# NT Government Submission

## 2027-32 System Control and Market Operator Charges Review – Consultation Paper – NTESMO Initial Proposal

NORTHERN TERRITORY GOVERNMENT

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# 1. Background

The Utilities Commission (Commission) has commenced its review of the Northern Territory Electricity System and Market Operator's (NTESMO) 2027-32 Initial Proposal for System Control and Market Operator Charges (Initial Proposal).

The review will inform the Commission's assessment of the revenue NTESMO should be permitted to recover from electricity market participants over the forthcoming regulatory period. These increased costs are ultimately borne by consumers and the Northern Territory Government through the Community Service Obligation (CSO) electricity subsidy.

The Commission has indicated that only costs that are clearly linked to known regulatory obligations, are prudent and efficient, and can be reasonably forecast should be included in a revenue determination. The Commission is seeking stakeholder views on the prudency, and efficiency of proposed expenditure including its baseline expenditure, and expenditure related to the Territory Electricity Market (TEM) reform program and other proposed step changes in expenditure.

The Electricity Reform Taskforce makes the following submission in response to the Utilities Commission invitation for consultation on the Initial Proposal on behalf of the NT Government.

# 2. Purpose

The separation of NTESMO is a central component of the TEM reform. Once NTESMO is set up as a statutory corporation under the Electricity System and Market Operator Act 2025 (NTESMO Act), it will receive several new functions which will result in significant changes to NTESMO's responsibilities and cost structure. This submission has been prepared to assist the Commission in undertaking its assessment of NTESMO's Initial Proposal. A robust regulatory assessment will be critical to ensuring that expenditure recovered from consumers is prudent, efficient and aligned with NTESMO's statutory obligations, while supporting the Government's reform objectives of delivering secure, reliable and efficient electricity services to Territorians at the lowest sustainable cost.

# 3. TEM Reform

In relation to the TEM reform, the Commission has requested NTESMO to only seek to recover costs that are certain at the time of submission of its Initial Proposal.

NTESMO has included an early view of the potential costs that it considers it will incur through the implementation of the TEM reforms. It has deemed these costs as uncertain and as such intends to refine these cost estimates in its final submission.

The functions and powers of NTESMO are set out in the NTESMO Act including its new functions of undertaking whole-of-system planning and procurement of electricity infrastructure as required under the Electricity Reform Act 2000. While these Acts provide the high-level description of NTESMO's functions, additional detail is yet to be developed and published in exposure drafts of TEM Rules. The additional detail in the TEM Rules is necessary to scrutinise the prudency and efficiency of NTESMO's estimated costs of discharging its functions.

At the 16 February 2026 Industry Reference Group meeting, a forward schedule of releasing exposure drafts of TEM Rules was provided.[1] Due to a variety of factors, the release of exposure drafts of TEM Rules is delayed. While it is acknowledged that these delays continue to add to the uncertain environment in which NTESMO must estimate its costs, it will not be appropriate for NTESMO to seek funding for beyond the minimum viable resourcing requirement necessary for it to discharge its responsibilities. As various tranches of draft TEM Rules are released, NTESMO can refine its estimates for submission in the final proposal, and/or identify the specific tranches of draft TEM Rules that create costs relevant to its new functions that could not have reasonably been predicted at the time of its final proposal, triggering a potential cost pass-through for the future.

# 4. Responses to specific Commission Questions

## 3.1 Revenue Requirements

| Utilities Commission Information Request |
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| 1.1 The proposed revenue requirement of about $39 million per annum represents a substantive increase. Stakeholders' views are sought on whether:<br>a) NTESMO's proposed expenditure is commensurate with the services required over the 2027-32 regulatory period, given operational and regulatory changes outlined in its initial proposal.<br>b) NTESMO has demonstrated its proposed expenditure is reasonable (i.e., justified), prudent (i.e., necessary) and efficient (i.e., lowest cost).<br>c) alternative approaches could better manage costs while maintaining system security and service outcomes. |

**Is NTESMO's proposed expenditure commensurate with the services required over the 2027-32 regulatory period, given operational and regulatory changes outlined in its initial proposal?**

NTESMO's operating environment will undergo significant change during the 2027–32 regulatory period. In addition to managing increasing power system complexity associated with higher penetrations of renewable energy and storage, NTESMO will be required to separate from the Power and Water Corporation (PWC) and assume a range of new statutory functions under the TEM reforms, including centralised planning, centralised procurement and enhanced settlement responsibilities. As a result, some increase in expenditure relative to the current regulatory period is both expected and appropriate.

