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**DETERMINATION REGARDING**  
**OUT-OF-BALANCE ENERGY PRICES**  
**1 APRIL TO 30 JUNE 2000**

In accordance with section 45 of the *Utilities Commission Act 2000* and clause 87(6) of the Electricity Networks (Third Party Access) Code ("the Code"), the Commission hereby gives notice that it is unable to approve the schedule of proposed out-of-balance energy prices submitted by PAWA Generation on the grounds that, in the Commission opinion, the proposed prices do not in all respects comply with the principles laid down in Chapter 9 of the Code.

Subsequently, as provided for under clause 87(6), the prices to apply until the Commission approves prices submitted by PAWA Generation are determined to be as set out in Annexure A.

The rationale for these decisions, as required by clause 64 of the Code, are set out in Annexure B.

Utilities Commission  
27 March 2000

## Out-of-Balance Energy Prices, 1 April to 30 June 2000<sup>(a)</sup> PAWA Generation

<b>Darwin-Katherine</b>	<b>within-tolerance</b>	<b>outside-tolerance</b>
buy price	5¢/kWh <sup>(b)</sup>	3¢/kWh <sup>(c)</sup>
sell price	6¢/kWh <sup>(d)</sup>	8¢/kWh <sup>(e)</sup>

(a) The Commission will adjust these prices if evidence emerges that these prices are not sufficient to deter out-of-balance occurrences.

(b) Price at which PAWA Generation will purchase energy when the supply (including allowance for energy losses) from another generator exceeds contract demand over a 15 minute period, by no more than 1.5%, over a fifteen minute period.

(c) Price at which PAWA Generation will purchase energy when the supply (including allowance for energy losses) from another generator exceeds contract demand over a 15 minute period, by greater than 1.5%, over a fifteen minute period.

(d) Price at which PAWA Generation will sell energy when the supply (including allowance for energy losses) from another generator falls short of its customer's maximum demand, by no more than 1.5%, over a fifteen minute period.

(e) Price at which PAWA Generation will sell energy when the supply (including allowance for energy losses) from another generator falls short of its customer's maximum demand, by greater than 1.5%, over a 15 minute period.

Utilities Commission  
27 March 2000

## Out-of-Balance Energy Prices

### Background

Clause 26 of the Network Access Code (“the Code”) obliges all network users to use reasonable endeavours to ensure that energy inputs and off-takes for entry and exit connection points subject to an access agreement are in balance (allowing for losses).

Beside each generator’s own operating and load following arrangements, the principal means of ensuring this balance is to be the negotiation of standby arrangements between generators. None of these arrangements are regulated by the Commission.

Notwithstanding these requirements, energy excesses and shortfalls can be expected to arise from the operation of access agreements. This is known as out-of-balance energy.

Clause 84 sets a tolerance limit to separate relatively minor out-of-balance occurrences (“within-tolerance”) from more significant occurrences (“outside-tolerance”).

In the absence of a pool, PAWA Generation has been nominated to act as the residual generator on the system, absorbing energy excesses and making up shortfalls. PAWA Generation is to be compensated for the costs involved by a regulated charge (the out-of-balance energy charge).

Under Clause 83(1), the Power System Controller has responsibility for:

- determining the amount of out-of-balance energy supplied by a generator during each ‘energy usage period’; and
- undertaking settlement of the resultant charges between generators on a monthly basis.

The power system controller is to be guided by the methods set out in Schedule 12 to the Code.

This decision relates only to the out-of-balance energy *prices* used to calculate total out-of-balance energy charges.

### Regulatory requirements

The prices to be used by the power system controller for this purpose are the responsibility of PAWA Generation (under Clause 83(4)), and are to be:

- established in accordance with the principles set down in Clause 85—requiring prices to be set so as to make incurring the cost of taking all reasonable measures available to avoid out-of-balance energy occurrences preferable to paying the charge; and

- subject to the approval of the Utilities Commission as regulator (Clause 87).

