UTILITIES COMMISSION
OF THE NORTHERN TERRITORY

2024-27 Review of system control and market operator charges

Draft Decision – revenue and charges

A paper presenting the Commission's draft findings and decisions on annual revenue requirements and charges for the 2024-27 regulatory period

May 2025

Disclaimer

Contents

Abbreviations and acronyms

AER	Australian Energy Regulator
CAM	cost allocation methodology
CEPA	Cambridge Economic Policy Associates Pty Ltd
Commission	Utilities Commission of the Northern Territory
CPI	Consumer Price Index
EPO	Electricity Pricing Order
ER Act	*Electricity Reform Act 2000*
FTE	full-time equivalent
ICT	information and communications technology
kWh	kilowatt hour
MWh	megawatt hour
NTEM	Northern Territory Electricity Market
NTESMO	Northern Territory Electricity System and Market Operator
PTRM	post-tax revenue model
PWC	Power and Water Corporation
RAB	regulatory asset base
SCTC	System Control Technical Code
TDE	Territory Dispatch Engine
WACC	weighted average cost of capital
WPI	weighted price index

Overview and draft decision

The Northern Territory Electricity System and Market Operator (NTESMO), which sits within the Power and Water Corporation (PWC), carries out system control functions in the Territory's three major power systems: Alice Springs, Darwin-Katherine and Tennant Creek, including the operation of a wholesale electricity market in the Darwin-Katherine power system (market operator functions). In addition to its regulated functions, NTESMO also undertakes unregulated functions on behalf of PWC's networks and water services businesses and Territory Generation.

Section 39(1) of the *Electricity Reform Act 2000* (ER Act) provides for a system controller to impose and recover charges relating to the operations of system control. Section 39(2) provides for the Utilities Commission (Commission) to approve the schedule of charges to be applied for the purpose of remunerating the system controller.

In late December 2023, NTESMO submitted an initial regulatory proposal to the Commission for the three years from 1 July 2024 to 30 June 2027 (2024-27 regulatory period). This initial regulatory proposal involved a step up in complexity regarding calculation of required revenue compared with the approach taken for the 2019-24 regulatory period and sought a substantial increase in required revenue. Given this, the Commission considered it necessary to formalise the regulatory framework to apply in determining system control and market operator charges.

In September 2024, following consultation with stakeholders, the Commission released a Decision Paper[1] setting out the regulatory framework for determining system control and market operator charges and providing the Commission's decision and associated reasoning for not approving NTESMO's initial regulatory proposal. The regulatory framework outlined in the Decision Paper applies revenue cap regulation and requires use of a building block model to determine costs and calculate the maximum amount of allowable revenue for each year (annual revenue requirement) in the regulatory period. Only costs that are prudent, efficient, reasonable and fair and related to NTESMO's regulated functions are to be reimbursed through the annual revenue requirement. The annual revenue requirement is recovered through a regulated charge based on a forecast of annual electricity consumption.

NTESMO submitted a revised regulatory proposal on 23 December 2024; however, the Commission found it was not sufficiently complete or accurate to be suitable to consider for approval. The Commission requested NTESMO resubmit a valid proposal by the end of February 2025.

NTESMO's February 2025 regulatory proposal

On 28 February 2025, the Commission received a proposal from NTESMO that largely aligned with the regulatory framework and was suitable for review. During the review process, issues and errors were identified with the proposal including accompanying attachments and models. NTESMO subsequently submitted revised versions of documents and models to the Commission addressing these matters. The revised documents and models are the subject of this Draft Decision.

Based on the building block model, NTESMO estimate it will incur costs totalling $66.6 million ($real 2023-24) to provide its regulated services over the 2024-27 regulatory period (Table 1). However, NTESMO's proposed annual revenue requirements for the 2024-27 regulatory period differ from its profile of costs as interim charging arrangements are in place for 2024-25 and there will be a shortfall between actual and required revenue in that year.

NTESMO proposes to recover the 2024-25 shortfall by adding this to its regulatory asset base (RAB) for 2025-26 and depreciating the shortfall over seven years (2024-25 true-up). This has the effect of increasing the revenue requirement in 2025-26 and 2026-27 above the amount calculated under the building block model. As a result over the 2024-27 regulatory period, NTESMO proposes to recover total revenue of

[1] Available at https://utilicom.nt.gov.au/__data/assets/pdf_file/0004/1445251/2024-27-Review-of-system-control-and-market-operator-charges-Decision-paper-regulatory-framework.pdf.

$59.3 million ($real 2023-24), comprising $48.2 million for its system control functions and $11.1 million for its market operator functions.

Table 1 Building block and revenue requirements, 2024-27 regulatory period ($m real, 2023-24)

	2024-25	2025-26	2026-27	Total
Building block requirement	21.2	21.6	23.8	66.6
Revenue requirement	10.0[a]	23.6	25.7	59.3
System control	*9.2*	*18.4*	*20.6*	*48.2*
Market operator	*0.8*	*5.2*	*5.1*	*11.1*

[a] Estimated revenue based on interim charges for 2024-25

Source: NTESMO February 2025 regulatory proposal, Tables 1 to 3.

NTESMO proposes to continue to recover its annual revenue requirement through a dollars per kilowatt hour charge (regulated charge, $/kWh) imposed on retailers with the regulated charge for system control based on forecast annual energy consumption for the Alice Springs, Darwin-Katherine and Tennant Creek power systems and the market operator charge based on forecast annual energy consumption for the Darwin-Katherine power system only.

Table 2 presents NTESMO's proposed charges for 2025-26 and indicative charges for 2026-27. NTESMO formally submitted its proposed charges for 2025-26 to the Commission on 29 April 2025 for approval through a draft 2025-26 annual pricing proposal. The proposed charges were derived in accordance with NTESMO's Annual Pricing Escalation Mechanism (refer Appendix A) and are based on NTESMO's proposed annual revenue requirements set out in Table 1.

Table 2 Actual, proposed and indicative system control and market operator charges, 2024-27 regulatory period ($/kWh, nominal)

	2024-25[a]	2025-26[b]	2026-27[c]
System control	0.005527	0.011823	0.013084
Market operator	0.000585	0.003769	0.003750

[a] Actual charges; [b] proposed charges; [c] indicative charges

Note: System control charges apply to all consumption in the regulated power systems, but market operator charges apply to consumption in the Darwin-Katherine power system.

Draft decision

NTESMO's February 2025 proposal requests the Commission to approve a maximum annual revenue requirement for system control and market operator functions for each year of the 2024-27 regulatory period. NTESMO has calculated proposed system control and market operator charges for 2025-26 in accordance with the formulas set out in Appendix A to this Draft Decision, with the proposed charges for 2025-26 submitted to the Commission for approval through an annual pricing proposal.

The Commission notes that NTESMO has sought to address the issues found with its earlier proposals and made changes to the initial version of its February 2025 proposal in response to matters identified during review of that proposal. This includes providing further information to justify the prudency and efficiency of its proposed capital projects and demonstrate appropriate governance of these projects. These improvements mean that the Commission considers NTESMO's (revised) February 2025 proposal is largely consistent with the regulatory model set out in the Commission's September 2024 Decision Paper and it better reflects the efficient costs of providing system control and market operator services.

The Commission is now largely satisfied that NTESMO's proposed maximum revenue requirements for system control and market operator functions are appropriate, noting the current regulatory framework, including the ER Act, provides NTESMO with very broad functions and obligations and in the case of the System Control Technical Code (SCTC), NTESMO creates a wide scope under which its activities can fall.

However, the Commission considers NTESMO's proposed step change for professional fees for system control functions has not been sufficiently justified or that it is prudent and efficient including why the cost should be recovered through system control charges rather than directly from relevant generators.

The effect of this draft decision is to reduce the maximum revenue requirement in all years of the 2024-27 regulatory period for system control functions. The Commission's calculation of the impact of its decision on system control revenue requirements and pricing for 2025-26 and 2026-27 are shown below.

System control	2024-25[a]	2025-26[b]	2026-27[c]
Revenue requirement ($real, 2023-24)	9,178,523	17,431,936	19,653,906
System control charge ($/kWh, nominal)	0.005527	0.011242	0.012489

[a] Actual charges; [b] draft charges; [c] indicative charges

As a result of its decision not to approve NTESMO's proposed maximum revenue requirement for system control functions, under section 39(2) of the ER Act, the Commission's draft decision is to not approve NTESMO's draft 2025-26 annual pricing proposal for system control and market operator charges.

In terms of next steps, and based on this decision, the Commission requires NTESMO to submit a short revenue and pricing proposal presenting the maximum revenue requirements for the 2024-27 regulatory period as determined by the Commission and associated proposed system control and market operator charges for 2025-26 and indicative charges for 2026-27. NTESMO's proposed formulas for calculating the annual charges (as per sections 2 to 4 of Appendix A), the list of pass-through events (as per Appendix B) and relevant revised revenue and pricing models will need to be attached to the revenue and pricing proposal. The proposal is to be submitted for the Commission's approval no later than **cob Monday, 9 June 2025**.

For the purposes of clarity, if NTESMO is unable to submit a suitable revenue and pricing proposal by the due date, it may not be possible for the Commission to approve NTESMO's proposed system control and market operator charges for 2025-26 and provide sufficient advance notice to retailers for those charges to take effect on 1 July 2025. The Commission advises that this may result in there being no charges that NTESMO can levy from 1 July 2025 onward until a schedule of charges is approved by the Commission including a period of advance notice to retailers before those charges take effect.

The Commission notes that its draft decision will result in system control and market operator charges from 2025-26 onward being more than double current (2024-25) charges. The impact from the increase in charges will flow through to large customers (NTESMO advise these customers represent 1% of the customer base); however, residential and small business customers consuming less than 750 MWh per annum will be largely insulated from the impact of the increase as the price they pay for electricity is capped under the Territory Government's Electricity Pricing Order (EPO). The increase will, however, have an indirect impact with the additional cost passed on to government and ultimately taxpayers in the Territory through community service obligation payments made to electricity retailers, which compensate for the shortfall between the EPO tariff and the cost of electricity supply.

Stakeholder feedback

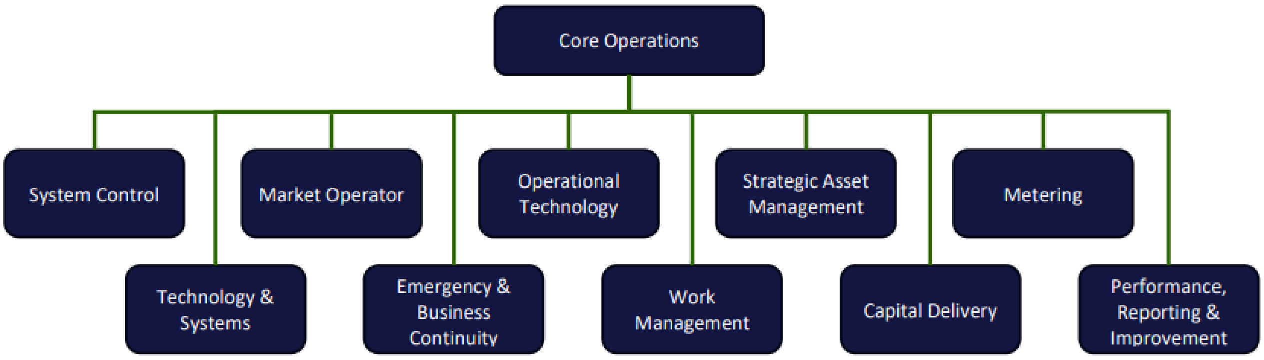
The Commission invites feedback from stakeholders on matters raised in this Draft Decision. Stakeholder feedback will be taken into account in making the final decision on NTESMO's proposed revenue requirements for the 2024-27 regulatory period and 2025-26 system control and market operator charges.

The Commission advises stakeholders that requests for additional time to make submissions cannot be accommodated due to the short timeframe in which a schedule of charges must be approved to take effect for the regulatory year commencing 1 July 2025.

1 | Introduction

NTESMO is a ring-fenced entity within PWC, which is a government-owned corporation.[2] NTESMO is not, however, a standalone business unit; rather, it's system control and market operator functions sit within PWC's Core Operations business unit, alongside a number of other functions, as illustrated in Figure 1. Core Operations was created as part of a structural reform PWC implemented during the 2019-24 regulatory period.

Figure 1 Core Operations business unit structure (as at September 2023)



Source: NTESMO February 2025 regulatory proposal, Attachment 2.2.

NTESMO carries out system control functions for the Territory's three major power systems: Alice Springs, Darwin-Katherine and Tennant Creek, and since 2015, NTESMO has also been the market operator for the Darwin-Katherine interim Northern Territory Electricity Market.

The services provided through these functions are regulated and NTESMO is entitled, in accordance with section 39(1) the ER Act, to impose and recover charges to undertake its functions. Under section 39(2) of the ER Act, the Commission is required to approve the schedule of charges to be applied for the purpose of renumerating the system controller for its operations.

The ER Act does not provide specific criteria for the Commission to consider in making its decision; however, section 21(2) of the *Utilities Commission Act 2000* requires the Commission, in making a determination relating to prices for goods and services, to have regard to:

- the general factors specified in Part 2 of the *Utilities Commission Act 2000* with key factors of relevance being to promote competitive and fair market conduct and economic efficiency; prevent the misuse of monopoly or market power; facilitate maintenance of the financial viability of NTESMO; and ensure an appropriate rate of return on regulated infrastructure assets
- the costs of making, producing or supplying the goods or services including complying with laws or regulatory instruments
- any relevant interstate and international benchmarks for prices, costs and return on assets in comparable industries
- the financial implications of the determination and
- any other factors that the Commission considers relevant.

In broad terms, the Commission has operationalised these considerations to mean the charges imposed by NTEMSO are to recover sufficient revenue to reimburse costs that are prudent, efficient, reasonable and fair. Furthermore, the revenue recovered is to reimburse costs incurred in performing system control and market operator functions; it is not to refund costs associated with unregulated activities that NTESMO undertakes for PWC's networks and water services businesses and Territory Generation.

[2] Information on the Northern Territory Ring-fencing Code and its application to PWC is available on the Commission's website at https://utilicom.nt.gov.au/electricity/codes-and-guidelines/electricity-ring-fencing-code.

Context to the Draft Decision

For the first year of the 2024-27 regulatory period, interim system control and market operator charges were put in place as NTESMO was unable to submit a regulatory proposal in time for the Commission to complete its assessment process for the approval of charges. Consequently, charges for 2024-25 are a roll forward of the approved regulated charges for 2023-24 adjusted by inflation and were approved by the Commission on 2 November 2023.[3]

In late December 2023, NTESMO submitted an initial regulatory proposal to the Commission for the 2024-27 regulatory period (initial proposal). NTESMO's initial proposal involved a step up in complexity regarding calculation of required revenue compared with the approach taken for the 2019-24 regulatory period and sought a substantial increase in required revenue. Given this, the Commission considered it necessary to formalise the regulatory framework to apply in determining system control and market operator charges.

In September 2024, following consultation with stakeholders, the Commission released a Decision Paper outlining the regulatory framework and providing the Commission's decisions and associated reasoning for not approving NTESMO's initial proposal for the 2024-27 regulatory period.[4] The Decision Paper did not address the level of system control and market operator charges as their calculation would be impacted by the design of the regulatory framework.

NTESMO submitted a revised regulatory proposal on 23 December 2024; however, a number of issues were found, and the Commission advised NTESMO that the proposal was not sufficiently complete or accurate and could not be considered for approval. The Commission requested NTESMO resubmit a valid proposal by the end of February 2025. NTESMO submitted a third proposal on 28 February 2025 (February 2025 proposal), which the Commission has accepted as valid (that is, complete and without material errors). NTESMO has made revisions to the initial version of its February 2025 proposal to address matters found during the Commission's review process and the final version of the proposal and accompanying attachments and models are the subject of this Draft Decision Paper.

Structure of the Draft Decision paper

The remainder of this Draft Decision paper is structured as follows:

- Chapter 2 summarises NTESMO's February 2025 proposal
- Chapter 3 discusses the February 2025 proposal's compliance with the regulatory framework
- Chapter 4 presents the Commission's findings regarding NTESMO's proposed base year expenditure
- Chapter 5 presents the Commission's findings regarding NTESMO's proposed operating expenditure
- Chapter 6 presents the Commission's findings regarding NTESMO's proposed capital expenditure
- Chapter 7 presents the Commission's findings regarding the proposed true-up for 2024-25 revenue
- Chapter 8 presents the Commission's decisions regarding NTESMO's proposed revenue requirements and regulated charges.

