

# Annual Report 1999-00



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## COMMISSIONER'S FOREWORD

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This is the first Annual Report presented by the Utilities Commission. It has been prepared in accordance with section 35(1) of the *Utilities Commission Act 2000* which requires the Commission, within three months after the end of each financial year, to deliver to the Regulatory Minister a report on the administration of this Act during that financial year.

### Inaugural year

This inaugural year has been challenging for all concerned, with the Government understandably imposing a very tight timetable for the regulatory arrangements to get up and running. As this Report attests, much has been achieved, although activity on some functions assigned to the Commission will only commence during the 2000-01 year.

### Role as Interim Commissioner

This Report formally covers only that part of the 1999-00 financial year following establishment of the Commission (immediately on assent of the Act on 21 March 2000).

Information is also included on related activities undertaken during my term as Interim Utilities Commissioner. That position was created by the Minister to ensure regulatory arrangements were progressed sufficiently by the time the Territory's electricity market was opened to competition on 1 April 2000. I was appointed to the Interim Commissioner position on 20 October 1999.

While the *Utilities Commission Act 2000* assigned the powers and functions of the Utilities Commission to the Regulatory Minister from the Act's commencement until the first Utilities Commissioner was appointed, the only power exercised by the Minister during that time was to delegate to me – in my then role as Interim Commissioner – the Commission's powers and functions (under section 16(1) of the Act). This delegation took effect on 23 March 2000. It lapsed when my four-year term as Utilities Commissioner commenced on 1 April 2000.

### Philosophy

In approaching its task as a 'monopoly authority', the Commission will seek to abide by the following regulatory philosophy:

- to ensure that regulated utilities supplying the public do so safely and adequately and at reasonable prices;
- to ensure that application of the regulatory arrangements within its control does not jeopardise the financial viability of the regulated utilities – otherwise, the utility will not maintain sufficient financial integrity to be able to engage in the ongoing capital commitments necessary to provide uninterrupted service; and

- to recognise that the market rather than a regulator is more likely to cost-effectively achieve the lower prices and quality service standards targeted by Government – where competitive forces are adequate and effective, the Commission will not intervene and, where regulation is required, the Commission will strive to encourage behaviour that mirrors the behaviour likely of unregulated firms where competitive forces to prevail.

#### Acknowledgements

Finally, I wish to express my appreciation to the effort put in by Commission staff, past and present, during this inaugural year. The ready cooperation of PAWA staff – in sometimes difficult circumstances – is also acknowledged.

Alan Tregilgas  
Utilities Commissioner  
29 September 2000

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## THE COMMISSION

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### Utilities Commission Act

The Utilities Commission was established on 21 March 2000, on the commencement of the *Utilities Commission Act 2000*.

The Commission's primary role is to regulate monopoly elements of designated industries in the Northern Territory. It is the equivalent of the independent industry regulators established in other States and Territories during the 1990s.

The Commission was established by the *Utilities Commission Act 2000* ("the Act"). It has been established by way of separate legislation to enable the Commission to be given responsibility, not just for the electricity supply industry, but for other monopoly-type industries as may be prescribed from time to time by the Government.

The Act provided for the Commission to be established as a body corporate and constituted of a person appointed by the Administrator.

### Key functions

The Act sets out the Commission's functions, and the powers that the Commission may exercise in performing those functions.

The key regulatory functions of the Commission provided for in the Act, in relation to regulated industries, are as follows:

- to regulate prices charged by government monopoly businesses and regulated industries;
- to perform licensing functions;
- to develop, monitor and enforce compliance with, and promote improvement in, standards and conditions of service and supply;
- to make, and to monitor the operation of, codes and rules relating to the conduct or operations of a regulated industry or licensed entities; and
- to investigate, and help resolve, complaints relating to the conduct or operations of licensed entities.

As such, the Act only defines the Commission's broad functions and powers. Specific responsibilities can only be assigned to the Commission with respect to a particular industry (eg the electricity supply industry) in legislation dealing specifically with that industry.

### Aims and objectives

The object of the Act (section 2) is:

"...to create an economic regulatory framework for regulated industries that promotes and safeguards competition and fair and efficient market conduct or, in the absence of a competitive market, that promotes the simulation of competitive market conduct and the prevention of the misuse of monopoly power".

In exercising its powers and carrying out its functions, the Act obliges the Commission to have regard to the need:

- to promote competitive and fair market conduct;
- to prevent the misuse of monopoly or market power;
- to facilitate entry into relevant markets;
- to promote economic efficiency;
- to ensure consumers benefit from competition and efficiency;
- to protect the interests of consumers with respect to reliability, quality and safety of services and supply;
- to facilitate the maintenance of the financial viability of the industry; and
- to ensure an appropriate return on public sector assets

#### Independence of Commission

The Commission is a separate administrative unit established within the NT Treasury, but has specific statutory powers and undertakes its considerations independently from Treasury.