While many of the activities proposed are linked to known or anticipated obligations, material uncertainty remains regarding aspects of NTESMO's future operating model, service delivery arrangements, reform implementation timeframe and requirements and the extent to which some proposed costs are incremental to existing funded activities.

Further justification appears warranted to support an assessment and determination as to whether the expenditure proposed is commensurate with the services to be delivered and represents the efficient cost of meeting NTESMO's future obligations.

These matters are discussed in more detail throughout this submission.

**Has NTESMO demonstrated its proposed expenditure is reasonable (i.e., justified), prudent (i.e., necessary) and efficient (i.e., lowest cost)?**

[1] Available at: https://dme.nt.gov.au/renewables-energy-systems/reform-territory-electricity-market

There remain areas of uncertainty that warrant calling for additional information to determine the reasonableness, prudency and efficiency of the expenditure forecasts. These issues are detailed in subsequent sections of this submission.

**Could alternative approaches better manage costs while maintaining system security and service outcomes.**

The Initial Proposal would benefit from additional information regarding the cost implications of different options. While alternative options are identified in a number of instances, the level of cost information and supporting analysis provided does not always enable a clear assessment of the relative costs and benefits. Without this information, it is difficult to assess whether the preferred options represent the most efficient means of achieving the intended system security, reliability and service outcomes. These issues are outlined in subsequent sections of this submission.

## 3.2 Operating expenditure

| Utilities Commission Information Request |
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| 1.2 Stakeholders' views are sought on:<br>a) the efficiency of base year expenditure.<br>b) whether the proposed step changes are reasonable, prudent and efficient.<br>c) whether the proposed approach to estimating corporate overheads is reasonable and efficient. |

**Is the base year expenditure efficient?**

The base year reflects total costs that are lower than NTESMO's approved revenue requirement for 2026-27, reflecting the removal of non-regulated and non-business-as-usual (BAU) activities. The Commission has noted a substantial shift in costs from System Control to Market Operator functions. The proposed reallocation presents implications for the distribution of costs between customer groups, noting that Market Operator costs are recovered from consumers in the Darwin-Katherine Electricity System, whereas System Control costs are recovered from customers across all regulated electricity networks. The proposal of the Commission to seek further information regarding the basis for these reallocations is supported and will ensure the proposed transfer of costs reflects genuine changes in responsibilities and activities.

**Are the proposed step changes reasonable, prudent and efficient?**

A detailed breakdown of key areas of interest in each of NTEMSO's Regulatory Business Case (RBC) is provided below (Table 1). Consideration of the RBC for the TEM Reform program is provided in Section 3.4 of this submission.

**Table 1 Assessment of Regulatory Business Cases (RBC)**

| Attachment | Comment |
|---|---|
| Attachment 1 – Territory Dispatch Engine (TDE) Ongoing Costs | The RBC considers three options for ongoing support of the Territory Dispatch Engine (TDE) ranging from a do-nothing approach (Option 1), a limited support model (Option 2), to a fully supported operating model (Option 3).<br><br>Option 1 was not considered a credible or prudent option and was discounted. Option 3 is considered NTESMO's preferred option, and is the highest cost option involving forecast operating expenditure of $14.56 million over the FY2028–32 regulatory period, compared to $12.41 million under Option 2. While the RBC outlines a range of qualitative benefits associated with Option 3 (including improved resilience, reduced operational risk and enhanced support for future market and regulatory changes), a breakdown of quantifiable benefits would assist the Commission in assessing whether the additional expenditure is justifiable. For example, incremental benefits of Option 3 could be expressed in terms of reduction in outages, incidents, and cyber security issues, etc.<br><br>The RBC also outlines a range of operational efficiencies expected to arise from implementation of the TDE, including reduced reliance on manual processes and improved automation of dispatch functions. While the RBC concludes that Option 3 represents the most cost-effective outcome over the life of the asset, this has not been reflected in the expenditure forecast.<br><br>On this basis, it would be appropriate for the Commission to seek further information regarding the incremental benefits of Option 3 over Option 2, particularly if Option 3 results in lower ongoing operating costs. This information would support an informed assessment of the prudency and efficiency of the proposed expenditure and whether the preferred option represents the most efficient outcome for consumers. |
| Attachment 2 – System tools | The RBC considers three options for investment in system tools. Option 1 involves no ongoing investment in system tools and was discounted on the basis that it would expose the power system to unacceptable operational and security risks. Option 2 provides for the maintenance and support of the existing suite of system tools at an estimated cost of $2.95 million over the regulatory period. Option 3 builds on Option 2 by introducing five additional modules within GE EMS v3.4 to enhance monitoring, forecasting and operational decision-making capabilities at an estimated cost of $7.40 million. Option 3 therefore involves approximately $4.45 million of additional expenditure relative to Option 2.<br><br>The RBC argues that maintaining the existing suite of tools alone may become insufficient as the Darwin-Katherine power system evolves, with Option 3 intended to provide additional visibility, automation and operational decision-support capabilities to manage increasing renewable penetration and system complexity. New investments and operational expenditure related to step changes should either be tied to new obligations and functions or improved outcomes for consumers. |

