

Executive Officer
Utilities Commission
SENT BY EMAIL

Dear Sir / Madam

Re: Review of Wholesale Electricity Generation Market

This is Qenergy Limited's (QEnergy's) response to the Utilities Commission's (the Commission's) draft report for consultation (the Report) reviewing the wholesale electricity market. QEnergy is grateful for the opportunity to respond to this paper.

QEnergy is an established national electricity retailer based in Brisbane with customers in Queensland, South Australia, New South Wales, Victoria and the Northern Territory, specialising in providing retail electricity to small businesses.

As an overarching comment, QEnergy is overwhelmingly supportive of the Northern Territory Government's drive towards and commitment to the introduction of competition into the electricity market. As the first competitive electricity retailer in the Northern Territory, and the only one to have consistently acquired customers over time, QEnergy entered the market in response to significant customer demand but has been unable to satisfactorily fulfil that demand largely owing to the current market design, and the structure and practices of the Power and Water Corporation (PAWC) given their market dominance.

QEnergy therefore strongly agrees that a prerequisite to this reform is the structural disaggregation of PAWC, particularly the separation of PAWC Generation from PAWC Retail. We are also broadly happy with the proposed governance structures and allocations. In particular, QEnergy commends the establishment of a separate PAWC Gas entity servicing both wholesale and retail gas sales.

QEnergy can see that the substantial market share that PAWC Generation will have – now and for decades to come – has been considered and the impact mitigated within the Report to the extent possible. We also understand that it is not within the Commission's remit to consider the scope of PAWC's disaggregation.

However, QEnergy would make the comment that disaggregation of PAWC's generation division into two generation companies – for example, one operating the owned assets and one operating the power purchase agreement portfolio – would facilitate the introduction of competition into the market immediately which might manage some of the transitional market structure risk for new entrants contemplating participating in the Northern Territory.

QEnergy's comments on the Commission's key areas of interest are as follows.

Establishment of an NTEM with separate reliability assurance and energy trading mechanisms

QEnergy agrees that a separate NTEM should be established to facilitate wholesale market competition in the Northern Territory.

We can also see the rationale for the introduction of an NTEM with separate reliability assurance and energy trading mechanisms. Whilst experience in Western Australia and overseas appears to

show that capacity markets are a more expensive outcome for the customer without necessarily improving reliability, a credible argument has been presented that the signalling mechanism necessary to operate an integrated reliability assurance and energy trading mechanism would be difficult to control in the Northern Territory given the market concentration within PAWC Generation.

Recognising this issue, QEnergy considers as noted above that a further disaggregation of PAWC Generation, or at least the requirement that any new generation investment be carried out external to it, should be considered.

Prices based on costs of production and a Reliability Manager

QEnergy is comfortable with the proposed establishment of an independent Reliability Manager who contracts for forward capacity using an out-of-the-money cap mechanism. QEnergy is also comfortable that the premia should be passed through to customers through the wholesale market, although from a settlement perspective it will be important to ensure that intermediaries are not disadvantaged in cash flow terms through having to fund this capacity payment using their own working capital mechanisms. To ensure this, payment terms with the market will need to match back to those collectable from customers (including network billing cycles).

QEnergy is also very supportive of the proposal to limit real-time dispatch prices to the short-run costs of production. Not being a vertically integrated entity, though, we are cautious of the need for market mechanisms to facilitate the desired entry of new private-sector generation competition into the Northern Territory generation market. If potential new entrants were to see this mechanism as a barrier to entry – whether from the implied requirement to publish costs or from the limitations to forward real-time prices – then the mechanism may need to be reconsidered.

Proposed energy trading mechanism

QEnergy supports the use of a security constrained gross dispatch pool given that net settlement is also to be a feature of the settlement arrangements (this is very important to intermediaries because of the implied reduction in credit support requirements). We also support centralised dispatch through the System Controller including self-commitment. Finally, we recommend that the System Controller acquire ancillary services through an appropriate contractual mechanism.

QEnergy's only concern with the Report's analysis is that the reliability of demand within the Northern Territory has been a core underpinning precept of the market structure proposed. Whilst there is limited demand volatility currently, this is vulnerable to the impacts of opening up the market. We recognise that this has been noted by the report but are concerned that the impact may not be sufficiently understood.

For example, there is no doubt that solar generation will impact considerably more in the medium-term than is currently the case, and that with the introduction of competition more demand-response capability will be developed (this has not been possible to monetise with PAWC to date). Further CCGT plant (or similar plant designed without an active operating capability) will also be introduced into the mix. These impacts will require a greater forecasting capability than is currently the case, which does not change the recommendation as proposed but is an important future consideration.

Independent market operator

QEnergy supports the use of dedicated market operator, but would consider that the use of an existing market operator – for example, the Australian Energy Market Operator or the Western Australian Market Operator – would reduce the establishment costs and effort significantly. The administrative and commercial functions undertaken by a market operator – registration,

prudentials, settlement and metering – are common across market designs and consequently would not need to be established on a bespoke basis particular to the Northern Territory market.

Independence of System Control

QEnergy considers that System Control must be independent from PAWC Generation but should also be independent of PAWC Network because the market is proposed as a security constrained gross dispatch pool. It would seem sensible for System Control to be integrated with the Reliability Manager as both roles require a detailed technical understanding of the Northern Territory electricity system and how it performs and grows under various scenarios. These roles, however, should be functionally separate from PAWC Corporate because of the potential for actual or perceived conflict of interest arising from decades of existing personal and corporate relationships.

Another concern for market participants, especially those with invested generation, is likely to be the notion that the market can be suspended by the System Controller should significant storm activity occur. Notwithstanding the expected independence of the System Controller, QEnergy cautions the need for considerable constraints around the operation of this power.

Use of the NER as a template for rules

QEnergy is very comfortable with the use of the NER as a template for the proposed market rules, especially as it may facilitate a transition to inclusion in the NEM should interconnection occur. This seems more likely to occur from Mt Isa and the Queensland region than it does from Western Australia.

Interim arrangements and a transition path

QEnergy is pleased that existing operational arrangements, and therefore presumably existing legislative arrangements, can be modified relatively easily in order to accommodate the proposed market structure.

QEnergy supports the notion of informal interim arrangements for day-to-day operation based on targeted amendment of the existing regulatory instruments such as the System Control Technical Code and the Retail Supply Code. In particular, the simplest option for transitional real-time energy pricing would be to use the existing out-of-balance arrangements with a defined price set by System Control – and independently approved by the Northern Territory Utilities Commission – based on the marginal cost of the lowest generator in the grid. As noted, this could be implemented relatively quickly.

Experience in the National Energy Market has shown that long-term change can take years to actuate, particularly as change on this scale would need to be consulted to ensure it had considered all potential impacts. The use of these transition arrangements would support a path to long-term competition in a way that allowed benefit to be realised prior to completing the transition journey.

Once again, thank you for the opportunity to provide feedback on the Report. If you have any questions, please don't hesitate to contact me.

Yours sincerely



Kate Farrar
Managing Director