How to make a submission on the Draft Decision

All interested parties (stakeholders) are invited to make submissions on this Draft Decision by **5pm Monday, 9 June 2025**. Responses to the Draft Decision will inform the Commission's final decision, which is expected to be released in June 2025.

To facilitate publication, submissions should be provided electronically by email to utilities.commission@nt.gov.au in Adobe Acrobat or Microsoft Word format.

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[3] Refer https://utilicom.nt.gov.au/__data/assets/pdf_file/0011/1292735/scmo-charges-approval-letter.PDF.

[4] Refer https://utilicom.nt.gov.au/projects/projects/review-of-ntesmo-2024-27-system-control-and-market-operator-charges-regulatory-proposal.

The Commission advises stakeholders that requests for additional time to make submissions cannot be accommodated due to the short timeframe in which a schedule of charges must be approved to take effect for the regulatory year commencing 1 July 2025.

Any questions regarding the Draft Decision or the 2024-27 Review of System Control and Market Operator Charges should be directed to the Commission at any of the following:

Email: utilities.commission@nt.gov.au

Telephone: +61 8 8999 5480

GPO Box 915
DARWIN NT 0801

Confidentiality

In the interests of transparency, the Commission will make all submissions publicly available on its website, with the exclusion of confidential information. Confidential information may include:

- information that could affect the competitive position of an entity or other person
- or information that is commercially sensitive for some other reason.

Submissions must clearly specify any information that a respondent considers confidential and advise the Commission why they would like the information to be treated as confidential. A version of the submission suitable for publication (that is, with any confidential information removed) should also be submitted to the Commission.

The Commission may also exercise its discretion not to publish any submission based on its content such as submissions containing material that is offensive or defamatory.

Next steps

The Commission will engage further with NTESMO, as may be needed, on matters raised in this Draft Decision. The Commission's final decision will provide the approved revenue requirements and associated system control and market operator charges with any differences from the Draft Decision explained in the final decision.

Stage	Estimated timing
Draft Decision released	14 May 2025
Consultation on Draft Decision ends (submissions due)	9 June 2025
Final decision on 2024-27 system control and market operator charges	June 2025
Current 2024-25 system control and market operator charges end	30 June 2025
2025-26 system control and market operator charges or interim arrangements approved by the Commission commence	1 July 2025

2 | NTESMO's February 2025 regulatory proposal

Based on the building block model, NTESMO estimates it requires total revenue of $66.6 million ($real, 2023-24) to cover the cost of providing its regulated services in the 2024-27 regulatory period. This comprises of $59.7 million for reimbursement of operating expenses and $6.8 million to reimburse costs associated with capital investments.

Operating expenditure

Operating expenditure reflects the on-going or regular costs incurred by NTESMO in providing regulated services and maintaining and operating relevant assets. NTESMO's forecast of $59.7 million in operating expenditure across the three-year regulatory period equates to about $20 million per annum ($real, 2023-24).

NTESMO has four categories of operating expenditure – corporate overheads, personnel costs, professional fees and residual costs. Personnel costs account for 60% ($36.0 million) of operating expenditure, with the other notable cost area being corporate overheads, accounting for 22% ($13.1 million) of operating expenditure (Table 3).

Table 3 Operating expenditure by category, 2024-25 to 2026-27 ($m real, 2023 24)

Cost category	2024-25	2025-26	2026-27	Total
Personnel costs	11.7	12.1	12.2	36.0
Professional fees	1.0	1.5	1.5	4.1
Residual costs	2.1	2.2	2.2	6.6
Corporate overheads	5.2	4.2	3.7	13.1
Total operating expenditure	20.1	20.0	19.6	59.7

Note: Numbers may not add up due to rounding

Source: NTESMO February 2025 regulatory proposal, Opex Model.

There are five functional areas to which NTESMO allocates operating expenditure with the allocations to each function set out in Table 4:

- real time operations (a system control function)
- operations planning (a system control function)
- power system evolution (a system control function)
- market operations (a market operator function)
- rule development, technical and policy advice (a market operator function, referred to as NTEM development in NTSEMO's previous proposal).

Table 4 Operating expenditure by function, 2024-25 to 2026-27 ($m real, 2023-24)

Functional area	2024-25	2026-27	2025-26	Total
System control	16.0	15.8	15.5	47.3
Real time operations	8.2	8.1	7.9	24.2
Operations planning	3.9	3.8	3.7	11.5
Power system evolution	3.9	3.8	3.8	11.6
Market operator	4.1	4.2	4.1	12.5
Market operations	2.7	2.8	2.8	8.3
Rule development, technical and policy & advice	1.4	1.4	1.4	4.2
Total operating costs	20.1	20.0	19.6	59.7

Note: Numbers may not add up due to rounding

Source: NTESMO February 2025 regulatory proposal, Opex Model.

NTESMO's system control functions account for 79% ($47.3 million, $real 2023-24) of total operating expenditure and of this, functions associated with the day-to-day operations of the regulated power systems (real time operations and operations planning) account for 76% ($35.7 million) of operating expenditure for system control. Market operator functions account for 21% ($12.5 million) of NTESMO's operating expenditure and of this, functions associated with market operations account for 66% ($8.3 million) of operating expenditure for market operator functions.

The Commission's draft findings on NTESMO's operating expenditure are discussed in Chapter 5.

Capital expenditure

NTESMO proposes to seek reimbursement of costs associated with the following capital investments:

- spending on major projects:
  - historical (2019-24 regulatory period) and current regulatory period expenditure for the Dispatch Engines project to develop transitional tools and the Territory Dispatch Engine (TDE)
  - historical expenditure on a new Settlements System
- the portion of NTESMO's share of corporate overheads in the current regulatory period (historical costs are not claimable) that are necessary for the investment in capital projects (referred to as capitalised overheads)
- NTESMO's share of corporate capital expenditure (corporate capex), which is expenditure for assets that are shared across PWC such as information and communications technology (ICT), property and fleet.

NTESMO also seeks reimbursement to true-up the shortfall in revenue in 2024-25 arising from the interim pricing arrangements put in place for that year (as discussed in Chapter 1). NTESMO estimates the shortfall will be about $11.2 million ($real, 2023-24). Consistent with the approach outlined in Chapter 10 of the Commission's September 2024 Decision Paper, NTESMO proposes to add the 2024-25 true-up to its regulatory asset base (RAB) and depreciate this across an 'asset life' of seven years.

Table 5 shows NTESMO's proposed capital investments and the shortfall for inclusion in its RAB. The primary investment is the Dispatch Engines project for which there is both historical and current period outlays totalling $41.6 million ($real mid-period, 2024).

Table 5 Capital investments, 2019-20 to 2026-27, and 2024-25 shortfall ($m real mid-period, 2023 24)

	Historical	2024-25	2025-26	2026-27	Total
Dispatch Engines	4.2	3.3	21.0	13.1	41.6
Settlements System	2.6				2.6
Capitalised overheads		0.3	0.7	0.5	1.5
Corporate capex	3.6	0.4	0.4	0.5	4.9
2024-25 true-up		11.2			11.2
Total	10.5	15.1	22.1	14.1	61.8

Note: Numbers may not add up due to rounding

Source: NTESMO February 2025 regulatory proposal. Historical values from Table 7 and Figure 21; 2024-27 values from Table 5; 2024-25 shortfall from Figure 25.

The RAB is used to calculate the return of (depreciation), and return on, capital expenditure (collectively referred to as capital costs) with these costs for the 2024-27 regulatory period amounting to $6.8 million ($real, 2023-24) excluding those associated with the shortfall (Table 6). Capital costs increase to $10.7 million with the inclusion of the 2024-25 true-up (Table 7). There are no historical capital costs to be recovered with these foregone because NTESMO is seeking reimbursement for its capital investments on an ex-post basis.[5] The Commission's draft findings on NTESMO's historical and current capital projects are discussed in Chapter 6.

Table 6 Capital costs excluding 2024-25 shortfall, 2024-25 to 2026-27 ($m real, 2023-24)

Cost category	2024-25	2025-26	2026-27	Total
Return on capital	0.5	0.7	2.0	3.2
Depreciation	0.6	0.9	2.2	3.7
Total capital costs	1.1	1.6	4.1	6.8

Note: Numbers may not add up due to rounding

Source: NTESMO February 2025 regulatory proposal, PTRM models.

Table 7 Capital costs including 2024-25 shortfall, 2024-25 to 2026-27 ($m real, 2023-24)

Cost category	2024-25	2025-26	2026-27	Total
Return on capital	0.5	1.4	2.5	4.4
Depreciation	0.6	2.2	3.5	4.4
Total capital costs	1.1	3.5	6.1	10.7

Note: Numbers may not add up due to rounding

Source: NTESMO February 2025 regulatory proposal. PTRM Under Recovery models.

Revenue requirement

Table 8 shows NTSEMO's proposed revenue requirements based on the building block model for its system control and market operator functions for each year of the 2024-27 regulatory period. NTESMO proposes a substantial uplift in revenue from about $11 million in 2023-24[6] to $21.1 million in 2024-25 ($real, 2023-24). By the end of the regulatory period, NTESMO's building block requirement increases to $23.8 million, largely due to expected capital outlays associated with NTESMO's Dispatch Engines project.

[5] Refer Chapter 6 of the Commission's September 2024 Decision Paper for information on the treatment of projects approved on an ex-post basis

[6] Utilities Commission. 2018 System Control Charges Review Final Decision 30 April 2019. Table 2 converted to real 2024 dollars. Available at https://utilicom.nt.gov.au/publications/reports-and-reviews/pre-2025/final-decision-2019-system-control-charges-review.

Table 8 Building block model requirements, 2024-25 to 2026-27 ($m real, 2023-24)

Cost category	2024-25	2025-26	2026-27	Total
System control	16.8	17.0	19.3	53.1
Market operator	4.4	4.6	4.5	13.5
Total	21.1	21.6	23.8	66.6

Source: NTESMO February 2025 regulatory proposal, Tables 1 and 2.

However, recovery of the shortfall in revenue through the RAB over seven years (that is, over the remainder of this regulatory period and the following (2027-32) regulatory period) has the effect of increasing the revenue requirement in 2025-26 and 2026-27 above the amount calculated under the building block model. It also means annual revenue requirements in the 2027-32 regulatory period will be higher than if there had been no shortfall.

After adjusting for the shortfall in 2024-25, NTESMO estimates its annual revenue requirement to be $23.6 million in 2025-26 and $25.7 million in 2026-27 ($real, 2023-24) (Table 9).

Table 9 Annual revenue requirements, 2024-25 to 2026-27 ($m real, 2023-24)

Cost category	2024-25[a]	2025-26	2026-27	Total
System control	9.2	18.4	20.6	48.1
Market operator	0.8	5.2	5.1	11.1
Total	10.0	23.6	25.7	59.3

[a] Estimated revenue based on interim charges for 2024-25

Source: NTESMO February 2025 regulatory proposal, Table 3.

Regulated charges

NTESMO proposes to continue to recover its annual revenue for system control and market operator functions through charges on retailers. The charges will be based on the volume of energy consumed by a retailer's customers ($/kWh charges). System control charges will apply to the electricity consumption of all customers in the three regulated power systems, but market operator charges will only apply to consumption in the Darwin-Katherine power system where the interim Northern Territory Electricity Market operates.

To set the regulated charges for 2025-26 and 2026-27, NTESMO proposes to submit an annual pricing proposal to the Commission with proposed charges determined in accordance with its Annual Pricing Escalation Mechanism (reproduced in Appendix A of this Draft Decision paper from Attachment 11.2 of NTESMO's proposal). The Annual Pricing Escalation Mechanism will use the revenue requirements for 2025-26 and 2026-27 determined through this review and adjusts those to:

- escalate the annual revenue requirements to nominal values using a lagged December indicator of the Consumer Price Index (CPI)
- account for changes in forecast energy consumption
- account for under and over recovery amounts in previous years in accordance with a set formula and
- enable inclusion of pass-through amounts following an approved pass-through event.

NTESMO proposes to calculate the regulated charge for system control by dividing the adjusted annual revenue requirement for system control functions by the combined annual energy consumption forecast for the Darwin-Katherine, Tennant Creek and Alice Springs power systems. The market operator charge is calculated by dividing the adjusted annual revenue requirement for market operator functions by the annual energy consumption forecast for the Darwin-Katherine power system.

NTESMO's February 2025 proposal and a draft 2025-26 annual pricing proposal submitted on 29 April 2025 present proposed charges for 2025-26 and indicative charges for 2026-27 based on forecast annual revenue requirements, forecast electricity consumption and estimates of annual inflation. There is also an adjustment for under recovery of revenue in 2022-23 and 2023-24 ($0.8 million, nominal) that is included in the calculation of charges of 2025-26.

Table 10 shows actual, proposed and indicative charges for the 2024-27 regulatory period. There is a substantial increase in proposed charges between 2024-25 and 2025-26 with the charge for system control functions rising from $0.005527/kWh in 2024-25 to $0.011823/kWh in 2025-26 and the charge for market operator functions rising from $0.000585/kWh in 2024-25- to $0.003769/kWh in 2025-26. Charges in 2026-27 are forecast to be similar or higher, but actual charges will depend on adjustments for inflation, under or over recovery of revenue in 2024-25 and changes in forecast consumption (as per the Annual Pricing Escalation Mechanism).

Table 10 Actual and indicative regulated charges, 2024-25 to 2026-27 ($/kWh, nominal)

	2024-25[a]	2025-26[a]	2026-27[b]
System control	0.005527	0.011823	0.013084
Market operator	0.000585	0.003769	0.003750

[a] Actual charges; [b] Indicative charges

Source: NTESMO February 2025 regulatory proposal, Table 4.

NTESMO's proposals illustrate the impact of the increase in charges in 2025-26 indicating for customers in Alice Springs and Tennant Creek, there would be a 113.9% increase in the amount of the charge for system control functions. For customers in the Darwin-Katherine power system, there would be a 155.1% increase due to the combined impact of system control and market operator charges.

The Commission's draft decisions on NTESMO's proposed annual revenue requirements for the 2024-27 regulatory period and the proposed prices for 2025-26 are discussed in Chapter 8.

3 | Compliance with the regulatory framework

This chapter discusses the Commission's draft findings on the alignment between NTESMO's February 2025 proposal and 2025-26 annual pricing proposal with the regulatory framework for the calculation of system control and market operator charges, as set out in the Commission's September 2024 Decision Paper. Box 1 presents the Commission's draft findings.

Box 1 Draft findings on compliance with the regulatory framework

> The Commission considers NTESMO's February 2025 proposal complies with the regulatory framework, with the exception of corporate capex, where NTESMO's allocation approach does not align with the required cost allocation methodologies (CAM), but this does not invalidate the estimates of expenditure.
>
> The Commission considers NTESMO's annual pricing proposal for 2025-26 complies with the regulatory framework.
>
> The Commission notes, consistent with its September 2024 Decision Paper, NTESMO does not apply performance incentives or smoothing of revenue requirements in the 2024-27 regulatory period. The Commission also notes that NTESMO has estimated there will be no corporate tax liability in the 2024-27 regulatory period.

The Commission's September 2024 Decision Paper sets out the regulatory framework for the calculation of system control and market operator charges in the 2024-27 regulatory period. The regulatory framework is as follows:

- NTESMO will continue to be subject to revenue cap regulation
- A building block model is to be used to calculate the maximum annual revenue requirement for system control and market operator functions with the model comprising the following elements:
  - operating expenditure – forecast using a base-step-trend approach using 2022-23 actual expenditure as the base year
  - an explicit productivity factor applied to operating expenditure – set at zero for the 2024-27 regulatory period
  - a RAB – used to calculate the return of, and return on, capital expenditure for prudent and efficient projects – set at zero at 1 July 2019
  - a tax allowance
  - performance incentives – set at zero for the 2024-27 regulatory period and
  - an ex-ante uncertainty mechanism.
- Revenue smoothing will not occur in this regulatory period, but it may be considered in future periods.
- For capital expenditure for the 2024-27 regulatory period:
  - for ex-ante inclusion of capital expenditure in the RAB, the Commission must receive a business case that meets the Commission's requirements for a business case including relevant PWC approvals, and demonstrates the prudency of the proposed project, its timing for delivery, and forecast expenditure. The Commission will subsequently conduct an ex-post review of the efficiency of the expenditure, with approved efficient expenditure to replace the ex-ante allowance in the RAB.
  - where there has been no ex-ante business case for capital expenditure, the Commission will require a Board-approved business case that demonstrates both the prudency and efficiency of the ex-post expenditure. If approved, the depreciated expenditure can be rolled into the opening RAB for the 2024-27 regulatory period (that is, the RAB as at 1 July 2024, but depreciation and return on capital during the 2019-24 regulatory period will be foregone).[7]

[7] For the avoidance of doubt, this process would not be specific to ex-post capital expenditure in the 2019-24 regulatory period. A similar process would apply in the 2024-27 and future regulatory periods should NTESMO seek to recover any ex-post capital expenditure.

