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# UTILITIES COMMISSION ANNUAL REPORT

2010-11

*September 2011*



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The Hon Delia Lawrie, MLA  
The Treasurer  
Parliament House  
DARWIN NT 0800

Dear Treasurer

I am pleased to provide you with the Annual Report of the Utilities Commission of the Northern Territory for the financial year ended 30 June 2011.

The Report covers:

- the administration of the *Utilities Commission Act* during the year;
- activities of the Commission under the Electricity Networks (Third Party Access) Code during the year;
- activities of the Commission under the *Electricity Reform Act* and *Water Supply and Sewerage Services Act* during the year.

The Commission notes that the *Utilities Commission Act* provides that a copy of this report is to be tabled in the Legislative Assembly within six sittings days of receipt.

Yours sincerely

A handwritten signature in black ink, appearing to read "A J Reeves".

Andrew Reeves  
Utilities Commissioner

30 September 2011

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# CHAPTER 1

## Commission's Overview

### Introduction

- 1.1 This is the twelfth annual report of the Utilities Commission of the Northern Territory and gives details of the Commission's activities over the financial year 2010-11.
- 1.2 The Commission was given an expanded role by the Territory Government from April 2009 as part of a reform program to strengthen oversight of the electricity supply, water supply and sewerage sectors.
- 1.3 During 2010-11, the Commission continued to progress the Territory Government's priority work program to increase the efficiency of the dominant service provider, the Power and Water Corporation (PWC), improve customer standards of service and reliability, and where possible, align the Territory electricity industry with national electricity market practice.
- 1.4 As part of the Commission's day to day regulatory role, the Commission has continued to focus on oversight of the technical performance of Territory power systems and regulatory compliance to encourage the adoption of good electricity industry practice in the Territory.
- 1.5 The Commission's role is more limited with respect to the regulation of water and sewerage services.
- 1.6 A significant event in 2010-11 was the entry of a second licensed electricity retailer, QEnergy Ltd (QEnergy), into the Territory electricity supply market.
- 1.7 While the Commission welcomes the emergence of competition in the retail supply market, it highlighted that more specific and detailed regulatory arrangements are necessary to facilitate retail contestability and the associated electricity retail supply activities.

### Year in review

#### Priority work program

- 1.8 Progressing the Territory Government's priority work program continued to form a significant part of the Commission activities in 2010-11.
- 1.9 Of the seven reviews outstanding at the commencement of the year (of eight reviews with terms of reference approved by the Treasurer in August 2009), four reviews were completed and three were progressed:
  - A Review of Options for Implementation of a Customer Service Incentive Scheme for Electricity Customers commenced in March 2010. The final report was provided to the Treasurer in July 2010.

- A Review of Options for the Development of a Retail Price Monitoring Regime for Contestable Electricity Customers commenced in March 2010. The final report was provided to the Treasurer in September 2010.
- A Review of Electricity Standards of Service commenced in May 2010. The final report was provided to the Treasurer in November 2010.
- A Review of the Power and Water Corporation's Asset Management Capability commenced in February 2010. The final report was provided to the Treasurer in November 2010.
- A Review of the Power and Water Corporation's Capital and Maintenance Programs commenced in March 2010. The final report is scheduled to be provided to the Treasurer in late 2011.
- A Review of System Planning, Monitoring and Reporting commenced in December 2010. A final report is scheduled to be provided to the Treasurer in late 2011.
- A Review of Electricity System Planning and Market Operation Roles and Structures commenced in August 2011. A final report is scheduled to be provided to the Treasurer in late 2011.

1.10 A working group has been established to investigate potential implementation matters arising from the Commission's reviews and the Government's priority electricity reform program.

### **Retail market competition**

- 1.11 Following the entry of QEnergy into the Territory's retail electricity market, the Commission has placed greater emphasis on dealing with gaps in the Territory's regulatory framework. The current framework provides limited guidance to market participants on the conduct of retail supply activities because business to business transaction rules are not fully documented. In the absence of other market participants, PWC has managed business to business interactions as an internal matter through service level agreements between the PWC Retail, Generation and Networks business units.
- 1.12 During 2010-11, the Commission developed an Electricity Retail Supply Code to provide electricity market participants in the Territory with a regulatory instrument that provides the framework and mechanisms for retail competition between retailers for contestable customers. The Electricity Retail Supply Code took effect from 3 August 2011.
- 1.13 The Commission has worked with industry participants to address concerns, real or perceived, about market conduct and other issues that have arisen as participants adjust to the changing market dynamics.

### **Technical performance**

- 1.14 The Commission has continued to focus on the technical performance of the Territory's power systems in 2010-11.

#### *Power system incident reporting*

- 1.15 The Commission continued to progress the development of comprehensive incident reporting arrangements, to establish a clear framework and requirements for investigating and reporting on power system incidents similar to those used in the national electricity market. The incident reporting arrangements are intended to



formalise investigation and reporting on major power system incidents, to inform the implementation of preventative measures and the response to adverse events.

- 1.16 The Commission undertook extensive consultation PWC System Control throughout 2010-11 to address relevant concerns regarding power system incident reporting. Although progressing these arrangements has taken longer than anticipated, the Commission expects the proposed incident reporting arrangements will be introduced through a revised System Control Technical Code in 2011-12.

#### *2009-10 Power System Review*

- 1.17 The Commission has continued to develop and expand the scope of the annual Power System Review to provide a more comprehensive report on power system performance, similar reports published in the national electricity market, including adequacy of generation capacity and fuel supplies, system planning arrangements and network reliability.
- 1.18 For the 2009-10 Power System Review, the Commission engaged expert assistance to advise on development of the information request to electricity industry participants, collect relevant information, and provide an assessment of the performance and capacity of the Territory's power systems and distribution networks.
- 1.19 The information request developed was based on arrangements for reporting on system and distribution network health elsewhere in Australia. However, it was recognised that in other jurisdictions the reporting arrangements under similar power system reviews have developed over the past decade or more, during which time industry participants have built their capacity to provide relevant information. Consequently, the Commission acknowledged that not all the information requested from electricity industry participants in the Territory, primarily PWC, would be available for the 2009-10 Power System Review. The Commission expects that a more comprehensive data set will be available for the next Review, with PWC instituting improved information technology systems and business processes intended to provide more complete asset performance information, which should allow for a more robust power system review in future years.

### **Compliance reporting**

- 1.20 During 2010-11, the Commission continued to progress a staged approach to the increased focus on compliance that commenced in 2009-10.
- 1.21 The Commission has:
- introduced in electricity licences an obligation on licensees to establish a compliance process that is maintained, regularly updated and auditable, in line with the Australian Standard AS3806:2006 (Compliance Programs);
  - developed a register listing obligations for each licensed entity, including a risk assessment of each obligation based on the impact of the compliance breach on consumers and the likelihood of such an event; and
  - commenced development of a Commission Statement of Approach on Compliance setting out the Commission's expectations with respect to compliance, with a draft released for public consultation in September 2011.
- 1.22 As part of its annual licence returns, PWC is required to include an audit of operations authorised by each licence and compliance with licence obligations. As in previous

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years, the 2009-10 compliance audit was undertaken by an independent auditor, Ernst & Young.

- 1.23 As foreshadowed last year, the engagement scope for 2009-10 was expanded to include an assessment of the adequacy of PWC's compliance processes against the requirements of AS 3806.
- 1.24 Ernst & Young's report found that PWC has started on development of a compliance framework. Although responsibility for compliance has previously been focussed at the business unit level, an overarching compliance framework is currently being developed to improve the centralised oversight and monitoring of compliance obligations.

## **2011-12 work program**

- 1.25 The coming year will see the Commission finalise the last of the reviews that form part of the Government's priority work program and, with other industry participants, progress the implementation of the Government's priority electricity reform program.
- 1.26 The Commission will also continue to monitor the progress of competition in the electricity retail market and, as authorised, develop market conduct rules to provide appropriate certainty to electricity retailers, the electricity network service provider and electricity generators about the rules and obligations associated with retail electricity supply activities.
- 1.27 Preparatory work for the 2014-19 electricity network price determination will also form a substantial part of the Commission's activities in the coming year.
- 1.28 The Commission will focus on establishing a framework for setting standards of service targets for reliability and ensuring that PWC is able to provide for reliable service performance data. The Commission considers reliability standards a priority as they underpin how the network planning, investment and operation processes are undertaken. PWC's investment decisions will have a keen impact on pricing outcomes.

