the Commission

The Commission is an independent statutory body with defined roles and functions for economic regulation in the electricity, water and sewerage industries and declared ports in the Territory. The Commission's role as economic regulator for declared ports commences once a private port operator is appointed.

The Commission was established on 21 March 2000 by the *Utilities Commission Act* as part of an economic framework for regulated industries that promotes and safeguards competition and fair and efficient market conduct or, in the absence of a competitive market, promotes the simulation of competitive market conduct and the prevention of misuse of monopoly power.

Roles and Functions of the Commission

The Commission's functions and powers are defined in the *Utilities Commission Act*, with specific responsibilities with respect to a particular industry assigned to the Commission by provisions in relevant industry regulation Acts. The Commission currently has responsibilities assigned in the electricity, water and sewerage services industries.

The *Ports Management Act* for the control, management and operation of ports commenced on 9 June 2015. The Act, among other things, establishes the Commission as regulator for port access and price regulation once a private port operator is appointed to a declared port.

The key regulatory functions of the Commission are to:

- regulate prices charged by government and other businesses for providing certain monopoly services and certain services in regulated industries;
- perform licensing functions;
- develop, monitor and enforce compliance with, and promote improvement in, standards and conditions of service and supply;
- make, and monitor the operation of, codes and rules relating to the conduct or operations of a regulated industry or licensed entities;
- investigate and help resolve complaints relating to the conduct or operations of licensed entities;
- assist consumers and others with information; and
- advise the Minister on any matter referred by the Minister.

The relevant industry regulation Acts applying to the electricity supply industry are the:

- *Electricity Reform Act*; and
- *Electricity Networks (Third Party Access) Act*.

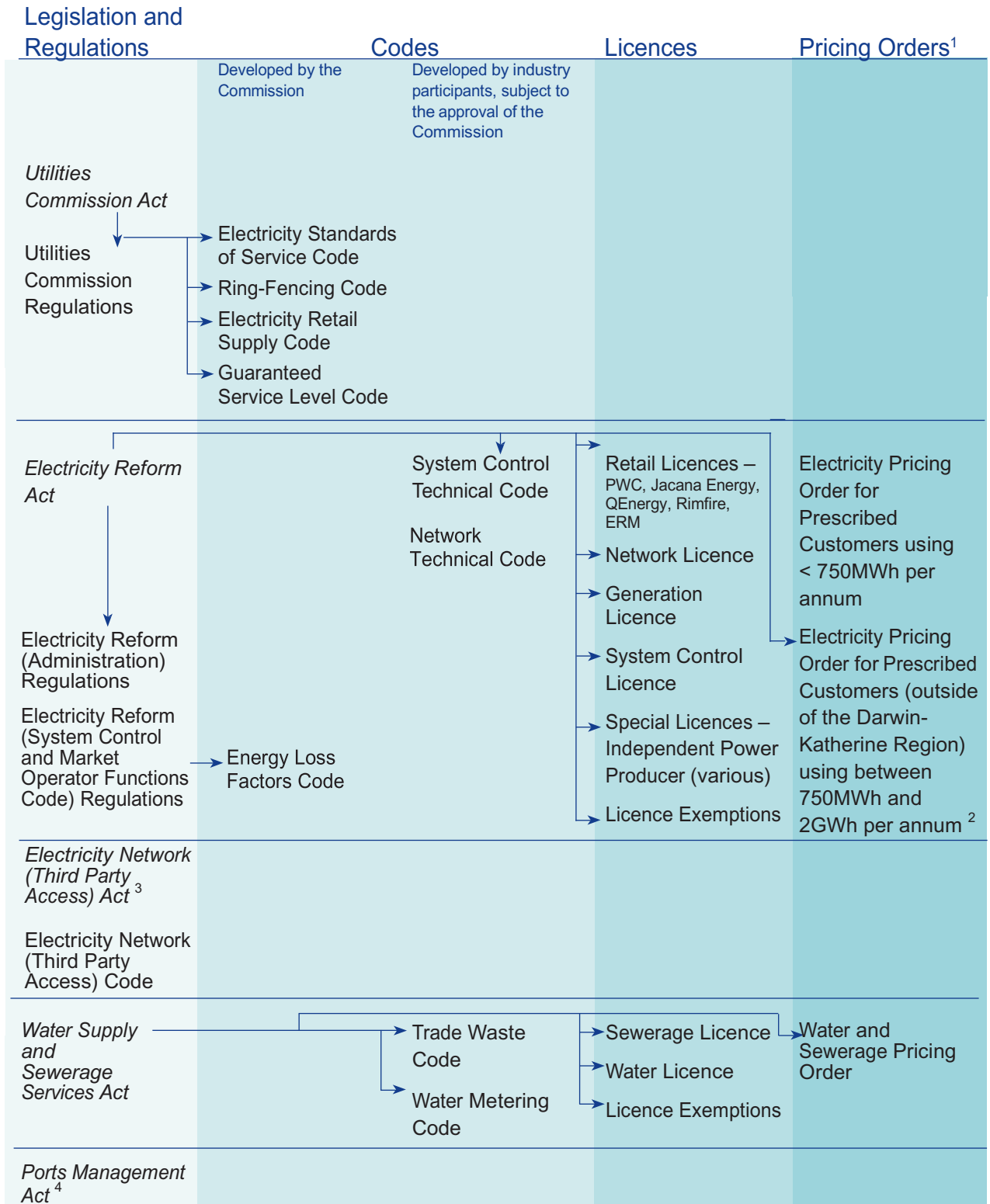
From 1 July 2015, responsibility for network price regulation and oversight of network access in accordance with the *Electricity Networks (Third Party Access) Act* and Code was transferred to the AER.

The relevant industry regulation Act applying to the water supply and sewerage services industries is the *Water Supply and Sewerage Services Act*.

The Commission acknowledges the complexity of the regulatory framework governing the electricity, water supply and sewerage services in the Territory, and its future role as the economic regulator of the port. It also recognises the role of government, government agencies and industry participants in the regulatory framework.

The diagram on the following page provides an overview of the existing regulatory environment for the Territory, as at 1 July 2015.

Existing Northern Territory Regulatory Architecture



1 Pricing Orders are issued by the Minister. The Commission is responsible for monitoring compliance with the pricing orders, enforcement and investigation of complaints from customers in relation to pricing orders.

2 In July 2015, the Minister revoked the pricing order to the extent that it applies to customers of those classes in the Darwin-Katherine Region with effect on and from 1 August 2015. The Pricing Order from 1 January 2015 to 31 December 2015 will continue to apply to customers outside of the Darwin-Katherine Region.

3 Prior to 1 July 2015 and the transfer of network regulation to the AER, the Network Access Code and Energy Loss Factors Code were authorised by the *Electricity Network (Third Party Access) Act*.

4 The Commission's role as economic regulator commences on the appointment of a private port operator to a declared port.

The Commission

Dr Pat Walsh was appointed as the Utilities Commissioner for a five-year term on 28 October 2011 and is joined on the Commission by two Associate Utilities Commissioners, Mr Peter Caldwell and Mr Mike Robson. All Commissioners perform their roles on a part-time basis.

Dr Pat Walsh

Pat Walsh commenced a five-year term as Chairperson of the Commission in October 2011. He is also currently Chairperson of the Essential Services Commission of South Australia. He is a Fellow of the Australian Institute of Energy and Member of the Australian Institute of Company Directors.

Pat Walsh has held senior public sector positions in the energy regulation and reform area in South Australia over the past 25 years. He holds a PhD in Applied Mathematics from the University of Adelaide.

Mr Mike Robson

Mike Robson was appointed as an Associate Utilities Commissioner with the Utilities Commission for a five-year term on 23 June 2009, which has been extended until 30 June 2016. He has more than 40 years' experience as an electricity industry engineer, including 11 years with the National Electricity Market Management Company.

Mr Peter Caldwell

Peter Caldwell was appointed as an Associate Utilities Commissioner with the Utilities Commission for a five-year term on 30 July 2009, which has been extended until 30 June 2016. He has more than 40 years' experience in a range of Territory and Commonwealth government departments in economic, resources, trade and capital policy areas at senior management levels. He is a fellow of the Australian Institute of Company Directors and has been awarded a Public Service Medal.

Commission staff and resources

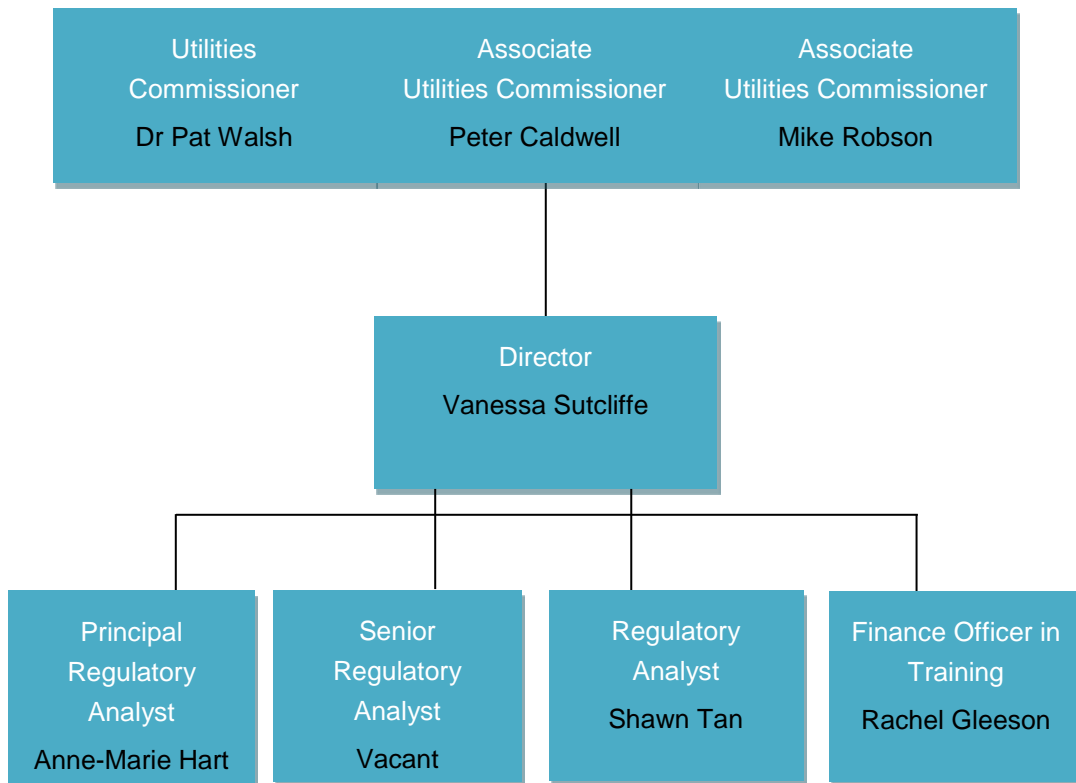
The Commission is supported by four staff seconded from the Department of Treasury and Finance.