The independence of the Commission from the Government, and from any government-owned business operating in industries regulated by the Commission, is achieved by provisions in the Act requiring that:

- the Commission not be subject to Ministerial direction in the performance of its regulatory functions; and
- the Commissioner be appointed for a fixed term, and only subject to dismissal before the end of that term on account of misconduct or incapacity.

#### Review and appeal

This independence does not make the Commission unaccountable.

The Act makes provision for decisions of the Commission to be reviewed by the Commission at the request of an affected person. A review is to be decided within six weeks of the application being lodged with the Commission. The Commission must give the applicant and any other person who joins as a party to the review written notice of the Commission's decision, and the reasons for the decision, on the review.

An affected person may subsequently appeal the outcome of such a review to the Supreme Court. Such appeals may only be made on the grounds that there has been bias, or the facts on which the decision is based have been misinterpreted in a material respect.

#### Regulatory processes

The Act also places certain obligations on the Commission with regard to the regulatory processes it adopts. The intention of these various obligations is to ensure an efficient and cost-effective regulatory environment, regulatory accountability through transparency and public disclosure of regulatory processes and the basis of regulatory decisions, and reasonable certainty and consistency over time of the outcomes of regulatory processes

### *Obligation to consult*

When deciding on determinations or approvals, or when making codes or rules, the Commission is required to consult with the Minister and representative bodies and participants in the regulated industry that the Commission considers appropriate.

### *Obligation for transparency of decision-making*

All decisions by the Commission are required to include a summary of the information on which the determination is based and a statement of the reasons for making the decision.

### *Obligation to notify/publish*

Notice of the making, variation or revocation of determinations or approvals, or codes or rules, made by the Commission must be given to the Minister, and to each licensed entity to which such decisions apply. Also, the Commission must ensure a notice is published in the Gazette and in a newspaper circulating generally in the Territory and that copies are available for inspection and purchase by members of the public.

### *Obligation to preserve confidentiality*

Information gained by the Commission that could affect the competitive position of a licensed entity or other person, or is commercially sensitive for some other reason, is to be treated as confidential information. Any person performing a function under the Act or a relevant industry regulation Act, would be guilty of an offence were such information disclosed otherwise than as authorised under the Act.

Where the Commission proposes to disclose information provided to it that the party providing the information claims – or the party to whom the information relates might claim – to be confidential information, the Commission must, before disclosing the information, give written notice to those parties of the proposed disclosure and the reasons for the disclosure. Such a decision by the Commission is reviewable under the Act.

## **Resourcing**

Besides the Commissioner, the Commission currently has an establishment of four staff. The organisation chart is at Appendix 1, and a profile of the Commissioner is provided at Appendix 2.

The Commission supplements these resources where necessary by engaging expert consultants on a short-term basis. Appendix 6 briefly outlines the consultants used to date by the Commission.

The Government allocated a budget of \$500,000 in 1999-00 for the establishment of the Commission. This budget funded all regulatory activity during the year prior to passage of the enabling legislation, including that of the office of the Interim Utilities Commissioner.



Details of expenditure during the year are provided at Appendix 5. This statement of payments and receipts has not been separately audited, as the Commission's accounts form part of the annual audit undertaken of the NT Treasury's accounts.

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## ROLE IN THE TERRITORY'S ELECTRICITY SUPPLY INDUSTRY

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### Relevant industry regulation Acts

Under the *Utilities Commission Act 2000*, specific regulatory responsibilities can be assigned to the Commission in a particular industry in the Territory only in legislation dealing specifically with that industry (called "relevant industry regulation Acts" in the Act).

The only relevant industry regulation Acts in place to date are the *Electricity Reform Act 2000* ("the Reform Act") and the *Electricity Networks (Third Party Access) Act 2000* ("the Networks Act"), both of which commenced on 1 April 2000. In particular, the Territory's electricity network industry is declared to be a regulated industry (and the Commission assigned the role of regulator) by the Networks Act, and the Territory's electricity supply industry more generally is declared to be a regulated industry under the Reform Act.

Together, these Acts require the Commission to undertake economic regulation of the Territory's electricity supply industry.

### Other regulatory players

The Commission undertakes its regulatory functions in the Territory's electricity supply industry in conjunction with other regulatory players, notably:

- the "Regulatory Minister", who is the Minister having responsibility for Part 3 of the Reform Act (currently the Treasurer);
- the Safety Regulator – now located in the Department of Industries and Business – who has responsibility under the Reform Act to monitor and enforce safety standards, and to establish and enforce safety-related standards for electrical equipment; and
- the NT Ombudsman, who continues to have responsibility for investigating complaints from non-contestable customers.