## **Ongoing Economic and Technical Regulation**

- 1.29 During the coming year, the Commission will also continue ongoing work with respect to its regulatory responsibilities.
- 1.30 The Commission will continue to focus on compliance including regulatory and technical compliance of electricity industry participants and the development of the Commission's Statement of Approach to Compliance.
- 1.31 The scope of the annual Power System Review is an evolving project. In developing performance reporting in the Territory, the Commission anticipates further changes to the approach and content of the annual Power System Review in response to the findings of the series of reviews being undertaken by the Commission during 2010-11 for the Treasurer and as PWC builds its capacity to provide more complete asset performance information.
- 1.32 The Commission has mainly focused on electricity in the past, due in part to its more limited role with respect to the regulation of water and sewerage services. Two of the reviews undertaken as part of the Government's priority work program related to financial management of PWC's water and sewerage operations as well as its

operations in the electricity supply industry - the review of PWC's Asset Management and the review of PWC's Capital and Maintenance Programs.

- 1.33 During the coming year, the Commission will increase its focus on water and sewerage planning and monitoring through a more rigorous assessment of the water and sewerage asset management plans provided annually by PWC.

## CHAPTER 2

### Introduction

#### Background

- 2.1 The Utilities Commission of the Northern Territory is an independent statutory body with defined roles and functions for economic regulation in the electricity, water and sewerage industries in the Territory.
- 2.2 The Commission was established on 21 March 2000 by the *Utilities Commission Act* as part of an economic framework for regulated industries that promotes and safeguards competition and fair and efficient market conduct or, in the absence of a competitive market, that promotes the simulation of competitive market conduct and the prevention of the misuse of monopoly power.

#### Role and functions of the Commission

- 2.3 The Commission's functions and powers are defined in the *Utilities Commission Act*, with specific responsibilities with respect to a particular industry assigned to the Commission by provisions in relevant industry regulation Acts. The Commission currently has responsibilities assigned in the electricity, water and sewerage services industries.
- 2.4 The key regulatory functions of the Commission are:
- to regulate prices charged by government and other businesses for providing certain monopoly services and for providing certain services in regulated industries;
  - to perform licensing functions;
  - to develop, monitor and enforce compliance with, and promote improvement in, standards and conditions of service and supply;
  - to make, and to monitor the operation of, codes and rules relating to the conduct or operations of a regulated industry or licensed entities;
  - to investigate and help resolve complaints relating to the conduct or operations of licensed entities;
  - to assist consumers and others with information; and
  - to advise the Minister on any matter referred by the Minister.
- 2.5 The relevant industry regulation Acts applying to the electricity supply industry are:
- the *Electricity Reform Act*; and
  - the *Electricity Networks (Third Party Access) Act*.
- 2.6 The relevant industry regulation Act applying to the water supply and sewerage services industries is the *Water Supply and Sewerage Services Act*.

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## Events and activities in 2010-11

- 2.7 The Commission has continued to focus on the reliability of the Territory's electricity supply and performance of the electricity industry in 2010-11.
- 2.8 Decisions made by the Commission during 2010-11 are set out in Appendix A, and Appendix B provides a list of reports published by the Commission during the year.

### Priority work program

- 2.9 The Commission was given an expanded role by the Territory Government from April 2009 as part of a reform program to strengthen oversight of the electricity supply, water supply and sewerage sectors.
- 2.10 The Treasurer tasked the Commission with a priority work program to increase the efficiency of PWC, improve customer standards of service and reliability, and where possible, align the Territory electricity market with the national electricity market. The priority work program required the Commission to undertake a number of reviews, under terms of reference from the Treasurer.
- 2.11 The Commission commenced a number of reviews in 2009-10. During 2010-11, the Commission completed four reviews and continued to progress three further reviews as part of the Government's priority electricity reform program as follows:
- A Review of Options for Implementation of a Customer Service Incentive Scheme for Electricity Customers commenced in March 2010. The final report was provided to the Treasurer in July 2010.
  - A Review of Options for the Development of a Retail Price Monitoring Regime for Contestable Electricity Customers commenced in March 2010. The final report was provided to the Treasurer in September 2010.
  - A Review of Electricity Standards of Service commenced in May 2010. The final report was provided to the Treasurer in November 2010.
  - A Review of the Power and Water Corporation's Asset Management Capability commenced in February 2010. The final report was provided to the Treasurer in November 2010.
  - A Review of the Power and Water Corporation's Capital and Maintenance Programs commenced in March 2010. The final report is scheduled to be provided to the Treasurer in late 2011.
  - A Review of System Planning, Monitoring and Reporting commenced in December 2010. A final report is scheduled to be provided to the Treasurer in late 2011.
  - A Review of Electricity System Planning and Market Operation Roles and Structures commenced in August 2011. A final report is scheduled to be provided to the Treasurer in late 2011.
- 2.12 Each review has involved extensive analysis, taking into account local circumstances and frameworks and practice in other Australian jurisdictions. Consultation was conducted by inviting submissions from key interest groups and affected parties on an

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initial issues paper and then on a draft report that sets out the Commission's proposed response to the terms of reference for the review<sup>1</sup>.

2.13 A working group has been established to investigate potential implementation matters arising from the Commission's reviews and the Government's priority electricity reform.

### **Economic regulation**

2.14 During 2010-11, the Commission's regulatory activities included:

- approving the regulated network tariffs and charges to take effect from 1 July 2011;
- performing licensing functions including the granting of a retail electricity licence to QEnergy Ltd and an Independent Power Producer licence to Uterne Power Plant Pty Ltd, both being new entrants, and monitoring of licence compliance;
- publishing the 2009-10 Power System Review which reports on the trends in adequacy and security of the Territory's power system;
- publishing an Electricity Retail Supply Code to codify arrangements necessary to support effective business to business interactions and to provide appropriate customer protection;
- providing information to customers and market participants on the Territory electricity market and regulatory arrangements.

2.15 The Commission has also increased its focus on compliance monitoring by strengthening licence obligations to require electricity licensees to establish and maintain a compliance process and establishing reporting and auditing mechanisms to allow the Commission to assess compliance.

### **Initiatives and projects for 2011-12**

2.16 The Commission's work program for 2011-12 includes:

- continuing to progress three further reviews as part of the Government's priority electricity reform;
- contributing to a working group addressing the Government's priority electricity reforms;
- continuing to focus on compliance including monitoring the progress of licensees in establishing and maintaining their compliance processes in accordance with the Australian Standards;
- expanding the scope of the Power System Review to provide further information on power system performance; and
- continuing to focus on regulatory and technical compliance of electricity industry participants.

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<sup>1</sup> Additional information on the views in submissions and the Commission's response can be found in relevant papers on the Commission's website.

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## Commission members and staff

2.17 Andrew Reeves was appointed as the Utilities Commissioner for a five year term on 30 July 2009, and is joined on the Commission by two Associate Utilities Commissioners, Peter Caldwell and Mike Robson.

2.18 All perform their roles on a part-time basis.

### *Andrew Reeves*

2.19 Mr Reeves, the Utilities Commissioner, also serves on the Board of the Australian Energy Regulator (AER), and was appointed Chair of the AER for three years from 19 July 2010, after being the part-time state/territory member of the AER since July 2008. He was previously the economic regulator for Tasmania and has 14 years experience in utilities regulation.

### *Mike Robson*

2.20 Mr Robson was appointed as an Associate Utilities Commissioner with the Utilities Commission for a five year term on 23 June 2009. He has more than 40 years experience as an electricity industry engineer, including 11 years with the National Electricity Market Management Company (NEMMCO).