Commission Meetings and Out-of-Session Decisions

The Commissioners and Commission staff generally meet around eight times a year to discuss work undertaken by the Commission, to provide direction for work and to approve decisions. During 2014-15, the Commission met eight times (four in person and four teleconferences).

Appendix A contains a full list of Commission meetings and out-of-session decisions that occurred in 2014-15.

Organisational Chart as at 30 June 2015



Licence application fees and annual licence fees are receipted directly into consolidated revenue. Fees are fixed for a particular type of licence by the Minister and are an amount the Minister considers to be a reasonable contribution towards administrative costs of the Commission.

The Commission's expenditures are funded directly from consolidated revenue.

Appendix B provides a summary of the Commission's expenditures in 2014-15, as well as the associated receipts.

The Commission also engages appropriate expert technical advice through the use of consultants as required (detailed in Appendix C).

Chapter 3: Performance Summary

The following section provides details of key highlights for the Commission in 2014-15 and the Commission's key priorities for 2015-16.

Decisions made by the Commission during 2014-15 are set out in Appendix D. Appendix E provides a list of reports published by the Commission during the year.

Highlights of 2014-15

Introduction of an Interim Wholesale Electricity Market

On 28 February 2014, the Commission provided a report to the Minister on possible wholesale electricity market arrangements that may be suitable for the Territory. The report was in response to a request for advice pursuant to section 31 of the *Utilities Commission Act* requesting the Commission conduct a review into wholesale electricity market arrangements that are appropriate for the Northern Territory, and recommend preferred arrangements. A copy of the Commission's report was tabled in the Legislative Assembly on 27 March 2014.

The Commission's report proposed the establishment of a Northern Territory Electricity Market (NTEM) that comprises separate investment and energy trading mechanisms. The Commission recommended interim energy trading arrangements be established as a transition to a final wholesale electricity market.

During 2014-15, the Commission provided advice and assistance to Government to develop and implement interim energy trading arrangements as a first step towards the final NTEM. In May 2015, the Commission approved version 5.0 of the SCTC in accordance with clause 27A(3) of the Electricity Networks (Third Party Access) Code.

Transfer of Network Access and Price Regulation to the Australian Energy Regulator

Network charges relate to the transmission and distribution of electricity to customers and are paid by network users (mostly electricity retailers, including Power and Water and Jacana Energy) to the networks business division of Power and Water (Power and Water Networks). Network charges are one component of bundled retail electricity prices, which also include generation, system operation and retailer charges.

Due to the natural monopoly characteristics of electricity networks, network tariffs and charges are regulated in all Australian jurisdictions. In the Territory, network charges are regulated in accordance with the Electricity Networks (Third Party Access) Code (Network Access Code), which is a schedule to the *Electricity Networks (Third Party Access) Act*.

As part of the Territory Government's Electricity Market Reform program, responsibility for network price regulation and oversight of network access in accordance with the *Electricity Networks (Third Party Access) Act* and the Network Access Code was transferred from the Commission to AER with effect from 1 July 2015. The Commission assisted facilitation of the handover of these functions to the AER during 2014-15.

Power System Review

The Commission's annual Power System Review (PSR) focuses on the Darwin-Katherine, Alice Springs and Tennant Creek regulated power systems. Continuing from previous years, the 2013-14 PSR focuses on actual system availability (generation and networks) to assess the security and reliability of the system, including voltage, forced outage rates and spinning reserve. The 2013-14 PSR also incorporates reporting on performance against standards of service in accordance with the Electricity Standards of Service Code.

Regular and comprehensive public reporting on power system and distribution network performance is an essential feature of the electricity supply industry in all other jurisdictions, including those forming part of the NEM. Transparent and robust reporting on system planning and performance matters also assists in holding electricity businesses accountable for reliability performance outcomes.

Consistent with the Territory Government's electricity market reform program, the Commission continues to transition reporting requirements in the Territory to be consistent with the NEM.

Licensing

In 2014-15, the Commission provided advice on the Territory's regulatory framework and the licensing process to potential generation and retail licence applicants.

The Commission approved an application from Rimfire for an electricity retail licence in August 2014.

In December 2014, the Commission received applications for electricity retail and standard generation licences from EDL. As at 30 June 2015, the licence applications were approved pending network access agreement finalisation.

In May 2014, the Commission received an application from Northern Power for a standard generation licence. The Commission continued discussions with Northern Power during 2013-14 and, as at 30 June 2015, further information was still to be provided by the applicant.

Consistent with good regulatory practice, the Commission seeks comments on licence applications from market participants and stakeholders.

Technical Audit

In 2014-15, the Commission undertook a technical audit to examine the degree to which the system control, generation licence and the network licences were complied with. The audit also considered the level of likely compliance immediately prior to the 12 March 2014 System Black incident that occurred in the Darwin-Katherine power system.

The audit noted a number of non-compliant and part-compliant issues for Power and Water and Territory Generation. The audit also noted that both Power and Water and Territory Generation were non-compliant with the licence requirement to maintain an adequate compliance process. The Commission understands that Power and Water and Territory Generation have addressed, or are in the process of addressing, all part-compliant and

noncompliant issues. A subsequent audit of Power and Water's compliance framework and reporting process was conducted in mid-2015.

Draft Compliance Framework and Reporting Guidelines

Following the audit of Power and Water's compliance framework, the Commission released draft Compliance Framework and Reporting Guidelines for consultation with relevant stakeholders. The Guidelines include, among other things, a requirement for annual compliance reporting, additional information on the reporting of material compliance breaches and an annual declaration from the Board of Directors of each business as a vehicle for elevating the importance of compliance.

The Commission intends to finalise the Guidelines in October 2015 and amalgamate the Guidelines with the Commission's Statement of Approach on Compliance, soon after.

Review of Electricity Retail Licences

In 2014-15, the Commission also undertook a review and considered appropriate amendments to all electricity retail licences issued by the Commission to ensure the licences contain conditions that meet the requirements of the *Electricity Reform Act*, and are consistent with good regulatory practice.

Submissions on the review of retail electricity licences closed on 24 August 2015. The Commission intends to review any submissions received and finalise the revised retail licences in late 2015.

Water Supply and Sewerage Services

Although the Commission's authority in relation to water supply and sewerage services is limited, the Commission continued to monitor compliance with licence obligations and provide advice and assistance to customers regarding the Territory's regulatory framework.

In June 2015, the Water Directorate, located within the Department of Land Resource Management, released a discussion paper on an over-arching framework for the management and regulation of water resources. The Commission made a submission supporting the discussion paper's vision and guiding principles, and more specifically, reform of the regulation framework for water supply and sewerage services.

Ports Access and Price Regulation

The *Ports Management Act* for the control, management and operation of ports legislation commenced in June 2015. The Act, among other things, establishes the Commission as economic regulator for port access and price regulation of a declared port once a private port operator is appointed.

During 2014-15, the Commission provided advice to the Territory Government on the establishment of the ports access and price regulation regime.

Future Priorities

To contribute to a measurable improvement in the technical performance of the power system

The Commission would like to see, and contribute where it can, to a measurable improvement in the technical performance of the Territory's power system. The Commission will seek to ensure Power and Water System Control continues to place greater emphasis on planning and performance of the power system, including appropriate investigation of power system incidents and implementation and monitoring of progress relating to recommendations from major incident investigation reports.

The Commission's 2014-15 PSR will continue to focus on generation reliability and utilisation of spinning reserve, and is expected to be completed in early 2016. The Commission will also seek to incorporate the involvement of national bodies in the development of the PSR.

The Commission will seek to have greater engagement with national bodies such as AEMO in the review of generation, network and system performance and encourage market participants to adopt policies and procedures consistent with those used by national bodies and representing good electricity industry practice.

Contribute to the development and implementation of the reform program for the Territory's electricity industry

The Commission will continue, within its legislative authority, to provide advice and assistance to Government on the development and implementation of the electricity industry reform program.

The Commission will also seek to ensure compliance with the SCTC and the rules of the I-NTEM, and provide advice and assistance in the implementation of the full NTEM.

The Commission also seeks to encourage adoption of other aspects of the national rules that may be appropriate to the Territory including power system planning and reporting, and customer protections.

Contribute to ensuring customers benefit from competition and efficiency

The Commission will seek to consider elements of the National Energy Customer Framework (NECF), which may be adopted in the Territory's electricity retail market.

The Commission will review and report on performance in accordance with the Electricity Standards of Service Code with particular attention to customer service performance. This information is published in the Commission's annual PSR.

The Commission will also consider the impacts of structural separation, particularly in terms of power system planning and reporting.

Ensure the Commission's existing functions are undertaken in an effective and efficient manner

The Commission will continue to undertake its existing regulatory functions, including assessment of licence applications, review of Power and Water's Water and Sewerage Services Asset Management Plans, consideration and approval of port access policies, establishment of price monitoring policies and procedures, review of codes and guidelines, and compliance monitoring.

The Commission will continue to provide advice to the Minister as requested, and engage with Government on the future role of the Commission.

To the full extent possible, the Commission will continue to work collaboratively with regulatory bodies from other jurisdictions.

Economic Regulation

During 2014-15, the Commission undertook the following regulatory functions in accordance with the regulatory framework:

Function	2014-15 Work
<p>To regulate prices charged by government and other businesses for providing certain monopoly services and for providing services in regulated industries as required under relevant industry regulation Acts.</p>	<p>Completed – Responsibility for network price regulation and oversight of network access in accordance with the <i>Electricity Networks (Third Party Access) Act</i> and Code was transferred to the AER with effect from 1 July 2015.</p> <p>Ongoing – The Commission continues to monitor prices charged by Power and Water and Jacana Energy in accordance with the Electricity Pricing Orders and Water and Sewerage Services Pricing Order.</p> <p>Completed – On 22 May 2015, the Commission approved the maximum tariffs and charges that Power and Water can charge during 2015-16 for standard network access services with respect to its prescribed electricity networks.</p>
<p>To perform licensing functions under relevant industry regulation Acts.</p>	<p>Completed – The Commission continued to provide advice to potential licence applicants during 2014-15.</p> <p>In May 2014, the Commission received an application from Northern Power for a standard generation licence in accordance with section 21 of the <i>Electricity Reform Act</i>. As at 30 June 2015, Northern Power's application was pending further information to be provided by the applicant.</p> <p>On 11 August 2014, the Commission issued a licence for the selling of electricity to Rimfire in accordance with Part 3 of the <i>Electricity Reform Act</i>.</p> <p>On 11 December 2014 the Commission received applications for electricity retail and standard generation licences from EDL.</p> <p>In accordance with good regulatory practice, the Commission sought comments on licence applications from market participants and stakeholders.</p>

As at 30 June 2015, the licences were approved and subject to network access agreements being finalised.

Completed – The Commission issued an administrative variation related to compliance with regulatory instruments to retail, standard generation and network licences in April 2015.