### Regulatory functions

#### *Competitive sectors*

The main functions required of the Commission with regard to competitive sectors of the Territory's electricity supply industry are:

- the issuing of licences to generators and to retailers selling electricity to contestable customers – including setting licence conditions and monitoring compliance with those conditions;
- the settling of disputes about the contestability status of end-use customers;
- the handling complaints from contestable customers against retailers, and from industry participants about the anti-competitive behaviour of other parties; and

- monitoring industry/market developments in the Territory – annually reporting developments over the previous year and reporting on medium-term generation ‘supply’ versus ‘demand’ prospects.

#### *Monopoly sectors*

The main functions of the Commission with regard to monopoly sectors of the industry are:

- the issuing of licences to network providers, to retailers selling electricity to non-contestable (franchise) customers, and to the power system controller – including the setting of licence conditions and monitoring compliance with licence conditions;
- regulating network prices;
- regulating out-of-balance energy prices;
- regulating system control charges;
- conciliating network access disputes and, where necessary, appointing an arbitrator to settle such disputes;
- approving certain technical codes and protocols; and
- setting service/performance standards for suppliers to non-contestable customers, and reporting on compliance with those standards.

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## KEY OUTPUTS

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### Outputs

The key outputs of the Commission with respect to the Territory's electricity supply industry – the only industry currently regulated by the Commission – are:

- issuing licences and monitoring compliance with licence conditions;
- regulating prices charged for monopoly services;
- regulating conduct;
- conciliating any disputes over access to infrastructure;
- investigating customer and competitor complaints;
- providing market information;
- monitoring and reporting on future supply capacity relative to future demand; and
- establishing and monitoring of standards of service.

### Activities in 1999-00

The following listing of activities covers not only the Commission's activities once it was established, but also the prior activities of the Interim Commissioner. In the six months prior to formal establishment of the Commission, an Interim Commissioner provided these outputs with a view to ensuring arrangements were in place in time for the 1 April 2000 commencement date for introduction of competition into Territory's electricity supply industry.

### Licensing

With effect on 1 April 2000, the Commission issued the Power and Water Authority (PAWA) with licences covering activities which remain monopoly functions, namely:

- a network licence covering the operation of the distribution networks centred on Darwin, Katherine, Tennant Creek and Alice Springs;
- a retail licence which assigned PAWA responsibility for supplying non-contestable electricity customers connected to PAWA's four electricity networks; and
- a system control licence covering the power systems serviced by PAWA's electricity networks.

Effective from the same date, and with the approval of the Regulatory Minister, the Commission granted an exemption from the need to hold a licence in relation to the privately owned Darwin-Katherine transmission line. The transmission line is not yet subject to the same regulatory regime as PAWA's distribution networks.

## Regulating prices

With regard to the contestable (generation and retail) sectors of the Territory's electricity market, the Commission issued licenses in response to two applications (one to PAWA and the other to the NT Power Group).

This licensing process was supported by a comprehensive licensing manual prepared by the Commission for the information of parties interested in participating in the Territory's electricity market.

### *Network revenue caps*

The Commission's functions with respect to the regulated electricity networks include revenue controls, aimed at preventing monopoly rent extraction.

With regard to PAWA's distribution networks, the Commission made a number of determinations and approvals which had effect between 1 April and 30 June 2000, in accordance with the Network Access Code implemented by the Networks Act. These decisions had the effect of setting the maximum allowable revenue (or "revenue cap") which PAWA is permitted to recover annually from operating its electricity networks – including by determining the maximum allowed rate of return on the capital employed in those networks.

[The types and dates of all determinations and approvals made by the Commission during 1999-00 are listed at Appendix 4.]

Prior to 30 June 2000, the Commission also made certain determinations and approvals relating to the revenue caps to apply from 1 July 2000. These involved revised maximum allowed rates of return on capital to apply to PAWA's networks in 2000-01, and the efficiency gains (or "X factors") to apply in calculating the revenue caps to apply in 2001-02 and 2002-03.

### *Network tariffs*

Besides setting revenue caps, the Commission also applies secondary price controls with respect to the regulated electricity networks, aimed at ensuring prices are structured so as to send appropriate signals regarding the allocation of resources between alternative uses and locations.

The Commission approved a simple cents per kilowatt-hour network tariff to apply between 1 April and 30 June 2000, aimed at recovering the revenue cap.

