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Utilities Commission of the Northern Territory
Attention: Kimberlee McKay
GPO Box 915
Darwin NT 0801

By email: utilities.commission@nt.gov.au
CC: riskandcompliance@territorygeneration.com.au

Dear Ms McKay

Submission in relation to the Electricity Ring-Fencing Code ("Code") amendments and Guidelines review

Territory Generation (**TGen**) refers to the letter dated 20 March 2020 from the Utilities Commissioner in regards to the above matter.

TGen appreciates the opportunity to provide submissions in relation to the Draft Decision of the Utilities Commission (**UC**), the draft amended Code and the Guidelines.

TGen reiterates the contents of its previous submissions made on the draft Code dated 28 June 2019.

If the regulatory mechanisms can be put in place that require Power and Water Corporation (**PWC**) Networks and System Control to pay for the services they receive from out of (energy price) economic merit dispatch of generators, then the requirements for ring-fencing would likely significantly diminish. Costs and payments would be accounted for in the accounts of PWC System Control and network businesses, there would be commercial pressures and incentives applied, and the cost of controls would be transparent to regulators of the system control and network functions.

In relation to the Draft Decision recommendations to the ring-fencing arrangements in the NT, TGen provides specific comments on these recommendations below:

1. TGen supports the objective to minimise duplication of ring-fencing obligations.

However, TGen notes that the use of national guidelines in a market where the national rules do not apply, such as the NT, presents a significant risk that the intent of the guidelines will not be achieved as they would be operating without the supporting operation of the rules.

It is clear in the NTNER that there are many provisions of the NER that are either 'locked' or 'earmarked' for potential future application in the NT. TGen suggests that rigorous analysis of the comparison of the relevant regulatory framework be considered before wider

application of the national ring-fencing guidelines in the NT. This will ensure that only the NT-relevant components of the national ring-fencing guidelines are adopted in the NT. This is in consideration that at present, all parts of the national electricity rules are not applicable in the NT. In the alternative, the application of the further clauses of the national electricity rules could be accelerated to align with the further implementation of these guidelines.

2. TGen supports the objective of minimising the potential for PWC to discriminate to its advantage.
 - a. TGen supports the tailoring of the Ring Fencing Code and Guidelines to meet the Territory's needs.
 - b. TGen supports the inclusion of a general non-discrimination clause to prevent PWC from using its position to gain advantage in competitive sectors of the electricity supply industry.
 - c. TGen supports the inclusion of obligations on each of PWC's prescribed businesses not covered by the national ring-fencing guidelines.
3. TGen supports the simplification/consistency/clarification of cost allocation methodology within PWC.
4. TGen supports the objective of minimising the potential for System Control to advantage the gas supply business unit in the dispatch of generators.
 - a. The proposal to ensure that System Control be physically separated from the gas supply business is welcomed. However, TGen suggests this should be extended to require that System Control be physically separated from the Network business also.
 - b. This recommendation proposes that PWC and NT Government develop and publish a clear set of protocols for generator dispatch.

Currently Generators are dispatched to provide the following services: Energy and capacity, Ancillary Services (inertia, frequency and voltage control, black start), Network Support, and Generator Testing support etc.

TGen suggests that future protocols cover the dispatch of all services required by the operation of the power systems. TGen notes that some of these services may not be provided from generators in future as new technologies are deployed.

TGen further suggests that the dispatch protocol requires that the services are to be specified in the units of measurement relevant to the service. For example: inertia requirements should be specified in megawatt seconds, not requiring certain machines to be online such as the 'two frame policy', as is the current practice, to ensure transparency of decision rational.

5. TGen supports the objective of minimising the potential for System Control to disadvantage generators in the planning and management of network outages, specifically:
 - a. TGen supports the objective to place stronger obligations on System Control to not discriminate in regards to planning and management of network outages.

- b. TGen supports the requirement for PWC to publish a guideline and some transparency on the outage planning process. In order for such a guideline to provide transparency, PWC will need to specifically outline the costs being incurred by other parties or, ideally the costs PWC Networks is paying to receive support from other parties to undertake planned outages. TGen suggests that there may exist clauses in the NTNER that are currently 'locked' to the NT jurisdiction that would require PWC Networks to undertake this.
- c. The recommendation 5(c) recommends that the Territory Government consider introducing an incentive scheme for PWC's Network Business to minimise network constraints.
 - i. Rewarding PWC Networks to minimise network constraints, in itself, may not provide any cost savings. An incentive scheme to reduce costs to generators to provide PWC Networks with support services may provide some reduction in costs to generators and an overall reduction in costs to system participants. However, in the absence of any regulatory mechanism to have generation paid for the support it provides to the Networks, any decision by System Control to constrain generation to support Network operations is effectively allocating Network Costs to generators without compensation.
 - ii. TGen believes implementing a regulatory mechanism that ensures service providers are paid for the services they provide will eliminate most of the issues the NT electricity supply industry currently faces. That is, if PWC Networks has obligations to minimise its costs, when it is required to pay for support services it receives, it will be incentivised to minimise its overall costs through making efficient decisions about its future investment in capital or operating expenses to support the operation of the network.

