

Introduction

The Northern Territory Electricity System and Market Operator (NTESMO) is a business unit within the Power and Water Corporation (PWC). In accordance with the system control licence held by PWC, NTESMO is responsible for system control functions in the Northern Territory's (Territory's) three regulated power systems – Darwin-Katherine, Alice Springs and Tennant Creek power systems – and wholesale market operations (market operator functions) in the Darwin-Katherine power system. Under section 39 of the *Electricity Reform Act 2000*, NTESMO recovers the efficient cost of its services through charges on retailers, approved by the Utilities Commission (Commission).

The current regulatory period ends 30 June 2027 (2024-27 regulatory period), and the Commission is now assessing charges for the next regulatory period, from 1 July 2027 to 30 June 2032 (2027-32 regulatory period). The regulatory framework for system control and market operator charges was set out in the Commission's [September 2024 Decision Paper](#) and clarified in the June 2026 [Framework, Process and Timelines paper](#).

PWC submitted NTESMO's initial regulatory proposal for the 2027-32 regulatory period (initial proposal) in May 2026. As the first step in its 2027-32 review of system control and market operator charges (2027-32 Review), the Commission has released the initial proposal, along with this paper for consultation.¹

Purpose of this consultation

The Commission is seeking stakeholders' feedback on NTESMO's initial proposal including its approach to determining its revenue requirement and indicative pricing for the 2027-32 regulatory period. The Commission seeks submissions from stakeholders by **close of business Tuesday, 4 August 2026**.

This paper highlights key elements of NTESMO's initial proposal and provides observations and questions on issues to guide feedback. The paper is not intended to limit feedback provided nor does it represent any preliminary position of the Commission in respect of the initial proposal. Stakeholders should read NTESMO's full proposal and attachments together with this paper before making a submission.

Stakeholder input will inform the Commission's Draft Decision, which is expected to be released in October/November 2026. A summary of the timetable for the 2027-32 Review is provided at the end of this paper.

Submissions should be emailed in Adobe Acrobat or Microsoft Word format to utilities.commission@nt.gov.au and will be published on the Commission's website.

Any questions regarding the consultation or the 2027-32 Review can be directed to the Commission by:

Email: utilities.commission@nt.gov.au

Phone: (08) 8999 5480

Mail: GPO Box 915, Darwin NT 0801.

¹ NTESMO's initial proposal uses the term FY2028-32 rather than 2027-32 as used by the Commission with this referring to the period from 1 July 2027 to 30 June 2032.

Summary of NTESMO’s proposed revenue requirements

Consistent with the regulatory framework, NTESMO has used the building block model to estimate its annual revenue requirements for the 2027-32 regulatory period. NTESMO proposes revenue of about \$39 million (\$real, 2026-27) per annum (a total of \$196.3 million over five years), comprising about \$30 million per annum (\$149.2 million over five years) for system control functions and \$9 million per annum (\$47.1 million over five years) for market operator functions (**Table 1**). For comparison, the approved annual revenue requirement for 2026-27 is \$21.7 million for system control functions and \$5.6 million for market operator functions (a total of \$27.3 million).²

In seeking to justify the increased expenditure resulting in higher required revenue, the initial proposal notes several complexities and uncertainties NTESMO is facing now and into the next regulatory period. NTESMO identifies several system security challenges with the ongoing energy transition across the Northern Territory’s power systems which require enhanced system operator functions and robust real time decision support to maintain security and reliability. NTESMO also points to the ongoing Territory Energy Market (TEM) reforms, which are expected to result in the establishment of NTESMO as a standalone entity at the commencement of the 2027–32 regulatory period. According to NTESMO, this transition creates uncertainty regarding the future scope of its functions, including the extent of any new or expanded activities and compliance obligations that may arise as the reforms are implemented.