On 30 June 2015, the Commission made a variation to the generation licences issued to Power and Water and Territory Generation to effect the Government Owned Corporations (Power Corporations Restructure) Regulations and the associated Generation Business Register as per regulation 5(1).

Ongoing – The Commission undertook a review of retail licences in 2014-15 to consider appropriate amendments in light of developments to the electricity industry in the Territory.

On 3 July 2015, the Commission published a public Consultation Paper containing a template retail licence and seeking submissions from stakeholders.

Completed – On 10 October 2014, following the approval of the Minister, the Commission granted a retail and generation licence exemption to GPT RE Limited (GPT) and Innogen Australia Pty Ltd (Innogen), for the installation of solar photovoltaic arrays to be installed at Casuarina Square Shopping Centre.

The Commission continued to provide advice to potential licence applicants in accordance with the *Electricity Reform Act* and *Electricity Reform (Administration) Regulations*.

Ongoing – The Commission continued to monitor the compliance of Power and Water with its licence obligations through its annual compliance audit.

To develop, monitor and enforce compliance with and promote improvement in standards and conditions of service and supply under relevant industry regulation Acts.

Completed – The Commission published the 2013-14 PSR, which reports on the trends in adequacy and security of the Territory's power system. The review is a legislative requirement that ensures the continued

reliability of the Territory's power system. The PSR included a summary of the reporting information provided by market participants in accordance with the Electricity Standards of Service Code.

Completed – The Commission completed a technical audit of Power and Water's networks, generation and system control licence obligations, with a follow up compliance audit in May 2015.

To make, monitor the operation of, and review from time to time, codes and rules relating to the conduct or operations of a regulated industry or licensed entities under relevant industry regulation Acts.

Completed – The Commission approved Version 5.0 of the SCTC on 26 May 2015 to implement the I-NTEM in the Darwin-Katherine power system.

Ongoing – The Commission is developing its Retailer of Last Resort Guidelines to provide guidance on the procedures relating to the Electricity Supply Retail Code.

Completed – The Commission provided advice on a standard customer contract and approved a customer charter published by Jacana Energy, post-structural separation of Power and Water. The standard customer contract separates the sale of electricity provisions from the supply of electricity provisions and establishes a triangular contracting structure between Power and Water Networks, Jacana Energy, and the end customer. Similar contracting structures exist in other jurisdictions including the NEM. The Commission will continue to provide advice on further refinement of the contracts as Jacana Energy and Power and Water further develop their individual customer contracts.

Ongoing – The Commission reviewed the general exemption for small scale renewable embedded generation.

Ongoing – The Commission prepared draft Compliance Framework and Reporting Guidelines to supplement its Statement of Approach on Compliance, and commenced consultation with stakeholders in July 2015.

To investigate and help resolve complaints relating to the conduct or operations of licensed entities under relevant industry regulation Acts.	Completed – The Commission finalised its investigation of two complaints lodged by large commercial customers against a licensed entity that had been ongoing from 2013-14.
Providing information to customers and market participants on declared regulated industries in the Territory including the electricity, water and sewerage industries and regulatory arrangements.	Ongoing – The Commission continues to place emphasis on public consultation and undertakes reviews and determinations in a transparent manner. The Commission responds to queries from customers and the community and provides information on the role of the Commission, the Territory electricity market, water and sewerage industries, and regulatory arrangements.
To advise the Minister on any matter referred by the Minister.	Completed – The Commission conducted a review and provided advice to the Minister in early 2015 upon request by the Minister.
To perform any other function assigned by or under this or any other Act or conferred by the Minister.	As detailed above.

Key Deliverables

The Commission remains committed to setting high performance measures for meeting its duties as the independent economic regulator in the Territory. This is illustrated in the performance measures published in the 2015-16 Budget.

Key Deliverables	2014-15 Budget	2014-15 Estimate	2015-16 Budget
Determinations and approvals issued within statutory timeframes ¹	100%	100%	100%
Stakeholder satisfaction ²	≥ 5	≥ 5	≥ 5

1 Covers determinations and approvals on monopoly pricing, minimum service standards and other activities as provided for under the *Utilities Commission Act* and other relevant legislation.

2 Stakeholder is the Regulatory Minister (the Treasurer). Measures range from a rating of 1 = extremely dissatisfied through to 6 = extremely satisfied.

Chapter 4: Electricity Supply Industry

The electricity supply industry in the Territory is regulated by the *Electricity Reform Act*, *Electricity Networks (Third Party Access) Act*, *Utilities Commission Act* and associated legislation. This statutory framework was introduced on 1 April 2000.

The statutory framework is primarily focused on regulating the activities of electricity industry participants and customers in the Darwin-Katherine, Alice Springs and Tennant Creek power systems – referred to as the market systems. Key elements of the statutory framework are:

- third-party access to the Darwin-Katherine, Alice Springs and Tennant Creek electricity networks (this function was transferred to the AER on 1 July 2015);
- staged introduction of retail contestability, with all customers becoming contestable from 1 April 2010; and
- an independent economic regulator, the Commission, to regulate monopoly electricity services, licence market participants and enforce regulatory standards for market conduct and service performance.

The structural separation of Power and Water into three separate entities took effect on 1 July 2014, with Power and Water continuing to manage the electricity network and water and sewerage services, and the transfer of the generation and retail licences and functions to Territory Generation and Jacana Energy, respectively. Power and Water continues to retain some limited retail and generation functions primarily related to its remote operations.

As at 30 June 2015, there were five electricity retailers licensed in the Territory. The retailers were Power and Water Retail², Jacana Energy³, QEnergy Limited (QEnergy), ERM Power Retail Pty Ltd (ERM) and Rimfire.

In November 2014, applications for an electricity retail licence and a generation licence were received from EDL. As at 30 June 2015, the Commission had approved the retail and generation licences pending network access agreement finalisation.

In the three market systems, Territory Generation is the main electricity generator. Most of the electricity generation functions previously held under Power and Water's generation licence before structural separation transferred to Territory Generation. Power and Water continues to operate and own generating plants, primarily in indigenous communities under the Indigenous Essential Services (IES) program, a number of minor commercial power stations, and the Berrimah Power Station in Darwin (final set decommissioned in 2013-14).

As at 30 June 2015, an application from Northern Power for a generation licence received in May 2014 was pending further information to be provided by the applicant.

2 Operations in Indigenous communities under the Indigenous Essential Services (IES) program and those parts of the Territory not covered by Jacana Energy.

3 Operations in Darwin, Katherine, Tennant Creek, Alice Springs, Daly Waters, Borroloola, Timber Creek, Elliott, Newcastle Waters, Yulara, Ti Tree and Kings Canyon.

Although there are privately owned generators operating in the Darwin-Katherine and Alice Springs systems and exporting electricity into those systems, these suppliers generate electricity under contract for Territory Generation rather than selling directly to an electricity retailer.

Power and Water is the network service provider and is also responsible for system control and market operations. The Darwin-Katherine, Alice Springs and Tennant Creek networks are not interconnected and are separated by long distances.

Electricity supply in regional and remote centres of the Territory is mainly managed by the Territory Government and the service provider (Power and Water) through a contract for service model. The Commission has limited regulatory functions in regional and remote centres.

Roles and Functions of the Commission

The Commission has the following functions in the electricity supply industry to:

- perform licensing functions, granting licences to firms to undertake electricity generation, electricity networks, system control and retail operations in the Territory;
- develop standards of service and supply and make codes and rules relating to the conduct or operations of the electricity supply industry or individual licensed entities;
- monitor and promote improvement in standards and conditions of service, supply and operations of the electricity supply industry and licensed entities;
- regulate prices charged by Power and Water for provision of electricity network services (transport of electricity across the network), with this function transferred to the AER from 1 July 2015;
- regulate charges imposed by the System Controller relating to the operations of system control;
- monitor and enforce compliance with standards and conditions of service and supply and monitor the operation of and enforce compliance with codes and rules relating to the conduct or operations of the electricity industry or licensed entities;
- advise the Minister on any matter referred by the Minister; and
- assist consumers and others with information on the market and regulatory framework.

This chapter details the work carried out by the Commission during the 2014-15 financial year in performing these functions.

Licensing

The Commission issues licences to persons seeking to operate in the Territory's electricity supply industries, in accordance with the provisions of the *Electricity Reform Act*.

The Commission has the power to customise licences and has developed subcategories of licences and combined licences to suit particular circumstances.

Table 1: Types of licences currently issued

Licence type	Scope
Standard Generation licence	<ul style="list-style-type: none"> To generate electricity for sale. To sell electricity to electricity entities holding generation or retail licences (or as otherwise stated in the licence).
Special Generation licence – Independent Power Producer (IPP) ^a	<ul style="list-style-type: none"> To generate electricity for sale. To sell electricity only to electricity entities holding a standard generation licence (or as otherwise stated in the licence).
Network licence	<ul style="list-style-type: none"> To operate the electricity network in the geographical area stated in the licence. If stated in the licence – to connect the electricity network to another electricity network.
Retail licence	<ul style="list-style-type: none"> To trade in electricity (where ‘trade’ means the buying and selling of electricity other than to final consumers). To retail electricity to customers who own or occupy premises anywhere in the Territory (where ‘retail’ means the selling of electricity to specified groups of final consumers).
Special licence – Isolated system operations ^b	<ul style="list-style-type: none"> To generate electricity at specified electricity generating plants. To sell electricity to electricity entities holding a generation licence or a retail licence. To sell electricity to customers, but only in respect of electrical installations or premises that are situated within specified locations. To own and operate an electricity network within specified geographic areas and connect that network to another specified electricity network.
System Control licence ^c	<ul style="list-style-type: none"> To monitor, plan and control the operation of the power system with a view to ensuring that the system operates safely and securely, including by issuing directions to electricity entities that are engaged in the operation of the power system, or contribute electricity to, or take electricity from, the power system. In May 2015, the Electricity Reform (Administration) Regulations were amended to prescribe operating a wholesale market as an operation for which a licence is required. The Regulations also define that an entity (Power and Water) that is licensed for system control is also licensed to operate a wholesale market in relation to that power system^d.

- a An Independent Power Producer licence is a ‘cut down’ version of a generation licence for those parties who do not wish to participate fully in the electricity supply market and instead generate electricity under contract for another generator.
- b An isolated system operations licence is a combination generation, network and retail licence for entities operating in remote locations, for example where a mining company supplies electricity to a nearby town that predominantly houses workers associated with the mine.
- c A system control licence is only issued where the power system is of sufficient size and complexity to warrant monitoring and control by an at arm’s length system controller. In isolated communities with a single generator of electricity, management of system loads and frequency control is undertaken by the generator. Co-ordination of generation with third-party inter-connected networks would be a matter for normal commercial contractual arrangements.
- d In relation to the I-NTEM, System Control is the Market Operator responsible for wholesale trading arrangements between generators and retailers, registration of market participants, market settlements, and daily publication of market prices and other wholesale trading data.