- capital expenditure is assumed to be a mid-period figure and is to be scaled up to an end-period figure using a half-year weighted average cost of capital (WACC).
- straight-line depreciation and the Australian Energy Regulator's (AER's) standard asset lives are to be used to calculate depreciation.
- the AER's WACC for PWC's networks business is to be used to calculate the return on capital. In its recent final decision, the Australian Energy Regulator (AER) set PWC a return on equity value of 7.91% and a return on debt value of a 4.19%, resulting in a nominal vanilla WACC value for 2024-25 of 5.68%.[8]

- Cost incentives are incorporated in the regulatory framework with NTESMO to retain the benefits of underspends relative to the approved revenue requirement, but bearing the cost (actual operating expenditure and return on capex) of overspends, although depreciated actual capital expenditure will be added to the RAB (subject to any applicable ex-post review).
- There will be a 'true-up' of the difference between actual and required revenue in the first year of the regulatory period (that is, 2024-25), with this recovered over seven years through inclusion in the RAB.
- Regulated charges are calculated each year by determining an adjusted annual revenue requirement which is divided by forecast annual energy consumption to derive a per kilowatt (kW) charge. The approach to determining the adjusted annual revenue requirement involves:
  - escalating revenue requirements to account for inflation
  - adjusting for under and over recovery amounts in previous years in accordance with a set formula (a materiality threshold does not apply and a WACC adjustment is to be applied given under/over recovery occurs on a 2-year backward looking basis)
  - accounting for changes in forecast energy consumption and
  - adding pass through amounts in the year following an approved pass-through event.

The Commission advises that subsequent engagement with NTESMO resulted in clarifications to the requirements for Board endorsements of ex-ante capital projects. While the Commission's preference is for Board approval of a business case that is provided to the Commission, the Commission accepts the Board may not provide its final investment approval to implement a project without the funding, particularly for large projects such as the TDE. As such, a regulatory business case is to list with accompanying evidence, the gateway documents for the project that have been presented to and endorsed, approved, or noted by the Board, in accordance with PWC's investment delivery framework and project investment delivery management standards.

Assessment of compliance

The Commission's expert consultant, Cambridge Economic Policy Associates (CEPA), assessed the compliance of NTESMO's February 2025 proposal with the regulatory framework. As shown in Table 11, CEPA considered all areas of NTESMO's revised regulatory proposal to be compliant with the regulatory framework set out in the Commission's September 2024 Decision Paper, aside from corporate capex, which is discussed further in Chapter 6.

CEPA also reviewed the errors, inconsistencies, and other deficiencies that were identified within NTESMO's initial regulatory proposal, and underlying models, and advised that these had either been addressed within the revised regulatory proposal or were no longer applicable.

The Commission notes NTESMO's advice that its estimate of the corporate tax liability is zero for the 2024-27 regulatory period. NTESMO advised that this is because its expected taxation costs including operating expenditure and depreciation have been calculated to be higher than its revenue for each regulatory year, implying that it would not incur a positive tax liability. Consistent with its initial regulatory

[8] The proportion of debt funding is 60%. Forecast inflation is 2.66%. A different WACC may apply in remaining years of the regulatory period as the return on debt component will be updated annually, in accordance with the AER's Rate of Return Instrument, to use a 10-year trailing average portfolio return on debt that is rolled forward each year.

proposal, NTESMO did not propose to apply productivity factors to its operating expenditure or smooth its annual revenue requirements. However, these remain part of the regulatory framework for consideration in the 2027-32 and future regulatory periods.

Table 11 CEPA – Summary of review of regulatory framework applied in NTESMO's February 2025 proposal

Building Block	Commission Decision	revised regulatory proposal
Regulatory Period	*2024-27 (3-year)*	Compliant
Operating Expenditure	*Base-step-trend forecasting approach*	Compliant
	Base year set as most recent year of audited actuals (2022/23)	Compliant
Capital Expenditure	*Business case approved by PWC Board that meets Commission's requirements*	Compliant
	Capitalisation approach	Compliant
Corporate Overheads	*AER approved CAM and Core Operations CAM used to allocate corporate overheads*	Compliant
Corporate Capex	*AER approved CAM and Core Operations CAM used to allocate corporate overheads*	Non-Compliant
Regulatory Asset Base	*Set to zero as at 1 July 2019*	Compliant
	Straight line depreciation	Compliant
	AER standard asset lives	Compliant
WACC	*AER's WACC for PWC Networks Business (no transition period)*	Compliant
Historic Expenditure Recovery	*Capital expenditure incurred prior to 2019 not to be recovered*	Compliant
	Capital expenditure from 2019-24 to be recovered if approved, depreciated using standard asset lives, no recovery of depreciation or return on capital	Compliant
	Operational expenditure overspend not to be recovered	Compliant
True-Up of 2024/25 Revenue	*Added to RAB and depreciated over 7 years*	Compliant
Timing of Costs	*Capital expenditure scaled up to end-of-period values using half-year WACC*	Compliant

The Commission, with CEPA, reviewed NTESMO's proposed modelling to derive the annual charges and considered these to be compliant with the framework. Annual charges are discussed further in Chapter 8.

Commission's draft position and reasoning

The Commission considers NTESMO's February 2025 proposal complies with the regulatory framework, with the exception of corporate capex, where NTESMO's allocation approach does not align with the required cost allocation methodologies (CAM), but this does not invalidate the estimates of expenditure.

The Commission considers NTESMO's annual pricing proposal for 2025-26 complies with the regulatory framework.

The Commission notes, consistent with its September 2024 Decision Paper, NTESMO does not apply performance incentives or smoothing of revenue requirements in the 2024-27 regulatory period. The Commission also notes that NTESMO has estimated there will be no corporate tax liability in the 2024-27 regulatory period.

Based on CEPA's assessment, the Commission is satisfied that NTESMO has provided a proposal that is sufficiently compliant with the regulatory framework and suitable for assessment. Where there are departures from the regulatory framework, these are discussed further in subsequent chapters.

4 | Base year expenditure

This chapter discusses the Commission's draft findings on the amount of base year (2022-23) expenditure, (excluding corporate overheads), which are presented in Box 2.

Box 2 Draft findings on base year expenditure

> The Commission considers the allocation of 2022-23 actual costs to NTESMO's functions and adjustments to those costs to be reasonable.
>
> The Commission considers the adjusted base year costs totalling $10.4 million excluding corporate overheads ($real, 2023-24)) are fit for purpose as the base for the base-step-trend approach to derive personnel costs, professional fees and residual costs.

The base year is set as the most recent year of audited actual operating expenditure, which is 2022-23 for this regulatory period and is adjusted to remove non-recurrent expenditure. In the September 2024 Decision Paper, the Commission advised:

- further explanation was required for the inclusion of costs marked as non-regulated within the base calculations or their removal and
- the Commission would further scrutinise whether expenditure under the power system evolution and NTEM development (now referred to as rule development, technical and policy advice) functions tie to regulated activities and are appropriate for recovery.

Assessment of base year costs

NTESMO's February 2025 proposal advised that NTESMO had changed its approach since its initial proposal when the general ledger was used as the source of actual expenditure for determining base year costs and the expenditure was mapped to NTESMO's functions and cost categories. Instead, NTESMO has used the general ledger to assign costs to the system control and market operator functions and then applied the statutory accounts as the basis for categorising costs between personnel, professional fees, residual costs and corporate overheads. CEPA's advice to the Commission noted that the change in approach resulted in a decrease in total base year expenditure (excluding corporate overheads) of $1.6 million.

Corporate overheads are removed from base year expenditure as the methodology for allocating these costs differs from the base-step-trend approach used for personnel, professional fees and residual costs. The treatment of corporate costs is discussed in the next chapter. The Commission notes the adjusted base year expenditure equates to $10.4 million ($real, 2023-24), excluding corporate overheads.[9]

CEPA found that, within the initial regulatory proposal, the operating expenditure base year, sourced from the general ledger, included an allocation of Core Operations management costs which had been allocated across NTESMO's functional areas. From discussions with NTESMO, it was confirmed that these costs are included in base year operating expenditure sourced directly from the statutory accounts; however, as a result of the change in the method for deriving base year figures, NTESMO are not able to separate these costs out for each functional area. NTESMO confirmed that these costs are not included in any step changes applied and are solely increased by the trend rate applied to adjusted base year expenditure. CEPA's advice to the Commission did not raise any concerns with this approach.

Adjustments to base year costs

Following the derivation of base year expenditure, NTESMO applied adjustments to remove any expenditure that will not recur in the next regulatory period. First, NTESMO applied adjustments to remove Service-Level Agreement costs related to non-regulated functions, remove retrospective costs related to capital projects and add professional services costs that were incorrectly allocated to an unregulated entity.

[9] NTESMO February 2025 proposal, Opex model.

NTESMO noted that there is not an adjustment to remove historic corporate capex as this would have been capitalised and, therefore, is accounted for in the depreciation element of the statutory accounts, which is not included in the base year operating expenditure. CEPA advised the Commission it was satisfied that these initial adjustments were reasonable.

NTESMO also made adjustments within the cost categories of the base year expenditure as follows:

- Personnel costs – removal of Enterprise Agreement back-pay due to finalisation of PWC's 2021-2026 Enterprise Agreement, as it is a one-off expense.
- Professional fees – adjustment to only include non-project recurrent costs.
- Residual costs – removal of ICT expenditure to avoid over recovery of costs with step changes applied to residual costs that relate to ongoing operational ICT.

CEPA advised the Commission that the process for the adjustments was explained clearly and evidenced within NTESMO's documentation. Although a minor discrepancy in the documentation was discovered in relation to residual costs, NTESMO advised this was an error and the amount applied in its modelling (and therefore in the estimates in its proposal) is correct.

New functional areas

NTESMO advised that since the 2019-24 regulatory period, it has added two new functional areas to its operations: power system evolution and rule development, technical and policy advice. NTESMO advised the purpose of the power system evolution function is to enhance renewable integration, development of the transitional tools and TDE to support growing renewables and new operational procedures. This function also provides forecasting services to allow System Control to make informed real-time operational decisions and manage planned outages to ensure power system security. The rule development, technical and policy advice function involves activities related to electricity market reform, provision of technical and policy advice and undertaking the five yearly review of the SCTC.

Costs relating to these functions are modest in the base year expenditure (jointly about $1.8 million, $real 2023-24). Over the 2024-27 regulatory period, however, NTESMO has estimated the cost for the power system evolution function to be a total of $11.6 million and $4.2 million for the rule development, technical and policy function or jointly, about $5.3 million per annum ($real, 2023-24) (refer Table 4 in Chapter 2).

The Commission requested CEPA assess whether NTESMO's mapping of regulatory obligations to these functions (as per confidential Attachment 5.1) was robust, proportionate and reasonable. CEPA was of the view that the mapping of activities for these, and other functions, to statutory references and the classification of activities to functions did not appear to be unreasonable or disproportionate.

Commission's draft position and reasoning

The Commission considers the allocation of 2022-23 actual costs (excluding corporate overheads) to NTESMO's functions and adjustments to those costs to be reasonable.

The Commission considers the adjusted base year costs totalling $10.4 million excluding corporate overheads ($real, 2023-24)) are fit for purpose as the base for the base-step-trend approach to derive personnel costs, professional fees and residual costs.

The Commission notes the adjusted base year expenditure equates to $10.4 million, which is an increase relative to the expenditure forecast for 2022-23 from the Commission's 2018 Review of system control and market operator charges, but the Commission accepts that NTESMO's costs have risen as a result of its more complex operational environment.[10] While the 2022-23 costs are used as the base for determining the building block requirements for operating expenditure (personnel costs, professional fees and residual costs) in the 2024-27 regulatory period, as noted in the previous chapter, no recovery of historical overspend is permitted in the 2024-27 regulatory period.

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[10] For further information on the 2018 Review can be found at https://utilicom.nt.gov.au/projects/projects/system-control-charges-review.

The Commission considers NTESMO's mapping of functions and activities to legislative and other regulatory obligations sufficiently demonstrates its services, including those related to power system evolution and rule development, technical and policy advice, are related to regulated obligations and therefore, are eligible for recovery through system control and market operator charges. The Commission notes, however, the current regulatory framework, including the ER Act, provides NTESMO with very broad functions and obligations and, in the case of the SCTC, NTESMO creates a wide scope under which its activities can fall.

The Commission accepts the adjustments made by NTESMO to base year costs and, therefore, NTESMO's adjusted 2022-23 actual costs for use as the expenditure base for the base-step-trend approach used to estimate operating expenditure (excluding corporate overheads).

5 | Operating expenditure

This chapter discusses NTESMO's operating expenditure requirements including corporate overheads. The Commission's draft findings on the building block model requirement for operating expenditure are set out in Box 3.

Box 3 Draft findings on operating expenditure requirements from NTESMO's building block model

The Commission proposes to approve the following operating expenditure requirements:

$m real, 2023-24	2024-25	2025-26	2026-27	Total
Personnel costs				
NTESMO proposal	11.7	12.1	12.2	36.0
Commission draft decision	**11.7**	**12.1**	**12.2**	**36.0**
Professional fees				
NTESMO proposal	1.0	1.5	1.5	4.1
Commission draft decision	**0.7**	**0.7**	**0.7**	**2.0**
Residual costs				
NTESMO proposal	2.1	2.2	2.2	6.6
Commission draft decision	**2.1**	**2.2**	**2.2**	**6.6**
Corporate overheads				
NTESMO proposal	5.2	4.2	3.7	13.1
Commission draft decision	**5.2**	**4.2**	**3.7**	**13.1**
Total operating expenditure				
NTESMO proposal	20.1	20.0	19.6	59.7
Commission draft decision	**19.7**	**19.2**	**18.8**	**57.6**

In the 2019-24 regulatory period, NTESMO's average annual operating expenditure requirement was about $10 million per annum including corporate overheads ($real, 2023-24).[11] NTESMO's proposed annual operating expenditure is over double this amount during the 2024-27 regulatory period. The increase is driven by growth across all cost categories. This chapter discusses the Commission's findings regarding step changes and total requirements for each of the cost categories comprising operating expenditure.

Personnel costs

Personnel costs are labour costs of both employees (including graduates) and contractors allocated to the system control and market operator functions. The Commission's September 2024 Decision Paper advised a number of issues were identified in relation to forecast personnel costs, including errors and inconsistencies, a lack of explanations and/or supporting evidence of approvals for additional staff and costings for new positions. Further, in relation to capitalisation of personnel expenses, the Commission advised it does not expect to see an increase in personnel costs in subsequent regulatory years as a result of NTESMO shifting personnel costs between capitalised and non-capitalised expenditure. The Commission advised the level of non-capitalised personnel needed to be identified and step changes should specify whether increases are to the base level of staff or temporary, capital-related increases.

CEPA assessed whether issues raised with the initial regulatory proposal were addressed in the February 2024 proposal and found that many were no longer applicable as NTESMO had changed its approach to

[11] Utilities Commission. 2018 System Control Charges Review Final Decision 30 April 2019. Table 2 converted to real 2023-24 dollars. Available at https://utilicom.nt.gov.au/publications/reports-and-reviews/pre-2025/final-decision-2019-system-control-charges-review.

estimating the step change for personnel costs and additional explanatory and supporting evidence was provided. Under the new approach, NTESMO forecasts personnel costs based on actual data on full-time equivalent (FTE) employees in 2023-24 and 2024-25, including new positions that have addressed vacancies in operational activities. As such, NTESMO no longer apply the vacancy rate adjustment that was present in the initial regulatory proposal, nor propose any additional staff beyond January 2025.

In the initial regulatory proposal, for personnel costs only, there was an additional step applied once the base year had been adjusted and step changes applied. NTESMO capitalised a proportion of personnel costs and included these in the capital expenditure forecasts before applying the trend rate to those costs remaining under operating expenditure. For the revised regulatory proposal, NTESMO have included any personnel costs associated with capital projects within the respective business cases and, as such, no longer capitalise a portion of forecast personnel costs.

