

9 April 2010

Mr. Andrew Reeves  
Utilities Commission  
Northern Territory Government  
GPO Box 915 DARWIN  
NT 0801



Dear Andrew,

**Review of options for the development of a retail price monitoring regime for contestable electricity customers**

Thank you for the invitation to comment on the Utility Commission's paper on the review of options for the development of a retail price-monitoring regime for contestable electricity customers.

The Energy Users Association of Australia (EUAA) has around 100 members, mostly large electricity users, some of whom have operations in the Northern Territory. EUAA members with operations in the Territory have for many years encountered frustrations with the lack of competition. They have complained about high prices (even allowing for factors such as the small market, isolation and generation mix), poor service, and poor responsiveness of the monopoly provider. This has forced them to pass on higher prices to their customers and – in some cases – caused them to consider options such as their own generation (even if this is, strictly speaking not the most efficient solution) or even closure of operations.

It is very disappointing that there has been no structural reform in the Territory, which stands starkly as the only Australian jurisdiction with generation capacity that has not undertaken this. It is also very disappointing that there is only one licensed electricity retailer in the Territory, the Power and Water Corporation (PWC), and that its continued monopoly position due to the lack of structural reform, is almost certainly a major factor in the lack of any retail competition. This tends to make the existing level of contestability rather meaningless.

Our strong preference is for electricity services to be developed through competitive markets and we believe that there is further scope to do this in the Territory notwithstanding some of the challenges competition would face. Above all, steps would need to be taken to counteract and break down the monopoly position of the incumbent. For example, it should be possible for the Territory Government to act to disaggregate the power assets of PWC vertically and horizontally, to prevent it from building any further generation, to prevent it from abusing its dominant position and to encourage the development of new private generation and retail activities. This would also need to be accompanied by the introduction of further retail contestability. Given this, we are disappointed that these options are not being considered by the Territory Government. Without them, it is highly likely that electricity users in the

Territory will be left with a less than optimal outcome, notwithstanding the Commission's review. We would therefore encourage the Commission to draw this to the attention of the Territory Government and, in doing so, to urge them to consider a broader structural and ownership review of the Territory's electricity industry as soon as possible. This should also include the adoption of full retail competition, cost reflective prices, measures to contain the market power of PWC, regulated open access to its network and generation assets, and trading and settlements processes. Such a review should be undertaken by an independent body/expert, be public and allow for public submissions and other forms of input from interested parties.

In the absence of competitive markets, we suggest that the Commission seeks to ensure the PWC delivers efficient outcomes and passes these efficiencies on to energy users in the form of lower prices and/or better service. It may do this by taking account of comparative performance and cost assessment, or benchmarking, as a reasonable safeguard for electricity consumers in the Territory whilst PWC continues to enjoy a monopoly position.

Comparing prices in the Northern Territory with those elsewhere in Australia would be useful. Our members report that they pay substantially more for their power in the Territory compared to any other Australian jurisdiction and that the price differences are unreasonably large.

The very high power prices that prevail in the Territory would be holding back its economic development and acting as a disincentive to business to set up in the Territory.

We also encourage the Commission to make progress in developing comparative cost benchmarks. Though there would also be challenges in establishing these benchmarks such as, for example, normalizing for local characteristics, we believe that this is feasible and worth doing. We note in this regard that the AER has statutory requirements to benchmark the costs of electricity network businesses in the National Electricity Market (NEM) and powers to collect the relevant information. We would urge the Commission to enter into discussions with the AER about this matter.

With respect to the Commission's proposal to ask PWC to disclose the profits of their business activities, we have some doubts that this will provide useful information. A concern we have is that it could be too easy for PWC to disguise the true effect through the allocation of common costs. Furthermore, profitability is not necessarily linked to efficiency, and efficiency should be the central policy objective.

For these reasons we favour Option C – *Reporting of Price Indices and Benchmarks of Costs with other Jurisdictions* and Option B – *Reporting of the Estimated Benchmark Costs and Prices of an Efficient Service Provider*, and urge to Commission to continue to consult with users throughout the process.

Yours sincerely,



Roman Domanski  
**Executive Director**