

**REVIEW OF OPTIONS FOR THE DEVELOPMENT OF A RETAIL
PRICE MONITORING REGIME FOR CONTESTABLE
ELECTRICITY CUSTOMERS**

**SUBMISSION BY POWER AND WATER IN RESPONSE
TO DRAFT REPORT BY THE NT UTILITIES
COMMISSION**

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This report contains 1 pages

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1 Introduction

- 1.1 This document is Power and Water's submission to the Utilities Commission (the Commission) in response to the Draft Report on the Review of Options for the Development of a Retail Price Monitoring Regime for Contestable Electricity Customers.
- 1.2 Power and Water supports the objectives of the Draft Report, however notes a number of inconsistencies and misrepresentations of Power and Water's response to the Utilities Commission's Issues Paper.
- 1.3 Further, the Draft Report appears to be premised on Power and Water extracting monopoly rents. Power and Water is unsure how this view has been founded and feels that it is counter productive to the objectives of the review.

2 Proposed Price Monitoring Regime

- 2.1 Power and Water supports the majority of options proposed by the Commission and notes that a number of suggestions made in Power and Water's response to the Issues Paper have been adopted.
- 2.2 Specifically, Power and Water supports the reinstatement of the generation price monitoring regime and contestable customer pricing guidelines. Power and Water notes that historically there were system issues surrounding the ability to provide data to the Commission for generation price monitoring purposes. These data issues have since been resolved.
- 2.3 Power and Water also supports the Commission's view that the Commission should provide advice to the Northern Territory Government on the level of retail tariffs for small customers. Power and Water is supportive of further analysis being undertaken by the Commission of Power and Water's costs and revenues to determine cost reflective retail tariffs.
- 2.4 The Northern Territory Major Energy Users group (NTMEU) suggested the disclosure of a number of non-price information items. Power and Water supports the publication of the majority of this data.
- 2.5 The Draft Report also noted that NTMEU "considers that disclosure of information in itself is of little use if the Commission does not provide a view on the efficiency of costs and reasonableness of prices." Power and Water strongly supports this view and hopes that the Commission will adopt a stronger role in providing the market with views as to Power and Water's operations rather than providing the market with raw data.

3 Elements of the Proposed Price Monitoring Regime Requiring Further Consideration

Objectives of the Review

- 3.1 Paragraph 2.25 of the Draft Report suggests that Power and Water is not supportive of measures used to alleviate customers concerns. Power and Water considers that this is not a true representation of the Corporation's view and that the response has been taken out of context.
- 3.2 Power and Water has and will continue to support initiatives that address customer concerns. Power and Water's primary concern with the proposed regime is that providing additional raw data to the market will only add to customer confusion. Power and Water agrees with NTMEU's view that "disclosure of information in itself is of little use if the Commission does not provide a view on the efficiency of costs and reasonableness of prices."
- 3.3 Power and Water are particularly supportive of the Commission's proposed changes and agree that greater transparency around generation price fluctuations will assist with alleviating individual customers concerns.

No Real Threat of Competition

- 3.4 The Commission states in multiple sections of the Draft Report that there is no real threat of competition in the Northern Territory Retail and Generation Markets. Consequently the Draft Report justifies publicly releasing what would otherwise be commercially sensitive information as detailed in paragraph 4.63 of the Draft Report.
- 3.5 Should there be a potential market entrant, the release of such information would place Power and Water in a severely disadvantaged position, which could result in significant losses to what is essentially a Northern Territory Government owned asset.
- 3.6 Given the current regulatory reforms underway it appears pre-emptive to implement a number of strategies under the assumption that there will be no market entrants. The Full Retail Contestability process currently underway has the primary objective of promoting competition through encouraging market entrants.
- 3.7 The Commission also states that "although an adverse outcome for PWC's market share, competition could have a net benefit for the community through more innovative service delivery and lower prices". The Commission justifies the public release of information that could lead to a reduction in Power and Water's market share with the net benefit to the community. However, the Draft Report does not acknowledge that the introduction of competition has not resulted in lower prices in every other jurisdiction and that regulatory reform should be the lever for increased competition rather than the release of the incumbent's commercially sensitive information.
- 3.8 Power and Water supports a regulatory framework that is workable and appropriate for market conditions. It is not clear from the Draft Report the arrangements that would be in place should another operator enter the market. Power and Water would consider it appropriate that the same reporting and monitoring requirements would also be applied to market entrants.