NTESMO note that none of the new staff will be performing capital activities so a portion of personnel costs is no longer capitalised and the allowance for labour is set out in the business case for each capital project. NTESMO also advised that to determine the trend amount, it has updated its proposal to use the AER's standard approach using an average of two weighted price index (WPI) growth forecasts for the utilities industry in the Northern Territory.

CEPA advised the Commission that NTESMO's calculations are clearly evidenced within Annexure E of Attachment 5.2 (these are confidential documents and not publicly available), which details the 14 additional staff members, their start date, position and on-costs annual salary, and proportion of time to be spent across NTESMO's functional areas. CEPA consider that the calculations transparently demonstrate how the step change for new positions has been arrived at, with these then applied in NTESMO's models. NTESMO had, however, applied annual salaries based on the year each new position joined rather than those relevant in the base year (to which an annual trend rate and inflation would be applied). NTESMO reviewed and amended their calculation to avoid over compensation for trend and inflation adjustments.

NTESMO also includes a step change relating to undergraduate and graduate contract costs. NTESMO has established a System Control Graduate Program with Charles Darwin University which provides work placements for undergraduate engineers, while establishing a skilled applicant pool for engineering vacancies. NTESMO evidenced the contract which underpins the graduate program.

Table 12 presents the step change amounts for personnel costs for system control and market operator functions.

Table 12 Personnel costs - step change and total costs, 2024-25 to 2026-27 ($m real, 2023-24)

	2024-25	2025-26	2026-27	Total
System Control	1.5	1.8	1.8	5.0
Market Operator	0.6	0.7	0.7	2.1
Total step change[1]	2.2	2.5	2.5	7.1

Note: Numbers may not add up due to rounding

[1] Excludes application of trend adjustments

Source: NTESMO February 2025 regulatory proposal, Opex Model.

CEPA advised the Commission that based on its review of the February 2025 proposal, including attachments and underlying models, and discussions with NTESMO, it considered the personnel cost step changes to be supported by appropriate evidence.

Trend adjustment

In the initial regulatory proposal, NTESMO escalated personnel costs by a weighted average rate, calculated using the actual escalation rates outlined in three employee agreements. In its February 2025 proposal, NTESMO applied a labour escalation rate consistent with that taken in its distribution networks regulatory proposal to the AER, that is, an average WPI based on the WPI forecasts from KPMG and Oxford Economics Australia. NTESMO also applies an adjustment for the increase in the superannuation guarantee. Table 13 shows final personnel costs including the trend adjustments, which are applied to a portion of personnel costs from the base year going forward. CEPA reviewed NTESMO's models and confirmed that the values applied by NTESMO align with those in the proposal to the AER.

Table 13 Total personnel costs including trend adjustments ($m real, 2023-24)

	2024-25	2025-26	2026-27	Total
System Control	9.5	9.8	9.9	29.2
Market Operator	2.2	2.3	2.3	6.7
Total personnel costs	11.7	12.1	12.2	36.0

Note: Numbers may not add up due to rounding

Source: NTESMO February 2025 regulatory proposal, Opex Model.

The Commission is comfortable with the change, noting it aligns with PWC's distribution networks regulatory proposal to the AER and the escalation only adjusts for forecast changes in personnel costs that are above expected inflation.

Commission's draft position and reasoning

The Commission accepts NTESMO's proposed base-step-trend approach and the building block estimate of personnel costs for the 2024-27 regulatory period. NTESMO's proposed total personnel cost requirements and the Commission's draft decision on total personnel costs ($m real, 2023-24) are set out below.

Personnel costs	2024-25	2025-26	2026-27	Total
NTESMO proposal	11.7	12.1	12.2	36.0
Commission draft decision	11.7	12.1	12.2	36.0

The Commission has accepted that an increase in resources is required relative to the numbers proposed in the 2018 Review. The Commission notes that during the previous regulatory period, NTESMO was not meeting the Commission's expectations in terms of incident reporting and appeared to be contributing to lengthy timeframes for new large-scale generation connections and associated operations. Further, NTESMO has increasingly been called upon by government to provide advice in relation to the power systems and has had to provide input to consultations by the Commission, which were not accounted for in its 2018 estimates of resource requirements.

While the need to increase NTESMO personnel is accepted, it would be difficult, particularly in the current environment where both the Territory's power systems and electricity markets are in transition, to establish a reliable benchmark against which NTESMO's roles, functions and staffing could be assessed to determine if they are prudent and efficient.[12] This means the Commission is unable to determine if staffing levels and personnel costs should be less than those requested by NTESMO, or if NTESMO was required to operate on a smaller budget, what level of risk this would create for the operation of the power systems.

The Commission considers at this point, it is necessary to accept NTESMO's proposed personnel expenditure, but going forward, as the evolution of the power systems matures and market reforms are completed, NTESMO should achieve efficiencies and reductions in the costs particularly in relation to its power system evolution and rule development, technical and policy advice functions.

Professional fees

Professional fees comprise of payments made to external parties for the procurement of technical advice or services related to non-asset activities that are not provided by NTESMO's internal personnel. Professional fees are typically related directly to specific projects. The Commission's September 2024 Decision Paper

[12] Economic Regulation Authority. Australian Energy Market Operator's AR6 second in-period allowable revenue and forecast capital expenditure proposal – Final determination, 28 June 2024 available at https://www.erawa.com.au/cproot/24148/2/AR-6-Notice-2nd-In-period-CapEx-OpEx-Funding-Proposal-Final-determination.pdf.

advised further explanation and evidence was required to demonstrate that proposed step changes for professional fees were prudent and efficient, including providing calculations or other detail on how step change amounts were estimated.

NTESMO's February 2025 proposal no longer applies the step changes proposed in its initial proposal, instead applying one step change to adjusted base year professional fees related to modelling to support connections to the power system. Although CEPA advised the Commission that the explanation provided appropriate evidence in support of the proposed step changes, the Commission was not satisfied with the information and sought more detail on the estimation of these costs and the connections that they relate to, which NTESMO provided.

Table 14 presents the proposed step change amounts for professional fees for system control and market operator functions and total proposed professional fees.

Table 14 Professional fees - step change and total costs, 2024-25 to 2026-27 ($m real, 2023-24)

	2024-25	2025-26	2026-27	Total
System Control	0.4	0.9	0.9	2.1
Market Operator	0.0	0.0	0.0	0.0
Total step change	0.4	0.9	0.9	2.1
System Control	1.0	1.5	1.5	4.1
Market Operator[1]	0.0	0.0	0.0	0.0
Total professional fees	1.0	1.5	1.5	4.1

Note: Numbers may not add up due to rounding

[1] Professional fees are less than $10,000 per annum

Source: NTESMO February 2025 regulatory proposal, Opex Model.

Commission's draft position and reasoning

The Commission does not accept inclusion of the step change relating to modelling of new connections in NTESMO's proposed professional fees. The Commission considers the additional cost has not been sufficiently justified or that it is prudent and efficient, including why these costs should not be recovered directly from relevant generators. NTESMO's proposed total professional fees requirements and the Commission's draft decision on total professional fees ($m real, 2023-24) are set out below.

Professional fees	2024-25	2025-26	2026-27	Total
NTESMO proposal	1.0	1.5	1.5	4.1
Commission draft decision	0.7	0.7	0.7	2.0

Despite NTESMO modifying its step change for professional fees since its initial proposal, the Commission does not consider that the proposed step change has been justified and is prudent and efficient. The Commission notes NTESMO has sought to provide additional explanation in response to requests for information, but it is of a high level, there is discordance with prior information, and it does not sufficiently evidence that the additional costs will be incurred in the 2024-27 regulatory period.

NTESMO identified that it required technical modelling to ensure the quantity of services needed to maintain power system security services to generators connected under 'old' generator performance standards. The Commission notes that these generators are not new connections with this plant in existence for some time and any technical modelling related to new connections should be complete. Modelling from a whole of system approach is business as usual and should be met from within existing resources, noting this includes about $660,000 per annum for professional fees.

NTESMO advised the estimated step change was based on forecast new connections and the average cost of technical modelling based on past connections. The Commission does not consider the information on forecast new connections to be robust in terms of expected projects and timeframes. The Commission also notes the additional cost is based on an average cost per connection. Subsequent information from NTESMO stated it could recover 80% of its modelling costs through existing service level arrangements with PWC Power Services. If NTESMO is only seeking to recover 20% through system control charges, more information is needed to evidence that allocation and reconcile it to the proposed step change. An extra $0.9 million in modelling costs each year appears large if it represents 20% of the increase in total modelling costs (it implies the total increase is about $4 million each year), particularly when there does not appear to be a material number of new connections.

NTESMO advised that aside from the arrangement with PWC Power Services, the SCTC does not include provisions for NTESMO to recover the remainder of costs to ensure sufficient quantities of services are identified to ensure power system security is maintained. The Commission is of the view that if there is uncertainty about NTESMO's ability to recover costs associated with modelling the implications of new generators including for security constrained dispatch and essential system services provision, it should seek to amend relevant codes or engage with government on how to recover those costs.

The Commission considers it will improve allocative efficiency for costs relating to any necessary technical modelling of new connections to be charged to the relevant generators through the connections process. This includes modelling relating to the security constrained dispatch of new generators and any essential service requirements as without this information, connection requirements for a new generator would be incomplete. These costs should be borne by the new generator and included in the cost of generation. This way they are passed on to relevant customers. The costs should not be funded through charges on all customers as not all will be beneficiaries of that electricity or drawing electricity from the power system where the new generator is connecting.

Accordingly, the Commission does not accept NTESMO's proposed step change for professional fees. Removal of the step change reduces the annual requirement for professional fees for system control functions to about $0.7 million per annum. There is no change to the annual requirement for professional fees for market operator functions, which are minor at less than $10,000 per annum.

Residual costs

Residual costs include those related to legal, travel, and ICT. The Commission's September 2024 Decision Paper advised further explanation, and evidence was required to demonstrate that proposed step changes for residual costs are prudent and efficient including providing calculations or other detail on how step change amounts were estimated.

NTESMO revised its step changes for residual costs, omitting one proposed step change and altering the costs for the remaining four step changes. Jointly, the four step changes increase costs by over $1.7 million per annum (Table 15).

Table 15 Residual costs - step change and total costs, 2024-25 to 2026-27 ($m real, 2023-24)

	2024-25	2025-26	2026-27	Total
System Control	0.8	0.8	0.7	2.3
Market Operator	0.9	1.0	1.0	3.0
Total step change	1.7	1.8	1.8	5.3
System Control	1.2	1.2	1.1	3.5
Market Operator	0.9	1.1	1.1	3.0
Total residual costs	2.1	2.2	2.2	6.6

Note: Numbers may not add up due to rounding

Source: NTESMO February 2025 regulatory proposal, Opex Model.

The first step change is for ongoing costs for the new Settlements System, comprising provision of vendor support, ICT costs including server and database software licence fees and annual review of the Settlements

System. The amount to be recovered through regulated charges is reduced through a small annual contribution NTESMO expects to recover from Territory Generation for using NTESMO's billing services. CEPA confirmed NTESMO provided explanation and rationale for the costs and supporting evidence including calculation of the components of the step change.

The second step change is ongoing costs for the Market Interactions Enablement project, which sees the adoption of AEMO's Market Settlement and Transfer Solution system and processes under a service provision arrangement with AEMO. An extract of the service agreement between AEMO and PWC was provided evidencing the basis for the step change, which was forecast based on an electricity fee per connection point per week.

The third step change is for ongoing support for the new transitional tools that have been developed. There are two parts to the step change with costs calculated through analysis of historic transaction costs then extrapolated:

- Darwin-Katherine Demand Forecast Stage 1 – costs related to software licencing, the hosting platform, platform maintenance, and periodic reviews.
- Capacity Forecast Dispatch System – costs primarily related to annual system maintenance and resolving operational issues.

The final step change applied is in relation to increased regulatory licence fees for NTESMO's system control licence.

CEPA advised the Commission that based on its review of the revised regulatory proposal, including attachments and underlying models, and discussions with NTESMO, CEPA considered the residual cost step changes to be supported by appropriate evidence.

Commission's draft position and reasoning

The Commission accepts NTESMO's proposed step changes and building block estimate of residual costs for the 2024-27 regulatory period. NTESMO's proposed total residual cost requirements and the Commission's draft decision on total residual costs ($m real, 2023-24) are set out below.

Residual costs	2024-25	2025-26	2026-27	Total
NTESMO proposal	2.1	2.2	2.2	6.6
Commission draft decision	2.1	2.2	2.2	6.6

The Commission notes there is a substantial increase in residual costs relative to historical levels with over $1 million attributable to on-going costs related to NTESMO's ICT capital projects. While it may be desirable to assess the efficiency of these costs, including whether offsetting savings have been applied, there is insufficient time to make such an assessment. The Commission notes that there is no on-going operating expenditure for the TDE in this regulatory period and the business case for the TDE shows minimal direct operating expenditure (less than $100,000 in 2026-27). The business case does not indicate that there are direct operating expenditure requirements beyond 2026-27 (this is discussed further in the next chapter).

Corporate overheads

Corporate overheads are shared costs incurred within PWC that are not wholly and exclusively associated with a single business unit. PWC also incurs corporate capital expenditure (corporate capex) on corporate, non-network assets, for example, corporate property and fleet. A proportion of corporate overheads is also capitalised (capitalised overheads) based on the percentage considered to contribute to NTESMO's capital program. This section discusses corporate overheads, which are included in operating expenditure. Capitalised overheads and corporate capex are discussed in the next chapter on capital expenditure.

The Commission's September 2024 Decision Paper identified inconsistencies and other issues with the AER and Core Operations CAMs, which are used to allocate corporate overheads across business units and functions within PWC. It also advised CEPA had been unable to verify that corporate overheads were allocated to NTESMO in accordance with the CAMs and thus, the reasonableness of the proposed expenditure.

NTESMO's February 2025 proposal provided revised CAMs and updated corporate overhead forecasts, advising that these became available after the initial regulatory proposal. A three-stage process is used to derive NTESMO's share of corporate overheads,

- PWC's AER Approved CAM is used to allocate shared corporate overheads between PWC's business units, including Core Operations. The AER Approved CAM uses a variety of causal allocators which are dependent on the corporate cost sub-category.
- After removal of capitalised overheads, PWC's Core Operations CAM is used to allocate the Core Operations share of corporate overheads between NTESMO and other areas in Core Operations using FTE numbers.
- Costs are then assigned between NTESMO's system control and market operator functions based on FTE hours (as the measure of proportionate direct labour effort).[13]

CEPA reviewed the calculations underlying the allocation of total corporate overheads to Core Operations against the AER Approved CAM. CEPA advised the Commission that many of the allocators used for each cost area align with those prescribed in the AER Approved CAM, such as the facilities, insurance, board, and health, safety, and environment cost areas. However, the breakdown of cost areas used within NTESMO's allocation calculations does not fully align with the cost sub-categories detailed within the AER Approved CAM. As such, there are allocators assigned to cost areas that CEPA was unable to reconcile with the AER Approved CAM. CEPA discussed this with NTESMO who noted that the AER Approved CAM represents the structure of PWC at the point in time it was drafted. Where the business structure has evolved, PWC have sought to apply drivers to new cost areas that align with the cost allocation principles and policies outlined in the AER Approved CAM, ensuring costs incurred to provide several categories of services will be indirectly allocated between those categories using an appropriate causal allocator, where possible to do so. CEPA reviewed these allocators and advised the Commission that none were considered to be inappropriate or unreasonable.

Further, CEPA advised, based on its understanding from discussions with NTESMO, the calculations for the allocation of total corporate overheads are in alignment with the approach applied by PWC for its distribution networks regulatory proposal submitted to the AER. CEPA found no instances of the same cost being allocated more than once, or by more than 100%, nor any instances of double counting and/or over recovery within the cost allocation to Core Operations. CEPA noted, however, that it had not reviewed the regulatory proposal submitted by PWC to the AER and, therefore, could not definitively conclude that the approach is the same, or that there is no over recovery of costs between the Core Operations and other PWC business units.

For the second stage of the corporate allocation process, CEPA noted that the allocation across functions within Core Operations including NTESMO's functions, used forecast FTE numbers, but these did not align with FTE numbers used to forecast NTESMO's personnel costs. This matter was reviewed and addressed by NTESMO in revisions to its February 2025 proposal.