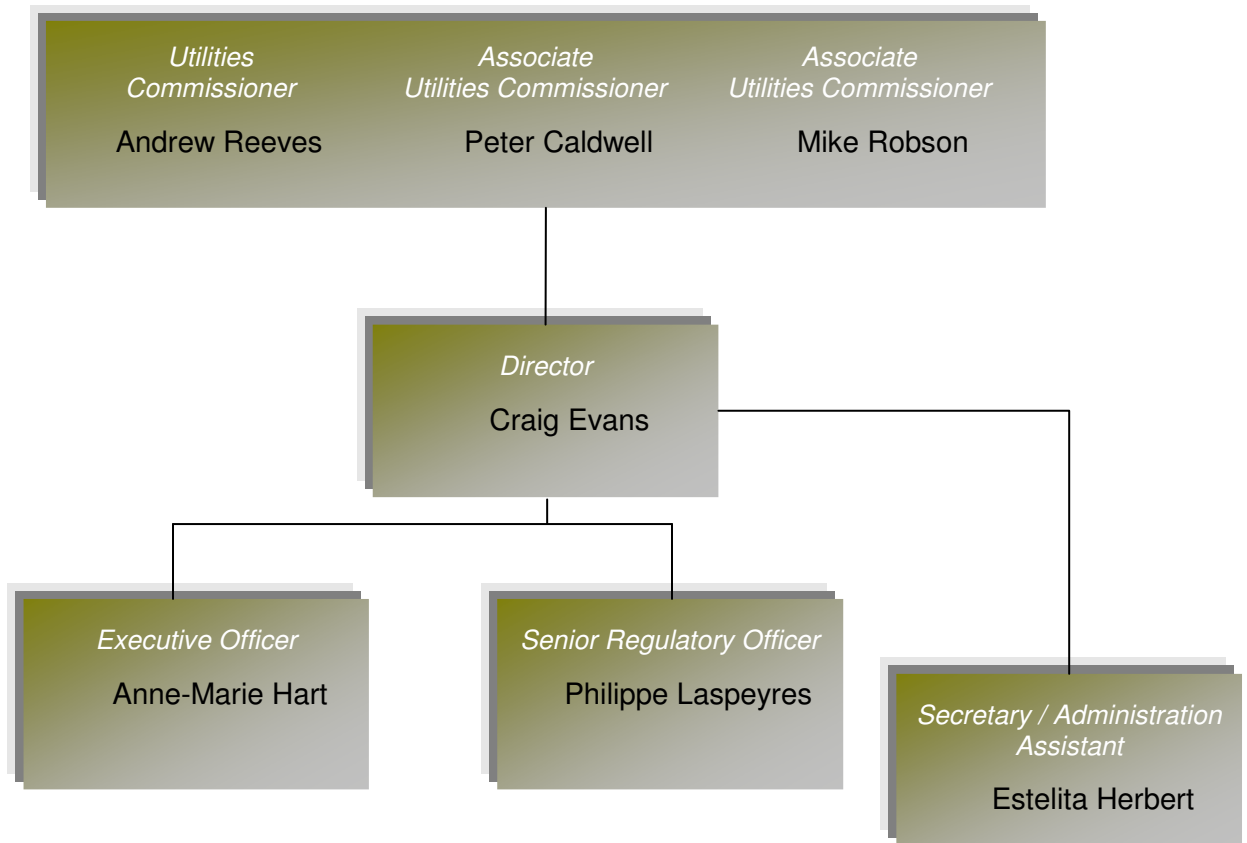
### *Peter Caldwell*

2.21 Mr Caldwell was appointed as an Associate Utilities Commissioner with the Utilities Commission for a five year term on 30 July 2009. He has more than 40 years experience in a range of Territory and Commonwealth government departments in economic, resources, trade and capital policy areas at senior management levels.

### *Commission staff and resources*

2.22 The Commission is supported by four staff seconded from Northern Territory Treasury.

## Organisational chart as at 30 June 2011



- 2.23 Director Craig Evans subsequently left the Commission in September 2011 to take up a position with the Electricity Authority in New Zealand. Craig has led a very solid team effort with remarkable progress in the terms of the amount, complexity and quality of the work produced. The Commission extends its thanks to Craig for his work with the Commission.
- 2.24 With Craig's departure, the Commission welcomes Vanessa Sutcliffe who has taken over the position since Craig's departure.
- 2.24 The Commission's expenditures are funded directly from Consolidated Revenue. Appendix C provides a summary of the Commission's expenditures in 2010-11, as well as the associated receipts.
- 2.25 The Commission also accesses expert technical advice through consultants as detailed in Appendix D.



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## CHAPTER 3

### Electricity Supply Industry

#### Introduction

- 3.1 The electricity supply industry in the Northern Territory is regulated by the *Electricity Reform Act*, *Electricity Networks (Third Party Access) Act*, *Utilities Commission Act* and associated legislation. This statutory framework was introduced on 1 April 2000.
- 3.2 The statutory framework is primarily focused on regulating the activities of electricity industry participants and customers in the Darwin-Katherine, Alice Springs and Tennant Creek power systems – referred to as the market systems. Key elements of the statutory framework are:
- third party access to the Darwin-Katherine, Alice Springs and Tennant Creek electricity networks;
  - staged introduction of retail contestability, with all customers becoming contestable from 1 April 2010; and
  - an independent economic regulator, the Utilities Commission, to regulate monopoly electricity services, licence market participants and enforce regulatory standards for market conduct and service performance.
- 3.3 There are currently two retailers operating in the market systems – PWC and QEnergy.
- 3.4 In the three market systems, PWC is currently the main electricity generator, with almost 91 per cent of generation capacity. Although there are privately owned generators operating in the Darwin-Katherine and Alice Springs systems and exporting electricity into those systems, these suppliers generate electricity under contract for PWC Generation rather than selling directly to an electricity retailer. PWC Generation provides the fuel used for electricity generation and takes all electricity generated.
- 3.5 PWC is also the network service provider and is responsible for system control. The Darwin-Katherine, Alice Springs and Tennant Creek networks are not interconnected, and are separated by long distances.
- 3.6 Electricity supply in regional and remote centres of the Territory is mainly managed by the Territory Government and the service provider through a contract for service model. The Commission has limited regulatory functions in regional and remote centres, with the main task being licensing.

#### Roles and functions of the Commission

- 3.7 The Commission has the following functions in the electricity supply industry:
- to perform licensing functions, granting licences to firms to undertake electricity generation, electricity networks, system control and retail operations in the Territory;

- to develop standards of service and supply and to make codes and rules relating to the conduct or operations of the electricity supply industry or individual licensed entities;
- to monitor, and promote improvement in, standards and conditions of service and supply and the operations of the electricity supply industry and licensed entities;
- to regulate prices charged by PWC Networks for provision of electricity network services (transport of electricity across the network) and charges imposed by the System Controller relating to the operations of system control;
- to monitor and enforce compliance with standards and conditions of service and supply and to monitor the operation of and enforce compliance with codes and rules relating to the conduct or operations of the electricity industry or licensed entities;
- to advise the Treasurer on any matter referred by the Treasurer; and
- to assist consumers and others with information on the market and regulatory framework.

3.8 This chapter details the work carried out by the Commission during the 2010-11 financial year in performing these functions.

## Licensing

### Licensing framework

3.9 The Commission issues licences to persons seeking to operate in the Territory's electricity supply industries, in accordance with the provisions of the *Electricity Reform Act*.

3.10 The Commission has the power to customise licences and has developed sub-categories of licences and combined licences to suit particular circumstances.

Table 3.1: Types of licences currently issued

Licence type	Scope
Standard Generation licence	<ul style="list-style-type: none"> <li>• to generate electricity for sale; and</li> <li>• to sell electricity to electricity entities holding generation or retail licences (or as otherwise stated in the licence).</li> </ul>
Special Generation licence - Independent Power Producer (IPP) <sup>(a)</sup>	<ul style="list-style-type: none"> <li>• to generate electricity for sale; and</li> <li>• to sell electricity only to electricity entities holding a standard generation licence (or as otherwise stated in the licence).</li> </ul>
Network licence	<ul style="list-style-type: none"> <li>• to operate the electricity network in the geographical area stated in the licence; and</li> <li>• if stated in the licence – to connect the electricity network to another electricity network.</li> </ul>
Retail licence	<ul style="list-style-type: none"> <li>• to trade in electricity (where 'trade' means the buying and selling of electricity other than to final consumers); and</li> <li>• to retail electricity to customers who own or occupy premises anywhere in the Territory (where 'retail' means the selling of electricity to specified groups of final consumers).</li> </ul>

Licence type	Scope
Special licence – Isolated system operations <sup>(b)</sup>	<ul style="list-style-type: none"> <li>• to generate electricity at specified electricity generating plants;</li> <li>• to sell electricity to electricity entities holding a generation licence or a retail licence;</li> <li>• to sell electricity to customers, but only in respect of electrical installations or premises which are situated within specified locations; and</li> <li>• to own and operate an electricity network within specified geographic areas and connect that network to another specified electricity network.</li> </ul>
System Control licence <sup>(c)</sup>	<ul style="list-style-type: none"> <li>• to monitor and control the operation of the power system with a view to ensuring that the system operates safely and securely, including by issuing directions to electricity entities that are engaged in the operation of the power system, or contribute electricity to, or take electricity from, the power system</li> </ul>

(a) An Independent Power Producer licence is a 'cut down' version of a generation licence for those parties who do not wish to participate fully in the electricity supply market and instead generate electricity under contract for another generator.