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| | The RBC provides an overview of the intended purpose of additional tools to be developed under Option 3, but at this stage does not include attempt to quantify the benefits they are expected to deliver to consumers. For example, benefits are described as including enhanced renewable integration with no corresponding analysis of the expected reduction in renewables curtailment. Additional information regarding the expected operational, market and consumer outcomes would support an informed assessment of whether the incremental expenditure associated with Option 3 is efficient and prudent. |
| Attachment 3 – Real-time services support | The RBC considers options for the ongoing provision of real-time Energy Management System (EMS) and SCADA support services following the structural separation of NTESMO from PWC. These services support the operation of NTESMO's EMS, including real-time system monitoring, operational applications, dispatch support and incident response. NTESMO notes that these services are currently provided by PWC's Power SCADA team through existing operational arrangements.<br><br>Two options were considered. Under Option 1, the preferred option, NTESMO would continue the existing service delivery arrangement with PWC by formalising service level agreements (SLAs), governance arrangements and performance reporting. Option 2 would involve procuring equivalent services from an independent third-party provider. NTESMO considers Option 1 preferable as it minimises transition risks and supports continuity of service. Both options have been assumed to cost $1.63 million per annum, with the estimate derived from a third-party quote for the provision of comparable services.<br><br>Notwithstanding that these costs relate to TEM reform matters and may have been more appropriately addressed in Attachment 6, three matters appear to warrant further examination:<br>1. The cost estimate for Option 1 is not based on an assessment of the actual cost to PWC of providing the service. Given PWC already owns the EMS and SCADA infrastructure and currently delivers these services, it is unclear whether an external market quote represents an efficient estimate of the cost of the preferred option.<br>2. The RBC also notes that many of the proposed services, including 24/7 EMS support, incident response and system maintenance, are already provided by PWC under existing operational arrangements. While formalising these services through an SLA may be appropriate following NTESMO's separation from PWC, the RBC could be improved by providing additional information on the extent to which the proposed expenditure relates to existing business-as-usual services versus genuinely new or enhanced service obligations.<br>3. As PWC owns the EMS and SCADA systems and already recovers revenue through its regulated network business, the Commission should satisfy itself that the proposed cost allocation methodology appropriately distinguishes between costs recovered through network revenue and costs recovered through NTESMO's regulated charges. This would provide assurance that shared EMS and SCADA costs are only recovered once. |

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| Attachment 4 – Review of procedures and guidelines | The RBC seeks revenue for a step change in operational expenditure to support reviews of NTESMO's procedures and guidelines.<br><br>The RBC advises that as part of the FY2025–27 Regulatory Proposal, a new NTESMO function, Rule Development, Technical and Policy Advice (Market Operator), was established with responsibility to review codes, guidelines and procedures. Revenue recovery was approved for this function as part of NTESMO's accepted BAU obligations in the FY25–27 regulatory period, which included funding for internal resources, but not for professional fees for external technical and economic support for the reviews. Under the TEM reforms it is expected that rule development will be undertaken by the Minister / Department. As such, it is anticipated that NTESMO will have less of a role in administering rules.<br><br>While the RBC identifies risks associated with relying solely on internal resources, the principal distinction between the options considered is the engagement of external consultants to support review and consultation activities. The RBC provides a detailed cost build-up for the proposed consulting effort; however, the RBC could be improved with additional evidence demonstrating why this level of external support is necessary for NTESMO's BAU operations, particularly given the changes to NTESMO's statutory obligations under the TEM reforms, or why a lower-cost level of support would not be sufficient to meet NTESMO's regulatory obligations. Further information would support an informed assessment of whether the preferred option represents an efficient and prudent level of expenditure. |
| Attachment 5 – Market Settlement and transfer solution | No material issues were identified in respect to the RBC. |
| Attachment 6 – Territory Electricity Market Reform Program | Detailed comments on this RBC are provided in section 3.4 of the submission. |

