

Media Release

9 November 2012

UTILITIES COMMISSION OF THE NORTHERN TERRITORY

The Commission understands that the Northern Territory Government has engaged NERA/Marchmont Hill to conduct a comprehensive review of Power and Water Corporation (PWC).

While the Commission does not have a formal role in the review it has been invited to discuss specific aspects with the consultants including issues associated with the Territory's regulatory framework and the structure and governance of the Corporation.

The Commission understands that the review by NERA/Marchmont Hill will consider the Commission's previous Priority Work Program reviews and will seek further input from the Commission on the review findings and recommendations.

Role and Functions of the Commission

The Commission's functions and powers are set out in the *Utilities Commission Act*. Specific responsibilities regarding a particular industry are assigned to the Commission under relevant industry regulation Acts. The Commission currently has responsibilities in electricity, water and sewerage industries.

The objectives of the Commission are to promote competitive and fair market conduct, prevent the misuse of monopoly or market power, facilitate entry into relevant markets, promote economic efficiency, and protect the long-term interests of consumers.

The key regulatory functions of the Commission are to:

- regulate prices charged by businesses for regulated electricity network services;
- to 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 operations of a regulated industry or licensed entities;
- investigate and help resolve complaints relating to the operations of licensed entities;
- assist consumers and others with information;
- advise the Minister on any matter referred by the Minister – this relates to the Treasurer as Regulatory Minister and the Minister for Essential Services as Portfolio Minister; and
- licence industry participants.

PWC generates most of the electricity for household and business use in the Territory, operates the electricity distribution networks, undertakes the system control functions and provides retail services to customers in the Darwin-Katherine, Alice Springs and Tennant Creek power systems.

PWC is a vertically integrated government owned corporation with generation, network and retail business units operating as separate ring-fenced businesses. The commercial relationship and transactions between each of PWC's business units is subject to oversight and regulation by the Commission.

In addition to PWC Retail, the Commission has licensed two electricity retailers, QEnergy Limited and ERM Power Retail Pty Ltd.

The Commission's regulatory role in the water supply and sewerage industry is more limited than its role in the electricity supply industry but includes licensing functions, monitoring and enforcing compliance with relevant legislation and licence conditions and advising the Minister as required.

Electricity Prices

Retail electricity prices paid by customers are made up of a number of components:

- generation (or wholesale) component which is the charge for generating the electricity;
- network component which is the charge for transporting electricity across the network from the generator to the customer;
- system control charges which is the charge for overall management of the system; and
- retail margin which is the retailer's charge for packaging the other components and providing them to the customer and undertaking billing and account management.

The Commission's role in terms of price regulation is limited to prices charged by Power and Water Corporation Networks for provision of electricity network services and charges imposed by the System Controller relating to the operations of system control.

The Commission's role in regulated retail tariffs is limited to providing advice to the Regulatory Minister if advice is sought and monitoring and enforcing compliance with pricing orders, made by the Minister.

Network Price Regulation

The NT Access Code (see <http://www.utilicom.nt.gov.au/Legislation>) requires the Commission, in consultation with interested parties, to review the network price regulation methodology every five years with a view to modifying the methodology as appropriate. The next regulatory control period commences 1 July 2014. The Commission released a consultation paper in June 2012, setting out the Commission's preliminary position on the Framework and Approach for the 2014 Network Price Determination (see <http://www.utilicom.nt.gov.au/Publications/ReportsAndPublications>).

The Commission conducts its determination and approval processes in an open, transparent and competitively neutral manner, including by consulting with network users, end-use customers, members of the public and all licensed electricity entities that may be affected, directly or indirectly

The Commission's preliminary position is to adopt where possible, the approach used by the Australian Energy Regulator and the application of relevant part of the National Electricity Rules in relation to electricity network businesses that are consistent with the NT specific legislation. Working towards alignment with national arrangements is considered to represent generally accepted regulatory practice and therefore in the long-term interest of Territory electricity consumers.

