

## NORTHERN TERRITORY TREASURY SUBMISSION TO THE UTILITIES COMMISSION REGARDING OPTIONS FOR FULL RETAIL CONTESTABILITY

The Northern Territory Treasury (NTT) thanks the Utilities Commission for the opportunity to make a submission regarding options for Full Retail Contestability.

Northern Territory Treasury supports the principle of Full Retail Contestability (FRC) while recognising the practical difficulties and limitations around introduction of retail competition to the small Territory market. As outlined in the discussion paper, the Territory has less than 83 000 electricity customers, and currently only 178 of them are contestable. The small number of total customers in the Territory poses a barrier to entry to potential electricity retailers, as it provides a very small customer base from which to recover costs. In addition to the small number of customers, 87 per cent of customers are supplied by regulated networks, while the remaining 13 per cent are supplied by non-regulated networks, in geographically disparate locations.

The current Territory regime of regulated electricity tariffs for all non-contestable customers also poses a barrier to entry by potential retail competitors. This is recognised in the Discussion Paper, as is the fact that price increases of around 55 per cent would be required for Power and Water Corporation to meet financial sustainability. What this means in practical terms is that a key objective of FRC, being lower retail prices resulting from increased retail competition, is unlikely to emerge in the Territory.

Introduction of FRC will require sophisticated systems that allow for customer transfer processes, customer dispute resolution, monitoring and enforcement. The development and introduction of such information technology systems will be at substantial cost, and again it is unclear if the potential benefits deriving from FRC will outweigh the costs. This will be compounded by the small scale of operations, due to the small customer base. Currently in the Territory 178 customers are contestable, and the Discussion paper reports that Power and Water Corporation's systems for dealing with their contestable customers are largely manual in nature, and unused, as no retail competitors exist. A similar outcome could be expected if FRC is introduced in the Territory, with initially manual systems used to handle customer churn.

If after the introduction of FRC in the Territory, retail competition becomes a reality, and customer churn reaches a pre-determined level (trigger level) investment in the necessary systems could be evaluated.

In all jurisdictions that are part of the national electricity market (NEM), the Australian Energy Market Operator (AEMO) provides the function of FRC manager. Given that the Territory is not part of the NEM the Discussion Paper

notes that this role would need to be undertaken either by a specially constituted local body or a suitably ring-fenced part of Power and Water Corporation. Either of these options will require establishment costs of unknown magnitude.

Notwithstanding these practical issues and difficulties, it is noted in the Discussion Paper, that FRC is a requirement of the National Competition Council for certification of the Territory's third party access regime, under the Trade Practices Act 2000. This provides an additional incentive for the Territory to implement FRC, as certification of the access regime establishes the legal avenue for third parties to access network infrastructure. In addition, NTT would support the introduction of FRC if it was demonstrated that it could be introduced cost effectively with a net public benefit. At this stage, given the size of the Territory market, it is considered highly unlikely that a net public benefit could be demonstrated.

Of the three options for implementation provided in the Discussion Paper, Treasury's preference is Option A. That is, proceeding to FRC by April 1 2010 by removing legislative barriers to retail market contestability. The Discussion Paper recognises that this will not address the existing impediments to competition emerging, and as such little activity is expected following the move to FRC. The recommendation around developing appropriate rules and procedures for operation under FRC, while not developing systems, has merit. This option creates the legal framework for FRC without incurring the considerable upfront expenditure associated with setting up the required systems. In addition, the currently non-contestable customers would move to standard contracts, essentially on the same terms and conditions as the current Power and Water customer contract. Under this arrangement the government or independent regulator can establish a maximum price until effective competition emerges. This option is the most pragmatic as it recognises the 'in principle' benefits of competition, while simultaneously recognising the constraints to retail competition deriving from the very small Territory market. It meets the Territory's legal obligations while minimising the costs of moving to FRC.

The potential risk associated with Option A as identified in the Discussion Paper, is that by not investing in the required systems, potential competitors may not be willing to enter the Territory market. However Treasury considers this to be a low and reasonable risk.

There is little merit of adopting Option B which advocates once again rescheduling FRC in the Territory until such a time as a program of reforms can be undertaken. The reforms themselves have the potential to be very costly and take place over a lengthy time frame. The reforms include; wholesale market reform to replace the existing bilateral contracting model

and potentially separation of the retail, distribution and generation functions of Power and Water Corporation.

Option C recommends postponing the introduction of FRC and not committing to any reform process. This option has limited appeal.

In conclusion NTT would like to offer support for Option A, which provides the most workable option, establishes the legal framework for FRC, maintains network certification, will see non-contestable customers move to standard contracts and moves the Territory some way along the reform process, without incurring very large upfront establishment costs.

DRAFT