However, the Commission declined to approve the network tariffs initially proposed by PAWA for application in the 2000-01 financial year. As a result, the tariffs previously approved by the Commission for use during the April to June 2000 period continued to apply until such time as the Commission approved revised tariff proposals.

In the early months of 2000-01, the Commission:

- approved PAWA's network pricing principles statement, on the grounds that the statement as revised was consistent with the principles laid down in the Network Access Code; and

- approved tariff schedules for standard network access services to be applied by PAWA from 1 October 2000.

#### *System control charge*

The Commission determined a system control charge, to apply between 1 April and 30 June 2000. Subsequently, the Commission determined that this charge would continue to apply after 1 July 2000, until the Commission approved prices submitted by PAWA as System Controller.

#### *Out-of-balance energy prices*

The only price that the Commission regulates in the contestable sectors of the Territory's electricity supply industry relates to the prices charged by PAWA for out-of-balance energy bought from or sold to third-party generators.

Out-of-balance prices initially proposed by PAWA were not approved by the Commission. Instead, the Commission determined the prices to have effect from 1 April 2000.

Extension of use of these prices beyond 30 June 2000 was approved by the Commission before the end of the financial year.

#### *Non-contestable retail electricity tariffs and charges*

With regard to PAWA's retail franchise, the Commission participated in the drafting and promulgation of the first Electricity Pricing Order. This Order gives effect to a Government decision providing for reductions in the price of electricity to certain non-contestable commercial customers and allowing PAWA to raise all retail tariffs to take account of the introduction of the GST.

### **Conduct regulation**

#### *Contracting of contestable customers*

In support of smooth operation of the contestable retail market, the Commission put in place procedures aimed at:

- ensuring that contestable customers are known to all potential suppliers; and
- preventing retailers from signing up a contestable customer until a reasonable time has elapsed after all suppliers are aware of the customer achieving contestability status.

The Commission conducted a number of information sessions for contestable customers. It also advised individual contestable customers on issues specific to their individual circumstances.

#### *Ring-fencing*

To facilitate competition in markets upstream and downstream from monopoly sectors in the industry, the Commission is charged with ensuring that monopoly

businesses are operated separately (or “ring-fenced”) from associated contestable businesses. To this end, licences granted to PAWA by the Commission oblige PAWA to ring-fence its monopoly businesses.

The Commission also developed and issued a ring-fencing code aimed at ensuring that PAWA’s monopoly businesses did not cross-subsidise or otherwise advantage other PAWA business units operating in competitive markets. In promulgating this Code, the Commission acknowledged that:

- parties (including PAWA) did not have the opportunity to fully consider the Code – although PAWA did have the benefit of the draft Guidelines on which the Code was based; and
- the Code is largely specified in terms of ‘targeted outcomes’ – with the Commission leaving it to PAWA management in the first instance to propose the management and process/system steps necessary within PAWA to achieve the specified outcomes.

The Commission therefore proposed that this Code be in place only until a replacement Code is developed through a public consultation process.

To commence the public consultation process, PAWA documented the policies, practices and procedures which it considered would most cost-effectively give effect to the ring-fencing outcomes set out in the Code and submitted these to the Commission for review and approval.

In July 2000, the Commission released a discussion paper containing a draft replacement code, and called for submissions from interested parties.

The Commission anticipates that a replacement code will be in place by the end of October 2000.

#### *Approving technical codes*

The Commission was consulted by PAWA Networks regarding the network technical code required by the Network Access Code.

The Commission also participated in discussions with the power system controller in the preliminary stages of the controller’s developing of a Power System Control Code. A draft Code was submitted to the Commission on 30 June as required by the system control licence.

#### **Dispute resolution**

Under the Network Access Code, the Commission has the power to intervene in access disputes.

No formal access disputes have arisen. The Commission has however been active in using – and intends to continue to use – its ‘good offices’ with industry participants to facilitate access to infrastructure on timely and reasonable terms.

## Investigating complaints

The Reform Act gives the Commission the function of investigating complaints against licensed industry participants received either from other industry participants or from contestable customers.

It is the Commission's view that formal complaint mechanisms should be used only where informal methods of dispute resolution have failed. The Commission stands ready to assist any party with a complaint against a industry participant on an informal basis.

No formal complaints were received by the Commission in 1999-00.

However, following informal representations from another industry participant, the Commission is investigating whether PAWA's retail price offers to contestable customers are currently being underpinned in any way by cross-subsidisation from its monopoly businesses. PAWA has provided the Commission with a confidential, detailed briefing regarding PAWA Retail's pricing offers to contestable customers after 1 April. Similar briefings have been provided by PAWA Generation as to the basis of its pricing of energy sales to PAWA Retail. The Commission is in the process of forming a judgment about the appropriateness of the energy price component of the retail prices being offered – given that the network and system control components are regulated and the retail margin is a relatively straightforward matter. The Commission will report to interested parties generally, in qualitative terms, whether there is any prima facie evidence of cross-subsidisation and, if so, what remedial action may be proposed.