The Electricity Reform (Administration) Regulations provide an exemption from the requirement to be licensed for some activities. Licences are not currently required for:

- small scale renewable and own-use generation and low volume sales of electricity; and
- on-supply of electricity, as long as the on-supplier complies with certain conditions.

The Commission may, with the approval of the Minister, grant an exemption from the requirement to be licensed.

As at 30 June 2015, Power and Water held four licences:

- system control;
- electricity retail;
- generation; and
- network.

As at 30 June 2015, retail electricity licences were also held by:

- Jacana Energy;
- QEnergy;
- ERM; and
- Rimfire.

As at 30 June 2015, a standard electricity generation licence was also held by Territory Generation.

Special Generation licence – IPP licences were held by the following producers who do not participate fully in the electricity supply industry and instead generate electricity under contract for another generator:

- EDL (McArthur River power station, McArthur River, and Pine Creek A power station, Pine Creek);
- Cosmo Power Pty Ltd (Pine Creek B power station, Pine Creek);
- Central Energy Power Pty Ltd (Brewer Estate power station, Alice Springs);
- Energy Resources of Australia Ltd (Ranger power station, Jabiru);
- LMS Energy Pty Ltd (Shoal Bay power station, Darwin);
- Uterne Power Plant Pty Ltd (photovoltaic system at Alice Springs); and
- TKLN Solar Pty Ltd (photovoltaic systems at Ti Tree, Kalkarindji and Lake Nash – Alpururulam).

An isolated system licence was held by Groote Eylandt Mining Company Pty Ltd (GEMCO). The Commission renewed the licence issued to GEMCO on 19 June 2014.

As at 30 June 2015, the following exemptions were current:

- an exemption from the requirement to hold a licence with respect to its electricity operations in the township of Nhulunbuy and at the mine, issued to Pacific Aluminium Pty Ltd; and
- an exemption from the need to hold a licence as defined by the general small scale renewable energy operations exemption, issued to GPT and Innogen.

Application for New Licences

In May 2014, the Commission received an application from Northern Power for a standard generation licence in accordance with section 21 of the *Electricity Reform Act*. As at 30 June 2015, Northern Power's application was pending further information to be provided by the applicant.

In May 2014, the Commission received an application to sell electricity from Rimfire in accordance with Part 3 of the *Electricity Reform Act*. A licence was issued to Rimfire in August 2014.

On 11 December 2014, the Commission received applications for retail and standard generation licences from EDL. As at 30 June 2015, the licence applications were approved pending network access agreement finalisation.

Consistent with good regulatory practice, the Commission seeks comments on licence applications from market participants and relevant stakeholders as part of its consideration process of the applications.

Request for Licence Exemptions

The Commission received a formal request for a licence exemption from GPT and Innogen in May 2014. On 10 October 2014, having assessed the application and applicable requirements of the *Electricity Reform Act* and Electricity Reform (Administration) Regulations, and with the approval of the Minister, the Commission granted a licence exemption to GPT and Innogen.

The Commission continued to provide advice to potential market participants on licencing requirements and processes in accordance with the *Electricity Reform Act* and Electricity Reform (Administration) Regulations.

Licence Variations

On 29 September 2014, the Commission issued an administrative variation to Jacana Energy's retail licence to correct a reference to its Daly Waters retail licence area.

The Commission issued an administrative variation to retail, standard generation and network licences in April 2015 to clarify an inconsistency across licences for a clause requiring the licensee to comply with regulatory instruments.

On 30 June 2015, the Commission made a variation to the generation licences of Power and Water and Territory Generation to reflect the outcome of structural separation in accordance with the Government Owned Corporations (Power Corporations Restructure) Regulations and the associated Generation Business Register as per regulation 5(1).

As Power and Water continues to be a key market participant, with licences for network services, system control, retail, generation and water supply and sewerage services, the Commission continued to monitor the compliance of Power and Water through compliance audits.

In late 2014, the Commission completed a technical audit of Power and Water and Territory Generation's compliance with technical obligations under the relevant network, generation and system control licences. A further audit was undertaken of Power and Water's compliance framework and compliance reporting in mid-2015.

Review of Retail Licences

The Commission undertook a review of existing retail licences in 2014-15 to identify appropriate amendments required in light of developments in the electricity industry in the Territory, including structural separation of Power and Water, and to ensure that the licences contain conditions that meet the requirements of the *Electricity Reform Act* and are consistent with good regulatory practice.

On 3 July 2015, the Commission published a Consultation Paper containing a template retail licence seeking submissions from stakeholders. In late 2015, the Commission will evaluate submissions made in response to the Consultation Paper, and vary the existing licences as appropriate.

Market Conduct Regulation

The Commission monitors the conduct and operations of the electricity supply industry and licensed entities. The Commission may also make codes and rules relating to the conduct or operations of the electricity supply industry or licensed entities, where authorised by legislation.

All electricity customers became contestable from April 2010. Full retail contestability means that all electricity customers in the Territory can contract with a licensed retailer.

Following the entry of additional electricity retailers, the Commission recognised the need to provide further guidance to market participants on the conduct of retail supply activities.

The Commission introduced an interim Electricity Retail Supply Code in August 2011. Amendments were made to the Code in 2013 following an application from QEnergy and following extensive consultation by the Commission with key stakeholders. The amendments related primarily to credit support requirements, access to metering data and timeframes for customer transfers between retailers.

The purpose of the Electricity Retail Supply Code is to provide electricity market participants in the Territory with a regulatory instrument that provides the framework and mechanisms for retail competition between retailers for customers and protects the ongoing integrity of the market. The Electricity Retail Supply Code prescribes matters relating to arrangements:

- between electricity businesses for the transfer of customers between retailers;
- between generators and retailers including credit support and billing;
- between electricity businesses for business-to-business interactions;
- for a retailer of last resort; and
- dispute resolution between electricity businesses.

In 2014-15, following the structural separation of Power and Water and the subsequent transfer of its retail business to Jacana Energy, the Commission considered a standard customer contract and approved a customer charter prepared by Jacana Energy. The standard customer contract establishes a triangular contracting structure between Power and Water Networks, Jacana Energy and the end-customer, consistent with arrangements in other jurisdictions and the Government's electricity reform program.

Power System Performance

The Commission monitors standards and conditions of service and supply and the operations of the electricity supply industry and licensed entities. The Commission may also develop standards of service and supply, where authorised by legislation.

The Commission publishes an annual PSR, reporting on power system performance during the year, and providing an assessment of the adequacy of the power systems to meet forecast demand in the medium term.

Regular and comprehensive reporting on power system and distribution network performance and health is a feature of the electricity supply industry throughout Australia. Over a period of time, electricity businesses in other Australian jurisdictions have developed systems and processes for regular and comprehensive reporting of power system and distribution network performance. The 2013-14 PSR continued the transition of reporting requirements in the Territory to be consistent with those of the NEM.

The 2013-14 PSR was released in June 2015. The 2013-14 PSR continued to focus on actual system availability (generation and networks) to assess the security and reliability (dynamic performance) of the system, including voltage, forced outage rates and spinning reserve.

The Commission's overall objective for the annual PSR is to provide the following key information:

- data to support the identification by market participants of the most economic future options for augmentation and expansion of infrastructure to maintain security and reliability standards;
- credible and dependable medium and long-term forecasts of future supply and demand conditions under various scenarios;
- possible future generation, transmission and distribution capacity constraints (projected system adequacy for medium and long term), taking into account maintenance and outage plans;
- integration with the planning and maintenance management of infrastructure assets;
- analysis of generation, transmission and distribution performance data;
- adequacy of sources of fuel for electricity generation for the medium and long term;
- analysis of generation and networks reliability performance, and customer service performance information; and
- analysis of power system incidents and identification of underlying systemic issues.

Key Findings of the 2013-14 Power System Review

The 2013-14 PSR found that the reliability of the Darwin-Katherine power system declined during 2013-14. On 12 March 2014, a System Black incident occurred, following action taken by Power and Water in response to a malfunctioning circuit breaker. The various responses to the System Black incident, including failures of black start generators, either exacerbated or extended the incident.

The 2013-14 PSR also noted a significant number of generation-related load shedding incidents that were not due to insufficient generation capacity, but rather the response of some generator units (at times not being able to respond appropriately following an outage of a single generator unit). The Commission recommended that the value to customers of improved power system performance should be given increased focus and used as a planning tool.

The review also found that there are critical aspects of the power system supply chain that have limited redundancy, and there are multiple examples of underperforming equipment. The 12 March 2014 System Black incident and 11 September 2014 gas supply failure incident demonstrated a lack of system robustness in the Darwin-Katherine power system.

In the 2012-13 Review, the Commission observed that many of the incidents in the power system were multiple contingency events. This was less of an issue in 2013-14 but there were nevertheless several significant incidents. Responses to major incidents appeared to be mixed and the Commission was concerned that the level and effectiveness of contingency planning is lacking.

The Commission projected average system-wide maximum demand growth to be 1.6 per cent for Darwin-Katherine, 1.0 per cent for Alice Springs and 1.7 per cent for Tennant Creek per annum over the 10-year review period.

The number of households with rooftop solar photovoltaic (PV) installations was expected to increase uniformly over the next 10 years. By 2023-24, it was projected that households with rooftop solar PV installations would increase to 24.4 per cent in the Darwin-Katherine power system, 35.6 per cent in the Alice Springs power system and 26.6 per cent in Tennant Creek power system.

Generation Outlook

Power and Water adopted an N-3 (that is, the unavailability of the three largest generating units) planning criterion for the Darwin-Katherine power system as a temporary measure to allow for the life extension work at Channel Island power station. The planning criterion of N-2 and N were adopted for Alice Springs and Tennant Creek, respectively.

The Commission noted both the Darwin-Katherine and Alice Springs power systems had a high level of generation capacity to 2023-24, assuming a low 2 per cent forced outage rate for generators (92 per cent overall availability). The Tennant Creek power system almost met its standard with reliance on diesel generation (assuming no loss of gas supply) for the 10-year review period.

Although generation capacity across the three regions remained strong, generation reliability remained poor and declined in 2013-14. There were 11 generation outages resulting in load shedding during 2013-14 in the Darwin-Katherine power system, three in Alice Springs and one in Tennant Creek.

Fuel Supply

The 2013-14 PSR found that the Territory has sufficient fuel supply for the 10-year review period. Power and Water's annual contract quantity from the Blacktip gas field is in excess of its actual gas requirements for the review period. An additional INPEX LNG back-up arrangement from 2017 will materially improve security of gas supply to the Territory.

The Commission found that the emergency management of the 11 September 2014 incident, where there was a gas supply failure following an electrical fault at the Blacktip gas platform, did not produce the most effective outcomes because there was not a process that enabled free flow of live information between all key stakeholders.

Network Outlook

The 2013-14 PSR found that there is sufficient network capacity to meet future demand to 2023-24 subject to a number of capacity concerns, notably:

- six feeders exceeding 100 per cent utilisation rates during periods of maximum demand, with the number of feeders experiencing 100 per cent utilisation expected to increase by 2018;
 - poor performance of the 132kV Channel Island to Hudson Creek line and/or its protection systems; and
-

- ratings that Power and Water Networks applies in evaluating adequacy of transmission lines not being consistent with the method used in other jurisdictions.