The prices required are four-fold:

	<b>within-tolerance</b>	<b>outside-tolerance</b>
PAWA Gen’s buy price	P1	P3
PAWA Gen’s sell price	P2	P4

Clause 87(4) provides that the prices proposed by PAWA Generation must be approved by the Commission:

“...unless, in the opinion of the [Commission], the proposed prices would result in PAWA Generation not complying with the requirements of this Chapter (chapter 9) or in Schedule 12.”

Finally, with respect to the initial three month period, Clause 87(6) provides that if the Commission notifies PAWA Generation that the proposed out-of-balance energy prices are not approved:

“...prices will be set at levels determined by the regulator until the regulator approves prices submitted by PAWA Generation.”

**Reasons for decision**

The Commission acknowledges that:

- out-of-balance prices need to be set at levels that effectively deter out-of-balance energy occurrences;
- Clause 83(2) of the Code assigns PAWA Generation the responsibility for establishing these prices; and
- PAWA Generation is in the best position to establish the prices necessary for it to recover fully the costs it incurs in providing such out-of-balance services.

However, the Commission also notes the following.

- Out-of-balance prices have the capacity to impact upon negotiations for standby power:
  - the prices set for out-of-balance power may influence negotiated prices for standby power;
  - in addition, if out-of-balance prices differ from PAWA Generation’s own costs<sup>1</sup>, PAWA may have an incentive to operate in a manner that is in conflict with the regulatory objectives of providing efficient levels of standby power and minimising imbalances—PAWA Generation would presumably have no such incentive only if its return from out-of-balance charges were to be capped at its costs of providing such energy.

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<sup>1</sup> Under the Code, the out-of-balance charges determined by the power system controller are payable to or by PAWA Generation. At issue is whether any premium (or discount) necessary over PAWA Generation’s own costs should be to PAWA’s benefit (or detriment). Were there a capacity to divert any excess revenue away from PAWA Generation, the scope for any incentive effects on the service provider would be eliminated. The Commission will seek to get the Code amended to provide for a regulatory component of out-of-balance prices (being the difference between posted out-of-balance energy prices and PAWA’s own costs).

- For such prices to be an effective deterrent against out-of-balance occurrences, the requirements of Clause 85(1) can only be met by a detailed knowledge of the cost structure of third-party generators—to be an effective deterrent to out-of-balance occurrences, sell prices should be equal to or above the user's cost of generation and buy prices equal to or below the cost of generation.

The Commission therefore recognises that the prices required by Chapter 9 of the Code risk revealing commercially or competitively sensitive information about the costs of either (or both) PAWA Generation or third-party generators. It is also possible that such prices could become market benchmarks. The Commission is therefore intent on ensuring that the initial prices are structured so as to protect sensitive information and to minimise the impact upon market behaviour at the same time as achieving the outcomes required by Chapter 9 of the Code.<sup>2</sup>

Against this background, the Commission is satisfied that the following prices should be sufficient initially to have a neutral effect upon standby availability and pricing at the same time as discouraging price arbitrage.

<b>PAWA Generation's:</b>	<b>within-tolerance</b>	<b>outside-tolerance</b>
buy price	5¢/kWh	3¢/kWh
sell price	6¢/kWh	8¢/kWh

The Commission will seek regular reports from the power system controller on the nature and extent of out-of-balance energy occurrences. If evidence of price arbitrage emerges prior to 1 July 2000, the Commission will reconsider approving prices submitted by PAWA Generation (and any amended prices submitted) in advance of 1 July.

The Commission intends to consult with all parties about the basis of out-of-balance prices to apply from 1 July 2000, including in light of experience with out-of-balance occurrences during the period between 1 April and 30 June.

Utilities Commission  
27 March 2000

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<sup>2</sup> The Commission's proposal for a regulatory component to out-of-balance energy prices foreshadowed in footnote 1 also aims to address the need to protect commercially-sensitive information.