(b) An isolated system operations licence is a combination generation, network and retail licence for entities operating in remote locations, for example where a mining company supplies electricity to a nearby town that predominantly houses workers associated with the mine.

(c) A system control licence is only issued where the power system is of sufficient size and complexity to warrant monitoring and control by an arm's length system controller. In isolated communities with a single generator of electricity, management of system loads and frequency control is undertaken by the generator. Co-ordination of generation with third-party inter-connected networks would be a matter for normal commercial contractual arrangements.

3.11 The Electricity Reform (Administration) Regulations provide an exemption from the requirement to be licensed for some activities. Licences are not currently required for:

- small scale and own-use generation and low volume sales of electricity; and
- on-supply of electricity, as long as the on-supplier complies with certain conditions.

3.12 The Commission may, with the approval of the Minister, grant an exemption from the requirement to be licensed.

### Licensing activities in 2010-11

#### *Licences and exemptions current at 30 June 2010*

3.13 On 30 June 2011, PWC held four licences:

- system control (until superseded, surrendered or cancelled);
- retail (until superseded, surrendered or cancelled);
- generation (until superseded, surrendered or cancelled); and
- network (to 30 June 2020).

3.14 A Retail electricity licence was held by:

- QEnergy (until superseded, surrendered or cancelled).

3.15 Independent Power Producer (IPP) licences were held by the following producers who do not participate fully in the electricity supply industry and instead generate electricity under contract for another generator:

- EDL NGD (NT) Pty Ltd (McArthur River power station, McArthur River, and Pine Creek A power station, Pine Creek);
- Cosmo Power Pty Ltd (Pine Creek B power station, Pine Creek);
- Central Energy Power Pty Ltd (Brewer Estate power station, Alice Springs);
- Energy Resources of Australia Ltd (Ranger power station, Jabiru);
- Landfill Management Services Pty Ltd (Shoal Bay power station, Darwin); and
- Uterne Power Plant Pty Ltd (photovoltaic system at Alice Springs).

3.16 An isolated system licence was held by:

- Groote Eylandt Mining Company Pty Ltd.

3.17 On 30 June 2011, the following exemptions were current:

- an exemption from the requirement for Alcan Gove Pty Ltd to hold a licence with respect to its electricity operations in the township of Nhulunbuy and at the mine; and
- an exemption from the requirement for installations defined as small scale renewable energy operations from the need to hold a licence.

#### *PWC Generation licence*

3.18 The Generation licence held by PWC expired on 30 June 2010. The Commission considered that there was insufficient time before the licence expired on 30 June to properly assess the licence application lodged on 20 May 2010 and, with PWC's agreement, on 15 June 2010 the Commission extended the term of the existing licence for two months to 31 August 2010.

3.19 The Commission subsequently granted a new Generation licence to PWC from 1 September 2010, on the same terms and conditions as the previous licence, with the exception that:

- the term of the licence is now for an indefinite period;
- a new requirement to establish a compliance program has been included; and
- the obligation to provide a coordination agreement by 30 June 2002 was removed, as it was considered to be redundant.

3.20 The schedule of generation plant operated by PWC was also updated.

3.21 On 20 May 2011 PWC wrote to the Commission to request a variation to its Generation licence to ensure consistency with the compliance obligations in other licences and address some administrative matters.

3.22 On 17 June 2011, the Commission varied the Generation licence issued to PWC to:

- require that the Commission be notified of only material breaches of its compliance obligations in order to ensure consistency with PWC Retail, Network and System Control licences; and
- simplify the schedule of generation plant to align with the PWC Network licence and eliminate the need to vary the license with each change in generation capacity.

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*PWC Networks, Retail and System Control licences*

- 3.23 During the course of 2010-11, the Commission initiated a variation to the PWC Retail, Network and System Control licences to introduce an obligation to establish and maintain a comprehensive compliance process.
- 3.24 Following agreement from PWC, on 28 February 2011 the Commission varied the PWC Retail, Network and System Control licences to replace clauses 9 (Compliance with Regulatory Instruments) and 11 (Audit of Operations and Compliance) with the new requirement for a compliance process.
- 3.25 The new obligation requires PWC to establish, document, maintain and comply with appropriate auditable internal policies, procedures and systems for ensuring that it complies with its obligations under the licences, and all applicable laws, codes, rules or standards.

*Uterne Power Plant Pty Limited IPP licence*

- 3.26 In October 2010, Uterne Power Plant Pty Ltd (Uterne) applied for a licence to generate electricity as an independent power producer at a grid connected photovoltaic (PV) solar power station to be built outside of Alice Springs.
- 3.27 Uterne is a wholly owned subsidiary of SunPower Australia, itself a wholly owned subsidiary of SunPower Corporation. SunPower Corporation is based in California, United States of America (Silicon Valley), and is involved in solar system design, project delivery, fabrication, construction and installation.
- 3.28 The Commission granted a licence to Uterne on 22 November 2010.

*QEnergy Limited Retail licence*

- 3.29 In October 2010, QEnergy Ltd (QEnergy) applied for a retail licence to sell electricity to customers in the Northern Territory. QEnergy is a registered retailer in the National Electricity Market (NEM), servicing medium sized customers across Queensland.
- 3.30 In line with practice in other jurisdictions and due to the potential public interest in QEnergy's retail licence application, the Commission conducted public consultation as part of the licence application assessment process. One submission was received from the Northern Territory Major Energy Users (NTMEU) supporting the granting of a retail licence to QEnergy.
- 3.31 The Commission granted a licence to QEnergy on 4 February 2011.

*Other developments*

- 3.32 In September 2010, the Commission advised the Government of a possible deficiency in the electricity industry regulatory framework in that there currently is no specific statutory requirement on the owners or operators of electricity infrastructures to develop a safety and management plan for public safety around electricity infrastructure. As an interim measure while further consideration is given to appropriate legislative amendments, the Commission has been requested to vary the PWC Generation and Network licences requiring each licensee to prepare a safety and management plan in accordance with good industry practice.
- 3.33 The Commission has commenced the process to vary the PWC Generation and Network licences by initiating discussions with PWC. The Commission will also consult

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with the Electricity Safety Regulator and NT WorkSafe as this matter would appear in part to concern functions within their jurisdictions.

- 3.34 There were no other applications for electricity licences, exemptions or variations during the year.

## **Market conduct regulation**

- 3.35 The Commission monitors the conduct and operations of the electricity supply industry and licensed entities. The Commission may also make codes and rules relating to the conduct or operations of the electricity supply industry or licensed entities, where authorised by legislation.
- 3.36 All electricity customers became contestable from April 2010. Full retail contestability means that all electricity customers in the Territory could have a choice of either remaining with PWC or accepting an offer from another licensed retailer.
- 3.37 The Territory's regulatory framework provides limited guidance to market participants on the conduct of retail supply activities. In particular, business to business transaction rules are not fully documented. In the absence of other market participants PWC has managed business to business interactions as an internal matter through service level agreements between the PWC Retail, Generation and Networks business units.
- 3.38 The entry of a second electricity retailer, QEnergy, into the Territory market highlighted that more specific and detailed regulatory arrangements would facilitate retail contestability and the associated electricity retail supply activities.