## Supply and demand monitoring

Section 45 of the *Electricity Reform Act* requires the Commission to submit to the Minister and publish an annual review of the prospective trends in the capacity and reliability of the Territory's power system relative to projected load growth.

The Commission is in the process of gathering material to satisfy this requirement and will publish the results of its first annual review during 2000-01.

## Service standards

The Commission is required to establish base levels of service, ie the levels of service being provided immediately prior to 1 April 2000, in order to be able to monitor and report on the on-going standard of service to non-contestable customers and to make interstate and international comparisons. This will underpin the establishment of minimum standards of service for non-contestable customers (as required by section 92 of the Reform Act).

The Commission has yet to undertake any activities in this area.

## Market information

In relation to customer data, the Commission recognises the existence of an information asymmetry between PAWA as the long standing monopoly supplier and new entrants to the market.

The Commission has collated information regarding the size and characteristics of the contestable market and disseminated it to industry

1999-00



participants under conditions of confidentiality. In doing so, it has updated information previously provided by the Government.

The Commission also issued a series of information circulars to (prospective) contestable customers providing necessary and balanced information about their rights and obligations under the new arrangements.

## **Initiatives in 2000-01**

In the coming year, the Commission plans to:

- provide advice to the Regulatory Minister regarding the development of a more formal framework for regulating electricity prices paid by non-contestable customers, and the price paid by taxpayers for community service obligations (CSOs) undertaken by PAWA;
- consider, and seek amendments necessary in order to approve, a power system control code submitted by PAWA setting out competitively neutral operating protocols, arrangements for system security and dispatch and arrangements for interruption;
- examine the standard terms and conditions governing the sale of electricity (including the service of making connections to the electricity network) by PAWA to non-contestable customers;
- commence a public consultation process aimed at setting minimum standards of service for non-contestable customers, taking into account relevant national benchmarks.
- develop forecasts of overall electricity load and generating capacity in consultation with industry participants and report the forecasts to the Minister and the industry;
- regularly update (and extend) information available to industry participants on the contestable electricity market in the Northern Territory;
- develop a more exacting ring-fencing code through a public consultation process – a draft replacement code has already been issued for public comment; and
- instigate a review of the efficiency and effectiveness of the current 'load following' obligations on third-party generators and related arrangements.

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## KEY OUTCOMES

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### Targeted outcomes

The Government has stated clearly that the overriding objective of its reforms of the Territory's electricity supply industry is to reduce the cost of electricity and improve service quality for consumers.

The Commission's activities, along with the reformed legislative framework more generally, are expected to contribute to the achievement of this objective.

In particular, the key outcomes expected as a result of the Commission's regulatory activities (outputs) are:

- increased competition in contestable sectors of the Territory's utilities industries; and
- more competitive-like outcomes in monopoly sectors of the Territory's utilities industries.

### Outcomes in contestable sectors

#### Contestable customers

Commencing on 1 April 2000, certain customer classes became 'contestable' – that is, free to choose their supplier, whether the Power and Water Authority (PAWA) or third-party power suppliers.

The largest commercial customers (annual consumption of 4 gigawatt-hours (GWh) or more at a single site) became contestable first. The planned timetable for contestability to be gradually extended to lower consumption levels is as follows:

eligibility date	minimum annual consumption level at a single site
1 April 2000 ("Tranche 1")	4 GWh
1 October 2000 ("Tranche 2")	3 GWh
1 April 2001 ("Tranche 3")	2 GWh
1 April 2002 ("Tranche 4")	0.75 GWh

PAWA has put in place procedures for identifying customers who are about to become contestable. These procedures include mechanisms for ensuring that other players in the market also receive this information in a timely manner.

#### Contestable markets

On 1 April 2000, 27 customer/sites in the Darwin-Katherine market became contestable, each with annual consumption in excess of 4GWh per annum.

Details as to the relative size of the contestable and non-contestable sectors of the Darwin-Katherine market – in 1998-99 (the latest year for which PAWA has been able to provide the necessary detailed information) – are summarised in the Table below.

total Darwin-Katherine electricity market, 1998-99	number of customer/sites	annual energy consumption (GWh)	market share (%)
<b>contestable customers</b>			
Tranche 1	27	330.5	25
Tranche 2	10	33.5	3
Tranche 3	18	43.7	3
Tranche 4	92	107.3	8
<b>franchise market</b>			
non-contestable customers	51,607	787.9	60
<b>TOTAL</b>	<b>51,754</b>	<b>1,302.9</b>	<b>100</b>

#### Response of contestable customers

To 31 July 2000, only about one-third of first tranche contestable customers have concluded contracts with the retailer of their choice.

