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Mr Lyndon Rowe
Utilities Commissioner
Utilities Commission
GPO Box 915
DARWIN NT 0801

By email: utilities.commission@nt.gov.au

Dear Mr Rowe,

2018 System Control Charges Review

Territory Generation (**TGen**) thanks the Utilities Commission (**Commission**) for the opportunity to make this submission on the Issues Paper on the Power and Water Corporation's (**PWC**) submission to the Commission "*Review of System Control Charges and Associated Funding Issues, October 2019*" (**PWC Submission**).

TGen acknowledges that the System Control and Market Operator functions are essential to the operation of the three regulated power systems and that these functions are appropriately funded by the industry which they are required to support.

I understand that Wednesday's meeting between Kimberlee Mckay, Marianne Lourey and TGen's Andrew Roberts and Neil Hay was productive and well-received. Further to that meeting, I am pleased to now attach TGen's final submission in relation to the 2018 System Control Charges Review.

Yours sincerely



Hieu Nguyen
**General Counsel and
Company Secretary**

18 January 2019

Attachment – "TGen's Response to Questions for Stakeholders: 2018 System Control Charges Review"

Attachment - TGen's submission in response to "Questions for Stakeholders" 2018 System Control Charges Review Issues Paper

1. ***Do the system control and market operator activities identified by PWC at Appendix A to its submission accurately reflect the regulated services System Control is obligated to provide?***

System Control undertakes a number of activities as agent for the Network Provider, as well as performing the role of the Market Operator. In the Executive Summary of the PWC Submission, it is stated that:

"The Non-Regulated functions provided by System Control and the Market Operator have been fully costed and are ring fenced from this submission."

Based on the information made available, TGen queries how such ring-fencing has been under and makes the three following broad comments on several of the activities identified as regulated System Control services. For ease of reference, the relevant items are listed in the below table, along with the corresponding comment on the appropriateness of identifying the relevant activities as regulated System Control services.

Item	Comment
19 Maintaining wall boards	<p>TGen understands that the 'wall boards' referred to are the pinned paper charts on boards reflecting the status of the 11 and 22kV distribution systems.</p> <p>Accordingly, 'maintaining wall boards' would seem to be more an activity related to the Network Provider role rather than the System Controller's role under clauses 3.3.1 (b) & (c) of the System Control Technical Code (SCTC). These obligations require monitoring and co-ordination rather than maintenance of the wall boards.</p>
23 Witnessing code compliance testing and assessing evaluation 24 Scoping code compliance testing	<p>Items 23 and 24 both reference clause 6.24 of the SCTC. This section of the SCTC seems to be more related to capability or capacity testing of generators, rather than the Code Compliance Testing that the activity descriptions indicate. The testing under clause 6.24 appears to relate to periodic capability performance testing, which includes a comparison of results to the Code Compliance testing.</p> <p>When System Control undertakes Code Compliance Testing activities on</p>

	<p>behalf of the Network Operator, the costs of such activities are rightly recoverable under the provisions of the Network Technical Code.</p> <p>TGen considers it is appropriate that the costs of generator code compliance be recovered directly from the generator for which those services are performed. It is noted that System Control recovered such costs from TGen throughout 2018.</p>
42 Pre-dispatch 43 Market Price 44 Participant Registration 45 Market Consultations 47 Market settlements 62 Historical Data Requests 63 Standard Data Requests 64 Customer Transfers 65 Darwin – Katherine settlements 66 Ancillary Services Calculations 67 Maintain participant register 68 IES deemed profiles allocations 69 Perform ad hoc revisions 70 Publication of market data	<p>Items 42-43 would seem to relate to the System Controller obligations under I-NTEM. Items 44-45, 47 and 62-70 seem to relate to Market Operator functions.</p> <p>Notwithstanding the lack of clarity around the assertion that certain functions have been “ring fenced” from the PWC Submission, it is noted that the PWC Submission is allegedly made under section 39(1) of the <i>Electricity Reform Act (NT) (Act)</i>, which allows the system controller to impose and recover charges relating to the <i>operations of system control</i>. It seems to TGen that this refers to functions and powers of the system controller, which are set out in section 38 of the Act. This section makes no reference to the functions related to market operations or its role as the Market Operator.</p> <p>While TGen acknowledge that PWC has been assigned the obligations to undertake the operation of I-NTEM and Market Operators functions, TGen does not consider section 39(1) of the Act to be the appropriate mechanism to recover costs for these 14 activities.</p>

TGen appreciates the difficulties which come with having a single entity performing the duties of the Network Operator, Market Operator and System Controller. Although the correct allocation of such costs may not significantly alter the practical outcome, TGen considers that while this review is being undertaken, it ought to be as thorough and accurate as possible.

Further observations on Appendix A of the PWC Submission include:

- (a) at page 25 of the PWC Submission, it is stated that “*proposed staff reduction has been incorporated in these calculations*”, however personnel costs in the income statement are increasing. If staff reductions had been incorporated, we would expect to see those costs decreasing or remaining stagnant at the very least;
- (b) there is a considerable jump in expenditure on travel costs from 2017-18 Actual figures compared to 2017-18 Budget and forward Budgeted figures, which is not explained in the PWC Submission;

- (c) the income statement shows significant movements on inter-company allocations between years which is unexplained; and
- (d) further explanation on the Corporate Overheads is warranted, particularly as to:
 - (i) why BSIM is so high;
 - (ii) what are 'Customer & Stakeholder' activities; and
 - (iii) what are 'Retail' activities.