Table 1 Proposed NTESMO revenue requirements 2027-28 to 2031-32 (\$m real 2026-27)

	2027-28	2028-29	2029-30	2030-31	2031-32
System Control					
Operating expenditure	21.3	21.2	21.6	21.8	21.7
Depreciation	3.6	4.5	4.7	4.9	5.1
Return on capital	2.7	3.4	3.2	2.9	2.5
Revenue adjustments ¹	0.9	0.8	0.8	0.8	0.8
Net tax allowance	-	-	-	-	-
Total	28.4	30.0	30.3	30.4	30.1
Market Operator					
Operating expenditure	7.9	7.9	8.0	8.0	8.1
Depreciation	0.7	0.7	0.8	0.8	0.8
Return on capital	0.3	0.3	0.3	0.3	0.3
Revenue adjustments ¹	0.3	0.3	0.3	0.3	0.3
Net tax allowance	-	-	0.0	0.1	0.1
Total	9.3	9.3	9.4	9.5	9.5

² Refer the Commission’s [notice of approval for 2026-27 System Control and Market Operator charges](#)

	2027-28	2028 -29	2029-30	2030-31	2031-32
Total revenue requirement					
Operating expenditure	29.2	29.2	29.6	29.8	29.8
Depreciation	4.3	5.3	5.5	5.7	5.9
Return on capital	3.0	3.7	3.5	3.2	2.8
Revenue adjustments ¹	1.2	1.2	1.1	1.1	1.1
Net tax allowance	-	-	0.0	0.1	0.1
Total	37.7	39.3	39.7	39.9	39.7

Note: Numbers may not add up due to rounding

¹ Revenue adjustments reflect the cost pass-throughs associated with Territory Electricity Market (TEM) reforms

Source: NTESMO initial proposal, Tables 7 and 8, and post-tax revenue models (Attachments 17 and 18)

Table 2 presents NTESMO’s indicative system control and market operator charges for the 2027-32 regulatory period.

- The indicative system control charge for 2027-28 is 1.6842 cents per kilowatt hour (c/kWh), a 39.8% increase from the 2026-27 charge of 1.2047 c/kWh.
- The indicative market operator charge for 2027-28 is 0.6349 c/kWh, a 75.7% increase from the 2026-27 charge of 0.3613 c/kWh.

Table 2 Indicative System Control and Market Operator charges (c/kWh, nominal)

	FY28	FY29	FY30	FY31	FY32
System Control	1.6842	1.8064	1.8699	1.9106	1.9269
Market Operator	0.6349	0.6509	0.6735	0.6921	0.7057

Source: NTESMO initial proposal, Table 6-2 (reproduced)

For stakeholder comment – Revenue requirements

- 1.1 The proposed revenue requirement of about \$39 million per annum represents a substantive increase. Stakeholders’ views are sought on whether:
- NTESMO’s proposed expenditure is commensurate with the services required over the 2027-32 regulatory period, given operational and regulatory changes outlined in its initial proposal.
 - NTESMO has demonstrated its proposed expenditure is reasonable (i.e., justified), prudent (i.e., necessary) and efficient (i.e., lowest cost).
 - alternative approaches could better manage costs while maintaining system security and service outcomes.

Operating expenditure

Base year expenditure

NTESMO has used 2024-25 as the base year for the 2027-32 regulatory period as this is the most recent year of audited actual operating expenditure. NTESMO adjusted the base year expenditure to remove unregulated and one-off costs and redistributed expenditure across cost categories and functional areas. After these adjustments, the base year expenditure is lower than the approved 2024-25 operational expenditure from the 2024-27 Review and there is a substantial shift in costs from system control to market operator functions (Table 3). The Commission will seek to better understand the drivers behind the reallocation of costs between the system control and market operation function, including by understanding any changes to functions and activities arising from market and reform changes.

Table 3 Base year operational expenditure versus approved revenue 2024-25 (\$m real 2026-27)

	System Control		Market Operator		Total	
	Base Year	Approved Revenue	Base Year	Approved Revenue	Base Year	Approved Revenue
Personnel costs	6.3	10.3	4.3	2.4	10.5	12.7
Professional fees	1.2	0.7	0.1	0.0	1.3	0.7
Residual costs	1.2	1.3	0.7	1.0	1.9	2.3
Corporate overheads	3.9	4.6	2.6	1.1	6.5	5.7
Total	12.5	17.0	7.6	4.4	20.2	21.4

Source: NTESMO initial proposal, Table 3-1 (reproduced)

Operating expenditure – step changes

In addition to applying a trend adjustment to personnel costs (about \$0.3 million per annum), NTESMO is seeking increases above its base level of operating expenditure (referred to as step changes) of about \$9 million per annum (\$44.2 million over five years). Most of these step changes relate to NTESMO’s system control function (Table 4). The proposed step changes are:

- Territory Dispatch Engine (TDE) on-going maintenance – professional fees and residual costs totalling \$15.7 million over five years
- On-going maintenance of existing and new system tools – professional fees totalling \$5.3 million over five years
- Establishing a real time energy management system model – residual costs totalling \$8.8 million over five years
- Market Settlement and Transfer Solutions (MSATS) system usage and licence fees and NTESMO Communications Guideline maintenance - residual costs and professional fees totalling \$1.9 million over five years
- Periodic review of NTESMO’s procedures and guidelines – professional fees totalling \$1.6 million over five years
- Territory Electricity Market (TEM) reform-related cost – personnel, professional fees, residual costs and corporate overhead savings totalling \$10.8 million over five years (discussed later in this paper).

Further detail and supporting evidence for each step change are provided in Attachments 1-6 of NTESMO's initial proposal.

Table 4 Proposed step changes for system control and market operator functions (\$m real 2026 27)

	2027-28	2028-29	2029-30	2030-31	2031-32
System Control					
TDE	2.1	3.0	3.5	3.5	3.5
Existing system tools	0.7	0.6	0.6	0.6	0.6
New system tools	0.8	0.5	0.3	0.3	0.3
Real time system support services	1.6	1.6	1.6	1.6	1.6
MSATS	0.4	0.4	0.4	0.4	0.4
TEM reforms ¹	3.8	3.1	3.1	3.1	3.1
Corporate overheads	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)
Total	8.6	8.5	8.7	8.8	8.7
Market Operator					
Real time system support services	0.1	0.1	0.1	0.1	0.1
Review codes and procedures	0.3	0.3	0.3	0.3	0.3
Corporate overheads	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Total	0.2	0.2	0.2	0.2	0.2
Total step changes	8.8	8.6	8.9	9.0	8.9

¹ Includes application of trend to personnel cost component

Source: NTESMO initial proposal, Tables 3-4, 3-5, 3-6, 3-8, 3-9, 3-10 and 4-1 and Opex model (Attachment 11).

Corporate overheads

In the 2024-27 regulatory period, NTESMO's corporate overheads were estimated as a share of PWC's corporate overheads based on PWC's cost allocation methodologies. NTESMO notes that following separation from PWC, it will be responsible for managing its own corporate overheads and PWC's internal overhead forecasts (including embedded efficiency targets in the forecasts) will no longer be an appropriate basis for forecasting NTESMO's corporate costs.

Instead, NTESMO proposes to use the same base-step-trend approach applied to other operating expenditure. Using this approach and including savings indicated in **Table 4** above, NTESMO estimates its corporate overhead expenditure to be \$5.5 million in 2027-28 (\$real, 2026-27), rising to \$5.7 million in 2031-32.

For stakeholder comment – Operating expenditure

1.2 Stakeholders' views are sought on:

- a) the efficiency of base year expenditure.
- b) whether the proposed step changes are reasonable, prudent and efficient.
- c) whether the proposed approach to estimating corporate overheads is reasonable and efficient.

Capital expenditure and the Regulatory Asset Base (RAB)

NTESMO proposes \$22.4 million in capital expenditure over five years (Table 5). This includes \$10.2 million in reprofiled capital expenditure for the TDE project and \$8.3 million in corporate capital expenditure, mainly for works to consolidate all PWC operations at a single site in Darwin.

Table 5 Proposed capital expenditure 2027-28 to 2031-32 (\$m real 2026-27)

Capital Project	FY28	FY29	FY30	FY31	FY32	Total
Territory Dispatch Engine	10.2	-	-	-	-	10.2
System Tools	2.4	0.2	-	-	-	2.6
TEM Reform	0.7	0.2	0.2	0.1	-	1.3
Corporate capex	3.1	2.8	1.0	0.7	0.7	8.3
Total	16.4	3.3	1.2	0.8	0.7	22.4

Source: NTESMO initial proposal, Table 5-4 (reproduced)

Reprofiled TDE capital expenditure

NTESMO advises the TDE project has been delayed, shifting part of the expenditure originally forecast for the 2024-27 regulatory period into 2027-28. As a result, NTESMO will recover more revenue for depreciation and return of capital in the 2024-27 regulatory period than warranted with an estimated over recovery of \$1.2 million.