## **Electricity Retail Supply Code**

- 3.39 On 18 May 2011, Utilities Commission Regulation 2A was promulgated authorising the Commission to make a code about retail supply in the electricity supply industry
- 3.40 The Commission released a draft Electricity Retail Supply Code for comment on 21 June 2011. Three submissions were received QEnergy, NTMEU, and PWC.
- 3.41 The Electricity Retail Supply Code took effect from 3 August 2011. The purpose of the Code is to provide electricity market participants in the Territory with a regulatory instrument which provides the framework and mechanisms for retail competition between retailers for contestable customers. This Code specifically deals with issues relating to:
- the transfer of customers between retailers;
  - credit support arrangements, so as to ensure the financial integrity of the electricity market;
  - billing arrangements;
  - metrology and business to business arrangements; and
  - retailer of last resort (RoLR) mechanism to cater for any retailer failure.
- 3.42 The Electricity Retail Supply Code restricts customer transfer to those customers with interval meters, as PWC does not currently have the capability to accommodate the transfer of customers with accumulation meters. However, these arrangements are temporary and the Commission expects to review this matter at a later stage. The Code does not preclude customers from requesting the installation of interval meters.

## Service performance

- 3.43 The Commission monitors standards and conditions of service and supply and the operations of the electricity supply industry and licensed entities. The Commission may also develop standards of service and supply, where authorised by legislation.
- 3.44 The Commission publishes an annual Power System Review, reporting on power system performance during the year, and providing an assessment of the adequacy of the power systems to meet forecast demand in the medium term. The 2009-10 Power System Review was published on 31 March 2011.
- 3.45 For 2009-10, the Power System Review provided:
- An assessment of the adequacy of the PWC forecasts;
  - an assessment of the adequacy of electricity generation supplies relative to forecast peak demand and an assessment of fuel supply adequacy for the medium and long-term;
  - an assessment of the adequacy of the electricity transmission/sub-transmission and distribution networks capacity relative to forecast peak demand for the medium term; and
  - a report on customer service performance and reliability of supply.

### Highlights of service performance for 2010-11

#### *Generation adequacy*

- 3.46 In the NEM or the Western Australia south west interconnected system (SWIS), the independent market and system operator is responsible for developing a coordinated and independent system demand forecast, based on information from all market participants. By contrast, PWC has been the sole market generator and, until early 2011, sole retailer operating in the Territory, which puts it in a unique situation for Australia of having access to comprehensive information on historical and prospective peak demand and energy consumption.
- 3.47 For the 2009-10 Power System Review, the Commission adopted the system demand growth forecasts recommended by Evans & Peck. The Commission expects that PWC will in the future develop a consolidated system demand forecast that is sufficiently robust for the purposes of accurately assessing the supply-demand balance, including adopting forecasts that are management sanctioned and confirmed by external review.
- 3.48 In assessing generation adequacy over the medium term, the Commission assessed generation capacity against N-1 and N-2 standards<sup>2</sup>, consistent with previous Power System Reviews.
- 3.49 The Commission found that there is sufficient generation capacity to maintain supply under any credible electricity demand scenario in the Darwin-Katherine system from mid-2011 to 2019-20. However, prior to the commissioning of new generation, now expected to occur by early November 2011, there is a credible risk of generation capacity constraints and poor generation reliability and potential for ongoing capacity

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<sup>2</sup> N-1 and N-2 are indicators of the available capacity following the loss of the largest and largest two units of capacity in a system, respectively

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constraints if the new Channel Island plant experiences commissioning problems or from forced outages of existing plant.

- 3.50 The Commission found that the capacity being maintained in the Darwin-Katherine system for the period 2012 to 2016 may be greater than is reasonably necessary noting that the need for the planned level of generation capacity and reserves could be prompted by doubts about the condition and reliability of existing generation plant, particularly at Channel Island.
- 3.51 The Alice Springs system is expected to have sufficient generation capacity to meet forecast peak demand under any credible electricity demand growth scenario from mid 2011 to 2019-20. The Commission found that the key risk period was prior to the commissioning of additional generation, now expected to occur in September 2011. There is the potential for ongoing capacity constraints if the new Owen Springs plant experiences commissioning problems or from forced outages of existing plant.
- 3.52 The Commission found that under both the baseline and high growth scenarios, generation adequacy in Tennant Creek was adequate for the period to 2019-20.

#### *Fuel adequacy*

- 3.53 Natural gas is the primary fuel for electricity generation in the Darwin-Katherine, Tennant Creek and Alice Springs systems. However, a number of generation sets are dual fuel, and able to use liquid fuels (i.e. diesel) as an alternative fuel source.
- 3.54 The Commission reported that the volumes of gas available under the PWC/Eni gas supply contracts are considered sufficient to meet forecast electricity demand and that PWC has a range of contingency arrangements to maintain electricity supply in the event of the partial or complete loss of the primary gas supply.

#### *Network adequacy*

- 3.55 The Commission began examining planning and reliability of electricity networks in the 2004-05 Power System Review. Previous Power System Reviews had mainly focused on capacity and reliability of the electricity generation sector. The power outages caused by problems with the Casuarina zone substation in late 2008 highlighted the risks associated with inadequate condition monitoring and maintenance of the entire power system, including electricity networks.
- 3.56 For the 2009-10 Power System Review, the Commission expanded the scope of the assessment of the network and, for the first time, requested PWC Networks to provide equivalent information to that routinely reported by transmission and distribution network operators in the NEM.
- 3.57 PWC Networks advised that not all the information sought is currently available. This is not unexpected given network operators elsewhere in Australia have had significantly longer to build capacity to provide information under similar power system reviews. The Commission anticipates that PWC Networks will take two or three years to establish the systems and processes necessary to routinely record the relevant information.
- 3.58 The Commission performed a high level assessment to identify potential capacity constraints in the transmission network and at zone substations. No critical capacity constraints were identified in the transmission network and, with all transformers in service, all zone substations should have sufficient capacity to meet forecast load for



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2010-11. However the Commission noted PWC's program to upgrade or replace a number of zone substations to increase reliability and security of supply.

- 3.59 PWC Networks was not able to provide the load flow studies or measurements on the low voltage (11/22 kV) distribution network necessary for an assessment of loading and capacity.

*Customer service and reliability performance*

- 3.60 The Electricity Standards of Service Code requires PWC to report annually on indicators of generation and network reliability.
- 3.61 Although the Electricity Standards of Service Code establishes minimum standards for reliability, quality and customer service, the Commission considered that, in light of the recommendations arising from the Review of Electricity Standards of Service undertaken as part of the Government's priority work, the current minimum standards may be inappropriate and that analysis against trends and industry comparisons is more appropriate.
- 3.62 The Commission found that there was no clear underlying trend in either the average duration of outages experienced by customers (measured by the system average interruption duration index (SAIDI)) or the average number of outages experienced by customers (measured by the system average interruption frequency index (SAIFI)) over the five years to 2009-10.
- 3.63 Although comparison with other utilities is difficult, as common practice is for comparisons to be made according to feeder type (CBD, Urban, Short rural and Long Rural), the Commission used the performance of Ergon Energy (a Distribution Network Service Provider servicing the areas of Queensland outside of Brisbane) as an appropriate peer for comparison between service performance in the Territory and elsewhere in Australia. Ergon and PWC share similar challenges in providing electricity services, including similar weather and seasonal patterns, and a widely dispersed customer base.
- 3.64 In 2009 10, PWC's performance was superior to Ergon with respect to the duration of outages, but poorer for the frequency of outages.
- 3.65 Reliability performance in the Darwin-Katherine region, which represents about 76% of customers, was significantly impacted by the system black incident on 30 January 2010. PWC attributed the cause of the incident to a lightning strike.
- 3.66 PWC is also required to report on customer service indicators for electricity network and retail service performance. Customer service indicators include the time taken to connect a property to the network, the time taken for telephone calls to be answered by an operator, and the number of customer complaints (about network and retail services).
- 3.67 In 2009-10, the Commission found that PWC Networks connected more than 99 per cent of existing properties to the network within 24 hours, and 92.1 per cent of properties in new subdivisions within five working days. However, the number of connections to a property in a new subdivision in an urban area where minor works are required occurring within 10 weeks is 30.6 per cent, which is worse than 2008-09 and the worst result in the five year period. The reason provided by PWC was that a longer time frame was needed to procure large items of distribution equipment, to procure contract resources and arrange internal resources for final connection to the network.