**Is the proposed approach to estimating corporate overheads reasonable and efficient?**

Structural separation should improve the transparency and accountability of corporate overhead allocations between PWC and NTESMO. Historical cost allocations may not necessarily represent the efficient cost of operating a standalone NTESMO, or a PWC entity following separation.

NTESMO's corporate overheads should reflect the efficient cost of the corporate services it directly employs or procures from PWC under service level agreements (SLAs). As a result, forecast corporate costs should be based on the actual cost of service provision and not simply be derived from historical allocation methodologies developed prior to separation.

Where corporate services are proposed to be provided by PWC under SLAs, the relevant costs should reflect the efficient incremental cost of providing those services to NTESMO and not present an opportunity for cost recovery beyond direct prudent expenditure. This enables assessment of whether procuring services from PWC represents a more efficient outcome than developing equivalent capabilities internally or purchasing services from third parties.

## 3.3 Capital expenditure

| Utilities Commission Information Request |
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| 1.3 Stakeholders' views are sought on:<br>a) the treatment of reprofiled TDE capital expenditure.<br>b) the estimate of corporate capital expenditure given NTESMO's proposed separation from PWC.<br>c) whether NTESMO has demonstrated the capital expenditure for system tools is reasonable, prudent and efficient. |

**Views on the treatment of reprofiled TDE capital expenditure.**

The Initial Proposal notes that the TDE project has been delayed, shifting part of the expenditure originally forecast for the 2024-27 regulatory period in 2027-28. The Commission notes that as a result, NTESMO will recover more revenue for depreciation and return of capital in the 2024-27 regulatory period than warranted with an estimated over recovery of $1.2 million. The Commission's proposal to develop a mechanism to ensure these costs are not recovered twice is appropriate and is supported.

Noting the delays in TEM reform program, NTESMO should also be encouraged to consider reprofiling the capital expenditure to align with specific TEM reform elements where applicable. This would ensure no more than necessary capital expenditure is amortised in the relevant regulatory period. For example, any planned changes to scheduling and dispatch process or systems under TDE would benefit from an alignment review with the timing of release of the relevant tranche of draft TEM Rules. This could avoid unnecessary duplication of cost and effort and capture economies of scale. Additional costs incurred as a result of delays to the project should be absorbed by PWC and / or NTESMO as appropriate, and not passed through to consumers.

**Views on the estimate of corporate capital expenditure given NTESMO's proposed separation from PWC.**

NTESMO's Initial Proposal includes approximately $8.3 million of capital expenditure associated with PWC's single-site consolidation project. The Initial Proposal notes that these costs will be reviewed prior to the Revised Proposal to ensure they reflect the efficient cost of delivering NTESMO's functions.

Given the proposed structural separation of NTESMO from PWC, further consideration of this expenditure is warranted. In particular, it is not clear whether contributing to a project (which is not yet approved) and is intended to consolidate PWC's operations represents the most efficient accommodation solution for a

standalone NTESMO entity. Alternative arrangements, including accommodation at a separate location or other leasing options, may warrant consideration as part of the assessment of efficient expenditure.

Where NTESMO continues to utilise accommodation or shared corporate services provided by PWC, these costs should be recovered through transparent lease, licence or service-level arrangements that reflect actual costs. Under the current timeframe for TEM reform implementation, a final decision on where NTESMO will be located will be made prior to the time for submission of its final proposal for the 2027-32 regulatory period. This should allow NTESMO to revisit its capital expenditure estimate associated with this project to ensure it reflects the efficient cost of delivering its functions.

Capital contributions to broader PWC corporate projects should only be recovered from NTESMO customers where it can be clearly demonstrated that such arrangements represent the lowest-cost and most efficient means of delivering the relevant services.

**View on whether NTESMO has demonstrated the capital expenditure for system tools is reasonable, prudent and efficient.**

Refer to section 3.4 for relevant comments.