The review noted that significant progress was made in the transmission line loop between Hudson Creek, Palmerston, McMinns, Weddell and Archer substations, and network reliability (excluding the 12 March 2014 System Black incident), feeder loadings and the number of poorly performing feeders (zero).

Customer Service

The Commission noted there was continued poor performance in answering customer calls, with the number of calls abandoned increasing by over 128 per cent. The average time to answer a call also increased from 180 seconds to 371 seconds in 2013-14. The Commission considered this performance a significant concern and a matter that needs to be addressed as a high priority by both Power and Water and Jacana Energy.

The target standards for distribution System Average Interruption Duration and System Average Interruption Frequency were not met for all feeder categories except for the Rural Long feeder category.

Price Regulation

The Commission regulates certain prices in the monopoly sectors of the Territory's electricity supply industry in accordance with relevant industry legislation.

Transfer of Network Price Regulation and Network Access to the Australian Energy Regulator

As part of the Territory Government's Electricity Market Reform program, responsibility for network price regulation and oversight of network access in accordance with the *Electricity Networks (Third Party Access) Act* and Network Access Code was transferred to the AER with effect from 1 July 2015.

In 2014-15, the Commission provided advice and assistance to assist with the transfer of network access and price regulation functions to the AER. From 1 July 2015, the AER will administer the Commission's 2014-19 Network Price Determination and commence preparation for the 2019-24 Network Price Determination in 2016.

Network Access Charges

Prior to the start of each financial year, Power and Water must submit its proposed reference tariffs and charges for standard network access services for the coming financial year to the Commission for approval, with a statement detailing how the tariffs and charges have been calculated consistent with the Commission's determination for the regulatory control period and other requirements of the Network Access Code.

In May 2015, the Commission approved the reference tariffs and charges for standard network access services to apply during the 2015-16 financial year. The tariffs and charges approved for 2015-16 are the maximum that Power and Water may charge for standard network access services provided with respect to each electricity network.

In approving the proposed standard network access tariffs, the Commission considered the approved tariffs and charges to comply with the requirements and relevant principles specified in the Network Access Code.

The Network Access Code allows the regulator to act as an alternative dispute resolution body should there be any concerns the prices charged for excluded network access service are not fair and reasonable. If Power and Water and affected network users are unable to reach agreement on what constitutes fair and reasonable terms for the excluded network access services, the regulator may determine what constitutes fair and reasonable terms. The Commission was not advised of any formal disputes in 2014-15. This function was transferred to the AER effective 1 July 2015.

System Control Charges and Pricing of Ancillary Services

The Commission approves charges imposed by the System Controller and also has authority to determine prices for ancillary services to manage the quality of electricity supplied by the electricity supply industry.

The system control charges that applied during 2014-15 are those approved by the Commission with effect from 1 July 2004 and continue until superseded.

In May 2015, the Commission directed the System Controller to commence a review of ancillary services within six months, including the adequacy of such services to ensure the system operates reliably, safely and securely. On completion of the review, the Commission intends to make a determination relating to the prices for providing ancillary services in accordance with section 22 of the *Utilities Commission Act* and section 3 of the Utilities Commission Regulations.

System Imbalance Charges

The Commission is responsible for overseeing prices paid (or received) by third-party generators when purchasing (or selling) any mismatches between energy generated by such generators and the load attributable to end-use customers supplied by these generators. The System Controller, in consultation with licensed generators, is required to develop arrangements for settlement of any out-of-balance payments between generators, with the arrangements subject to the approval of the Commission.

In May 2015, the Commission approved Version 5.0 of the SCTC prepared by the System Controller, which sets out the arrangements for economic dispatch and out-of-balance settlement for operation of the I-NTEM.

Electricity Pricing Orders

Caps on retail electricity prices paid by small customers, whether residential or commercial, are regulated directly by the Territory Government through an Electricity Pricing Order (EPO).

The Commission is required to enforce compliance with an EPO as if it were a determination of the Commission under the *Utilities Commission Act*. During 2014-15, the Commission undertook an audit of compliance with the Tranche 4 Electricity Pricing Order as part of its annual compliance audit program. The Commission noted a number of compliance issues and accepts the issues have now been appropriately resolved.

As at 30 June 2015, the following EPOs were in effect:

- for customers prescribed by regulation 13A(d) of the Electricity Reform Administration Regulations (that is, using up to 750 MWh per annum), regulating the maximum price that can be charged to relevant customers for the period 1 January 2015 to 31 December 2015; and
- for customers prescribed by regulation 13A (a) to (c) Electricity Reform Administration Regulations (that is, using between 750 MWh and 2 GWh per annum – Tranche 4) setting a price path for increases to cost-reflective electricity prices to relevant customers for the period 1 January 2015 to 31 December 2015.

In July 2015, the Government revoked the EPO for customers using between 750 MWh and 2 GWh per annum to the extent that it applies to customers of those classes in the Darwin-Katherine region with effect on and from 1 August 2015. The EPO from 1 January 2015 to 31 December 2015 will continue to apply to customers outside of the Darwin-Katherine Region as defined in Schedule 2 to the *National Electricity (Northern Territory) (National Uniform Legislation) Act*.

Technical Regulation

The Commission has various technical regulatory functions it undertakes in the absence of a technical regulator in the Territory.

Spinning Reserve

Spinning reserve refers to generation capacity that is available for rapid despatch should a generator fail, to avoid collapse of the power system. Following a number of system black incidents and under frequency load shedding incidents resulting in a power system failure, and issues identified in the annual PSR, the Commission encouraged Power and Water to develop a comprehensive spinning reserve policy, consistent with good industry practice, for each of the Territory power systems.

In mid-2013, Power and Water commenced a review of its spinning reserve requirements. The Commission understands this review was ongoing in 2014-15 and Power and Water has made significant progress in better understanding the operation of spinning reserve in the Territory's power systems.

Network Technical Code and Network Planning Criteria

In late 2012 and early 2013, the Commission provided preliminary comments and suggested improvements on draft Network Technical Code and Network Planning Criteria (NTC&PC) prepared by Power and Water Networks. Power and Water Networks had undertaken a substantial review of the previous NTC&PC and combined the two documents into a single document.

Prior to 1 July 2015, clause 9(1) of the Network Access Code required Power and Water to comply with good electricity industry practice when providing network access services and in planning, operating, maintaining, developing and extending the electricity network. Clause 9(4) of the Network Access Code required Power and Water to consult with the Commission about the contents of the NTC&PC and amend where necessary if, in the Commission's opinion, it contains provisions inconsistent with the objectives of the Code.

In reviewing the draft NTC&PC provided by Power and Water, the Commission considered generally accepted industry practice to be that applied by the National Electricity Rules and also had regard to the underlying principles set out in the Network Access Code, in particular the economically efficient operation of the electricity network.

In August 2013, the Commission advised Power and Water that it found the draft NTC&PC comparable to and containing the requirements generally accorded with similar technical documents in other jurisdictions, when reasonable allowance is made for appropriate network differences. In the Commission's view, Power and Water had complied with clause 9(4) of the Network Access Code if it addressed the issues identified by the Commission at the time.

The revised NTC&PC, with the issues identified by the Commission addressed, was released by Power and Water in December 2013 and applied to the 2014-15 year. The Commission considers that the revised NTC&PC complies with clause 9(4) of the Network Access Code.

On 1 July 2015, the requirement for Power and Water to prepare and publish the Network Technical Code in consultation with the Commission was transferred to section 66A(2) of the *Electricity Reform Act*.

Safety Management and Mitigation Plan

Power and Water's networks and generation licences were amended in October 2011 to require Power and Water to develop and implement a Safety Management and Mitigation Plan (SMMP).

In 2013-14, the Commission considered draft plans submitted by Power and Water, in consultation with the Electricity Safety Regulator, and provided comments to Power and Water. The Commission considers the SMMP as a good representation of Power and Water's policies, procedures, systems and strategies to ensure the safety of Power and Water's employees, contractors and the public around Power and Water's electricity infrastructure.

The Commission approved the SMMP in 2013-14, conditional on a revised version being submitted in April 2015. As at 30 June 2015, the Commission was in the process of reviewing and seeking consultation with interested stakeholders on the revised SMMP from Power and Water.

Territory Generation's first SMMP is due in November 2015.

Complaint Investigation

Under section 48 of the *Electricity Reform Act*, the Commission must investigate complaints against any electricity entity made on the grounds that the entity is engaging in conduct contrary to the objects of the *Electricity Reform Act* or the *Utilities Commission Act*, unless the Commission reasonably believes the complainant is not, or unlikely to be, adversely affected by the alleged complaint, the complainant has not shown a genuine attempt to resolve the complaint with the electricity entity or the complaint is frivolous or vexatious.

During 2014-15, the Commission finalised two investigations into complaints lodged by large customers against a licensed entity regarding negotiations for the supply of electricity.

The Commission undertook detailed investigations into pricing methodologies and conduct of the parties in 2013-14. The findings of the investigation were provided to the Minister and the parties to the complaint.

Advice to the Minister

The Commission provides independent advice to Government on matters such as utility pricing, access to infrastructure, service quality and security of supply.

Advice to the Minister can be provided:

- when the Minister refers a matter to the Commission for inquiry under Part 7 of the *Utilities Commission Act*. Inquiries conducted under Part 7 of the Act are public inquiries and the Commission's final report must be tabled in the Legislative Assembly; or
- when the Minister requests advice from the Commission in accordance with section 6(1)(g) of the *Utilities Commission Act*. The Minister may include a requirement in the terms of reference that the reports setting out the Commission's findings and recommendations remain confidential to Government.

The Commission is also empowered to provide advice to the Minister at its own initiative on the operation of the *Electricity Reform Act*.

In 2014-15, the Commission continued to provide advice to the Territory Government and Power and Water on establishing an I-NTEM as the Territory's first step to establishing a full wholesale energy market.

Chapter 5: Water Supply and Sewerage Services

The Commission is responsible for certain regulatory functions in the water supply and sewerage services industries.

The *Water Supply and Sewerage Services Act* regulates the water supply and sewerage services industries to:

- promote the safe and efficient provision of water supply and sewerage services;
- establish and enforce standards of service in water supply and sewerage services;
- facilitate the provision of financially viable water supply and sewerage services; and
- protect the interests of customers.

The Commission shares responsibility for administration of the *Water Supply and Sewerage Services Act* with other areas of government. The Commission, reporting to the Regulatory Minister, is responsible for those sections of the *Water Supply and Sewerage Services Act* that relate to economic regulation. The Minister for Essential Services is responsible for sections of the *Water Supply and Sewerage Services Act* that relate to supply and service provision under licence and the Department of Health is responsible for the sections of the *Water Supply and Sewerage Services Act* that relate to water quality standards.