For the final stage, following NTESMO's revisions, CEPA confirmed that NTESMO had allocated costs across its system control and market operator functions using the proportions of FTE hours. This aligns with the approach in the Core Operations CAM.

CEPA found that there was an error in NTESMO's forecasts for corporate overheads with an incorrect inflation index applied in adjusting these to end of period prices. This matter was raised a number of times with NTESMO, however, no correction was made in NTESMO's revised models. CEPA advised that the change would have increased the forecast of costs.

Table 16 presents the value of corporate overheads for system control and market operator functions across the regulatory period. Corporate overheads are derived from forecasts of corporate overheads for PWC and the base-step-trend approach used for other categories of operating expenditure is not applicable.

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[13] Refer Attachments 2.1 and 2.2 to NTESMO's February 2025 proposal for further information on the CAMs.

Table 16 Corporate overheads, 2024-25 to 2026-27 ($m real, 2023 24)

	2024-25	2025-26	2026-27	Total
System Control	4.2	3.3	2.9	10.4
Market Operator	1.0	0.9	0.8	2.7
Total corporate overheads	5.2	4.2	3.7	13.1

Note: Numbers may not add up due to rounding

Source: NTESMO February 2025 regulatory proposal, Opex Model.

Commission's draft position and reasoning

The Commission accepts NTESMO's proposed estimate of corporate overheads expenditure for the 2024-27 regulatory period. NTESMO's proposed total corporate overheads and the Commission's draft decision on total corporate overheads ($m real, 2023-24) are set out below.

Corporate overheads	2024-25	2025-26	2026-27	Total
NTESMO proposal	5.2	4.2	3.7	13.1
Commission draft decision	5.2	4.2	3.7	13.1

The Commission notes CEPA's findings that the allocation of corporate overheads aligns with the AER Approved CAM and Core Operations CAM except where the business structure has changed. For those instances, the Commission notes NTESMO's advice that it has sought to apply allocators that align with the AER cost allocation principles and policies. Given CEPA's advice that it does not consider any allocators to be inappropriate or unreasonable, and that it found no instances of double counting or excess recovery, the Commission accepts NTESMO's proposed corporate overheads expenditure. The Commission does not consider it necessary for CEPA to review PWC's distribution networks regulatory proposal to the AER to reaffirm its conclusions.

The Commission acknowledges that the estimated expenditure is higher than in the base year, but this is not unexpected given PWC's overall corporate overheads have risen and NTESMO's share of that cost is higher because of growth in the number of NTESMO staff (which means its portion of Core Operation's share of corporate overheads has increased). The Commission has not assessed the efficiency of PWC's forecasts of corporate overheads and notes the AER makes no comment on the extent of these costs in its final decision on PWC's distribution networks regulatory proposal.[14]

The Commission notes CEPA's advice of an error in NTESMO's models in relation to end-period prices that has not been amended. The Commission considers NTESMO was adequately notified of the error and there has been sufficient opportunity for NTESMO to make amendments. Given this, the compressed timeframe in which a decision on charges must be made, and that the error is not to the detriment of customers, the Commission has accepted the estimate of corporate overheads and is proceeding with its decisions based on those amounts (further revision will not be accepted).

[14] AER - Final Decision - Overview - Power and Water Corporation - 2024-29 Distribution revenue proposal - April 2024, accessed on 16 April 2025 at AER - Final Decision - Overview - Power and Water Corporation - 2024-29 Distribution revenue proposal - April 2024 | Australian Energy Regulator (AER).

Total operating expenditure

NTESMO's proposed total operating expenditure requirements and the Commission's draft decision on total operating expenditure ($m real, 2023-24) are set out below.

Operating expenditure	2024-25	2025-26	2026-27	Total
NTESMO proposal	20.1	20.0	19.6	59.7
Commission draft decision	19.7	19.2	18.8	57.6

Note: Numbers may not add up due to rounding

Source: NTESMO February 2025 regulatory proposal, Opex Model.

CEPA advised the Commission that overall, based on the explanation provided, and consideration of the approach taken by NTESMO to determine cost forecasts within its February 2025 regulatory proposal, it considers the revised operating expenditure forecast to be reasonable and prudent. While the Commission largely agrees with this conclusion, it proposes not to approve expenditure for the step change in professional fees associated with new generator connections, which should be recovered from relevant generators as necessary. Where NTESMO wishes to undertake modelling not directly related to a new connection, it is business as usual and should be met from within existing resources.

The Commission acknowledges that the draft approved operating expenditure is a substantial increase on requirements in the previous regulatory period. The Commission advises that it is difficult to assess what operating costs are necessary, prudent and efficient in the context of the "evolving landscape" faced by NTESMO; however, having regard to the advice of its expert consultant, the Commission considers NTESMO has sufficiently justified its operating expenditure needs.

While the proposed uplift in operating expenditure will not be welcome, particularly in conjunction with other increases in the cost of electricity, it is in the long-term interests of customers to ensure NTESMO is adequately funded to undertake its activities. Given a substantial portion of the growth in operating expenditure relates to the current transitory environment, the Commission would expect to see downward movement in costs over the next regulatory period as NTESMO achieves efficiencies from its capital investments, PWC's new operating model and experience among its staff and a lessening in workload as market reforms are completed and the transition of power systems matures.

6 | Capital expenditure

This chapter outlines the Commission's draft decisions on proposed capital projects and associated capital outlays (expenditure), which are set out in Box 4.

Box 4 Draft decisions on proposed capital projects and capital expenditure

The outcome of the Commission's assessments of capital projects is as follows:

- Settlements System – the project is accepted for inclusion in the RAB, but the cost of capital and depreciation in the 2019-24 regulatory period cannot be recovered.
- Dispatch Engines historical expenditure – the project is accepted for inclusion in the RAB but the cost of capital and depreciation in the 2019-24 regulatory period cannot be recovered.
- Dispatch Engines 2024-27 expenditure – ex-ante estimates of the capital costs for the project are accepted for inclusion in the RAB.
- Capitalised overheads – these costs are accepted for inclusion in the RAB for capital projects approved for the 2024-27 regulatory period.
- Corporate capex historical and 2024-27 expenditure – these costs are accepted for inclusion in the RAB, but the cost of capital and depreciation in the 2019-24 regulatory period cannot be recovered.

Costs approved for inclusion in the RAB in the 2019-24 regulatory period are set out below.

($m, real mid-period 2023-24)	2019-20	2020-21	2021-22	2022-23	2023-24
Settlement system					
NTESMO proposal		0.2		1.1	1.4
Commission draft decision		**0.2**		**1.1**	**1.4**
Dispatch engines					
NTESMO proposal		0.2	0.6	1.2	2.1
Commission draft decision		**0.2**	**0.6**	**1.2**	**2.1**
Corporate capex					
NTESMO proposal	0.6	0.4	1.6	0.5	0.5
Commission draft decision	**0.6**	**0.4**	**1.6**	**0.5**	**0.5**

Costs approved for inclusion in the RAB in the 2024-27 regulatory period are set out below.

($m, real mid-period 2023-24)	2-024-25	2025-26	2026-27
Dispatch Engines			
NTESMO proposal	3.3	21.0	13.1
Commission draft decision	**3.3**	**21.0**	**13.1**
Capitalised overheads			
NTESMO proposal	0.3	0.7	0.5
Commission draft decision	**0.3**	**0.7**	**0.5**
Corporate capex			
NTESMO proposal	0.4	0.4	0.5
Commission draft decision	**0.4**	**0.4**	**0.5**

Note: Consistent with the approach in NTESMO's February 2025 proposal, all values in this chapter are in real mid-period (30 December 2023) terms rather than end-period (30 June 2024) terms as presented elsewhere in this Draft Decision. In NTESMO's models, a half year WACC adjustment is applied to convert the mid-period values to end-period values for the purpose of calculating revenue requirements.

The Commission's September 2024 Decision Paper advised the following outcomes from assessment of NTESMO's proposed capital projects:

- Settlements System – the project is sufficiently justified and relevant to the functions of the market operator, but documentation is required that addresses identified issues and evidences Board approval of the project.
- Transitional Tools – the project is not accepted for inclusion in the RAB as the regulatory business case provided does not meet business case requirements or the prudency test.
- TDE – the project is not accepted for inclusion in the RAB as the regulatory business case provided does not meet business case requirements or the prudency test.
- Alice Springs Future Grid - the Commission required more information on the expenditure and relevant approvals for the project to determine whether classification as capital expenditure was appropriate.
- Capitalised overheads – inclusion is subject to acceptance of the capital expenditure for inclusion in the RAB.
- Corporate capex – further information is required to justify the inclusion of this expenditure, noting some capital projects may not be relevant to NTESMO.

NTESMO's February 2025 proposal updated its forecast in respect of capital expenditure and combined investments over the 2024-27 regulatory period in stage 2 of its transitional tools project and the TDE project into a single Dispatch Engines project. NTESMO no longer seeks to recover capital expenditure for the Alice Springs Future Grid project but seeks inclusion of capital costs for its other projects in its RAB.

This chapter discusses the Commission's assessment of capital projects, capitalised overheads and corporate capex and provides the Commission's draft decisions on NTESMO's proposed revenue requirements for depreciation and return on capital. A key element of the Commission's assessment of capital projects is whether the governance structures and controls have been followed. To this end, NTESMO advised that a revised governance framework, the Investment Delivery Framework , has been developed and in effect since April 2024 (refer Attachment 2.3) and is applicable to capital expenditure related to the 2024-27 regulatory period (Dispatch Engines project) while its former Project Delivery Framework applies to those projects developed and delivered in the 2019-24 period (Settlements System and stage 1 of the Transitional Tools projects). In the commentary to follow, assessment was made against the relevant framework.

Settlements System

NTESMO's February 2025 proposal seeks ex-post approval to include $2.6 million of capital expenditure incurred over 2019-20 to 2023-24 ($real, mid-period 2023-24) for its Settlement System project in the RAB, but does not seek to recover any return on capital or depreciation for that project in the 2019-24 regulatory period (as per the Commission's September 2024 Decision Paper). The project developed a new system for market operator settlement functions in the interim Northern Territory Electricity Market. NTESMO provided a revised compliance summary for the Settlements System as the business case for the project (refer Attachment 7.2).

CEPA reviewed the compliance summary for the Settlements System project and identified several aspects of the proposal that were somewhat lacking in detail but, overall, considered the document to meet the Commission's minimum requirements for a business case. CEPA advised the document does not explicitly discuss the prudency and efficiency of the costs of the Settlements System project; however, it does provide detailed explanation of the two-stage procurement process undertaken. That is, during the initial EOI stage, NTESMO sought preliminary quotes to gain information on cost associated with the proposed technology (either off the shelf or bespoke solutions), case studies of successful implementation by the vendors, identification of risks/issues, and the proposed ongoing support solution. Following evaluation against set criteria, NTESMO selected its preferred vendor and provided the successful vendor with a detailed set of functional and non-functional requirements to enable delivery of the detailed design of the new settlements system. NTESMO also provided the vendor with access to relevant business subject matter experts, technical systems and infrastructure to conduct the work.

CEPA considered the procurement approach appropriate as it considered price, quality, and on-time delivery, and demonstrates consideration regarding the prudency and efficiency of expenditure. CEPA also noted that NTESMO delivered the project for less than the approved spend. There is also associated ongoing operating expenditure that was considered in the previous chapter.

Consistent with the Commission's September 2024 Decision Paper, as there has been no ex-ante approval of a business case for the Settlements System project, the capital expenditure amount to be entered in the opening RAB for 2024-25 is the depreciated amount of actual capital expenditure as at 1 July 2024. There is to be no recovery of depreciation and return on capital for the project prior to 2024-25 including capitalised overheads relating to the project. CEPA confirmed that expenditure for the project has been correctly entered into the RAB and depreciated and no claim is made for capital costs or capitalised overheads relating to the project in the 2019-24 regulatory period.

Commission's draft position and reasoning

The Commission approves inclusion of actual capital expenditure on the Settlements System in NTESMO's RAB as set out below.

Settlements System ($m real mid-period 2023-24)	2019-20	2020-21	2021-22	2022-23	2023-24
NTESMO proposal		0.2		1.1	1.4
Commission draft decision		0.2		1.1	1.4

Note: Numbers may not add up due to rounding

Source: NTESMO February 2025 regulatory proposal, Table 7.

The Commission reaffirms its decision that the Settlements System project is sufficiently justified and relevant to the functions of the market operator. The Commission considers NTESMO has sufficiently evidenced that relevant approvals were obtained for the project and addressed errors and uncertainties regarding expenditure identified with earlier documents for the Commission to approve inclusion of actual capital expenditure for the project in the RAB. Consistent with the Commission's September 2024 Decision Paper, as there has been no ex-ante approval of a business case, the capital expenditure amount in the opening RAB for Settlements System for 2024-25 is the depreciated amount of actual historical capital expenditure as at 1 July 2024. There is no recovery of capital costs for the project prior to 2024-25 or capitalised overheads relating to the project.

The Commission notes the capital cost of the Settlement System project is relatively minor and in terms of implications for customers, the cost impact from on-going operating expenditure requirements is more substantial. The Commission considers a weakness in NTESMO's business cases is a failure to explicitly consider ongoing cost and, therefore, revenue implications including the expected increase in market operator charges that will be required to recover the costs of the project. Furthermore, the expected extent, duration and impact of any operating expenditure requirements needs to be clearer.

Dispatch Engines

NTESMO's Attachments 6.1(a) to (c), 7.1 and 7.3 comprise the business case and supporting evidence for historical and current regulatory period expenditure on the Dispatch Engines project. Historical expenditure for the Dispatch Engines project relates to planning, requirements and design analysis for the development of the business case for the TDE and for stage 1 of the Transitional Tools project in which tools were designed and implemented to enable forecast of operational demand and capacity dispatch and compliance with the generator performance standards. Capital expenditure for the 2024-27 regulatory period relates to stage 2 of the Transitional Tools project, which develops an enhanced and broader set of tools to support scheduling and dispatch requirements, and development and implementation of the TDE. NTESMO advises the TDE will embed tools developed under the Transitional Tools project within an integrated system. NTESMO is also seeking recovery of capitalised overheads relating to the Dispatch Engines project.

CEPA reviewed the documentation for the Dispatch Engines projects and identified a small number of aspects of the proposal that were somewhat lacking in detail. Overall, however, CEPA considered the documentation to meet the Commission's minimum requirements for a business case and adequately explain how NTESMO considered efficiency and prudency in its decision-making regarding the investments.

Commission's draft position and reasoning – historical expenditure

The Commission approves inclusion of actual historical capital expenditure for the Dispatch Engines project in NTESMO's RAB as set out below.

Dispatch Engines ($m real mid-period 2023-24)	2019-20	2020-21	2021-22	2022-23	2023-24
TDE		0.2	0.3	0.9	1.8
Transitional Tools stage 1			0.3	0.3	0.3
Total – NTESMO proposal		**0.2**	**0.6**	**1.2**	**2.1**
Commission draft decision		0.2	0.6	1.2	2.1

Source: NTESMO February 2025 regulatory proposal, Table 7.

The Commission is satisfied that the historical expenditure on the Dispatch Engines projects is sufficiently justified and relevant to the functions of the system controller. The Commission considers NTESMO's business cases for the projects address deficiencies identified in earlier documentation and sufficiently evidence that relevant approvals were obtained for the early stages of the projects for the Commission to approve inclusion of actual capital expenditure for the project in the RAB.

Consistent with the Commission's September 2024 Decision Paper, as there has been no ex-ante approval of a business case, the capital expenditure amount in the opening RAB for these historical costs for 2024-25 is the depreciated amount of actual historical capital expenditure as at 1 July 2024. There is no recovery of capital costs for the projects prior to 2024-25 or capitalised overheads relating to the projects.

For expenditure in the 2024-27 regulatory period for the Dispatch Engines project, the Commission notes the project has PWC Board endorsement, but the project requires the Treasurer's approval (as shareholding minister) under the Project Delivery Framework. The Commission is satisfied that the Dispatch Engines project is justified, relevant and the investment is needed now (that is, the project is prudent) in order for NTESMO to undertake its system control functions.

Commission's draft position and reasoning – 2024-27 expenditure

The Commission approves inclusion of ex-ante "best estimates" of the capital expenditure for the Dispatch Engines project in NTESMO's RAB over the 2024-27 regulatory period as set out below.