For up to two years from their eligibility date, contestable customers may opt to remain on their existing supply arrangements and tariff schedule with PAWA (the "grand-fathering arrangements"). In doing so, however, they are not putting pressure on power suppliers to offer more competitive prices or better service.

#### *Pre-existing contracts*

It has come to light that some eligible contestable customers are unable to exercise their choice at this stage on account of contracts entered into with PAWA and prior to announcement of the Government's contestability schedule.

The magnitude of this issue as it affects the Darwin-Katherine market is summarised below:

pre-April 2000 contracted contestable sites, Darwin-Katherine market	number of customer/sites	annual energy consumption 1998-99 (GWh)
Tranche 1	6	121.3
Tranche 2	-	-
Tranche 3	2	4.4
Tranche 4	n/a	n/a

Together, the pre-contracted tranche 1 customers located in Darwin and Katherine account for 37% of the total Darwin-Katherine tranche 1 market.

### *NT Government agencies*

In addition, no NT government agency has yet entered into a contract with a retailer – whether PAWA or NT Power – after achieving contestable status. Under the grand-fathering arrangements, they continue to be supplied by PAWA.

The following Table provides an indication of the importance of the NT government agency segment of the contestable market.

NT government agencies, Darwin-Katherine market	number of customer/ sites	annual energy consumption 1998-99 (GWh)
Tranche 1	4	37.9
Tranche 2	3	9.5
Tranche 3	5	12.9
Tranche 4	24	28.7

The delay in NT government agencies actively engaging in the competitive electricity market is evidently the result of consideration being given at the whole-of-government level to the 'due process' which should be adopted by agencies in selecting their preferred electricity supplier. Government endorsement of a selection process is expected shortly.

### **New entrants: generators and retailers**

Since 1 April 2000, new entrants have been able to undertake the two contestable activities involved in the supply of electricity, namely:

- retail: trading in electricity (that is, the purchase of electricity from generators for the purpose of supplying end-use customers); and
- generation: production of electricity, for sale either to retailers or to other licensed generators.

To date, only one competitor to PAWA has emerged in the generation and retail markets, the NT Power Group. It had captured about 20% of energy consumption in the contestable Darwin-Katherine market by 30 June 2000.

Among other things, the new entrant:

- has arranged supply directly with contracted (and contestable) end-use customers – termed 'bilateral contracting';
- after some initial teething problems, is meeting its load following requirements – that is, closely matching its generation of energy to the demand profile of its customers as a group; and
- has in place appropriate 'standby power' arrangements.

## Outcomes in monopoly sectors

### Network access

The provision and operation of the system of poles and wires involved in the transportation of electricity from generators to customers in a geographical area – the electricity network – remains a monopoly function. Electricity networks are ‘natural’ monopolies in that they involve infrastructure facilities which cannot be economically duplicated.

For contestable customers, third-party use of PAWA’s networks is therefore an essential prerequisite for introducing contestability into the retail end of the Territory’s electricity market.

PAWA has entered into access agreements with the NT Power Group, in accordance with the Network Access Code. The price charged for this access is in line with published tariff schedules.

Third-party access to PAWA’s networks actually commenced on 15 April 2000 when the NT Power Group physically began supplying customers in the contestable Darwin-Katherine market.

### System control

Customer contestability and bilateral contracting require the Power System Controller to:

- monitor the output of third-party generators and the demand of those generators’ customers at half-hourly intervals or less; and
- call up agreed standby generation (‘standby power’) as required.

The System Controller has also begun discussions with interested parties based on a draft System Control technical code setting out, among other things, rules and protocols regarding dispatch and interruption.

The System Controller has also put in place procedures whereby out-of-balance energy is monitored. In addition, the System Controller reports to the Commission on a monthly basis on the overall operation of the power system. Information provided to date indicates that the NT Power Group, as the only new player in the market, is successfully integrating into the system.

### Non-contestable retail

Beside competing in the contestable market, PAWA Retail also continues to be the franchised supplier of customers not yet classed as contestable – called ‘non-contestable customers’.

In key respects, the ‘market structure’ arrangements applying to these non-contestable customers remain unchanged from those applying prior to 1 April 2000, involving PAWA as the monopoly supplier to such customers.