Roles and Functions of the Commission

The Commission's regulatory role in the water and sewerage industry is more limited than its role in the electricity supply industry.

The Commission's activities in the water and sewerage industries relate mainly to licensing and some compliance monitoring, although the Minister may assign some price monitoring functions and the Essential Services Minister may assign some service standard monitoring functions to the Commission under their respective regulatory powers.

In addition, the *Water Supply and Sewerage Services Act* requires Power and Water to develop a Water Metering Code and a Trade Waste Code, with the Codes subject to approval by the Commission.

The Commission has the following functions in the water and sewerage industry, to:

- licensing;
 - monitor and enforce licensees' compliance with the Act, the terms and conditions of their licence and the minimum standards; and
 - advise the Minister on any matter referred by the Minister.
-

Licensing

The Commission issues licences to persons wishing to carry on operations in the Territory's water and sewerage industries under a sole supplier model.

Specific geographical areas may be declared by the Minister, by way of a notice in the Gazette, to be a water or sewerage supply licence area pursuant to sections 8 and 9 of the *Water Supply and Sewerage Services Act*.

A licence is required for the provision of water supply services and sewerage supply services within an area gazetted under the *Water Supply and Sewerage Services Act* as a water or sewerage supply licence area.

For each water or sewerage supply service within a gazetted water or sewerage supply licence area, the Commission may only grant a single licence for each of the relevant services provided. The Commission is not empowered to issue licences for service provision that takes place outside a water or sewerage licence area.

The Commission must make a water supply or sewerage services licence subject to conditions approved by the Minister.

As at 30 June 2015, Power and Water held two licences under Part 2 of the *Water Supply and Sewerage Services Act*:

- water supply; and
- sewerage services.

A general exemption from the need to hold a licence is also in effect for persons on-supplying water services within prescribed licence areas, on the condition that they have been granted the approval of the licensee of the water supply licence area to carry on on-supply operations in the water supply licence area.

There were no applications for water or sewerage licences or exemptions and no variations applied for or made to the terms and conditions of existing licences during the year.

Service Performance

The Commission has no role in developing service standards in the water and sewerage industry.

Minimum standards that a licensee must meet in providing water supply and sewerage services to customers may be set by the Minister for Essential Services in accordance with section 45 of the *Water Supply and Sewerage Services Act*.

Price Regulation

Water and sewerage prices paid by customers, whether residential or commercial, are regulated directly by the Territory Government via a Water and Sewerage Pricing Order (WSPO) made under section 60 of the *Water Supply and Sewerage Services Act*.

On 19 December 2014, a WSPO was issued to regulate prices for water supply and sewerage services from 1 January 2015 to 31 December 2015.

The Commission is required to enforce compliance with the WSPO as if the WSPO were a determination of the Commission under the *Utilities Commission Act*. During 2014-15, there were no compliance issues raised with or identified by the Commission relating to the WSPO.

Water Supply and Sewerage Services Asset Management Plan

Power and Water is required to maintain and implement an asset management plan and submit an updated copy of the plan to the Commission each year.

In 2011, the Commission granted Power and Water an exemption from having to submit an asset management plan in 2011 to allow Power and Water to focus on the Asset Management Capability project, involving the development and implementation of an integrated IT system and development of new asset management policies and processes.

During 2014-15, Power and Water was provided an extension from its February 2015 deadline to submit an updated water and sewerage asset management plan in June 2015. In June 2015, Power and Water provided an update on its progress for developing a more detailed and robust asset management plan and developing a strategic asset management framework. The Commission will continue to work with Power and Water to ensure that the plan reflect best industry practice.

As at 30 June 2015, Power and Water was in the process of preparing an updated draft strategic asset plan for Darwin, Katherine, Tennant Creek, Alice Springs and Yulara to be released for final stakeholder consultation.

Advice to the Minister

During 2014-15, the Commission did not receive any requests from the Minister for advice in relation to water supply and sewerage services.

Chapter 6: Compliance Monitoring

The Commission is required under the *Utilities Commission Act* to monitor and enforce compliance by licensed electricity entities with regulatory instruments – legislation, licences, codes and guidelines.

Statement of Approach on Compliance

Good compliance practice means that an organisation is able to demonstrate its commitment to compliance with relevant laws, including legislative requirements, industry codes and organisational standards as well as standards of good corporate governance, ethics and community expectations. It enables an organisation to identify deficiencies and take action before problems eventuate.

The Commission's Statement of Approach on Compliance outlines the Commission's compliance program for monitoring compliance with electricity laws, rules, and regulations. It contains the Commission's risk assessment methodology, monitoring and reporting mechanisms, and enforcement options in response to regulatory breaches.

The objectives set out in the Statement of Approach are to:

- communicate to stakeholders the Commission's objectives regarding compliance and how these fit within the Commission's strategic vision (public value);
- bring together the different initiatives implemented thus far under one umbrella;
- communicate to the regulated industry the value of adopting and endorsing a compliance process (risk management perspective);
- inform the industry about the expected outcomes resulting from the implementation of a compliance process;
- provide guidance to the regulated entities about the development of a robust and comprehensive compliance process;
- inform the regulated industry about compliance monitoring and audit scope; and
- clarify the enforcement and disciplinary process in cases of non-compliance.

In 2014-15, to supplement the Statement of Approach to Compliance, the Commission prepared Compliance Framework and Reporting Guidelines to clarify its expectations in relation to compliance by licensees and to include, among other things, a requirement for annual compliance reports, additional information on the reporting of compliance breaches and an annual declaration from the Board of Directors. Consultation on the draft Guidelines commenced in July 2015 and the Guidelines will be finalised in October 2015.

Electricity

Licensed electricity entities are obliged to comply with applicable codes, rules, protocols and standards, and to notify the Commission of a material breach as soon as reasonably practicable after becoming aware of the breach occurring.

The following codes made by the Commission were in effect, as at 30 June 2015:

- Electricity Ring-fencing Code, which aims to ensure monopoly businesses in regulated industries affiliated to contestable businesses do not discriminate against a competitor of that affiliated business, or financially or competitively advantage that affiliated business or financially or competitively advantage that affiliated business to the detriment of a competitor of that affiliated business.
- Electricity Standards of Service Code, which establishes a process by which generation, networks and retail licence holders report against set performance indicators. In addition, the Code provides a process for setting targets for network service providers. In 2013, the Commission approved distribution and transmission network performance target standards applicable to Power and Water from 1 July 2014 to 30 June 2019.
- Energy Loss Factors Code, which sets out the high-level principles underlying the calculation of the energy loss factors to be used by the System Controller in determining out-of-balance energy supplied or demanded by generators operating in the Territory's electricity supply market. As part of the development of the I-NTEM, the Commission intends to review the Energy Loss Factors Code and develop a guideline for minimum generation capacity in 2016.
- Guaranteed Service Level (GSL) Code, which establishes a guaranteed service level scheme providing for GSL payments to be made by a network provider to small customers where the supply of electricity and other related services does not meet the pre-determined guaranteed service levels.
- Electricity Retail Supply Code, which provides the framework and mechanisms for retail competition between retailers for contestable customers.

The following codes developed by Power and Water and approved by the Commission were in effect, as at 30 June 2015:

- SCTC, which sets out the System Controller's competitively neutral operating protocols, arrangements for system security and system dispatch, as well as arrangements for the interruption of supply and investigation and reporting of power system incidents. The Code also provides the rules for the I-NTEM.
- NTC&PC, which specifies the technical performance requirements of the network and the requirements for coordination between network users and the network operator to achieve these.

Water Supply and Sewerage Services

Licensed water and sewerage entities are obliged to comply with applicable codes, rules, protocols and standards, and to notify the Commission of becoming aware of a material breach of any applicable regulatory instrument.

The following Codes developed by Power and Water and approved by the Commission are in effect:

- Water Metering Code, approved by the Commission in July 2006, which sets out the arrangements and conditions for installing, testing, verifying and replacing meters owned by the licensee and that must be in accordance with guidelines published by the National Standards Commission (now the National Measurement Institute).
- Trade Waste Code, approved by the Commission in December 2001, which sets out the conditions on which the licensee will approve trade waste discharged into the licensee's sewerage services infrastructure.

Compliance Reporting in 2014-15

Annual Licence Returns

Power and Water, Territory Generation, Jacana Energy, QEnergy, Rimfire and ERM lodged returns with respect to the 2014-15 financial year for their respective licensed areas of operation.

For those entities for which activities in the regulated industries are more limited, licence returns are not required to contain the same level of detail as those required from standard licence holders. The following electricity licensees also lodged returns with respect to the 2014-15 financial year for their licensed areas of operation:

- EDL;
- Central Energy Power Pty Ltd;
- Cosmo Power Pty Ltd;
- Energy Resources of Australia Ltd;
- Landfill Management Services Pty Ltd;
- GEMCO;
- Uterne Power Plant Pty Ltd; and
- TKLN Solar Pty Ltd.

No substantive issues arose as a consequence of the 2014-15 licence returns.

Compliance Audits

Licensed entities are required to undertake compliance audits when requested by the Commission as a condition of licence.

In 2014-15, following the 12 March 2014 System Black incident in the Darwin-Katherine power system, the Commission undertook a technical audit of Power and Water and Territory Generation's compliance against their respective system control, networks and generation licences.

The technical audit examined the degree to which Power and Water and Territory Generation complied their respective system control, networks and generation licences. The audit was conducted in mid to late 2014. The audit also considered the level of likely compliance immediately prior to the 12 March 2014 System Black incident.

The audit found that both Power and Water and Territory Generation were non-compliant with the licence requirement to maintain an adequate compliance process. The Commission understands that Power and Water and Territory Generation have addressed, or are in the process of addressing, the part-compliant and non-compliant issues.

System Control

The focus of the audit of the system control licence was on key obligations pertaining to maintaining a secure electricity system, including overall governance arrangements, switching procedures and the under frequency load shedding schemes, and those obligations for when a secure system cannot be maintained including black start procedures.

The Commission examined 18 obligations contained in the licence and the SCTC.

The audit findings are set out in Table 2

Table 2: Summary of system control licence audit findings

Item	Audit finding	Comment
Establish and maintain a compliance process.	Not compliant	Corporate compliance system 'GRACE' currently does not provide granularity required. Lack of Internal Audit. No active internal compliance program for licence obligations or obligations arising from the SCTC.
Establishment of operating protocol and arrangements for generation dispatch and to maintain power system security.	Part compliant	The service level agreement describing the generator dispatch is out of date.
Restoration of a power system shall occur as soon as reasonably practical following any interruption within the power system.	Compliant	
Ensuring the accuracy of technical parameters – ensuring that the technical parameters of network equipment and system participants' equipment comply with the standards set out in the Network Technical Code or as set out in an Access Agreement.	Part compliant	No specific actions undertaken. Considered a responsibility of Power and Water Networks. Some commissioning tests monitored.
Coordinating the plant maintenance program.	Part compliant	Opportunity to undertake a broad review when annual plans received – not done due to resource constraints.
The power system security responsibilities of the Power System Controller and System Control.	Not compliant	Post-trip management is not always optimally performed. No review of Under Frequency Load Shedding scheme. Late submission of preliminary incident reports.

