Department of Treasury and Finance Submission
Review Of Proposed 2024-27 System Control and Market Operator Charges
Consultation Paper

Question 1. Do stakeholders agree the building block model is an appropriate method to calculate the Northern Territory Electricity System Market Operator's (NTESMO) allowed revenues for the upcoming and future regulatory periods? Why or why not?

Supported, the building block model is a broadly used model in utility regulation and is consistent with approaches used by regulators in other jurisdictions, including the Australian Energy Regulator.

Question 2. Do stakeholders agree NTESMO's proposed three-year regulatory period (for the upcoming period only) is reasonable? Why or why not?

Department of Treasury and Finance (DTF) notes the proposed shorter regulatory period is 2024- 25 to 2026-27 and that the Utilities Commission has already approved system control and market operator (SCMO) charges for 2024-25 based on approved regulated charges for 2023-24 adjusted for inflation.

As such, the proposed regulatory period is likely to result in higher SCMO charges as costs will need to be recovered over a shorter period.

While the implementation of the Territory Electricity Market reforms may impact the operation of NTESMO there is no guarantee finalisation of these reforms will align with the expiry of the proposed regulatory period.

DTF considers that the standard five-year regulatory period should apply with a mechanism to review the regulatory proposal in the event of significant market reform, rather than shortening the regulatory period.

Question 3. Do stakeholders agree NTESMO's proposed approach to corporate overheads reasonable? Why or why not?

Appears reasonable, in the event that market reforms separate NTESMO from the Power and Water Corporation (PWC) corporate overheads should become much more transparent.

Question 4. Do stakeholders consider NTESMO's proposed base-step-trend approach to forecasting operating expenditure, with the base year to be set as the most recent year of audited actual operating expenditure is reasonable? Why or why not?

This approach appears to create an incentive for NTESMO to inflate base year expenses. There doesn't appear to be any consideration whether the most recent year of audited actual operating expenditure represents reasonable expenditure and consideration should be given to whether base year expenditure should be assessed and if necessary, adjusted for reasonableness.

DTF notes NTESMO has experienced overspends in the previous regulatory period and there is a risk that including these expenses in the base year assumption without a test for reasonableness will result in higher than necessary charges.

Question 5. Do stakeholders agree NTESMO's application of CPI to escalate professional fees, residual costs, and graduate and undergraduate contracts over the upcoming regulatory period is not appropriate? Why or why not?

Supported, the Utilities Commission's position to set allowed revenue in real terms with trend adjustments applied for price increases over and above inflation appears reasonable and should prevent over recovery of costs.

Question 6. Do stakeholders support inclusion of a productivity factor within the regulatory framework, to be applied in future regulatory periods? Why or why not?

Supported, a productivity factor encourages more efficient service delivery through improved processes and increased productivity.

Question 7. Do stakeholders support NTESMO's proposed approach to capitalisation? Why or why not?

DTF has no submission for this consultation question.

Question 8. Do stakeholders agree that the third capital expenditure assessment approach is the best option given the electricity market reform uncertainties as they relate to NTESMO? Why or why not?

The proposed approach to capital expenditure reflects the proposed shortened regulatory approach. There is a risk that if the expected market reforms do not take place within the shortened regulatory period this uncertainty will be maintained across multiple regulatory determinations.

DTF considers a five-year approach should be adopted with a mechanism to review the determination if significant market reforms occur. This approach aligns with Option 1, which appears less complicated than the other options presented and would support the efficient determination of regulated revenues.

Question 9. Are there any other approaches the Commission should consider in terms of assessing NTESMO's proposed capital expenditure?

DTF has no submission for this consultation question.

Question 10. Do stakeholders have any concerns regarding NTESMO's proposed capital (depreciation) approach? If so, what are the concerns?

DTF has no submission for this consultation question.

Question 11. Do stakeholders agree the weighted average cost of capital value calculated by the Australian Energy Regulator for PWC's regulated electricity networks should be used rather than that proposed by NTESMO? Why or why not?

While this approach appears reasonable it may delay setting annual SCMO rates as the Commission will need to wait until the Australian Energy Regulator has approved PWC's weighted average cost of capital for the relevant year before SCMO charges can be finalised.

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Question 12. Do stakeholders have any concerns regarding NTESMO's proposal regarding the tax allowance?

There may be a benefit in including a tax building block if a longer regulatory period is adopted, NTESMO's charges should be set at a level where the business unit is able to achieve profitability.

Question 13. What are stakeholder's views on the application of the list of information, requested under the Northern Territory National Electricity Rules, for the Utilities Commission to determine whether an uncertainty mechanism event has occurred? Is there anything additional that should be included?

DTF has no submission for this consultation question.

Question 14. What are stakeholder's views on the application of the list of events, used by the Australian Energy Regulator, to NTESMO? Are there any additional events that should be considered?

DTF has no submission for this consultation question.

Question 15. What are stakeholder's views on the application of a materiality threshold? If supported, what would a reasonable materiality threshold be given NTESMO is an 'asset light' entity?

DTF has no submission for this consultation question.

Question 16. Do stakeholders agree with the Utilities Commission views to not consider NTESMO performance incentives for the upcoming regulatory period? Why or why not?

Supported, performance incentives would be likely to increase compliance costs for NTESMO and appears unlikely to deliver substantial benefits under the current framework. It would be appropriate for performance incentives to be considered following the Electricity Market Reforms which are likely to increase the complexity of NTESMO's operations.

Question 17. Do stakeholders support the proposed cost incentive approach? Why or why not?

There appears to be an inconsistency here, the Consultation paper advises NTESMO has not proposed any cost efficiency incentive mechanisms and the UC is proposing to apply the cost incentive approach proposed by NTESMO, which would appear to result in no cost incentives applying.

DTF considers that some form of cost incentive should apply particularly noting NTESMO's significant overspends in the previous regulatory period.

Question 18. Do stakeholders agree with NTESMO's proposed approach for calculating regulated charges? Why or why not?

DTF has no submission for this consultation question.

Question 19. Do stakeholders agree with the Commission's initial view not to accept NTESMO's proposal regarding its opening Regulated Asset Base value for the current five-year regulatory period (2019-2024), and instead set the value as zero? Why or why not?

There does not appear to be an assessment of whether the overspend in the previous regulatory period represented necessary or reasonable spending, such as due to unforeseen circumstances.

Question 20. Do stakeholders agree with the Commission's initial view to apply the proposed cost incentive approach to NTESMO's full overspend, consistent with the proposed approach to future any future overspends? Why or why not?

Similar to the previous comment DTF considers that the recovery of any overspend amounts should only be permitted where PWC can demonstrate to the Utilities Commission that the expenditure was necessary.

Question 21. Do stakeholders agree that the difference between actual revenues in 2024-25 and allowed revenues (as determined by the Commission) be added to NTESMO's Regulated Asset Base and depreciated across a set 'asset life' or seven years? Why or why not?

It seems reasonable for an under recovery of approved revenue to be recovered within the regulatory period (where possible), as advised previously DTF considers the proposed regulatory period is too short and should be set to the standard five-year period.

This approach would allow under recovered revenues to be more easily recovered over the remainder of the regulatory period (four-years).