Dispatch Engines best estimate ex-ante ($m, real mid-period 2023-24)	2024-25	2025-26	2026-27
TDE	2.5	19.9	13.1
Transitional Tools stage 2	0.8	1.2	
Total – NTESMO proposal	**3.3**	**21.0**	**13.1**
Commission draft decision	3.3	21.0	13.1

Note: Numbers may not add up due to rounding

Source: NTESMO February 2025 regulatory proposal, Capex model.

NTESMO's costing approach for the Transitional Tools stage 2 project is based on historical cost data from stage 1 and requested quotes from potential suppliers, while the TDE project forecasts are based on vendor proposals. The Commission is comfortable that in going to market, NTESMO has been able to provide best estimates of the cost of its Dispatch Engines project for inclusion in the RAB, noting that these will in time be replaced by actual expenditure.

The Commission notes that there are no operating cost implications with the TDE and Transitional Tools stage 2 projects. The Commission expects any additional operating costs arising from the new systems will be met through efficiencies and savings arising from the utilisation of these new tools. The Commission does not expect NTESMO to be seeking additional operating expenditure in the next regulatory period for these systems.

Capitalised overheads

Capitalised corporate overheads are shared costs not directly associated with a business unit but required for investment in capital projects. The process for determining capitalised overheads involves PWC assessing the amount eligible to be capitalised for each area of corporate expenditure. The total amount eligible for capitalisation is then allocated across PWC's business units, including Core Operations, based on how much these costs account for in the overall corporate overhead allocation to the business unit. Once corporate overheads have been allocated to its functional areas, NTESMO capitalises a portion of those costs based on the percentage considered to contribute to NTESMO's capital program (the percentage is the ratio of forecast capital and total expenditure for each functional area). These capitalised overheads are included within the capital expenditure forecast for the 2024-27 regulatory period while the remainder of corporate overheads are recovered as operating expenditure (as discussed in the previous chapter).

CEPA found a discrepancy in NTESMO's calculations, which was rectified in NTESMO's revision to its February 2025 proposal. Beyond this, CEPA raised no issues with NTESMO's estimates of capitalised overheads.

Commission's draft position and reasoning

The Commission approves inclusion of capitalised overheads in NTESMO's RAB as set out below.

Capitalised overheads ($m, real 2023-24)	2024-25	2025-26	2026-27
NTESMO proposal	0.3	0.7	0.5
Commission draft decision	0.3	0.7	0.5

Source: NTESMO February 2025 regulatory proposal, Capex model.

The regulatory framework permits capitalisation of corporate overheads for projects approved on an ex-ante basis. Accordingly, the Commission approves inclusion of capitalised overheads required to support NTESMO's investment in the TDE and Transitional Tools stage 2 projects. These costs are allocated to the system control function. There are no capitalised overheads relating to market operator functions as there are no capital projects for that function in the 2024-27 regulatory period.

Corporate capex

The Commission's September 2024 Decision Paper advised a business case for corporate capex was not required, but more detail was required on the corporate capex projects that form part of corporate capital, in particular, PWC's New Operating Model initiative and other ICT projects. The Commission required NTESMO's revised proposal to link these projects to NTESMO's business requirements and/or regulatory obligations. For example, NTESMO needs to demonstrate how the Meter to Cash and revenue assurance programs are relevant to and will yield benefits for NTESMO. The Commission also required NTESMO to evidence the calculations underlying the allocation of corporate capex to the NTESMO's functions in order for CEPA to verify corporate capex has been allocated to NTESMO in accordance with the AER Approved CAM and Core Operations CAM and that the allocation to NTESMO was reasonable.

In its February 2025 proposal. NTESMO advised the drivers of investment in corporate capex relating to ICT systems including asset management, financial management and billing systems. NTESMO stated these systems are at end of life, and do not enable PWC to perform efficiently. NTESMO also advised PWC are investing to ensure its ICT systems are cyber-secure.

CEPA analysed the 'Corporate Capex Allocation Model' provided by NTESMO and advised the Commission that a different approach is used to assigning corporate capex to NTESMO's functions. Expenditure is forecast by project code, which are all individually assigned an asset class and an allocator. Once the forecast costs for each project code have been allocated to NTESMO's functions using the prescribed allocators, these are summed up by asset class and included in NTESMO's capital expenditure forecasts. Asset classes relevant to NTESMO comprise building, property, property leases, fleet leases and ICT. Forecasts costs are directly assigned to system control and market operator functions; there is no intermediate step applied whereby costs are first allocated to Core Operations and then across its functions and sub-functions.

None of the five asset classes to which corporate capex are allocated are included within the AER Approved CAM. As such, CEPA was unable to reconcile the approach taken with the approach outlined NTESMO's Attachment 2.1. CEPA also noted the allocation approach applied did not align with the Core Operations CAM. However, as with corporate overheads, CEPA did not consider any allocators used to be inappropriate or unreasonable, noting NTESMO advised the allocators for corporate capex were derived on the basis of the benefits for each customer group from the related shared (corporate) asset.

For historic corporate capex from the 2019-24 regulatory period, CEPA advised corporate capex costs for 2022-23 and 2023-24 are on a forecast basis and allocated as part of the process outlined above, using the same allocator approach as costs for the 2024-27 regulatory period. As such, for these two years of expenditure, CEPA arrived at the same point of view in terms of not aligning with the CAMs, but equally not appearing inappropriate or unreasonable.

For the three-year period 2019-20 to 2021-22, actuals are used. These are sourced from PWC's wider trial balance and then allocated to NTESMO's functions using historic FTE and contractor numbers. The Commission requested evidence of PWC's cost allocation models that underpin the historic actuals. From a review of the three corporate capex cost allocation models provided by NTESMO, CEPA found the values within the models for 2020-21 and 2021-22 did not align with the values within NTESMO's February 2025 regulatory proposal and none of the three historical corporate capex cost allocation models evidenced the calculations that underpin the allocation to NTESMO's functions. These matters were raised with NTESMO which provided an explanation for the discrepancies. Had more time been available, it would have been desirable to obtain further information to understand the process of sourcing data; however, CEPA considered the explanation was sufficient to address the accuracy and reliability of the costs used in NTESMO's models.

For both forecast and historical corporate capex, CEPA advised it found no instances of the same cost being allocated more than once, or by more than 100%, nor any instances of double counting and/or over recovery within the cost allocations to NTESMO's functions. CEPA advised it had not reviewed the regulatory proposal submitted by PWC to the AER and, therefore, could not definitively conclude that there is no over recovery of corporate capex between the Core Operations and other business units.

Commission's draft position and reasoning

The Commission approves inclusion of historical and forecast corporate capex in NTESMO's RAB as set out below.

Corporate capex ($m, real 2023-24)	2019-20	2020-21	2021-22	2022-23	2023-24
System Control	0.6	0.4	1.5	0.4	0.4
Market Operator	0.1	0.0	0.1	0.1	0.1
Total – NTESMO proposal	**0.6**	**0.4**	**1.6**	**0.5**	**0.5**
Commission draft decision	0.6	0.4	1.6	0.5	0.5

Corporate capex ($m, real 2023-24)	2024-25	2025-26	2026-27
System Control	0.3	0.4	0.4
Market Operator	0.1	0.1	0.1
Total – NTESMO proposal	**0.4**	**0.4**	**0.5**
Commission draft decision	0.4	0.4	0.5

Note: Numbers may not add up due to rounding

Source: NTESMO February 2025 regulatory proposal, Figure 21.

NTESMO provided minimal additional explanation and detail on its corporate capex and how this is linked to its business requirements and/or regulatory obligations. The Commission notes, however, that the amount of corporate capex allocated to NTESMO is small and there is no evidence to suggest that PWC is over-recovering these costs. These costs are recovered over time through depreciation and return on capital and have a relatively minor impact on revenue requirements. The Commission notes that corporate capex over the 2024-27 regulatory period is lower than levels in the previous regulatory period, consistent with PWC having undertaken the majority of its major corporate ICT investments and transition to its new operating model.

Calculation of depreciation and return on capital

Based on its proposed capital expenditure and excluding the true-up for the shortfall in revenue in 2024-25 which is discussed in the next chapter, NTESMO seeks to recover $3.7 million in depreciation and $3.2 million ($real, 2023-24) for return on capital over the 2024-27 regulatory period (Table 17).

CEPA examined NTESMO's Roll Forward Models and Post-Tax Revenue Models to confirm that they conform with the requirements set out in the Commission's September 2024 Decision Paper. That is:

- The opening RAB for 1st July 2019 will be set to zero.
- Regarding overspend from the 2019-24 regulatory period, there will be no recovery of operating expenditure overspend. Approved historic capital expenditure can be added to the RAB and depreciated, but there will be no recovery of depreciation or the return on capital. Historic corporate capital expenditure must be evidenced in the same manner as is required for the forecast costs, and capitalised corporate overheads can only be included where the costs relate to an approved capital project.
- The sum of depreciated approved historical capital expenditure is to form the opening RAB value for 1 July 2024.
- Depreciation will be applied on a straight-line basis, calculated using AER standard asset lives.
- The AER's WACC for PWC's networks business is to be used to calculate the return on capital.

Table 17 Building block model – capital cost requirements (excluding 2024-25 shortfall), 2024-25 to 2026-27 ($m real, 2023-24)

	2024-25	2025-26	2026-27	Total
Return on capital				
System Control	0.4	0.6	1.8	2.8
Market Operator	0.2	0.1	0.1	0.4
Total	**0.5**	**0.7**	**2.0**	**3.2**
Depreciation				
System Control	0.4	0.7	2.0	3.1
Market Operator	0.2	0.2	0.2	0.6
Total	**0.6**	**0.9**	**2.2**	**3.7**
Total capital costs	1.1	1.6	4.1	6.8

Note: Numbers may not add up due to rounding

Source: NTESMO February 2025 regulatory proposal, PTRM Models.

CEPA identified no issues or misalignment with the regulatory framework outlined or with the standard asset lives used by the AER. CEPA also found no issues with the accuracy of the ex-post capital expenditure entered into the RAB and confirmed there were no issues with the calculations that determine depreciation and the return of capital for the 2024/27 regulatory period.

Commission's draft position and reasoning

Noting CEPA found NTESMO's models to be consistent with the regulatory framework, the Commission accepts the building block model requirements for depreciation and return on capital; however, the Commission's draft decision on the approved amount of depreciation and return on capital is provided in the next chapter, which discusses the true-up for the revenue shortfall in 2024-25.

7 | True-up of 2024-25 revenue

Box 5 sets out the Commission's draft decisions on the forecast revenue shortfall in 2024-25 and its recovery.

Box 5 Draft decisions on true-up of the shortfall in 2024-25 revenue

The Commission accepts NTESMO's proposal to add the shortfall between approved building block and estimated revenue in 2024-25 to the RAB and depreciate the shortfall over seven years. The Commission has recalculated the capital cost requirements based on a lesser system control shortfall of $7.2 million, reflecting the Commission's draft decision to not approve the step change in professional fees for system control functions, as set out below.

$m real, 2023-24	2024-25	2025-26	2026-27	Total
Return on capital – Commission draft decision				
System Control	0.4	1.0	2.2	3.5
Market Operator	0.2	0.4	0.3	0.8
Total	**0.5**	**1.3**	**2.5**	**4.4**
Depreciation – Commission draft decision				
System Control	0.4	1.5	2.9	4.8
Market Operator	0.2	0.6	0.6	1.4
Total	**0.6**	**2.1**	**3.5**	**6.3**
Total capital costs – Commission draft decision	1.1	3.5	6.0	10.6

Due to NTESMO's delay in developing its initial regulatory proposal, interim prices were set for 2024-25 that were a roll forward of the approved 2023-24 regulated prices adjusted for inflation. Based on NTESMO's forecast revenue requirement, there will be a shortfall between the building block model forecast for 2024-25 and the estimated revenue that would be collected in that year based on forecast consumption and the interim price. NTESMO estimates the revenue shortfall will be $7.6 million for system control functions and $3.6 million for market operator functions and $11.2 million in total ($real, 2023-24).

NTESMO proposes to add the shortfall to the RAB and depreciate the shortfall over seven years, consistent with the approach outlined in the Commission's September 2024 Decision Paper. This has the impact of increasing revenue requirements for depreciation and return on capital in 2025-26 and 2026-27, as shown in Table 18. CEPA did not identify any issues in relation to the calculation and treatment in NTESMO's models of the true-up for 2025-26.

However, as a result of the Commission's draft decision not to approve the step change in professional fees for system control functions, the annual building block requirement for 2024-25 reduces by $0.4 million from $16.8 million to $16.4 million and the shortfall to be entered into the RAB reduces to $7.2 million ($real, 2023-24). This gives rise to a minor reduction in capital costs for system control.

Table 18 Capital cost requirements including 2024-25 shortfall, 2024-25 to 2026-27 ($m real, 2023-24)

	2024-25	2025-26	2026-27	Total
Return on capital				
System Control	0.4	1.0	2.2	3.6
Market Operator	0.2	0.4	0.3	0.8
Total	**0.5**	**1.4**	**2.5**	**4.4**
Depreciation				
System Control	0.4	1.6	2.9	4.9
Market Operator	0.2	0.6	0.6	1.4
Total	**0.6**	**2.2**	**3.5**	**6.3**
Total capital costs	1.1	3.5	6.1	10.7

Note: Numbers may not add up due to rounding

Source: NTESMO February 2025 regulatory proposal, PTRM Under Recovery Models.

Commission's draft position and reasoning

The Commission accepts NTESMO's proposal to add the shortfall between approved building block and estimated revenue in 2024-25 to the RAB and depreciate the shortfall over seven years. The Commission has recalculated the capital cost requirements based on a lesser shortfall of $7.2 million, reflecting the Commission's draft decision to not approve the step change in professional fees for system control functions, as set out below.

	2024-25	2025-26	2026-27	Total
Return on capital – Commission draft decision				
System Control	0.4	1.0	2.2	3.5
Market Operator	0.2	0.4	0.3	0.8
Total	**0.5**	**1.3**	**2.5**	**4.4**
Depreciation – Commission draft decision				
System Control	0.4	1.5	2.9	4.8
Market Operator	0.2	0.6	0.6	1.4
Total	**0.6**	**2.1**	**3.5**	**6.3**
Total capital costs – Commission draft decision	1.1	3.5	6.0	10.6

NTESMO's proposal is consistent with the approach for dealing with the shortfall set out in the Commission's September 2024 Decision Paper. The Commission notes the true-up addresses the gap between the building block estimate of required revenue for 2024-25 and estimated revenue based on forecast consumption and the interim prices for that year. If actual consumption varies from forecast consumption, this will result an under or over recovery of the estimated revenue for 2024-25. The Commission advises the under/over recovery of estimated revenue will be dealt with as part of the annual pricing process for 2026-27 (refer Appendix A).

8 | Revenue requirements and regulated charges

The Commission's draft decisions on the revenue requirements and regulated charges for the 2024-27 regulatory period are set out in Box 6.

Box 6 Draft decisions on revenue requirements and regulated charges

> The Commission accepts NTESMO's proposed formulas for deriving annual system control and market operator charges as set out in Appendix A with the formulas including adjustments for past under/over recovery of revenue and cost pass throughs.
>
> As a result of its decision not to approve NTESMO's proposed maximum revenue requirement for system control functions, under section 39(2) of the ER Act, the Commission's draft decision is to not approve NTESMO's draft 2025-26 annual pricing proposal for system control and market operator charges.
>
> The Commission requires NTESMO to submit a short revenue and pricing proposal presenting the maximum revenue requirements for the 2024-27 regulatory period as determined by the Commission, proposed system control and market operator charges for 2025-26 and indicative charges for 2026-27. NTESMO's proposed formulas for calculating the annual charges (as per sections 2 to 4 of Appendix A), the list of pass-through events (as per Appendix B) and relevant revised revenue and pricing models need to be attached to the revenue and pricing proposal. The proposal is to be submitted for the Commission's approval no later than **cob Monday, 9 June 2025**.

The Commission notes the following regarding NTESMO's proposal:

- NTESMO's models allow for application of a productivity factor, but this is set at zero for the 2024-27 regulatory period
- a tax allowance building block is included in NTESMO's model, but NTESMO is not seeking recovery of any tax liabilities or credits
- NTESMO's models allow for revenue smoothing, but this is not employed for the 2024-27 regulatory period and
- cost incentives are incorporated in the regulatory framework whereby once the revenue allowance for operating expenditure is set at the start of a regulatory period, NTESMO will retain the benefits of underspends, but bear the cost of operating overspends. For capital expenditure, NTESMO foregoes the return on capital on overspends, but the actual capital expenditure will be added to the RAB (subject to any applicable ex-post review).