3.68 PWC recorded 2 477 complaints from customers in 2009-10 about electricity retail and network performance, the highest number received since 2004-05 (2 907). The most common matters for complaint were billing, level of service and pension concession.

#### *Power system performance*

3.69 The System Control Technical Code requires the System Controller to report to the Commission on the performance and major incidents of the power system on or before 31 January and 31 July each year.

3.70 During the year, the Commission received reports for July to December 2010 and January to June 2011 for the Darwin-Katherine, Alice Springs and Tennant Creek systems, covering:

- periods where the power system was in a satisfactory operating state;
- periods where the power system was in a secure operating state;
- other power system security matters (i.e. unscheduled busbar outages, firm capacity, reserve and minimum spinning reserves);
- formal advice (i.e. directions issued, declaration of lack of standby generation);
- system constraints;
- major power system incidents; and
- system performance statistics.

3.71 The System Control Technical Code also allows the System Controller to instigate investigations into faults and major incidents, to issue official reports on major incidents and to distribute these reports to system participants. The following incident reports were provided to the Commission during 2010-11:

- Alice Springs System Black on 7 October 2010; and
- Channel Island Power Station Unit 5 Trip on 28 April 2011.

3.72 These reports have identified some issues that are being addressed by the System Controller, including spinning reserve policies.

### **Development of performance reporting**

#### *Annual Power System Review*

3.73 Regular and comprehensive public reporting on power system performance is a feature of the electricity supply industry elsewhere in Australia. The Commission has continued its focus on improving reporting of technical performance and outcomes.

3.74 The scope of the Power System Review is an evolving project. In developing performance reporting in the Territory, the Commission anticipates further changes to the approach and content of the annual Power System Review in response to the findings of the series of reviews being undertaken by the Commission during 2010-11 for the Treasurer. In particular, the Commission anticipates future Power System Reviews will provide more detailed data and analysis of power system performance, reliability and security.

3.75 The Commission engaged a consultant, Evans & Peck, to assist the Commission in development of the information request to electricity industry participants, collecting relevant information, and providing an assessment of the performance and capacity of the Territory's power systems and distribution networks

- 3.76 Evans & Peck developed an information request template that detailed the information required from system participants for preparing the 2009-10 Power System Review, with the data specification based on arrangements for reporting on system and distribution network health in place elsewhere in Australia. These reporting arrangements have developed over the past decade or more, during which time industry participants have built their capacity to provide relevant information.
- 3.77 The Commission acknowledged from the outset that not all the information requested from electricity industry participants in the Territory, primarily PWC, would be available for the 2009-10 Power System Review, but expected PWC to provide a more comprehensive data set for the next Power System Review. In particular, the Commission noted that the PWC is instituting information technology systems and business processes that are intended to provide more complete asset performance information.

#### *NT Electricity Standards of Service Code*

- 3.78 The Electricity Standards of Service Code establishes a process by which PWC is to set certain minimum standards of service benchmarks for both its regulated network services and its non-contestable electricity supply services.
- 3.79 The Electricity Standards of service Code requires PWC to develop minimum standards for reliability, quality and customer service and submit these for approval to the Commission. The Code establishes 47 indicators, and defines a standard of performance for 46 of these indicators.
- 3.80 The current standards specified in the Electricity Standards of Service Code lapsed on 30 June 2011. From 1 July 2011 the minimum standards under the Code no longer apply. The new standards will be developed over the coming year to be in place for 1 July 2012. As a transitional arrangement, the Commission will look to the Code to guide reporting.
- 3.81 During 2010-11, the Commission provided final reports to the Minister on two of the reviews being undertaken by the Commission as part of the Government's priority work program related to the Electricity Standards of Service Code:
- the Review of Options for Implementation of a Customer Service Incentive Scheme for Electricity Customers (commenced March 2010, final report provided to the Treasurer in July 2010); and
  - the Review of Electricity Standards of Service (commenced May 2010, final report to be provided to the Treasurer in October 2010).
- 3.82 These reviews are discussed in more detail later in this chapter in reporting on advice provided to the Minister during the year.

#### *System Control Technical Code*

- 3.83 The System Control Technical Code sets out the Power System Controller's competitively neutral operating protocols, arrangements for system security and system dispatch, as well as arrangements for the interruption of supply.
- 3.84 The System Control Technical Code was developed and is maintained by the System Control business unit of PWC. The Power System Controller may amend the Code at anytime, but only with the prior written approval of the Utilities Commission and following consultation with all relevant stakeholders.

- 3.85 In 2010-11 the Commission continued to progress the development of more comprehensive incident reporting arrangements, to establish a clear framework and requirements for investigating and reporting on power system incidents. The incident reporting arrangements are intended to formalise investigation and reporting on major power system incidents, to inform the implementation of preventative measures and the response to adverse events.
- 3.86 The Commission initiated the development of incident reporting arrangements due to the lack of a clear investigation and reporting framework in the System Control Technical Code. Currently, it is not clear when System Control should investigate a power system incident, and there is limited independent oversight of how System Control investigates and responds to incidents. Incident reporting arrangements are consistent with good industry practice interstate.
- 3.87 The Commission undertook extensive consultation PWC System Control throughout 2010-11 to address relevant concerns regarding power system incident reporting. Although progressing these arrangements has taken longer than anticipated, the Commission expects the proposed incident reporting arrangements will be introduced through a revised System Control Technical Code in 2011-12.

## **Price regulation**

- 3.88 The Commission regulates certain prices in the monopoly sectors of the Territory's electricity supply industry in accordance with relevant industry regulation Acts.

## **Network access charges**

- 3.89 In the third regulatory control period, which commenced on 1 July 2009, the Commission continued the price cap methodology that had been used in the previous regulatory period, in which a weighted average tariff basket is adjusted annually by an externally-determined price cap escalation factor.
- 3.90 Prior to the start of each financial year, PWC must submit its proposed tariffs and charges for the coming financial year, with a statement detailing how the tariffs and charges have been calculated consistent with the Commission's determination for the regulatory period and other requirements of the Network Access Code, to the Commission for approval.
- 3.91 On 18 May 2011, the Commission approved the reference tariffs and charges for standard network access services to apply during the 2011-12 financial year. The Commission also approved the schedule of Alternative Control Services - Fee-based Services and the pricing methodology for Alternative Control Services - Quoted Services relating to the use of PWC's prescribed electricity networks for the financial year commencing 1 July 2010.
- 3.92 The Commission considers the approved tariffs and charges to comply with the above requirements and with the relevant principles laid down in the Network Access Code. PWC has continued to work towards merging the three regional tariff schedules into a single NT-wide tariff schedule.

## **System Control charges and pricing of ancillary services**

- 3.93 The Commission approves charges imposed by the power system controller and also has authority to determine prices for ancillary services in the electricity supply industry.

- 3.94 The system control charges that applied during 2010-11 are those approved by the Commission with effect from 1 July 2004, which continue until superseded.
- 3.95 The Commission has deferred further development of pricing for ancillary services until prospects of generation competition re-emerge.
- 3.96 The Commission expects that the structure of system control charges and pricing of ancillary services will be affected by the Review of Electricity System Planning and Market Operation Roles and Structures when completed and provided to the Treasurer in late 2011.

### **System imbalance charges**

- 3.97 The Commission is responsible for overseeing prices paid (or received) by third-party generators when purchasing (or selling) any mismatches between energy generated by such generators and the load attributable to end-use customers supplied by these generators. The power system controller, in consultation with licensed generators, is required to develop arrangements for settlement of any out-of-balance payments between generators, with the arrangements subject to the approval of the Commission.
- 3.98 Following revisions to the Network Access Code from 1 July 2001, in May 2002 the Commission accepted PWC's proposed economic dispatch arrangements pursuant to clause 85 of the Code. Since then the Commission has deferred further development of such arrangements predominantly on the basis of lack of generation competition.
- 3.99 The Commission expects that further development of economic dispatch arrangements may occur as part of a review of the pricing of ancillary services, following completion of the Review of Electricity System Planning and Market Operation Roles and Structures in late 2011.