### Ring-fencing

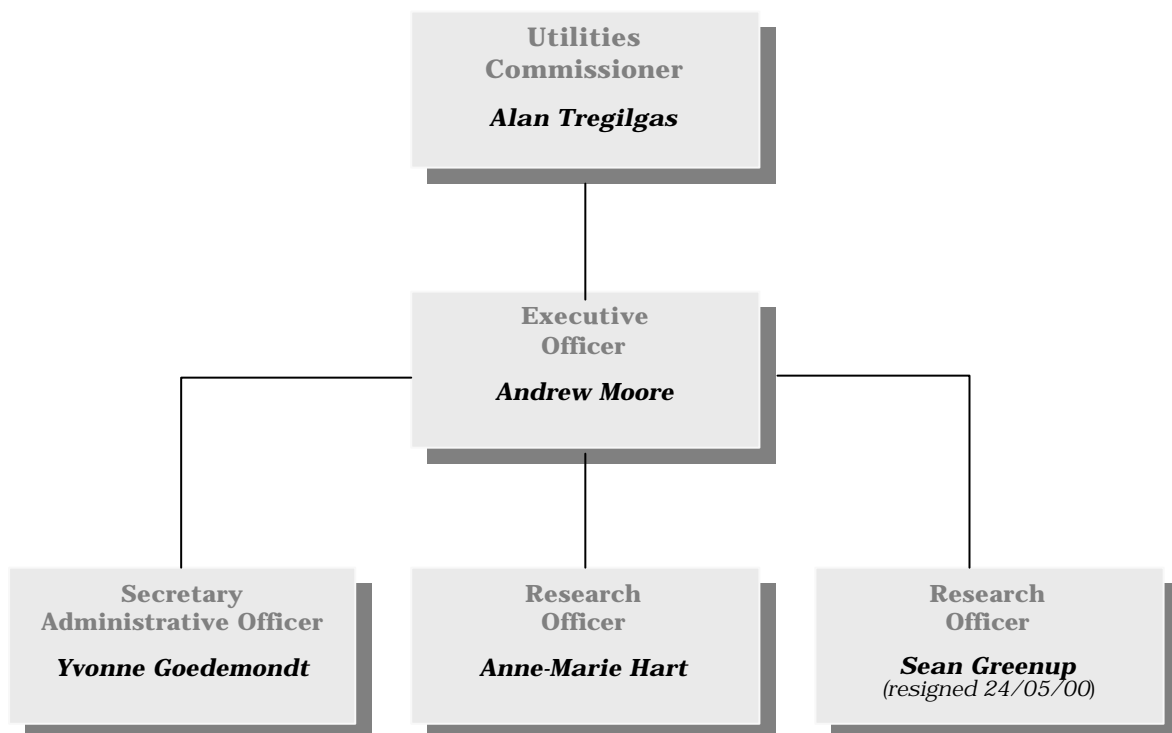
PAWA has implemented changes to its internal management arrangements and policies aimed at meeting the requirement that its monopoly businesses (networks, power system control and non-contestable retail) operate separately from its contestable businesses.

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## APPENDIX 1

### ORGANISATION CHART AS AT 30 JUNE 2000

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## APPENDIX 2

### COMMISSIONER'S PROFILE

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#### **Alan Tregilgas** **Utilities Commissioner**

Alan Tregilgas is a former senior Commonwealth, South Australian and Northern Territory Treasury officer. He also spent four years in the early 1990s as a utilities analyst with the Standard & Poor's Ratings Group in Australia and South-East Asia, based in Melbourne. For two years in the mid-1980s, he represented Australia at the International Monetary Fund in Washington DC on secondment from the Commonwealth Treasury.

As an economic consultant since 1996, he has worked with government agencies in six Australian jurisdictions, including a number in the Territory. He assisted Treasury and PAWA during the 1998 strategic review of the Power and Water Authority.

He holds a first class honours degree in economics from the University of Adelaide, and a masters degree in economics from the Flinders University of South Australia.

He undertakes the role of Utilities Commissioner on a part-time basis. He remains a senior associate with Access Economics, the Canberra-based economic consultancy group.

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## APPENDIX 3:

## PUBLICATIONS

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<i>Contestable Customer Information Circular No 1</i>	November 1999
<i>Calculating PAWA's Initial Network Revenue Cap: Discussion Paper</i>	January 2000
<i>Initial Licensing Guidelines</i>	January 2000
<i>Revenue Determinations, April to June 2000</i>	March 2000
<i>Network Pricing Principles: Discussion Paper</i>	April 2000
<i>Contestable Customer Information Circular No 2</i>	April 2000
<i>Revenue Determinations, 2000-01 to 2002-03</i>	June 2000
<i>Ring-Fencing Code: Discussion Paper</i>	July 2000
<i>Contestable Customer Information Circular No 3</i>	July 2000
<i>Networks Tariffs, 2000-01</i>	September 2000