- 6. TGen supports the recommendation to consider the application of further national ring-fencing guidelines if PWC become active in providing contestable services.

Further to the above comments on the UC's draft Decision recommendations, TGen provides some further general comments for consideration:

- Network Support
 - TGen outlined a number of areas in which it provides support to the Network in its June submission to the issues paper. These can be summarised as:
 - Locational generation being dispatched out of economic merit due to the nature of the Network, the main examples are Katherine and Weddell Power Stations.
 - Out of economic merit dispatch of generation, or increased requirements of generation reserves, due to planned Network maintenance, example Weddell units dispatched to keep load on certain network elements close to zero due to other elements being taken out of service for maintenance.
 - TGen suggests that providing a regulatory mechanism to ensure that PWC networks pay for these services may eliminate the need for ring-fencing on the issue.

- TGen notes that clause 5.3.12A of the NTNER is currently 'locked' and identified for potential to be unlocked at some future point. TGen requests that consideration of unlocking this clause may provide the regulatory mechanism required to ensure that PWC are required to pay for the network support services it receives.
- Generator Testing Support
 - In recent weeks System Control has issued a number of Risk Notices in relation to commissioning tests of another generator. These Risk Notices require TGen generating units to be constrained more than would otherwise be the case, resulting in less efficient generation dispatch and increased costs to TGen.
 - TGen has requested PWC to identify how TGen is to be recompensed for providing such services. The response to date has not identified any means of TGen recovering these additional costs.
 - This is a similar situation as Network Support Services. In the case of Generator Testing Support, System Control requiring TGen to provide service is effectively allocating another generator's costs to TGen without compensation.
 - TGen acknowledges that this issue is not within the scope of the ring-fencing review as it does not benefit another part of PWC. However, it is a related issue in that the establishment of a regulatory mechanism to ensure network support services are recompensed should also consider recompensing for similar services provided for benefit of other generators.
 - TGen suggests that provision of greater transparency on dispatch of all services would go some way to identifying the extent of this issue.
- Gas supply
 - Since TGen's submission to this review in June 2019, there has been increased focus by PWC's Gas Unit on the accuracy of gas nominations. There has been suggestion that increased penalties for inaccurate gas nominations can be expected in the future. Gas nominations are required for daily gas consumption for each location.
 - TGen receives gas at each of its three power stations in the Darwin Katherine Power System (Katherine, Weddell and Channel Island Power Stations).
 - System Control will dispatch Katherine Power Station out of economic merit throughout the year for reasons outlined in our June submission.
 - System Control, from time to time, imposes limits on generating units' output that result in change in input fuel (gas to liquid) to maintain stable operation.
 - TGen does not know when System Control will dispatch Katherine Power Station in a manner that makes it possible to provide PWC Gas unit with location specific gas nominations to the accuracy it seeks.
 - Further, the dispatch of Katherine Power Station out of economic merit is seen by TGen as providing support to PWC's Network Business. However, TGen is not recompensed for these services.
 - From a situation that is outside its control, TGen is being warned of future increased penalties from one PWC business (gas) resulting from decisions made in another part of PWC (System Control) to support a third part of PWC's business (Networks). No recompense is provided to TGen.

- It is likely System Control cannot foresee the specific times it will require Katherine Power Station either, as these are largely weather dependant. However, if there was a regulatory mechanism that would require PWC Networks to enter into a Network Support arrangement and provide payments for the services TGen provides, then TGen could factor into the pricing of such services the costs of gas nomination inaccuracies along with the other costs required to provide the services.
- In TGen's June submission to this review, representations were made about the impact PWC's System Control can have on the increased use of gas by TGen due to inefficient economic dispatch.
 - The UC draft decision highlights that PWC gas unit can sell the gas that TGen uses for greater value via the Northern Gas Pipeline.
 - TGen now makes a further observation regarding this. System Control places constraints on generation dispatch that forces some of TGen's plant to run on diesel. This could be seen as "freeing up" gas for sale at greater benefit to PWC's gas business whilst TGen incurs greater costs and higher emissions from running on diesel. Whilst TGen acknowledges that this is an unlikely motivation to PWC System Control, TGen suggests that provision of greater transparency on dispatch of all services would go some way to alleviate TGen's concerns.

If you have any queries or require further information please do not hesitate to contact Hieu Nguyen on (08) 7979 2509 or at hieu.nguyen@territorygeneration.com.au

Yours sincerely



David Brown
Chief Executive Officer

23 April 2020