### **Electricity Pricing Orders (EPO)**

- 3.100 Retail electricity prices paid by non-contestable customers, whether residential or commercial, are regulated directly by the Government through an EPO. The Commission is required to enforce compliance with the EPO as if the EPO were a determination of the Commission under the *Utilities Commission Act*.
- 3.101 The following EPOs are currently in effect:
- for customers using up to 750 MWh a year, setting a price path for increases in electricity prices charged by PWC from 1 July 2009 to 30 June 2013, with prices increasing by 18 percent in the first year, a further 5 percent in the second year and then in line with the CPI in the two subsequent years.
  - for the fourth tranche of contestable customers (who use between 750 MWh and 2 GWh of electricity per annum) whose prices remained below cost reflective levels, regulating the maximum price that can be charged to relevant customers until 30 June 2013. PWC is allowed to increase prices by 18 percent in the first year, a further 5 percent in the second year and then in line with the CPI in the two subsequent years, until cost-reflective levels are reached.

#### *Full retail contestability*

- 3.102 All electricity customers in the Territory became contestable from 1 April 2010.
- 3.103 Customers may now choose their retail supplier. There are two retailers operating in the NT market – PWC and QEnergy.

3.104 However, PWC Retail is obliged to continue to maintain newly contestable customers on their current tariff arrangements for a grace period of two years. This means that the tariffs set under the EPO applying to previously non-contestable electricity customers effectively continue to apply until the end of the grace period on 31 March 2012. This includes the price path outlined above.

## Compliance monitoring

3.105 The Commission is required under the *Utilities Commission Act* to monitor and enforce compliance by licensed electricity entities with regulatory instruments – legislation, licences, codes and guidelines.

3.106 The key compliance issues that arose in 2010-11 were:

- compliance by QEnergy with obligations to develop various processes and procedures within a specified time after issue of licence; and
- an extended delay by PWC in providing an audit report of service performance data for 2009-10 to accompany the annual service performance data report required by the Electricity Standards of Service Code by 30 October 2010 as requested by the Commission. This has not yet been received as at the date of writing.

3.107 Electricity entities are obliged to comply with applicable codes, rules, protocols and standards, and to notify the Commission of becoming aware of a material breach of any applicable regulatory instrument.

3.108 The following Codes made by the Commission are in effect:

- Electricity Ring-fencing Code version 3, which aims at ensuring that monopoly businesses in regulated industries affiliated to contestable businesses do not discriminate against a competitor of that affiliated business, or financially or competitively advantage that affiliated business to the detriment of a competitor of that affiliated business;
- Electricity Standards of Service Code, which establishes a process by which PWC is to set certain minimum standards of service benchmarks for both its regulated network services and its non-contestable electricity supply services; and
- Energy Loss Factors Code, which sets out the high-level principles underlying the calculation of the energy loss factors to be used by the Power System Controller in determining out of balance energy supplied or demanded by generators operating in the Territory's electricity supply market.

3.109 The following Codes developed by PWC and approved by the Commission are in effect:

- System Control Technical Code, which sets out the Power System Controller's competitively neutral operating protocols, arrangements for system security and system dispatch, as well as arrangements for the interruption of supply; and
- Network Technical Code, which specifies the technical performance requirements of the network, and the requirements for co-ordination between network users and the network operator to achieve these.

## Development of a compliance process

3.110 Good compliance practice means that an organisation is able to demonstrate its commitment to compliance with relevant laws, including legislative requirements, industry codes and organisational standards as well as standards of good corporate

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governance, ethics and community expectations. It enables an organisation to identify deficiencies and take action before problems eventuate.

3.111 During 2010-11, the Commission continued to progress a staged approach to the increase focus on compliance commenced in 2009-10.

3.112 As a first step, the Commission introduced in the electricity licences an obligation on the licensees to:

- establish a compliance process that is maintained, regularly updated and auditable;
- report on identified material breaches;
- undertake external compliance audits; and
- develop a compliance report to submit to the Commission.

3.113 These new licence obligations are in line with the Australian Standard AS3806:2006 (Compliance Programs).

3.114 The Commission also developed a register listing obligations for each licensed entity. The purpose of the register is to inform licensees and assist the Commission in prioritising its monitoring and compliance audit processes by targeting high risk obligations.

3.115 A risk assessment of each obligation was undertaken based on the impact of the compliance breach on consumers and the likelihood of such an event. This will be updated regularly to reflect the changes in the environment and regulatory framework.

3.116 Finally, the Commission is developing a Commission Statement of Approach on Compliance setting out the Commission's expectations with respect to compliance, with a draft released for public consultation in September 2011.

3.117 The objectives set out in the draft Statement of Approach are:

- to communicate to stakeholders the Commission's objectives with regards to compliance and how this fit within the Commission's strategic vision (public value);
- to bring together the different initiatives implemented thus far under one umbrella;
- to communicate to the regulated industry the value of adopting and endorsing a compliance process (risk management perspective);
- to inform the industry about the expected outcomes resulting from the implementation of a compliance process;
- to provide guidance to the regulated entities about the development of a robust and comprehensive compliance process;
- to inform the regulated industry about compliance monitoring and audit scope; and
- to clarify the enforcement and disciplinary process in case of non-compliance.

3.118 The Commission intends to finalise the Statement of Approach by October 2011.

## **Compliance reporting in 2010-11**

### *Annual licence returns*

3.119 During the year, PWC lodged returns with respect to the 2009-10 financial year for each of its licensed areas of operation.

3.120 For those entities for which activities in the electricity supply industry are more limited, licence returns are not required to contain the same level of detail as those required from PWC.

3.121 During the year, the following licensees also lodged returns with respect to the 2009-10 financial year for their licensed areas of operation:

- NGD (NT) Pty Ltd;
- Cosmo Power Pty Ltd;
- Central Energy Power Pty Ltd;
- Energy Resources of Australia Ltd;
- Landfill Management Services Pty Ltd; and
- Groote Eylandt Mining Company Pty Ltd.

3.122 No substantive issues arose as a consequence of these licence returns.

#### *Compliance report of operations*

3.123 As part of its annual licence returns, PWC is also required to include an audit of operations authorised by each licence and compliance with licence obligations. The audit of operations is available by 1 December.

3.124 As in previous years, the 2009-10 compliance audit was undertaken by an independent auditor, Ernst & Young. The engagement scope for 2009-10 was expanded from previous years:

- Part 1: examining compliance with licence obligations and Ring-Fencing Code by testing for compliance with a sample of obligations;
- Part 2: examining compliance with procedural requirements of the System Control Technical Code by testing for compliance with a sample of obligations; and
- Part 3: examining the adequacy of PWC's compliance frameworks against the requirements of AS3806 (Compliance Programs) by requesting PWC business units to undertake a self assessment process (based on a questionnaire developed by E&Y).

3.125 Ernst & Young's report found that PWC has started on development of a compliance framework. Although responsibility for compliance has previously been focussed at the business unit level, an overarching compliance framework is currently being developed to improve the centralised oversight and monitoring of overall compliance obligations.

3.126 The Commission considers this is a positive first step towards good compliance practice.

3.127 Ernst & Young reported that PWC is compliant in most areas, although a few minor breaches were identified. These mainly related to documentation and formal sign-off of documentation.

#### *Compliance by QEnergy*

3.128 As part of its obligations under its Retail licence issued on 4 February 2011, QEnergy was required, within three months of issue of the licence, to:

- establish a compliance process for ensuring that it complies with its obligations under this licence, and all applicable laws, codes, rules or standards [cl.10]; and
- develop, publish and comply with customer related standards and procedures [cl.13].



3.129 Delays experienced in finalising their generation and network contracts with PWC, and slow progress with the development of the Electricity Retail Supply Code had prevented QEnergy from complying with these licence obligations in the timeframe required. The Commission recognised that there were factors beyond QEnergy's control and agreed that the Commission would be satisfied with an interim Compliance Plan, incorporating evidence that QEnergy had the necessary understanding and capabilities to develop a 'compliance process' and 'customer standards and procedures'.

3.130 QEnergy submitted an interim Compliance Plan and Large Customer Charter on 17 June 2011.

3.131 The Commission considered that the QEnergy proposed interim Compliance Plan demonstrated a good understanding of the Commission's expectations and the capabilities needed to establish a comprehensive and robust compliance process.

3.132 The Commission accepted the Compliance Plan and Large Customer Charter as satisfying the requirements of the licence.