Initiatives in support of greater efficiency in the Territory electricity market systems

Priority Work Program Reviews

In late 2008, residents in Darwin's northern suburbs experienced a series of lengthy power outages as a result of an explosion at the Casuarina Zone Substation. The independent Davies Report on the failures concluded that Power and Water's maintenance effort, record keeping and systems for management of maintenance and works were inadequate. A subsequent independent review of Power and Water's finances, the Reeves Report, found that Power and Water needed a significant increase in revenue to fund its capital and maintenance requirements and remain financially sustainable.

Informed by the findings of these reviews, together with a lack of competition in the utilities market, the former Government approved a reform program and the Commission was given an expanded role in April 2009 to strengthen regulatory oversight and drive efficiencies in the electricity, water and sewerage industries.

The Commission's Priority Work Program sought to:

- identify options to increase the efficiency of aspects of the Power and Water Corporation;
- improve customer standards of service and reliability; and
- where possible, align electricity industry regulatory arrangements with those of the National Electricity Market (NEM). The NEM covers electricity industries in all states and territories except Western Australia and the Northern Territory.

The Priority Work Program required the Commission to undertake a number of reviews. Each review involved extensive analysis, taking into account local circumstances and frameworks and practice in other Australian jurisdictions. Submissions were sought from major interest groups and affected parties.

The Commission completed its Priority Work Program in 2011-12.

Reviews by the Commission under Part 7 of the *Utilities Commission Act* were:

1. Review of Full Retail Contestability for Electricity Supply in the Northern Territory (February 2010).
2. Review of Options for the Development of a Retail Price Monitoring Regime for Contestable Electricity Customers (October 2010).
3. Review of Electricity Standards of Service for the Northern Territory (December 2010).
4. Review of Options for Implementation of a Customer Service Incentive Scheme for Electricity Customers (August 2010).
5. Review of Electricity System Planning, Monitoring and Reporting (January 2012).
6. Review of Electricity System Planning and Market Operations Roles and Structures (January 2012).

They were tabled in the Legislative Assembly and are available on the Commission's website (see <http://www.utilicom.nt.gov.au/Publications/ReportsAndPublications>).

The Commission is keen to progress the findings and recommendations from the reviews with Government, relevant government agencies and market participants to ensure the Territory has a clear regulatory framework for the Territory electricity market that conforms with good industry practice.

Annual Power System Review

The Commission publishes an annual Power System Review, 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. The 2010-11 Power System Review was published in March 2012 (see <http://www.utilicom.nt.gov.au/Publications/ReportsAndPublications>).

The Commission is continuing to develop the scope and structure of its annual Power System Review through increased interaction with industry participants, technical advisors and advice from other regulators. The objective of the Power System Review is to publish a robust system planning report, consistent with those published for the National Electricity Market, and able to be used for assessing the supply-demand balance and investment needs of the Territory's electricity industry.

New Standards of Service Code

Following extensive consultation, the Commission will introduce a new Standards of Service Code for the Territory's electricity supply industry in December 2012 (see <http://www.utilicom.nt.gov.au/Newsroom>). The Code is intended to develop, monitor and enforce compliance with and promote improvement in standards of service by regulated electricity entities for the benefit of consumers. It will require regulated electricity entities to have adequate systems, processes and procedures in place that allow for monitoring of actual performance against target standards.

Review of the Retail Supply Code

In August 2011 the Commission implemented an Electricity Retail Supply Code (see <http://www.utilicom.nt.gov.au>) to provide electricity market participants in the Territory with a framework and mechanisms for retail competition between retailers. Introduction of the Code represented significant progress in enabling competition in the retail market.

Given the importance of the Code and impact on market participants, the Commission has commenced a review of the Code to ensure it remains relevant and effective (see <http://www.utilicom.nt.gov.au/Newsroom>).

Any queries should be submitted in writing to the Commission (utilities.commission@nt.gov.au).