

28 February 2014

Executive Officer  
Utilities Commission  
GPO Box 915  
Darwin NT 0801

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Dear Sir/Madam

**Submission of Energy Developments Limited (EDL) to the Review of Wholesale Electricity Generation Market Draft Report**

EDL welcomes the opportunity to provide a submission in relation to the Utilities Commission Draft Report and looks forward to further consultation on this matter.

**About EDL**

EDL is an international provider of remote energy and clean energy solutions. We own and/or operate an international portfolio of over 800 MW of power generation facilities in Australia, the United States and Europe, utilising a range of fuel sources including landfill gas (**LFG**), waste coal mine gas (**WCMG**), natural gas (including LNG and CNG) and diesel.

As the most experienced private power generator in the Northern Territory, EDL has a long standing and ongoing commitment to providing safe and reliable power to the Northern Territory.

- The EDL business started in 1988 with the construction of the Pine Creek Natural Gas Power Station. This 34 MW power station continues to provide safe and reliable power to the Northern Territory
- In 2007 EDL developed the Yulara Compressed Natural Gas Transport Project, which continues to fuel the power station supplying electricity to the World Heritage-listed, Uluru-Kata Tjuta National Park and local Uluru and Kata Tjuta communities.
- This year, EDL commissioned a 53 MW expansion of its 24MW McArthur River Mine Power Station, which has been providing power supply to the Glencore Xstrata McArthur River Mine since 1995.

**Submission to the Draft Report**

EDL agrees with the objective of the Utilities Commission (Commission) in undertaking its review to promote the economically efficient, safe and reliable production and supply of electricity in the Northern Territory.

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EDL submits that the market mechanism proposed by the Commission is one model that could potentially achieve this objective. However, further consideration of whether the proposed market mechanism is the best model is recommended to ensure:

1. that issues experienced in the Western Australian Wholesale Electricity Market (WEM) are avoided; and
2. establishment and ongoing market operation costs are balanced against the relative benefits of the market model over other models.

#### *Consideration of the WEM*

EDL supports the use of clear and transparent market mechanisms to achieve the Commission's stated objectives, where a deep and liquid market can be achieved.

In determining whether such a market can be achieved in the Northern Territory, EDL submits that consideration should be given to the specific characteristics of the Northern Territory electricity market, including:

- It is relatively small in size;
- Each town or system has a small number of generating units installed;
- Generation in each town or system is generally gas fired, with the exception of some peaking generation;
- There is little diversity in the contracted supply of gas;
- The retail market is small, dominated by residential load, with a relatively small number of industrial and commercial customers.

Some of these characteristics are present (to a lesser degree) in the WEM and consideration should be given to how a market can be implemented to avoid the issues experienced in the WEM.

Specifically, the following issues have been recognised in the WEM:

- It has been difficult to establish a capacity mechanism that provides the most efficient level of incentive for new generation. This has resulted in:
  - over-supply of capacity in the WEM;
  - A sub-optimal mix of generation capacity, with insufficient flexibility in generation to efficiently match the demand profile of the market.
- The limited contestability in the WA retail market has resulted in Government owned retailers effectively underwriting the development of the majority of new base-load generation that has been installed since the market started.

EDL notes that the Draft Report has considered mechanisms to avoid the issues experienced in the WEM. We recommend the Commission consider a process to review how those mechanisms are tested to ensure they deliver economically efficient, safe and reliable production and supply of electricity.

#### *Market Establishment and Operating Costs*

The establishment and operation of a wholesale market can incur significant costs. EDL acknowledges the suggested methods to minimise costs set out in the Draft Report, including through the use of established market rules and mechanisms. EDL notes that even if market establishment costs are minimised, new and ongoing costs will be incurred by the Northern Territory Government to manage the operation of a market.

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EDL submits that:

1. the costs and benefits of the wholesale electricity market model should be compared against other models for meeting the Commission's stated objectives
2. the independent power producer asset model can result in economically efficient, safe and reliable production and supply of electricity and this has been demonstrated in the Northern Territory and other jurisdictions
3. this model can be managed through a single, competitive, market based tender process
4. such a competitive process can be applied to both existing and new generation capacity to meet changes in demand without the risks and ongoing costs of a market based proposal.

It is noted that an independent power producer asset model can be implemented with a market dispatch model (the two models are not mutually exclusive).

If you have any questions in respect of this submission, please contact our Tim Sprey on 07 3275 5520.

Yours sincerely



**Tim Sprey**  
Manager Corporate and Commercial Affairs  
Energy Developments Limited