The current regulatory framework does not expressly address this situation, and the Commission will need to develop a mechanism to ensure NTESMO does not recover these costs twice. NTESMO acknowledges the need for an incentive to ensure timely delivery of approved projects and proposes to work with the Commission on an approach to address the over-recovery in a way that benefits consumers.

Corporate capital expenditure

NTESMO has included corporate capital expenditure associated with PWC projects but intends to review this expenditure before submitting its revised proposal. NTESMO notes planning for its facilities is in preliminary stages and the current allocation represents an evidence-based estimate of its future corporate capital needs following separation from PWC (as will occur under the TEM reforms). NTESMO advises that its forecast of TEM reform costs does not include any property capital costs or lease and maintenance costs.

For stakeholder comment – Capital expenditure

1.3 Stakeholders' views are sought on:

- a) the treatment of reprofiled TDE capital expenditure.
- b) the estimate of corporate capital expenditure given NTESMO's proposed separation from PWC.
- c) whether NTESMO has demonstrated the capital expenditure for system tools is reasonable, prudent and efficient.

TEM reforms

In October 2025, the Territory Government passed the *Electricity Legislation Amendment (Market Reform) Act 2025* and *Electricity System and Market Operator (NTESMO) Act 2025* (the Acts). The Acts establish NTESMO as a statutory corporation separate from PWC and give it several new or expanded functions, including:

- centralised planning – producing a Regulated Electricity System and Investment Plan to guide new infrastructure development in the three regulated power systems
- centralised procurement in the Darwin-Katherine power system
- revised scheduling and dispatch processes to integrate more generation and new technologies and optimise dispatch.

The Territory Government is developing market rules and regulations which will underpin the reform program. These supporting regulatory instruments are expected to be completed by late 2026 and take effect from 1 July 2027. The separation of NTESMO from PWC is expected to take effect from 1 July 2027.

NTESMO's initial proposal includes operational and capital costs it considers can be reasonably forecast for the 2027-32 regulatory period (as shown in **Table 4** and **Table 5** above). Further detail on these costs is provided in Attachment 6 of NTESMO's initial proposal.

Cost pass-through revenue adjustment- 2024-27 regulatory period

NTESMO has already started to incur TEM reform implementation costs above what was expected when prices were set for the period up to 2026-27. Accordingly, NTESMO proposes to recover TEM reform-related costs incurred in the 2024-27 regulatory period through the revenue adjustment shown in **Table 1**. That is, NTESMO seeks to recover a total of \$5.7 million (\$m real 2026-27) in reform implementation costs from the 2024-27 regulatory period, spread evenly across the five years of the 2027-32 regulatory period.

Uncertain costs of TEM reform

NTESMO proposes \$17.8 million (\$m real 2026-27) in expenditure relating to TEM reforms (**Table 6**). However, NTESMO indicates total reform costs will be higher, estimating these to be \$46.6 million (\$m real 2026-27) over the period from 2025-26 to 2031-32 (**Table 7**). NTESMO proposes to refine these estimates for its revised proposal as rules and regulations are finalised. If the necessary rules are not completed in time to inform the proposal, NTESMO intends to seek recovery through a future cost pass-through claim.

Table 6 Preliminary TEM reform costs proposed for recovery in 2027-32 regulatory period (\$m real 2026-27)

	FY26	FY27	FY28	FY29	FY30	FY31	FY32	Total
Capex	-	-	0.7	0.2	0.2	0.1	-	1.3
Opex	-	-	3.7	3.1	3.1	3.1	3.1	16.1
Corporate overhead savings (opex)	-	-	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)	(5.3)
Pass-through	0.1	5.6	-	-	-	-	-	5.7
Total	0.1	5.6	3.4	2.2	2.2	2.1	2.0	17.8

Source: NTESMO initial proposal, Table 4-1 (reproduced)

Table 7 Estimated total TEM reform costs for recovery in 2027-32 regulatory period (\$m real 2026-27)

	FY26	FY27	FY28	FY29	FY30	FY31	FY32	Total
Capex	-	-	0.7	0.2	0.2	0.1	-	1.3
Opex	-	-	9.8	8.4	8.4	8.4	8.4	43.4
Corporate overhead savings (opex)	-	-	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)	(5.3)
Pass-through	0.1	7.2	-	-	-	-	-	7.3
Total	0.1	7.2	9.4	7.5	7.5	7.4	7.3	46.6