2. *Does a new Administrative and Control Centre appear reasonable? Are there any other options that could be considered to address the issues with the current control centre?*

The new Administrative and Control Centre proposed by PWC appears to be a reasonable requirement given that the state of the existing facilities appears to be inadequate. However, TGen is concerned that Table 4 in section 2.4.3 of the PWC Submission indicates that the new Control Centre would be operational from July 2019. The ongoing cost from July 2019 represents around 6% (or \$0.0036/MWh) of the total proposed Regulated Costs. TGen's understanding is that the new Control Centre is not well-advanced as a project and it is unrealistic to consider that it would be operational by July 2019 and that Table 1 in section 2.1 of the PWC Submission be changed to reflect the current project status.

3. *Are PWC's demand assumptions reasonable given the Territory government's 50 per cent renewables commitment?*

PWC have adopted the forecasts developed by AEMO. It seems appropriate that such forecasts are adopted for this purpose.

4. *Should the system control charge be different across the three regulated power systems, based on the level of services provided for each system?*

Notwithstanding TGen's query as to whether Market Operator functions can be recovered as system control charges, outlined in item (1) above, it does not seem appropriate that customers in Alice Springs or Tennant Creek pay for Market Operator services, given that there is no Market Operator role in either the power systems.

TGen notes that clause 8.6(b) of the SCTC requires that the charges within a regulated power system be 'postage stamped' within that region. Although there does not appear to be anything strictly preventing the recovery of costs across power systems, it may well be the preferable view that the different requirements of each power system should be reflected in the costs for each power system. This may be supported by section 39(1) of the Act, which allows the recovery of charges for the *operations* of System Control, suggesting a nexus between the operation and the charge.

To inform the decision, TGen considers that it might be worthwhile investigating if there are any precedents in other Australian Jurisdictions such the Mount Isa Power System in Queensland or the Horizon Energy power system in Western Australia.

5. Should the system control charge be charged to retailers, generators or a combination of both?

It is TGen's position that the System Control Charge should be fair, equitable and sustainable, as well as clear to all industry participants. It is noted that clause 8.6(a) of the SCTC requires that the charges shall be recovered from *System Participants* in receipt of those services. System Participants include anyone licensed by the Commission to input, transport, control, operate or take electricity from a power system.

TGen considers that system control and market operator services are provided on behalf of *both* generators and retailers, thus ought to be recovered accordingly. In both the National Electricity Market (NEM) and the Western Australia Wholesale Electricity Market (WEM), both retailers and generators pay these charges. In the NEM, generators pay around 32.2% of the equivalent system controller and market operator costs. In the WEM, generators and retailers pay 50% each. It should also be noted that in both the NEM and the WEM there are fixed annual fees to register as a participant. These participants include generators, retailers, networks, ancillary service providers, meter service providers, meter data providers and intending participants. Although TGen acknowledges that clause 8.6 of the SCTC does not allow for the recovery of fixed fees, it seems appropriate fixed fees may form part of the charges be considered as part of this review and reform of the regulatory framework.

It also seems appropriate that the network business is charged for System Control and Market Operator services provided to Network Provider. This is also supported by clause 8.6(a) of the SCTC which states that the charges are to be recovered from "*System Participants in receipt of those services*". TGen queries why this is not the current practice. Although TGen acknowledges that as such costs would be passed through to customers as part of the network charges, it may be more economical to simply charge those costs directly to retailers. However, charging the network business would impose an incentive for the Network Provider to optimise their operations and interactions with System Control and the Market Operator and thus minimise the resources need to provide those services. The activity based costing activity already undertaken by System Control would be able to be used to determine the appropriate allocation of costs to recover from which system participant and charges can be set accordingly.

As a final observation, the PWC submission appears to suggest that TGen is the only generator paying any system control charges. Given there are now other licensed generators, this seems highly inequitable to TGen.

6. Should a price or revenue control mechanism be implemented and if so what type?

TGen suggests that an "unders-and-overs" mechanism be introduced, similar to the mechanism that applies to network service providers in the NEM. Effectively this means that if System Control over-

recovers its costs in one year, the charges are reduced in the following year so that an under-recovery is budgeted to balance the over-recovery.

TGen recognises that introduction of such a mechanism would require a change to the SCTC with more complexity than that contemplated in the PWC Submission. It might be appropriate to make the 2019/20 year a fixed determined schedule of charges while the required changes to the SCTC are finalised in order to establish the unders-and-overs mechanism to make adjustments a matter of course in future years. Again, the current review is an ideal opportunity to make appropriate adjustments which will provide clarity and certainty for industry participants.

7. *Is the proposed timing of 1 July 2019 for the commencement of the revised system control charge a concern? If so, why is it a concern and what is a more appropriate start date and why?*

TGen is of the view that the sooner changes are made, the better. This is so that the industry participants can have certainty on what the rules are going forward.

8. *How long should the Commission approve prices for? Options could include one, three or five years?*

The unders-and-overs mechanism proposed in item (6) above would require annual review. TGen considers a five-yearly periodic review of the process would be appropriate.

9. *Should the Commission provide a mechanism to allow System Control to change costs on an annual basis, such as a yearly consumer price index (CPI) adjustment?*

This would not be necessary with the unders and overs mechanism proposed under item (6) above. It would factor into annual charges put forward for the following year.

10. *If so, on what basis should this adjustment be based on? Options could include CPI, CPI – x, government miscellaneous fees and prices index or labour indexes.*

As per item (9) above, not applicable.