## 3.4 TEM reforms

| Utilities Commission Information Request |
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| 1.4 Stakeholders' views are sought on:<br>a) whether NTESMO adequately justifies the TEM reform-related expenditure for recovery, noting that only efficient costs clearly linked to known regulatory obligations and that can be reasonably forecast should be included in the proposal.<br>b) whether NTESMO demonstrates the costs to be recovered are prudent and efficient.<br>c) whether additional safeguards are needed to manage uncertainty relating to reform scope, timing and future cost pass-throughs.<br>d) how risks associated with reform implementation should be allocated between NTESMO and consumers. |

**Has NTESMO adequately justified the TEM reform-related expenditure for recovery, noting that only efficient costs clearly linked to known regulatory obligations and that can be reasonably forecast should be included in the proposal?**

The TEM reforms have now been legislated and will fundamentally change NTESMO's role through its separation from PWC, establishment as a standalone statutory corporation, and the introduction of new functions including centralised planning, centralised procurement and enhanced settlement responsibilities. While additional detail on how these functions are to be discharged remains subject to further policy and TEM rules development, the broad architecture of the TEM reforms is now established. Accordingly, a substantial proportion of implementation and ongoing costs should be capable of being forecast with reasonable confidence as part of the Revised Proposal.

However, NTESMO notes that many aspects of the reform, including key regulations, market rules, implementation arrangements and operating models, have not yet been finalised. As such, some implementation costs remain uncertain pending finalisation of the TEM Rules and supporting operating arrangements.

As indicated in section 3 of this submission, where uncertainty exists, NTESMO should forecast the minimum viable resourcing requirement with refinement of estimates linked to the finalisation of various tranches of draft TEM rules.

The Electricity Reform Taskforce regularly communicates with PWC leadership on TEM reform progress, including seeking detailed input on policy and rule development. This engagement should provide NTESMO the information it requires to progressively refine its approach to implementing its functions and the associated costs. Additionally, the Electricity Reform Taskforce and ICT Governance Board are overseeing the prudency of NTESMO's expenditure on IT systems required to implement TEM reform. NTESMO should be encouraged to demonstrate how it incorporates input provided by these entities to improve its forecast expenditure.

Based on the information provided in the public submission, elements of NTESMO's TEM reform related expenditure do not appear to be adequately justified. It is recommended PWC demonstrates links between proposed expenditure and known regulatory obligations that can reasonably be forecast. For example:

- **NTESMO's future operating model remains uncertain** - Attachment 6 includes expenditure to engage a consultant to undertake organisational design, indicating that aspects of NTESMO's future operating model remain under development. As a result, it is difficult to determine whether some proposed ongoing expenditure has been sufficiently developed to be reasonably forecast.
- **Market settlement reform costs remain undefined** - A significant component of the reform program, particularly settlement reform, has not yet been fully costed. While preliminary expenditure has been included for design and planning activities, the future technology, implementation and operating costs remain uncertain. This limits visibility of the likely total cost of the reform program.
- **Incremental expenditure is not always clear** - the RBC does not always clearly demonstrate that proposed reform expenditure is incremental to existing activities and funding allowances. Several proposed activities appear related to functions that NTESMO already undertakes, including regulatory review, procedure development, consultation activities and aspects of system operation. While these functions may require modification or expansion as part of the reforms, further information would assist in distinguishing between expenditure required to deliver new obligations and expenditure associated with existing functions already funded through NTESMO's current revenue allowance.
- **Potential overlap with other expenditure proposals** - There is not always a clear delineation between expenditure proposed through Attachment 6 and expenditure proposed through other regulatory business cases, particularly where activities relate to market operation, scheduling, dispatch and system development. Further transparency would assist the Commission in ensuring costs are allocated appropriately and not recovered more than once.

**Has NTESMO demonstrated the costs to be recovered are prudent and efficient?**

A key consideration is whether the proposed operating model represents the most efficient means of delivering NTESMO's future functions. While the RBC identifies structural separation supported by SLAs with PWC as the preferred option, elements of the future operating model remain under development. Organisational design work is ongoing, and it is therefore not yet clear whether the proposed staffing levels, corporate support functions, ICT requirements and associated overhead costs represent the most efficient long-term operating model for a standalone NTESMO. Given the level of uncertainty, NTESMO should strive for minimum viable resourcing/operating model, and refine its estimates in its final submission, noting a cost pass-through should be available and subject to independent assessment where costs could not reasonably have been foreseen at the time of the final proposal.