Source: NTESMO initial proposal, Table 4-2 (reproduced)

For stakeholder comment – TEM reforms

1.4 Stakeholders' views are sought on:

- a) whether NTESMO adequately justifies the TEM reform-related expenditure for recovery, noting that only efficient costs clearly linked to known regulatory obligations and that can be reasonably forecast should be included in the proposal.
- b) whether NTESMO demonstrates the costs to be recovered are prudent and efficient.
- c) whether additional safeguards are needed to manage uncertainty relating to reform scope, timing and future cost pass-throughs.
- d) how risks associated with reform implementation should be allocated between NTESMO and consumers.

Productivity factor

In its September 2024 Decision Paper, the Commission decided that a productivity factor, set at zero would be applied to operating expenditure forecasts to the 2024-27 regulatory period. However, both that decision and the June 2026 Framework, Process and Timelines paper required to NTESMO to propose and justify an explicit productive factor in future regulatory periods. NTESMO proposes a productivity factor of 0% for the 2027–32 regulatory period, citing system transition and reform-related change as reasons for not including a non-zero factor.

For stakeholder comment – Productivity factor

1.5 Stakeholders' views are sought on:

- a) whether a productivity factor of zero is appropriate for the 2027-32 regulatory period.
- b) whether reform and non-reform costs should be treated differently when applying productivity expectations.

Key performance indicators (KPIs)

As required by the June 2026 Framework, Process and Timelines paper, NTESMO proposes seven KPIs covering system security, forecasting, settlements, system availability and industry engagement. The proposed KPIs are:

- forecast accuracy – mean absolute percentage error for the 24 hours ahead rolling forecast and 4 hour ahead rolling forecast for each 30-minute interval across the Darwin-Katherine and Alice Springs power systems.
- secure, reliable economically compliant operation – percentage of dispatch intervals where the system operates within secure and reliable limits under the System Control Technical Code
- system black events – number of full system black events per year
- settlement timeliness – percentage of preliminary, final and revision settlement statements issued on time
- settlement accuracy – number of settlement corrections due to NTESMO process error
- system availability – percentage of time core operational and market systems are available during required operational hours
- industry engagement – frequency and timeliness of publication of industry updates.

For stakeholder comment – KPIs

1.6 Stakeholders' views are sought on:

- a) whether the proposed KPIs provide an appropriate and balanced representation of performance.
- b) the clarity, measurability and relevance of the proposed KPI targets.
- c) whether additional KPIs should be considered, including measures of benefits from investment in the TDE and new TEM-related reforms.

Regulated charges and customer impacts

NTESMO has retained the existing volumetric (c/kWh) charging arrangements for its initial proposal but intends looking further at whether tariffs should move to some or all costs being recovered using a fixed monthly charge. The Commission observes that proposing a change to tariffs in the revised proposal would be a material change late in the review process and there would be limited opportunity for stakeholder input prior to the Commission releasing its final decision.

For stakeholder comment – Regulated charges and customer impacts

1.7 Stakeholders' views are sought on:

- a) the distributional impacts of proposed charges across different customer classes.
- b) whether alternative tariff structures should be explored including options for fixed monthly charges.
- c) the adequacy of NTESMO's analysis of bill impacts.

Process and timetable for 2027-32 Review

The Commission invites written submissions on any matter raised in this consultation paper or in NTESMO's initial proposal. Submission are due by **close of business Tuesday, 4 August 2026** and will inform the Commission's Draft Decision, expected in late 2026.

Figure 1 outlines the components of the 2027-32 Review and their expected timing; however, timeframes remain at the Commission's discretion and depend on NTESMO's responsiveness to information requests. In addition to this consultation, the Commission will seek stakeholder feedback on its Draft Decision and undertake further consultation as required to support sound regulatory decision-making.

Figure 1 Expected timeline for 2027-32 Review



The Commission has engaged Frontier Economics Pty Ltd (Frontier Economics) to provide expert advice during the 2027-32 Review. Frontier Economics will assist the Commission in assessing NTESMO's initial proposal, supporting evidence and modelling and provide input for the Commission's Draft Decision. Frontier Economics will also support the Commission in reviewing NTESMO's revised proposal and 2027-28 pricing proposal and providing input for the Commission's Final Decision.