Item	Audit finding	Comment
Power system security – Responsibility for maintaining power system security.	Not compliant	At times, do not meet all requirements of Secure System Guidelines.
Power system security – Assess the availability and adequacy of contingency capacity reserves and reactive power reserves.	Not compliant	No formal assessment and not escalating these problems to Power and Water Networks.
Power system security – Procure adequate black start capacity.	Compliant	
Power system security – develop a Black System Restart Procedure.	Compliant	Had the audit been performed prior to the System Black incident of March 2014, it is likely that Power and Water would have been found not compliant.
Power system security – coordinate and direct any rotation of widespread interruption of demand.	Part compliant	No procedure.
Power system Security- investigate and review all major power system operational incidents and to initiate action plans.	Part compliant	Late submission of incident reports. Lack of tracking of action plan outcomes. Had the audit been performed prior to March 2014, it is likely that Power and Water would have been found not compliant.
Ensure that the Network Operator satisfactorily interacts with the Power System Controller.	Compliant	
Power system stability – handling single contingency events.	Not compliant	System Dynamic models in developing stage. Hence, a full range of stability studies have not been done.
Maintenance of a secure system.	Part compliant	System does not always meet all requirements specified in the system secure guidelines. However, in a contingency event, controllers take action to minimise safety risks.
Maintaining the frequency on islanded regions.	Compliant	
Designating black start power stations.	Compliant	
Approval of System Black Procedures.	Not compliant	No formal approval given.

Although there were a number of not-compliant and part-compliant findings, overall the Commission found an adequate level of compliance with the system control licence. The Commission also noted that there were many areas of System Control's work requiring improvements to achieve acceptable practice, and that while each of these issues is small, the number of issues and their combined effect could impact on the security of the network through a lack of ability to respond correctly to an operational incident.

Generation

The generation licence held by Power and Water was transferred to Territory Generation on 1 July 2014 in relation to the urban and minor commercial power stations, following the

structural separation of Power and Water. The focus of the audit of the generation licence was on key obligations related to the provision of:

- ancillary services, in particular, black start capability;
- the organisation's responsiveness to the directions of the System Controller, and the recommendations of technical audits and investigations performed by or on behalf of the System Controller; and
- the maintenance and operation of its facilities in accordance with good electricity industry practice.

The Commission examined seven obligations contained in the generation licence and SCTC. The audit findings are summarised Table 3.

Table 3: Summary of generation licence audit findings

Audit item	Audit finding	Comments
Establish and maintain a compliance process.	Not compliant	Corporate system 'GRACE' currently does not provide granularity required. No active internal compliance program for licence obligations or obligations arising from the SCTC.
Develop black system procedures.	Compliant	
Detail of black system procedures.	Compliant	
Approve black system procedures.	Part compliant	Territory Generation could provide evidence of submission of procedures to System Control for approval, but could not provide evidence that they had been approved.
Amend of black system procedures.	Part compliant	Each document has been reviewed and reissued within the last six months. However, it is unlikely that procedures have been reviewed every three years as required, prior to the System Black incident, so it is likely that Power and Water (licence holder at the time) would have been non-compliant at that time.
Operations and maintenance of black start equipment in accordance with good electricity industry practice.	Part compliant	Territory Generation has inherited Power and Water's Corporate Asset Management Manual, together with its own suite of asset management plans and procedures. Territory Generation should prioritise the development of a structured asset management system appropriate to its business in order to manage its assets in accordance with good electricity industry practice.
Implementation of Power System Controller directions.	Part compliant	Recommendations of incident investigation were not implemented within a reasonable time. Had this matter been audited prior to March 2014, it is most likely that Power and Water would have been found non-compliant with its licence obligations.

Overall, the Commission found an adequate level of compliance with the generation licence. The Commission also found a number of areas in which improvements would contribute greatly to increasing the level of compliance.

The Commission recognised that Territory Generation inherited and will develop for its own purposes the core processes of Power and Water's business and governance management systems, and that another considerable part of the systems development process must be to formalise and standardise many mirror day-to-day activities and processes that were poorly (if at all) documented and therefore prone to misunderstanding and human error.

Networks

The network licence audit focused on key obligations relating to maintenance practices, network operation, coordination of voltage control facilities, maintenance forecasts and training of staff.

The Commission examined eight key obligations contained in the licence and the SCTC. The audit findings are set out in Table 4.

Table 4: Summary of network licence audit findings

Item	Audit finding	Comment
Establish and maintain a compliance process.	Not compliant	Corporate system 'GRACE' currently does not provide granularity required. Lack of internal audit. No active internal compliance program for licence obligations or obligations arising from the Network Technical Code.
Asset Maintenance in accordance with the Network Access Code and the Network Technical Code.	Compliant	
Third-Party Access compliant with good electricity industry practice.	Part compliant	Access documentation does not capture assessment of all technical compliance obligations. Further coordination with System Control is required.
Network Operation and maintenance practices consistent with good electricity industry practice.	Compliant	
System Security – advice to System Control.	Compliant	
Voltage Control – adequate reactive power resources are planned, installed and made available.	Compliant	
Audit and testing of Reactive Power devices.	Compliant	

Item	Audit finding	Comment
Preparation of maintenance forecast.	Part compliant	Maintenance forecasts submitted to the Power System Controller do not include high voltage distribution. However, System Control does not require the high voltage distribution assets maintenance schedule as the additional data reduces the clarity of the schedule. It may be appropriate to revise the requirements of the Code to align with the actual needs of System Control.

Overall, the Commission found an adequate level of compliance by Power and Water with the network licence. The Commission found a number of areas in which improvements would contribute greatly to increasing the level of compliance.

Power and Water Compliance Audit

During the course of the technical audit, it was identified and of particular concern to the Commission that Power and Water and Territory Generation were not compliant with the licence obligation to establish and maintain an appropriate compliance process.

In May 2015, the Commission conducted a follow-up audit of Power and Water's licence obligations to maintain an adequate compliance framework by reviewing Power and Water's compliance process and compliance reporting (including the adequacy of the compliance framework, policies and procedures, compliance reporting to the Board and the adequacy of the level of use of its compliance management system) against specific principles of *Australian Standard 3806-2006*, and to confirm that appropriate remedial actions from the previous audit had been undertaken by Power and Water.

The scope of the audit is summarised in Table 5 and the specific principles of the *Australian Standard 3806-2006* were chosen as it was considered that Power and Water would not have had sufficient opportunity to implement a compliance process sufficiently mature to conform to the remaining principles of the *Australian Standard 3806-2006*. The audit only focused on the areas of establishing a framework, specifically compliance principles 1 to 5 (commitment), principle 6 (implementation) and principle 12 (continual improvement). The audit did not consider the remaining five principles.

Table 5: AS 3806-2006 principles to form scope of the audit

Compliance Principle	Audit scope
Commitment	
Principle 1: Commitment by the governing body and top management to effective compliance that permeates the whole organisation.	Full audit
Principle 2: The compliance policy is aligned to the organisation's strategy and business objectives, and is endorsed by the governing body.	Full audit
Principle 3: Appropriate resources are allocated to develop, implement, maintain and improve the compliance program.	Full audit

Compliance Principle	Audit scope
Principle 4: The objectives and strategy of the compliance program are endorsed by the governing body and top management.	Full audit
Principle 5: Compliance obligations are identified and assessed.	Full audit
Implementation	
Principle 6: Responsibility for compliant outcomes is clearly articulated and assigned.	Focus on ensuring that a compliance framework is established, or in the process of being established. Review against the following sections of AS 3806-2006: 4.1.1 Assigning responsibility to management 4.1.2 Top management responsibility 4.1.3 Compliance manager responsibility
Principle 7: Competence and training needs are identified and addressed to enable employees to fulfil their compliance obligations.	No audit/review
Principle 8: Behaviours that create and support compliance are encouraged and behaviours that compromise compliance are not tolerated.	No audit/review
Principle 9: Controls are in place to manage the identified compliance obligations and achieve desired behaviours.	No audit/review
Monitoring and measuring	
Principle 10: Performance of the compliance program is monitored, measured and reported.	No audit/review
Principle 11: The organisation is able to demonstrate its compliance program through both documentation and practice.	No audit/review
Continual improvement	
Principle 12: The compliance program is regularly reviewed and continually improved.	Focus on the establishment of compliance program internal audit and review program.

The compliance audit was completed in May 2015.

The Commission found that, in relation to licence obligations to have a compliance process and compliance reporting, Power and Water complied in all material respects relating to the requirements of *Australian Standard 3806-2006*, 'Commitment' Principles 1-5, 'Implementation' Principle 6 (clauses 4.1.1-4.1.3), and the establishment elements of 'Continual Improvement' Principle 12, except for the following:

- i. **Principle 1:** 3.1(j) *Regular review of the compliance program is required* – A review of the continued suitability, adequacy and effectiveness of the compliance program/framework as a whole has not occurred since 2010.
- ii. **Principle 2:** 3.2.3 *Development* – *In developing the policy, consideration should be given to ... (d) severity of risk of non-compliance* – Appropriate consideration was not given to the severity of the risk of non-compliance as there is the possibility of

medium to low risk obligations not being audited, or being insufficiently monitored and non-compliances occurring and going undetected.

- iii. **Principle 4: 3.4.1 Objectives** – *Clear targets should be established to achieve compliance objectives and should be measurable, time-related and indicate the level of performance required* – Measurable targets have been set for high risk obligations relating to Safety and Environment but have not been set for regulatory obligations to achieve the success criteria defined in Power and Water’s Compliance Management Strategy.
 - iv. **Principle 4: 3.4.1 Objectives** – *These targets should form part of the performance management agreements of the individuals concerned and should be linked to remuneration* – Targets do not form part of performance management agreements of responsible individuals.
 - v. **Principle 4: 3.4.2(g) Strategy** – *The strategy should include ... (g) how the organisation will monitor and measure its delivery on its strategy* – The Strategy does not articulate how it will monitor and measure its delivery on success criteria.
 - vi. **Principle 5: 3.5.3 Prioritisation** – *Prior to the implementation of its compliance program an organisation should identify its compliance risks and rank the likelihood and consequences of potential compliance failures and allocate resources for their treatment accordingly* – The prioritisation methodology employed by Power and Water may result in some compliance obligations not being adequately controlled and monitored.
 - vii. **Principle 6: 4.1.2(a) Top management responsibility** – *Top management should (a) Ensure that the commitment to compliance is upheld at all times and that failures and conduct that are prejudicial to compliance culture are dealt with appropriately* – Under the current monitoring and reporting regime it appears that some obligations categorised as moderate and low risk may not be audited or effectively monitored. This gap in monitoring and reporting could lead to compliance failures not being detected or dealt with appropriately.
 - viii. **Principle 6: 4.1.2(c) Top management responsibility** – *Top management should ... (c) Ensure that effective and timely systems of reporting are in place* – As per 4.1.2(a).
 - ix. **Principle 6: 4.1.2(f) Top management responsibility** – *Top management should ... (f) Be measured against compliance key performance indicators* – It was evident that key performance indicators have not been established for the success criteria for compliance management of regulatory obligations, and top management are therefore not measured against these.
 - x. **Principle 12: 6.1.1 Compliance program review** - *The top management should ensure that the organisation’s compliance program is reviewed on a regular basis to ensure its continued suitability, adequacy and effectiveness* – A review of the continued suitability, effectiveness and adequacy of the compliance framework/program as a whole has not been performed since 2010.
-

In 2016, the Commission intends to conduct a further technical audit of Power and Water and Territory Generation to ensure that the recommendations from previous audits have been fully implemented.