The RBC's options analysis could be strengthened through greater assessment of alternative delivery models. While the RBC concludes that separation with SLA support is preferable to either maintaining the status quo or establishing a fully independent operating model, limited information has been provided regarding alternative allocations of functions between NTESMO, PWC and third-party providers. Further

analysis would assist in demonstrating that the preferred model represents the lowest-cost means of delivering the required outcomes.

NTESMO has proposed significant ongoing expenditure on professional services, including legal, technical and economic advisory support. While specialist expertise may be required to support implementation of new functions, further information should be provided regarding the expected frequency, volume and complexity of some recurring activities. This is particularly relevant where annual allowances are proposed for activities that may occur periodically or be triggered by specific events rather than occurring every year. Rather than professional services, lower-cost alternatives, including greater reliance on internal capability, could be considered.

**Are additional safeguards needed to manage uncertainty relating to reform scope, timing and future cost pass-throughs.**

If NTESMO continues to suggest that material uncertainty remains regarding the scope, timing or implementation of specific TEM reform elements, additional safeguards appear warranted to ensure consumers are only exposed to costs that are reasonably forecast and supported by clearly defined obligations. As previously stated, NTESMO is a direct participant in TEM reform with access to the Electricity Reform Taskforce, which gives NTESMO the ability to raise questions and identify decisions that will reduce uncertainty.

On this basis, a conservative approach to future cost pass-through claims would be appropriate. In particular, pass-through treatment should generally be limited to costs arising from new obligations, scope changes or implementation requirements that could not reasonably have been forecast on the basis of the legislation, Government reform framework and other information available at the time of the determination.

Any material pass-through application could also be subject to independent assessment and stakeholder consultation to allow affected parties to provide views on the prudency, efficiency and incremental nature of the proposed expenditure before recovery is approved.

**Views on how risks associated with reform implementation should be allocated between NTESMO and consumers.**

Consumers should bear the efficient costs of implementing Government-mandated reforms and supporting NTESMO's new statutory functions. However, consumers should not face unlimited exposure to implementation, forecasting and scope risks associated with the TEM reform program. As such a conservative and consultative approach to cost pass-throughs is preferable (as discussed above).

## 3.5 Productivity factor

| Utilities Commission Information Request |
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| 1.5 Stakeholders' views are sought on:<br>a) whether a productivity factor of zero is appropriate for the 2027-32 regulatory period.<br>b) whether reform and non-reform costs should be treated differently when applying productivity expectations. |

**Is a productivity factor of zero appropriate for the 2027-32 regulatory period?**

The current determination period reflects a period of significant change operationally for NTESMO being required to take on numerous functions associated with the TEM reforms.

Applying a productivity factor would appear appropriate where costs relate to mature and ongoing functions (i.e. business as usual activities). For these established functions where costs are expected to become more stable and predictable over time, there is a reasonable justification that productivity should improve over time, consistent with other regulated sectors and efficiency requirements applying to NT Government agencies budgets (for example as part of the 2026-27 Budget, budgets were subject to an efficiency dividend of 1.5% for 2026-27).

While a 0% productivity factor applied to expenditure associated with genuinely new functions and reform implementation activities could be considered, the following factors may warrant a productivity factor for reform activities:

- NTESMO is seeking funding for substantial technological, organisational and process changes intended to improve efficiency and automate manual tasks; and
- Some functions to be undertaken by NTESMO (for example, procurement of generation services) were previously undertaken by market participants operating in environments subject to greater commercial discipline than a regulated monopoly service provider.

Testing the sensitivity of applying productivity factors to NTESMO's proposal including assessing impacts on revenue and charges associated with a range of productivity assumptions, for example 0%, 0.25% and 0.5% could be considered.

**Should reform and non-reform costs be treated differently when applying productivity expectations?**

See above.

## 3.6 Key Performance Indicators (KPIs)

| **Utilities Commission Information Request** |
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| 1.6 Stakeholders' views are sought on:<br>a) whether the proposed KPIs provide an appropriate and balanced representation of performance.<br>b) the clarity, measurability and relevance of the proposed KPI targets.<br>c) whether additional KPIs should be considered, including measures of benefits from investment in the TDE and new TEM-related reforms. |

**Do the proposed KPIs provide an appropriate and balanced representation of performance.**

Overall, the proposed KPIs are heavily weighted towards operational compliance and administrative outputs, and less focused on efficiency, customer outcomes and delivery of NTESMO's investment program.