Reporting NEM Equivalent Information

- 3.9 The Commission's draft decision at paragraph 4.21 of the Draft Report suggests that the information available to the Northern Territory Electricity Market should be consistent with that provided in the National Electricity Market. It is unclear how this would function in the Territory context given the market structure; generation pricing methodologies used; the use of bilateral contracts; and the current lack of any real competition.
- 3.10 The generation pricing methodology currently utilised by Power and Water represents the cost of generation averaged and allocated accordingly to promote customers to shift consumption from peak to off-peak periods. Power and Water is unclear how a comparison can be made between spot prices available in the NEM and Power and Water's wholesale generation price. Spot prices represent a small portion of the electricity traded through the NEM, with a large portion of electricity pre-contracted in long term base load contracts.
- 3.11 The spot price is also an average price across a number of generators and retailers. The current Northern Territory market structure would result in the 'spot price' representing Power and Water Generation's willingness to sell at certain times of the day. Without competition, a true 'spot price' could not be developed in the Northern Territory. Further, providing this information publicly would essentially provide potential market entrants with a competitive advantage over either the Power and Water Generation or Retail businesses.

Wholesale Electricity Reference Price

- 3.12 Further clarification is required surrounding the Commission's draft decision (paragraph 4.20 of the Draft Report) to disclose a wholesale electricity reference price. Currently Power and Water Generation does not charge at the facility gate or for defined intervals. Developing sent-out interval pricing, metering and billing arrangements represents a large shift from current generation pricing and settlement processes and would require additional time and resources.
- 3.13 The Commission and the Northern Territory Treasury are currently formulating the wholesale pricing rules that will apply under Full Retail Contestability. It appears pre-emptive to set the wholesale electricity reference price prior to these rules being finalised. This could result in two different methodologies being utilised or a need to alter the reference price methodology in the future.
- 3.14 Further, it may be beneficial for the Commission to undertake the proposed review of regulated electricity retail tariffs prior to settling on the methodology utilised to calculate the wholesale electricity reference price.
- 3.15 It is also unclear if the Commission will retrospectively develop these rates to allow comparisons in the current year or if 2010-11 will represent the 'base index'.

Options for Assessing Costs and Prices

- 3.16 The Commission's proposed building block analysis approach to price monitoring detailed in paragraph 4.62 of the Draft Report, is a heavy-handed form of regulation, and usually used for electricity network regulation or to determine the retail electricity tariffs for small customers.

- 3.17 Price monitoring is intended to be a non-intrusive and less costly form of regulatory oversight. In situations of emerging competition or where there is the potential for competition to emerge, the use of more light-handed regulation is more appropriate.

Benchmarking

- 3.18 Paragraph 4.51 of the Draft Report states that “the Commission does not consider that PWC faces unique challenges in supplying electricity relative to electricity service providers elsewhere in Australia”. Power and Water is not aware of any other utilities that have the same fuel supply arrangements or island power stations requiring investment planning criteria of n-2. Power and Water hopes that this will be taken into account when comparisons are made and that only like for like comparisons will be used.
- 3.19 Further, the NTMEU notes this as an issue in their response and states that this information has been previously provided to the Commission and was unhelpful in assisting dissatisfied customers.
- 3.20 Power and Water welcomes benchmarking information made with comparable utilities and would look forward to using this information in business improvement programs.

Complaint Mechanism

- 3.21 Power and Water generally supports the objectives of the Commission’s proposed changes to the Customer Complaint Mechanism, however further clarification is required on the specifics of the proposed changes.
- 3.22 Power and Water consider that the reintroduction of the Contestable Pricing Guidelines will help to define what constitutes ‘contrary conduct’. Further any provisions should be consistent with the *Trade Practices Act* (TPA) and any interpretations should be subject to the TPA guidelines.
- 3.23 The proposed amendment to the mechanism to “provide the Commission with greater flexibility and discretion to remedy a matter” is unclear. Power and Water is unsure if the Commission is intending to be involved in setting terms and prices for individual contracts where Power and Water and the customer have been unable to reach an agreement. Power and Water considers that the Commission’s role in negotiations and complaint resolution should be clearly defined.
- 3.24 Power and Water also anticipates that the Commission will take into account the actions of all parties during the complaint process and that the onus will remain with the customer to prove contrary conduct.

Implementation

- 3.25 The Draft Report is silent on the implementation strategy, timelines and potential penalties. Further, the Draft Report lacks detail on the proposed legislative and regulatory changes. Power and Water has found this difficult to respond to without being privy to the details associated with implementing the proposed changes.