Copies of all the Commission's publications are available from its website:

**<http://www.utilicom.nt.gov.au>**



## APPENDIX 4

### DETERMINATIONS AND APPROVALS

Nature of decision	Type of decision	Effective period	Date of decision
Weighted-average cost of capital, for PAWA Networks	Determination	1 April to 30 June 2000	24 March 2000
Revenue Cap, for PAWA Networks	Determination	1 April to 30 June 2000	24 March 2000
Excluded Network Services, for PAWA Networks	Determination	1 April to 30 June 2000	24 March 2000
Network Access Tariffs, for PAWA Networks	Approval	1 April to 30 June 2000	24 March 2000
Out-of-balance Energy Prices, for PAWA Generation	Determination	1 April to 30 June 2000	27 March 2000
System Control Charges, for PAWA System Control	Approval	1 April to 30 June 2000	31 March 2000
Weighted-average cost of capital, for PAWA Networks	Determination	1 July 2000 to 30 June 2001	1 April 2000
Revenue Cap, for PAWA Networks	Determination	1 July 2000 to 30 June 2001	26 May 2000
X-factors, for PAWA Networks	Determination	1 July 2001 to 30 June 2003	26 May 2000
Network Access Tariffs, for PAWA Networks	Determination (extension)	1 July 2000 to 30 June 2001	1 June 2000
Out-of-balance Energy Prices, for PAWA Generation	Determination (extension)	1 July 2000 to 30 June 2001	1 June 2000
System Control Charges, for PAWA System Control	Approval	1 July 2000 to 30 June 2001	30 June 2000

## APPENDIX 5

### EXPENDITURES AND RECEIPTS

#### NORTHERN TERRITORY UTILITIES COMMISSION EXPENDITURE, BY CATEGORY OF COST FOR YEAR ENDED 30 JUNE 2000

Category of Cost	Actual Expenditure \$000
<b>PERSONNEL COSTS</b>	<b>230.3</b>
Salaries and related costs	226.0
Commissioner (including Interim Commissioner)	133.8
Staff	92.2
Superannuation	4.3
<b>OPERATIONAL EXPENDITURE</b>	<b>218.1</b>
Advertising	2.8
Communications	0.6
Consultants Fees	157.2
Consumables/General Expenses	0.2
Document Production	1.9
Furniture & Fittings	19.3
Info Technology Services	4.3
Legal Advice	2.5
Library Services	0.4
Motor Vehicle Expenses	8.4
Office Req & Stationery	2.6
Official Duty Fares	9.2
Other Plant & Equipment	2.4
Training & Study Expenses	5.5
Travelling Allowance	0.9
<b>TOTAL EXPENDITURE</b>	<b>448.4</b>

#### NORTHERN TERRITORY UTILITIES COMMISSION RECEIPTS BY ACCOUNT FOR YEAR ENDED 30 JUNE 2000

Consolidated Revenue Account	Estimated Receipts \$000	Actual Receipts \$000
<b>Fees and Charges</b>	<b>132.0*</b>	<b>45.0*<sup>†</sup></b>
Licence Fees	132.0	45.0
<b>Other</b>	<b>0.0</b>	<b>0.0</b>
<b>Total Revenue</b>	<b>132.0</b>	<b>45.0</b>

\*Annual estimate

\*First quarterly installment

1999-00

Annual Report

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## APPENDIX 6

### CONSULTANTS

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Section 14 of the *Utilities Commission Act 2000* allows the Commission to engage consultants as considered necessary and appropriate.

In 1999-00, the Commission used the services of the following consultants. The costs for the year totalled \$157,205.

**Greater than \$50,000:**

**Independent Pricing and Regulatory Tribunal (IPART) of New South Wales**

A team from IPART was retained by the Commission to assist in assessing the pricing proposals put forward by PAWA for access to the PAWA networks. IPART advised the Commission about the most practical and appropriate ways of dealing with the regulator's statutory obligations regarding the approval of the nominated network prices. They also undertook detailed assessments of the proposed pricing principles and schedules submitted by PAWA for approval.

**Mallesons Stephen Jaques, Solicitors**

In addition to assisting the Northern Territory Treasury with drafting of the electricity reform legislation prior to establishment of the Commission, Mallesons also subsequently provided advice to the Commission on the form and granting of licences to electricity industry participants and related matters.

**Greater than \$10,000 but less than \$50,000:**

Nil.

**Less than \$10,000:**

**Denis Cooke and Associates Pty Ltd, Consulting Engineers**

Cooke advised the Commission on aspects of the network technical code proposed by PAWA Networks.