NTESMO's Initial Proposal did not support inclusion of the Risk-Adjusted Cost of Electricity as a KPI on the basis that NTESMO does not directly control many of the factors that influence wholesale electricity costs. While this is acknowledged, NTESMO's future planning, procurement and operational functions are intended to influence long-term system outcomes and support lower whole-of-system costs. The Commission could therefore consider including a system-cost related KPI, or at a minimum require reporting of cost outcomes as a contextual performance indicator.

Further consideration could be given to including specific KPIs against NTESMO's step-change related activities to measure targeted benefits. Additional KPIs linked to key expenditure proposals, such as reductions in solar curtailment, reductions in manual operational interventions, improvements in dispatch efficiency, or achievement of TEM reform implementation milestones could be considered. From the

outset, NTESMO should develop KPIs for on-budget and on-time delivery of new functions (unless exogenous factors require otherwise), and identify and measure specific activities that will be improved.

A project delivery KPI to improve transparency and accountability regarding NTESMO's capital program, including reporting against approved budgets, delivery milestones and implementation timeframes, could be considered. NTESMO delivery of the TDE project, and potentially public procurement model projects to be procured by NTESMO as part of its new function as central procurer could be captured by this KPI.

**Views on the clarity, measurability and relevance of the proposed KPI targets.**

See above.

**Should additional KPIs be considered, including measures of benefits from investment in the TDE and new TEM-related reforms?**

See above.

## 3.7 Regulated charges and customer impacts

| Utilities Commission Information Request |
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| 1.7 Stakeholders' views are sought on:<br>a) the distributional impacts of proposed charges across different customer classes.<br>b) whether alternative tariff structures should be explored including options for fixed monthly charges.<br>c) the adequacy of NTESMO's analysis of bill impacts. |

**What are the distributional impacts of proposed charges across different customer classes.**

A single $/kWh charge for all applicable customers appropriately reflects cost causation, or whether some customer classes should pay more where they materially increase NTESMO costs could be considered. This could include assessment of whether large, complex, intermittent, high-demand, transmission-connected, embedded generation, storage, or other non-standard customers create higher system control, forecasting, dispatch, market administration or operational complexity costs than standard residential and small business customers. The NT's current approach allocates approved revenue requirements across forecast consumption, whereas other frameworks allocate costs by participant category and function.

The current simplified charging mechanism may recover NTESMO costs disproportionately from customers, particularly where uniform volumetric charges do not align with NTESMO's underlying costs. Future determinations should consider more granular, cost-reflective charging arrangements to improve transparency, reduce cross-subsidies and support efficient electricity use.

While NTESMO charges are a relatively small component of total electricity supply costs, better alignment with actual costs could support future tariff reform.

**Should alternative tariff structures be explored including options for fixed monthly charges.**

NTESMO has flagged it is considering moving to a fixed and variable charge as part of its next regulatory proposal. A purely volumetric tariff may not fully reflect the largely fixed nature of many NTESMO costs. Shifting to a mixed fixed cost and variable charge structure, where costs are allocated accurately, could improve cost reflectivity. However, a detailed assessment of distributional impacts would need to be undertaken, and any significant tariff reform proposed in the Revised Proposal should be subject to further consultation.

Consideration could also be given to alternative charging arrangements, including allocating some NTESMO system control and market operator costs between market participants rather than recovering all costs through uniform volumetric customer charges. The NEM and WA WEM recover system and market operator costs through participant fee frameworks that allocate costs to registered market participants, including retailer/load-facing participants, generator/wholesale-facing participants and, in some cases, network service providers.

**Views on the adequacy of NTESMO's analysis of bill impacts.**

NTESMO's bill impact analysis considers average bill impacts across a range of example customer types. These examples are broadly consistent with the approach used in PWC's network pricing proposals, where customer impacts are assessed by tariff type and customer characteristics such as consumption, voltage connection and metering arrangements.

Future determinations could include stronger analysis of how NTESMO's costs are allocated and recovered. This should include whether charges should vary by customer class, connection type, demand, fixed charges or market participant type, rather than relying mainly on broad volumetric charges.