This is consistent with the Commission's September 2024 Draft Decision.

Calculation of regulated charges

This review will determine the maximum amount of revenue that NTESMO can recover in each year of the regulatory period, expressed in real $2023-24. To translate this into system control and market operator charges in nominal terms, NTESMO must adjust the revenue requirement to account for anticipated inflation, under/over recovery of revenue in past years and any pass-through amounts following an approved bass-through event. To derive prices the final adjusted revenue requirement (taking account of all these factors) is divided by forecast annual electricity consumption. NTESMO's proposed formulas for determining annual charges are set out in its Annual Pricing Escalation Mechanism (Attachment 11.2 of NTESMO's February 2025 proposal) and is reproduced in Appendix A of this Draft Decision paper. Pass through events for the purposes of system control and market operator charges are those outlined by the Commission in its September 2024 Decision Paper, which NTESMO has adopted in its Attachment 11.1. These are reproduced in Appendix B of this Draft Decision.

Based on its Annual Pricing Escalation Mechanism, NTESMO has derived its proposed system control and market operator charges for 2025-26. On 29 April 2025, NTESMO submitted its proposed charges for Commission approval. Table 19 and Table 20 provide NTESMO's key inputs for the calculation of its proposed charges, reproduced from Tables 4 and 5 in NTESMO's draft 2025-26 annual pricing proposal.

Table 19 NTESMO's key inputs to derive system control charges for 2025-26

Terms	Input
Annual revenue in 2025-26* ($AR_{2025-26}$)	$18,368,250
Consumer price index update ($\Delta CPI_{2024-25}$)	4.05%
Consumer price index update ($\Delta CPI_{2025-26}$)	2.42%
Adjusted revenue	$19,575,949
Unders and overs adjustment** ($B_{2025-26}$)	$723,634*
Pass through amounts ($C_{2025-26}$)	$0
Total allowable revenue ($TAR_{FY2025-26}$) ($, nominal)	$20,299,583
Energy forecast for 2025-26 for Darwin-Katherine (kWh)	1,716,891,715
Proposed system control charge for 2025-26 ($/kWh, nominal)	$0.011823

**Expressed in real June 2024 dollars. To adjust the revenue to nominal dollars we apply 2 years of CPI based on lagged December to December CPI series.*
***The under-over recovery balance is carried forward from the closing balance of FY2024.*

Table 20 NTESMO's key inputs to derive market operator charges for 2025-26

Terms	Input
Annual revenue in 2025-26* ($AR_{2025-26}$)	$5,200,948
Consumer price index update ($\Delta CPI_{2024-25}$)	4.05%
Consumer price index update ($\Delta CPI_{2025-26}$)	2.42%
Adjusted revenue	$5,542,906
Unders and overs adjustment** ($B_{2025-26}$)	$47,719*
Pass through amounts ($C_{2025-26}$)	$0
Total allowable revenue ($TAR_{FY2025-26}$) ($, nominal)	$5,590,626
Energy forecast for 2025-26 for Darwin-Katherine (kWh)	1,483,394,442
Proposed market operator charge for 2025-26 ($/kWh, nominal)	$0.003769

**Expressed in real June 2024 dollars. To adjust the revenue to nominal dollars we apply 2 years of CPI based on lagged December to December CPI series.*
***The under-over recovery balance is carried forward from the closing balance of FY2024*

NTESMO's February 2025 proposal also provides indicative charges for 2026-27, as shown in Table 21. While these have been adjusted for inflation to provide indicative prices in nominal terms, readers should note that actual prices in that year will be determined in accordance with the formulas set out in NTESMO's Annual Pricing Escalation Mechanism and may vary from the indicative charges depending on actual inflation, under/over recovery of revenue from 2024-25 (which is to be recouped in 2026-27 prices) and changes in forecast consumption.

Table 21 Actual, proposed and indicative system control and market operator charges, 2024-27 regulatory period ($/kWh, nominal)

	2024-25[a]	2025-26[b]	2026-27[c]
NTESMO proposed charges			
System control	0.005527	0.011823	0.013084
Market operator	0.000585	0.003769	0.003750

[a] Actual charges; [b] proposed charges; [c] indicative charges

Note: System control charges apply to all consumption in the regulated power systems, but market operator charges apply to consumption in the Darwin-Katherine power system.

Analysis of proposed pricing formulas

The Annual Pricing Escalation Mechanism and associated NTESMO pricing models need to accommodate a transition between formulas relevant to the 2019-24 regulatory period and those relevant for this regulatory period given the interim pricing arrangements for 2024-25. The Commission and its staff engaged with NTESMO in revising its Annual Pricing Escalation Mechanism to ensure formulas were appropriate and fit for purpose.

The Commission notes that NTESMO must adjust real $2023-24 revenue requirements to nominal prices, which means for 2025-26, two years (24 months) of inflation uplift are required (to June 2026 values). At the time of setting charges for 2025-26 (and in subsequent years), the most recent inflation indicator is a December quarter CPI value (December quarter 2024 in the case of 2025-26 prices). This means it is necessary to use an estimate of inflation to convert the revenue requirement to nominal values. NTESMO has followed past practice of using lagged December quarter CPI to adjust for inflation, which applies a total adjustment of 6.6% to convert the revenue requirement to nominal values. The Commission notes past inflation is known and considers this reasonable to use as a proxy for future inflation. While there may be times (as is currently the case) when historical inflation is higher than expected future inflation, this will wash through over time with there being future periods when the opposite will occur. The alternative would be to use an estimate of inflation; however, determining a suitable and reliable source would be more arbitrary and may not result in an improvement in outcomes over time. As such, the Commission considers the use of lagged CPI to be the best available estimator and notes that in this regulatory period, it is not proposed to correct for differences between estimated and actual inflation; however, this may be considered in the next regulatory period.

The Commission notes that NTESMO's formulas apply an 18-month WACC adjustment to under/over recovery of past revenue and cost pass throughs. In its September 2024 Decision Paper, the Commission queried the practice of applying the half-WACC adjustment, but noted two years of adjustment should be applied to adjust under/over recovery and cost pass throughs to end of year values. The Commission notes that NTESMO has adopted the AER models and approach for estimating its revenue requirements, which assumes expenditure occurs on a mid-year basis. An 18-month adjustment is consistent with that approach and an assumption that under/over recover and cost pass throughs are recouped at the beginning of a regulatory year (not at the end of the year). The Commission accepts NTESMO's proposed approach but may reconsider assumptions regarding the timing of costs and revenue as part of its next review.

The Commission notes, consistent with its September 2024 Decision Paper, no materiality threshold is applied to under/over recovery of revenue. Thresholds apply for cost pass throughs, but these are applied outside of the pricing mechanism prior to submission of claims to the Commission.

System control charges apply to the electricity consumption of all customers in the three regulated power systems, but market operator charges only apply to consumption in the Darwin-Katherine power system.

The Annual Pricing Escalation Mechanism aligns electricity consumption for system control charges with the energy consumption forecast submitted in PWC's annual network pricing proposal to the AER. For market operator charges, NTESMO forecasts consumption for the Darwin-Katherine power system at a set rate of 86.4% of the energy consumption for system control charges. Although requested, NTESMO did not provide an explanation for how this figure has been derived.

Commission's draft position and reasoning

The Commission accepts NTESMO's proposed formulas for deriving annual system control and market operator charges as set out in Appendix A including adjustments for past under/over recovery of revenue and cost pass throughs.

The Commission has worked with NTESMO to establish an appropriate Annual Pricing Escalation Mechanism. While NTESMO did not explain its estimate of consumption in the Darwin-Katherine power system, it does not appear unreasonable. The Commission notes there was an under recovery of revenue in 2022-23 and 2023-24 for both system control and market operator charges suggesting that NTESMO's overall estimate of consumption may be optimistic, rather than there being an issue associated with its forecast of consumption specifically for the Darwin-Katherine power system (which only affects market operator charges).

Revenue requirements and charges

Table 22**Error! Reference source not found.** presents NTESMO's proposed building block revenue and proposed revenue requirements after adjusting for the shortfall in 2024-25 and the Commission's estimate of annual revenue requirements, following removal of NTESMO's step change for professional fees for system control functions. The Commission estimates the required revenue for system control including true-up for the shortfall in revenue in 2024-25 are $17,431,936 for 2025-26 and $19,653,906 for 2026-27 ($real, 2023-24), The associated charges are presented in Table 23**Error! Reference source not found.** (calculated based on the formulas in Appendix A).

Table 22 Revenue requirements, 2024-27 regulatory period ($m real, 2023-24)

	2024-25	2025-26	2026-27	Total
NTESMO proposal building block	21.2	21.6	23.8	66.6
NTESMO proposal revenue including shortfall adjustment	10.0[a]	23.6	25.7	59.3
System control	*9.2*	*18.4*	*20.6*	*48.2*
Market operator	*0.8*	*5.2*	*5.1*	*11.1*
Commission draft decision	20.8[b]	22.6[c]	24.8[c]	
System control		*17.4*	*19.7*	
Market operator		*5.2*	*5.1*	

[a] Estimated revenue based on interim charges for 2024-25

[b] Draft decision for revenue requirement for purpose of calculating shortfall

[c] Draft decision for revenue requirement including adjustment for 2024-25 shortfall

Table 23 System control and market operator charges - proposed and draft decision ($/kWh, nominal)

	2024-25[a]	2025-26[b]	2026-27[c]
NTESMO proposed charges			
System control	0.005527	0.011823	0.013084
Market operator	0.000585	0.003769	0.003750
Commission draft decision			
System control		0.011242	0.012489
Market operator		0.003769	0.003750

[a] Actual charges; [b] proposed charges; [c] indicative charges

Commission's draft position and reasoning

As a result of its decision not to approve NTESMO's proposed maximum revenue requirement for system control functions, under section 39(2) of the ER Act, the Commission's draft decision is to not approve NTESMO's draft 2025-26 annual pricing proposal for system control and market operator charges.

The Commission requires NTESMO to submit a short revenue and pricing proposal presenting the maximum revenue requirements for the 2024-27 regulatory period as determined by the Commission, proposed system control and market operator charges for 2025-26 and indicative charges for 2026-27. NTESMO's proposed formulas for calculating the annual charges (as per sections 2 to 4 of Appendix A), the list of pass-through events (as per Appendix B) and relevant revised revenue and pricing models need to be attached to the revenue and pricing proposal. The proposal is to be submitted for the Commission's approval no later than cob Monday, 9 June 2025.

For the purposes of clarity, if NTESMO is unable to meet the due date, it may not be possible for the Commission to approve NTESMO's proposed system control and market operator charges for 2025-26 and provide sufficient advance notice to retailers for those charges to take effect on 1 July 2025. The Commission advises that this may result in there being no charges that NTESMO can levy from 1 July 2025 onward until a schedule of charges is approved by the Commission including a period of advance notice to retailers before those charges take effect.

The Commission notes that its draft decision is driven by its decision regarding revenue requirements for system control functions. The Commission advises that although its draft decision is to accept the revenue requirements for market operator functions, the Commission will not approve market operator charges separately from system control charges.

Benchmarking of proposed prices for 2025-26

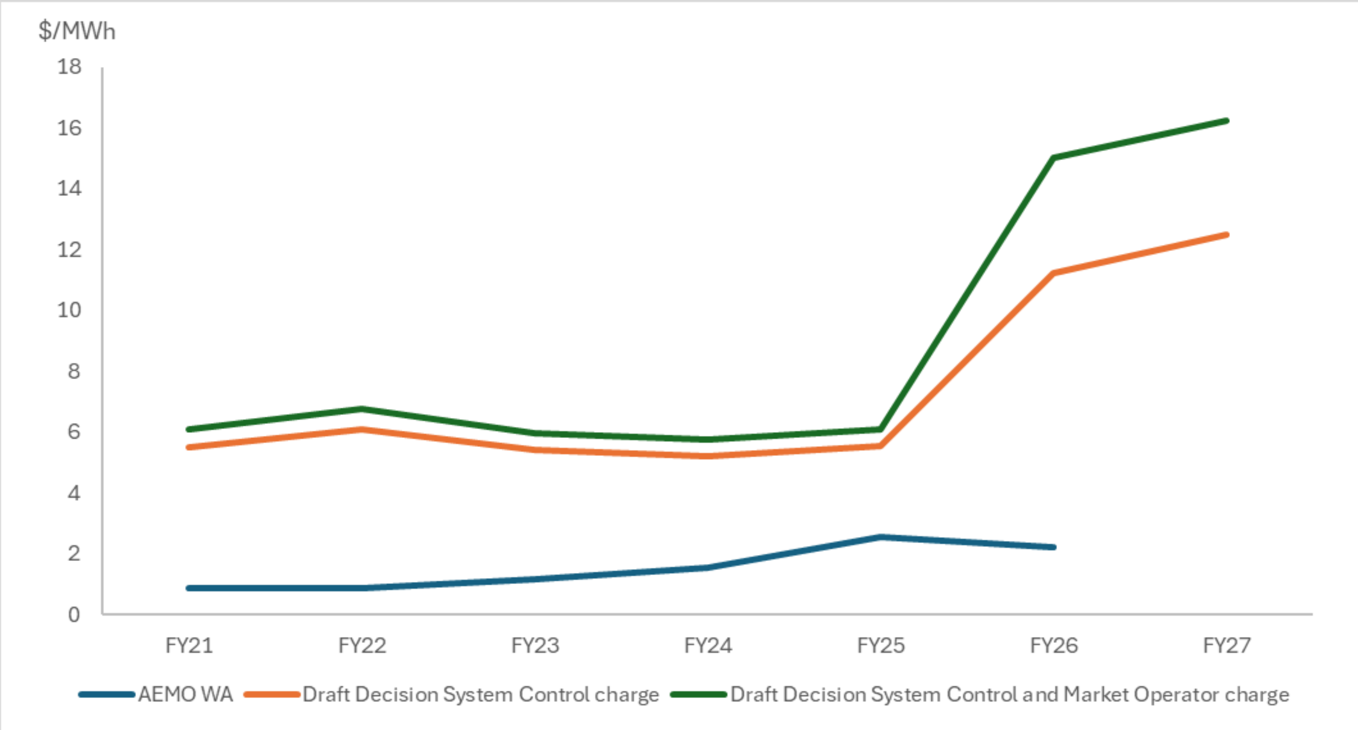
Despite its downward revision to system control charges, the Commission acknowledges that there will still be a substantial uplift in system control and market operator charges relative to historical charges (they will more than double). The Commission has sought to benchmark NTESMO's charges against other system controllers, but could not find a suitable comparator given the small size and remoteness of the Territory's power systems, NTESMO's specific and evolving functions and impending reforms.[15] Notwithstanding this, the Commission considers benchmarking the proposed charges against those of the Australian Energy Market Operator (AEMO) in Western Australia is useful for demonstrating the implications for customers of NTESMO's proposed increase in revenue requirements.

Figure 2 shows that historically there has been a five-fold differential between charges in the Territory and Western Australia although this narrowed as costs increased while AEMO goes through a period of power

[15] The Lantau Group. Comparable Costs of Operating Electricity Markets in Different Jurisdictions. Final consultant report to the Economic Regulatory Authority of Western Australia. Accessed at https://www.erawa.com.au/electricity/wholesale-electricity-market/price-setting/allowable-revenue-and-forecast-capital-expenditure-determinations on 8 January 2025.

system and market reform.[16] While a driver of the increased cost, in particular, managing the transition without compromising power system security and reliability, AEMO has a much greater consumption base (about ten-fold the size of NTESMO's consumption base) over which it can spread its costs.[17]

Figure 2 Comparison of system control and market operator charges, Northern Territory and Western Australia



Source: Economic Regulatory Authority. Allowable Revenue and Forecast Capital Expenditure Determinations website at https://www.erawa.com.au/electricity/wholesale-electricity-market/price-setting/allowable-revenue-and-forecast-capital-expenditure-determinations.

The Commission notes that residential and small business customers (consumption below 750 megawatt hours [MWh] per annum) will be protected from the full increase in NTESMO's charges by the Territory Government's EPO, which caps the price that can be charged to customers for electricity. A community service obligation payment from the Territory Government is provided to retailers to account for the difference between the EPO tariffs and the cost of supply. This means that much of the increase in system control and market operator charges will be borne indirectly by the Territory Government (and taxpayers).