As a result of the findings of the technical audit in late 2014 and the follow up audit of the compliance framework in May 2015, the Commission published draft Compliance Framework and Reporting Guidelines in July 2015 to supplement the existing Statement of Approach on Compliance and commenced consultation with relevant stakeholders.

The draft guidelines include, among other things, a requirement for annual compliance reporting on 31 August every year, additional information on the reporting of material compliance breaches, and an annual declaration that a compliance process is maintained from the Board of Directors of each business. The Commission intends to finalise the Guidelines in October 2015.

Compliance by Territory Generation

The generation licence held by Power and Water was transferred to Territory Generation on 1 July 2014 following the structural separation of Power and Water's retail and generation businesses. In the 2014 technical audit, overall, the Commission found an adequate level of compliance by Territory Generation with its generation licence. The Commission also found a number of areas in which improvements would contribute greatly to increasing the level of compliance.

The Commission noted concerns with Territory Generation's use of its compliance system (that it had inherited as part of structural separation) to manage its compliance obligations. The Commission found that similar issues with the compliance framework and process existed. The Commission found Territory Generation's use its compliance system did not include individual licence compliance items and hence was insufficient to meet the requirement to ensure that Territory Generation complied with its licence obligations.

The Commission also noted that Territory Generation had reviewed its compliance monitoring capability and recently appointed a Manager Audit, Risk, Compliance and Legal, and was to conduct a full internal review of its legal and regulatory obligations in early 2015.

Territory Generation commenced operations on 1 July 2014 following its structural separation from Power and Water. The Commission intends to undertake a compliance audit of Territory Generation in 2016.

Compliance by Jacana Energy

Jacana Energy commenced operations on 1 July 2014 following its structural separation from Power and Water. The Commission intends to conduct a compliance audit of Jacana Energy in 2016.

Compliance by QEnergy

The Commission did not require a compliance audit for the 2014-15 year.

Compliance by ERM

The Commission did not require a compliance audit for the 2014-15 year.

Compliance by Rimfire

The Commission did not require a compliance audit for the portion of the 2014-15 year it held a retail licence.

Chapter 7: Stakeholder Consultation

The Commission is committed to a collaborative and cooperative approach to regulation. The Commission will consult with interested parties and stakeholders to promote transparency and accountability in its decision-making process and exercising its regulatory functions under the *Utilities Commission Act*, *Electricity Reform Act*, *Electricity Networks (Third Party Access) Act*, *Water Supply and Sewerage Services Act* and associated legislation.

More specifically, the Commission may make codes and rules for regulated industries. As part of this process, the Commission is required to:

- consult with the Minister and representative bodies and participants in the regulated industry;
- give notice of the making, variation, or revocation of a rule or code to the Minister and to each licensed entity to which the rule/code will apply; and
- ensure copies of the rule/code are made available for inspection by the public.

The Commission will consult if it is deemed necessary, desirable or convenient, to carry out any of its functions. This includes any inquiry and matter referred to the Commission by the Minister (consistent with the relevant terms of reference) under the *Utilities Commission Act*.

During 2014-15, the Commission consulted on a number of matters including applications for new licenses, variations to existing licenses and proposed amendments to the SCTC to introduce the I-NTEM.

For a full list of the submissions received by the Commission over the year, refer to Appendix F.

APPENDIX A: Commission Meetings and Out-of-Session Decisions

During 2014-15, the Commission held the following meetings and out-of-session considerations.

Date	Commission Meeting or Out-of-session Decision
July 2014	Commission Meeting No.5 of 2014 – Teleconference
July 2014	Out-of-session decision No.3 of 2014: Approval of Complaint Investigation Report
September 2014	Commission Meeting No.6 of 2014 – Darwin
September 2014	Out-of-session decision No.4 of 2014: Administrative variation to Jacana Energy’s retail licence
October 2014	Commission Meeting No.7 of 2014 – Darwin
October 2014	Out-of-session decision No.5 of 2014: Finalisation of Complaint Investigation Report
December 2014	Commission Meeting No.8 of 2014 – Darwin
January 2015	Out-of-session decision No.1 of 2015: Approval for the Engagement of Consultant to assist with work program
February 2015	Commission Meeting No.1 of 2015 – Teleconference
March 2015	Commission Meeting No.2 of 2015 – Darwin
April 2015	Out-of-session decision No.2 of 2015: Approval of final report
April 2015	Out-of-session decision No.3 of 2015: Approval for the Engagement of Consultant for audit of Power and Water
April 2015	Out-of-session decision No.4 of 2015: Network (Variation) Price Determination
May 2015	Commission Meeting No.3 of 2015 – Teleconference
May 2015	Out-of-session decision No.5 of 2015: Approval of amendments to the SCTC to implement the I-NTEM
May 2015	Out-of-session decision No.6 of 2015: Approval of Reference Tariffs and Charges for Standard Network Access Services 1 July 2015 – 30 June 2016
June 2015	Commission Meeting No.4 of 2015 – Darwin
June 2015	Out-of-session decision No.7 of 2015: Approval of the 2013-14 Power System Review

APPENDIX B: Expenditure and Receipts

The Commission is established as a separate administrative unit within the Department of Treasury and Finance (DTF). The Commission does not separately compile its own financial statements, but its activities are included in the consolidated financial statements provided in DTF's Annual Report.

This appendix publishes the expenditures of the Commission that are funded directly from consolidated revenue, as well as the associated receipts.

Expenditure by category of cost

Category of cost	2013-14 \$000	2014-15 \$000
PERSONNEL COSTS	404.6	493.9
OPERATIONAL EXPENDITURE	894.8	695.7
Regulatory/Commission expenses	207.2	206.3
Expert advice (including legal)	649.8	469.1
Official travel, accommodation and related expenses	20.8 ^a	5.8
Recruitment and staff training	2.3	5.3
Office expenses and administration	14.7	9.2
TOTAL EXPENDITURE	1 299.4	1 189.5

a Travel expenses in 2013-14 included travel for the 2014 Network Price Determination and 2012-13 PSR.

Account	2013-14 \$000	2014-15 \$000
FEES AND CHARGES		
Licence application fees	3.0	2.0
Electricity licence fees	377.3	396.4
Water and sewerage licence fees	50.0	50.0
TOTAL REVENUE	430.3	448.4

Note: Section 19 of the *Utilities Commission Act* provides that, unless otherwise directed by the Minister, fees and other monies received by the Commission are paid into the Consolidated Revenue Account. No such direction has been issued.

The licence fee schedule was approved by the Minister effective 1 July 2013, to reflect a reasonable contribution towards administrative costs of the Commission.

APPENDIX C: Advisers to the Commission

In 2014-15, the Commission used the services of the following consultants. The costs for the year totalled \$469 110 compared with \$649 758 in the previous year. This expenditure includes legal fees paid to external legal advisers. Expenditure in 2013-14 was higher due to additional advice required related to the 2014 Network Price Determination and 12 March 2014 System Black incident investigation.

The Commission engaged consultants to assist it undertake its 2014-15 work program, which included the 2013-14 PSR, review of retail licences, review of the retailer of last resort provisions, retail pricing and other market development and technical advice.

Greater than \$50 000

ACIL Allen

The Commission received advice in relation to pricing.

Allens Linklaters

The Commission received legal advice from Allens relating to a review of retail licences and contract structure, retailer of last resort provisions, the wholesale market and amendments to the SCTC, and other licence variation-related advice.

Entura

The Commission received advice relating to the 2013-14 PSR.

Parsons Brinckerhoff

The Commission received advice from Parsons Brinckerhoff relating to the technical audit of Power and Water and Territory Generation and a compliance audit of Power and Water.

Less than \$50 000

Deloitte Economics

The Commission received advice relating to a review of the Power and Water's pricing model submitted as part of the 2014 Network Price Determination process.

APPENDIX D: Decisions in 2014-15

During 2014-15, the Commission made the following decisions:

Decision	Type	Date of decision	Expires
Final complaint investigation report	Approval	July 2014	Not applicable
Administrative variation to Jacana Energy's retail licence	Approval	September 2014	Until revoked or superseded
Section 87 of the <i>Electricity Reform Act</i> Exemption – GPT and Innogen	Exemption	October 2014	Until revoked
Final complaint investigation report	Approval	October 2014	Not applicable
Approval of new electricity retail licensee – Rimfire	Approval	November 2014	Until revoked or superseded
EDL generation and retail licences	Approval	March 2015	Pending network access agreement finalisation
Variation to retail, generation and network licences – multiple	Approval	April 2015	Until revoked or surrendered
Final compliance audit	Approved	May 2015	Not applicable
Amendments to the SCTC to introduce the Interim Electricity Wholesale Market	Approval	May 2015	Until revoked or superseded
Approval of Network Access Tariffs 2015-16	Approval	May 2015	30 June 2016
Customer charter – Jacana Energy	Approval	May 2015	Until revoked or superseded
Variation to licence – Power Water Corporation and Territory Generation	Approval	June 2015	Until revoked or surrendered
Review of retail licences consultation paper	Approval	June 2015	Not applicable

APPENDIX E: Publications and Reports

During 2014-15, the Commission published the following reports and documents:

Date released	Publication
October 2014	2013-14 Utilities Commission Annual Report
June 2015	2013-14 Power System Review

These publications can be viewed on the Commission's website: www.utilicom.nt.gov.au

APPENDIX F: Submissions

During 2013-14, the Commission received the following submissions to consider:

Date released	Publication
November 2014	EDL Retail Licence Application – submission from Jacana Energy
November 2014	EDL Retail Licence Application – submission from NT Ombudsman
November 2014	EDL Retail Licence Application – submission from Power and Water
November 2014	EDL Retail Licence Application – submission from Territory Generation
November 2014	EDL Generation Licence Application – submission from Jacana Energy
November 2014	EDL Generation Licence Application – submission from NT Ombudsman
November 2014	EDL Generation Licence Application – submission from Power and Water
November 2014	EDL Generation Licence Application – submission from Territory Generation

These publications can be viewed on the Commission's website: www.utilicom.nt.gov.au