However, for customers consuming more than 750 MWh per annum, the increased cost will be passed on by retailers. NTESMO examples the bill impact of its proposed 2025-26 charges for an industrial customer in the Darwin-Katherine power system with annual consumption of 1,000 MWh will be a combined impact (of both system control and market operator charges) on the annual bill of $10,249.71, being an increase from $11,639.00 based on the 2024-25 charges to $21,888.71 in 2025-26. This will be unwelcome, but if NTESMO is not sufficiently resourced to undertake its activities, it may increase the risk of power interruptions, reduce the efficiency of dispatch decisions and impede the entry of new renewable and other technologies to the detriment of customers.

[16] Economic Australian Energy Market Operator's AR6 second in-period allowable revenue and forecast capital expenditure proposal Final Determination 28 June 2024. Accessed at https://www.erawa.com.au/electricity/wholesale-electricity-market/price-setting/allowable-revenue-and-forecast-capital-expenditure-determinations on 13 January 2025.

[17] AEMO. 2024 Wholesale Electricity Market Electricity Statement of Opportunities 18 June 2024. Accessed at https://www.aemo.com.au/-/media/files/electricity/wem/planning_and_forecasting/esoo/2024/2024-wem-electricity-statement-of-opportunities.pdf?la=en&hash=6B9DD8B889C7EE8B280475DEC8F655FA Table 1 on 5 May 2025.

Appendix A – NTESMO's Annual Pricing Escalation Mechanism

This appendix reproduces Attachment 11.2 from NTESMO's February 2025 proposal, with correction of minor errors as indicated in footnotes.

1. Overview

This paper sets out our proposed mechanism for setting annual prices for the 2024-27 regulatory period. The Commission's decision paper did not comment on the annual price escalation mechanism proposed in NTESMO's initial regulatory proposal, however the Commission confirmed that NTESMO will be subject to a regulatory cap.

Our 2024-27 Revised Regulatory Proposal applies a building block method to calculate revenue each year, the Commission's determination provides the allowed revenue for each year in the regulatory period.

The proposed pricing process is based on the annual revenue allowance set by the Commission through its determination process, and includes provisions for:

- Escalating revenue requirements for the actual consumer price index (CPI) movement since the determination using a lagged December indicator of CPI.
- Accounting for changes in forecast energy consumption changes.
- Adjusting for under and over recovery amounts in previous years in accordance with a set formula.
- Enabling pass-through amounts to be provided in the year following an approved pass-through event.

For the 2025-26 regulatory year, a draft pricing proposal is to be submitted to the Commission by April 2025, with a final pricing proposal to be submitted by Power and Water at the Commission's request. For the third year of the regulatory period, we propose that Power and Water submits the NTESMO 2026-27 pricing proposal to the Commission at least three months before the commencement of the 2026-27 regulatory year. The formula to implement a revenue cap form of price control mechanism for the system control and market operator charge is outlined in the following sections.

2. Year one – 2024-25

2.1. Revenue requirement

The Commission approved the 2024-25 (the first year of the regulatory period) system control and market operator charges in November 2023. As the submission of the revised regulatory proposal was after November 2023, the year one charges do not incorporate the building block approach applied to year two and year three of the 2024-27 regulatory period.

The total allowed revenue (TAR) for 2024-25 are the system control (or market operator) prices approved and set by the Commission in its pricing determination multiplied by the forecast energy consumption.

$$TAR_{FY2024-25} = P_{2024-25} \times Q_{2024-25}$$

Where:

$P_{2024-25}$ – is the approved system control (or market operator) charge in 2024-25 ($/kWh)

$Q_{2024-25}$ – is the system control (or market operator) forecast quantity of energy consumption (kWh) consistent with the energy consumption forecast in Power and Water's 2024-25 network pricing proposal submitted to the Australian Energy Regulator (AER). For system control, this is the sum of forecast quantity of energy consumption for tariffs 1, 2, 3a, 3b, 3c, 4, 5, and 6 for the three regulated networks. For market operator, forecast energy consumption is 86.4% of the energy consumption forecast for system control.

2.2. Unders and overs calculation

Unders and overs were not considered when setting year one charges but are accounted for in year two and year three charges.

2.3. Cost pass through

Cost pass throughs were not considered when setting year one charges, but are accounted for in year two and year three charges.

3 Year two - 2025-26

3.1. Revenue requirement

The TAR for 2025-26 is to be calculated as:.

$$TAR_{FY2025-26} = AR_{2025-26} \times (1 + \Delta CPI_{2024-25}) \times (1 + \Delta CPI_{2025-26}) + B_{2025-26} + C_{2025-26}$$

Where:

$AR_{2025-26}$ – is the annual revenue for 2025-26 as approved by the Commission in the determination (real $2023-24)

$\Delta CPI_{2024-25}$ – is the annual percentage change in the ABS CPI All Groups, Weighted Average of Eight Capital Cities from December quarter 2022 to the December quarter 2023

$\Delta CPI_{2025-26}$ – is the annual percentage change in the ABS CPI All Groups, Weighted Average of Eight Capital Cities from December quarter 2023 to the December quarter 2024

$B_{2025-26}$ – is any overs and unders carried over from the previous period (2019-20 to 2023-24) adjusted for the time value of money. See section 3.2.

$C_{2025-26}$ – is the sum of approved cost pass through amounts approved to be included in prices in the 2025-26 regulatory year. See section 3.3.

3.2. Unders/overs calculation

This calculation seeks to adjust for the balance of under / over recoveries in the 2019-20 to 2023-24 regulatory period adjusted for the time value of money.

$$B_{2025-26} = CB_{2023-24}$$

Where:

$CB_{2023-24}$ – is the final under/over recovery closing balance as at 30 June 2024 for the 2019-24 regulatory period based on the calculation set out in the Commission's 2019-24 determination, including adjustments for the time value of money using relevant allowed nominal vanilla weighted average cost of capital (WACC) approved by the AER.

3.3. Cost pass through calculation

It is expected that the value of $C_{2025-26}$ will equal zero however the following formula is provided for completeness.

$$C_{2025-26} = G_{2023-24} \times (1 + WACC_{2023-24})^{\wedge.5} \times (1 + WACC_{2024-25})$$

Where:

$G_{2023-24}$ – is the value of any cost pass through approved by the Commission in the 2023-24 year.

WACC – is the nominal vanilla WACC approved by the AER applied to the approved cost pass through values approved in the previous period to account for the time value of money for the 18 months between the middle of the final year of the previous period and when it is recovered.

3.4. Price setting

The total allowable revenue is converted to a system control (or market operator) charge in accordance with the following equation:[18]

$$P_{2025-26} = TAR_{FY2025-26}/Q_{2025-26}$$

Where:

$P_{2025-26}$ – is the system control (or market operator) charge in 2025-26 ($/kWh)

$Q_{2025-26}$ – is the system control (or market operator) forecast quantity of energy consumption (kWh) consistent with the energy consumption forecast submitted in Power and Water's 2025-26 network pricing proposal to the AER. For system control, this is the sum of forecast quantity of energy consumption for tariffs 1, 2, 3a, 3b, 3c, 4, 5, and 6 for the three regulated networks. For market operator, forecast energy consumption is 86.4% of the energy consumption forecast for system control.

4. Year three – 2026-27

4.1. Revenue requirement

The TAR for 2026-27 is to be calculated as:.

$$TAR_{FY2026-27} = AR_{2026-27} \times (1 + \Delta CPI_{2024-25}) \times (1 + \Delta CPI_{2025-26}) \times (1 + \Delta CPI_{2026-27}) + B_{2026-27} + C_{2026-27}$$

Where:

$AR_{2026-27}$ – is the annual revenue requirement for 2026-27 as approved by the Commission in the determination (real $2023-24)

$\Delta CPI_{2024-25}$ – is the annual percentage change in the ABS CPI All Groups, Weighted Average of Eight Capital Cities from December quarter 2022 to the December quarter 2023

$\Delta CPI_{2025-26}$ – is the annual percentage change in the ABS CPI All Groups, Weighted Average of Eight Capital Cities from December quarter 2023 to the December quarter 2024

$\Delta CPI_{2026-27}$ – is the annual percentage change in the ABS CPI All Groups, Weighted Average of Eight Capital Cities from December quarter 2024 to the December quarter 2025

$B_{2026-27}$ – is the true-up in 2026-27 for any under or over recovery of actual revenue collected and the TAR the 2024-25 year adjusted for the time value of money. See section 4.2.

$C_{2026-27}$ – is the sum of approved cost pass through amounts to be included in prices from the 2024-25 regulatory year. See section 4.3.

4.2 Unders/overs calculation

This calculation seeks to true up the difference between the 2024-25 approved expected revenue and the actual revenue recovered adjusted for the time value of money.[19]

$$B_{2025-26} = (TAR_{FY2024-25} - D_{2024-25}) \times (1 + WACC_{2024-25})^{\wedge.5} \times (1 + WACC_{2025-26})$$

Where:

$TAR_{FY024-25}$ – is consistent with the calculation for first year revenue.

$D_{2024-25}$ – is the actual system control (or market operator) revenue recovered in 2024-25.

[18] $TAR_{2024-25}$ corrected to $TAR_{FY2024-25}$

[19] $TAR_{2024-25}$ corrected to $TAR_{FY2024-25}$

WACC – is the allowed nominal vanilla weighted average cost of capital (WACC) approved by the Australian Energy Regulator that the under / over recovery is adjusted for to account for the time value of money for the 18 months between when the under or over recovery occurred and when it is recovered.

4.3 Cost pass through calculation

This calculation seeks to adjust for any cost pass-throughs value approved in the 2024-25 year adjusted for the time value of money.

$$C_{2026-27} = H_{2024-25} \times (1 + WACC_{2024-25})^{\wedge .5} \times (1 + WACC_{2025-26})$$

Where:

$H_{2024-25}$ – is any cost pass through approved by the Commission in 2024-25.

WACC – is the nominal vanilla WACC approved by the AER applied to the approved cost pass through values approved in the previous period to account for the time value of money for the 18 months between the middle of the final year of the previous period and when it is recovered.

4.4 Price setting

The total allowable revenue is converted to a system control (or market operator) charge in accordance with the following equation:[20]

$$P_{2026-27} = TAR_{FY2026-27}/Q_{2026-27}$$

Where:

$P_{2026-27}$ – is the system control (or market operator) charge in 2026-27 ($/kWh)

$Q_{2026-27}$ – is the system control (or market operator) forecast quantity of energy consumption (kWh) consistent with the energy consumption forecast submitted in Power and Water's 2026-27 network pricing proposal to the AER. For system control, this is the sum of forecast quantity of energy consumption for tariffs 1, 2, 3a, 3b, 3c, 4, 5, and 6 for the three regulated networks. For market operator, forecast energy consumption is 86.4% of the energy consumption forecast for system control.

[20] $TAR_{2026-27}$ corrected to $TAR_{FY2026-27}$

Appendix B – Pass through events

The following events are pass through events for the purposes of system control and market operator charges:

Retailer failure

The failure of a retailer during a regulatory period, to pay NTESMO an amount to which NTESMO is entitled for the provision of system control or market operator services, if:

a) an insolvency official has been appointed in respect of the retailer; and

b) NTESMO is not entitled to payment of that amount in full under the terms of any local support in respect of that retailer.

Regulatory change event

A change in a regulatory obligation or requirement that:

a) falls within no other category of pass through event; and

b) occurs during the course of a regulatory period; and

c) substantially affects the manner in which NTESMO provides system control or market operator services; and

d) materially increases or materially decreases the costs of providing those services.

Service standards event

A legislative or administrative act or decision that:

a) has the effect of:

i) substantially varying, during the course of a regulatory period, the manner in which NTESMO is required to provide a system control or market operator service; or

ii) imposing, removing or varying, during the course of a regulatory periods, minimum service standards applicable to system control or market operator services; or

iii) altering, during the course of a regulatory period, the nature or scope of the system control or market operator services provided by NTESMO; and

b) materially increases or materially decreases the costs to NTESMO of providing system control or market operator services.

Tax change event

At tax change event occurs if:

a) any of the following occurs during the course of a regulatory period for NTESMO:

i) a change in a relevant tax, in the application or official interpretation of a relevant tax, in the rate of a relevant tax, or in a way a relevant tax is calculated;

ii) the removal of a relevant tax;

iii) the imposition of a relevant tax; and

b) in consequence, the costs to NTESMO of providing system control or market operator services are materially increased or decreased.

Insurance coverage event

An insurance coverage event occurs if:

1. NTESMO:

a) makes a claim or claims and receives the benefit of a payment or payments under a relevant insurance policy or set of insurance policies; or

b) would have been able to make a claim or claims under a relevant insurance policy or set of insurance policies but for changed circumstances; and

2. NTESMO incurs costs:

a) beyond a relevant policy limit for that policy or set of insurance policies; or

b) that are unrecoverable under that policy or set of insurance policies due to changed circumstances; and

3. The costs referred to in paragraph 2 above materially increase the costs to NTESMO in providing system control or market operator services.

For the purposes of this insurance coverage event:

- 'changed circumstances' means movements in the relevant insurance liability market that are beyond the control of NTESMO, where those movements mean that it is no longer possible for NTESMO to take out an insurance policy or set of insurance policies at all or on reasonable commercial terms that include some or all of the costs referred to in paragraph 2 above within the scope of that insurance policy or set of insurance policies.
- 'costs' means the costs that would have been recovered under the insurance policy or set of insurance policies had:
  - the limit not been exhausted; or
  - those costs not been unrecoverable due to changed circumstances.
- A relevant insurance policy or set of insurance policies is an insurance policy or set of insurance policies held during the regulatory period or a previous regulatory period in which NTESMO was regulated; and
- NTESMO will be deemed to have made a claim on a relevant insurance policy or set of insurance policies if the claim is made by a related party of NTESMO in relation to any aspect of NTESMO's network or business; and NTESMO will be deemed to have been able to make a claim on a relevant insurance policy or set of insurance policies if, but for changed circumstances, the claim could have been made by a related party of NTESMO in relation to any aspect of NTESMO's functions.

Note for the avoidance of doubt, in assessing an insurance coverage event, the Commission will have regard to:

i) the relevant insurance policy or set of insurance policies for the event

ii) the level of insurance that an efficient and prudent regulated entity would obtain, or would have sought to obtain, in respect of the event;

iii) any information provided by NTESMO to the Commission about NTESMO's actions and processes; and

iv) any guidance published by the AER on matters the AER will likely have regard to in assessing any insurance coverage event that occurs.

Insurer's credit risk event

An insurer's credit risk event occurs if an insurer of NTESMO becomes insolvent, and as a result, in respect of an existing or potential claim for a risk that was insured by the insolvent insurer, NTESMO:

a) is subject to a higher or lower claim limit or a higher or lower deductible than would have otherwise applied under the insolvent insurer's policy; or

b) incurs additional costs associated with funding an insurance claim, which would otherwise have been covered by the insolvent insurer.

Note: in assessing an insurer credit risk event pass through application, the Commission will have regard to, among other things:

i) NTESMO's attempts to mitigate and prevent the event from occurring by reviewing and considering the insurer's track record, size, credit rating and reputation; and

ii) in the event that a claim would have been covered by the insolvent insurer's policy, whether NTESMO had reasonable opportunity to insure the risk with a different provider.

Natural disaster event

Natural disaster event means any natural disaster including but not limited to cyclone, fire, flood or earthquake that occurs during the 2024–27 regulatory period that changes the costs to NTESMO in providing system control or market operator services, provided the cyclone, fire, flood, earthquake or other event was:

a) a consequence of an act or omission that was necessary for NTESMO to comply with a regulatory obligation or requirement or with an applicable regulatory instrument; or

b) not a consequence of any other act or omission of NTESMO.

Note: In assessing a natural disaster event pass through application, the Commission will have regard to, among other things:

i) whether NTESMO has insurance against the event;

ii) the level of insurance that an efficient and prudent regulated entity would obtain in respect of the event.

Terrorism event

Terrorism event means an act (including, but not limited to, the use of force or violence or the threat of force or violence) of any person or group of persons (whether acting alone or on behalf of or in connection with any organisation or government), which:

1. from its nature or context is done for, or in connection with, political, religious, ideological, ethnic or similar purposes or reasons (including the intention to influence or intimidate any government and/or put the public, or any section of the public, in fear); and

2. changes the costs to NTESMO in providing system control or market operator services.

Note: In assessing a terrorism event pass through application, the Commission will have regard to, among other things:

i) whether NTESMO has insurance against the event

ii) the level of insurance that an efficient and prudent regulated entity would obtain in respect of the event; and

iii) whether a declaration has been made by a relevant government authority that a terrorism event has occurred.

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