*Ring-fencing Code – related party terms and conditions*

3.133 The third version of the NT Electricity Ring-fencing Code, which took effect from 1 January 2009, imposed an additional obligation on PWC requiring that:

- the terms and conditions on which certain nominated goods and services are provided by a monopoly business unit of PWC to a related contestable business unit of PWC must be reduced to writing; and
- a copy of those terms and conditions must be provided to the Commission by 30 June 2009.

3.134 The purpose of reducing the related party terms to writing is two-fold:

- to assist PWC to ensure that the related party terms for the supply of key goods and services do, in fact, satisfy the at arm's length requirement – something which might be difficult to ensure or establish if such terms were not reduced to writing; and
- to provide the Commission with a point of reference should a third party competitor lodge a complaint that the terms and conditions (including prices and terms and conditions relating to prices) on which a prescribed business of PWC is offering to supply the same type of goods and services to the third party competitor are not comparable with the related party terms or are otherwise discriminatory.

3.135 The approach taken by PWC was to include the related party terms within the Service Level Agreements (SLAs) between its business units. PWC initially submitted draft related party terms on 30 September 2009 in the form of SLAs for Network-Retail, and Generation-Retail.

3.136 At that time, the Commission accepted the SLA Network-Retail as meeting the requirements of the Ring-fencing Code, but the Commission considered that the draft SLA Generation-Retail SLA fell short of the 'reasonable particulars' as defined in the Ring-fencing Guidelines and requested that revisions be made.

3.137 At the time of writing the 2009-10 Annual Report, the Commission expressed concern at the continued delay of PWC to comply with this obligation as the obligation is a key tool for providing confidence that PWC Generation and PWC Retail operate at arm's length.

- 3.138 PWC submitted a revised version of the Service Level Agreement (SLA) Generation-Retail (and related party terms) on 9 December 2010.
- 3.139 The Commission was satisfied that the SLA contains the information prescribed in the Ring-fencing Code, including the 'reasonable particulars' and that PWC had therefore satisfied the requirements of the Ring-fencing Code.
- 3.140 The Commission advised PWC that it did not, however, endorse the contents of the SLA in its entirety, as the SLA includes details which are not an actual description of the arrangements between business units.

## Advice to the Minister

- 3.141 The Commission provides independent advice to Government on matters such as utility pricing, access to infrastructure, service quality and security of supply.
- 3.142 Advice to the Minister can be provided:
- when the Minister refers a matter to the Commission for inquiry under s.31 of the *Utilities Commission Act*. Inquiries conducted under s.31 of the Act are public inquiries and the Commission's final report must be tabled in the Legislative Assembly;
  - when the Minister requests advice from the Commission in accordance with section 6(1)(g) of the *Utilities Commission Act*. The Minister may include a requirement in the terms of reference that the reports setting out the Commission's findings and recommendations remain confidential to Government; or
  - the Commission is also empowered to provide advice to the Minister at its own initiative on the operation of the *Electricity Reform Act*.
- 3.143 A substantial portion of the Commission's work in 2010-11 was continuing to progress the Government's priority work program, composed of a number of reviews aimed at improving PWC's efficiency as well as standards and reliability of supply for customers. This priority work program involves eight reviews, conducted according to terms of reference from the Treasurer.
- 3.144 A Review of Full Retail Contestability for Northern Territory Electricity Customers was completed in 2009-10. During 2010-11, the Commission completed four more reviews and continued to progress three further reviews as part of the Government's priority electricity reform program.

## Inquiries referred under section 31 of the Electricity Reform Act

### *Review of Options for Implementation of a Customer Service Incentive Scheme for Electricity Customers*

- 3.145 The purpose of the review is to recommend options for the design of a scheme to give electricity service providers the incentive to improve service performance.
- 3.146 The Commission released an Issues Paper in March 2010, examining current arrangements and recent history of service performance in the Territory and practice and experience in other Australian jurisdictions, and a Draft Report in May 2010 with proposed draft recommendations. Four submissions were received in response to the Issues Paper and a further two submissions were received in response to the Draft Report.
- 3.147 The Commission delivered its Final Report to the Treasurer in July 2010.

3.148 The Commission recommended that, consistent with the 2009 network price determination, a paper trial of a financial incentive scheme will be run for the 2009-10 to 2013-14 regulatory period to provide further analysis of the costs and benefits of implementing such a scheme in future periods, as the Commission is not satisfied about the reliability of data to set a base level of performance or the financial volatility associated with such a scheme in the Territory.

3.149 The Commission recommended that a Guaranteed Service Level (GSL) scheme providing for payments to be made to customers who receive very poor levels of service could be implemented in the Territory.

3.150 The proposed GSL scheme would apply to electricity network services, and include network reliability performance measures and network related customer service measures. However, generation reliability measures and retail customer service measures were not recommended to be included in a GSL scheme at this time.

*Review of Options for the Development of a Retail Price Monitoring Regime for Contestable Electricity Customers*

3.151 The purpose of the review is to review and report on options for the development of effective electricity retail price monitoring, and to recommend options for a framework to increase transparency in retail electricity pricing, and ensure that retail prices reflect the cost of supply.

3.152 The Commission released an Issues Paper in February 2010 to initiate the review and to obtain comment from interested parties on the options and considerations for developing a retail price monitoring regime. The Commission also held a stakeholder forum in March 2010 to facilitate discussion of the issues associated with developing a retail price monitoring framework for the Territory.

3.153 A Draft Report released in June 2010 set out the Commission's proposal for a retail price monitoring regime.

3.154 Three submissions were received in response to the Issues Paper and a further two submissions were received in response to the Draft Report.

3.155 The Final Report was provided to the Treasurer in September 2010.

3.156 The Commission considered that a retail price monitoring regime would be appropriate in the Territory to give customers confidence that the terms and conditions of supply offered by PWC are reasonable, while PWC holds a dominant market position in the electricity generation and retail sectors.

3.157 The Commission proposed that arrangements be introduced to monitor PWC's market behaviour and pricing outcomes, until there is effective competition in the Territory electricity market, involving:

- periodic detailed investigation of PWC's costs, prices and revenues disaggregated by customer class (at each point of the electricity supply chain) to ensure that customer charges are cost reflective, and that the costs involved represent no more than the reasonable long run cost of supplying electricity; and
- regular reporting of PWC's pricing outcomes, based on the previous generation price oversight methodology and, possibly, the use of price indices and benchmarks.

3.158 These arrangements should be progressively phased out when effective competition is evident in the Territory electricity market

*Review of Electricity Standards of Service*

3.159 The purpose of the review is to report on the adequacy and effectiveness of the Electricity Standards of Service Code, to advise on the indicators and reasonable benchmarks for standards of service in the Territory, and to develop options for setting, monitoring and enforcing standards of service.

3.160 The Commission released an Issues Paper in May 2010, examining current electricity standards of service arrangements and considering options in light of the experience in other Australian jurisdictions. A Draft Report was released for comment in August 2010, setting out the Commission's draft recommendations. Two submissions were received in response to the Issues Paper and a further two submissions were received in response to the Draft Report.

3.161 The Commission delivered its Final Report to the Treasurer in November 2010.

3.162 The Commission considered that a standards of service framework is necessary in the Territory to:

- establish minimum and average standards of reliability, quality and customer service in the electricity supply industry;
- promote improvement in the level of services supplied by electricity generators, network service providers, and retailers operating in the Territory; and
- establish effective arrangements for monitoring and reporting on performance

3.163 The Commission provided recommendations for measures of service performance for electricity generation, networks and retail in the Territory, the methodology for determining service performance targets, reporting arrangements and implementation considerations.

*Review of System Planning, Monitoring and Reporting*

3.164 The purpose of the review is to report on the adequacy of current performance monitoring and reporting arrangements under the *Electricity Reform Act*, and to recommend a course of action that ensures that planning, monitoring and reporting promote acceptable performance outcomes.

3.165 The Commission released an Issues Paper in December 2010 which surveyed planning, monitoring and reporting arrangements in the NEM and Territory, and provided the Commission's preliminary thinking on a possible future approach for the Territory. Views from interested parties were sought on the options and considerations for power system and distribution network planning, monitoring and reporting arrangements. Two submissions were received.

3.166 A Draft Report was released for comment in August 2011, providing an overview of planning, reporting and monitoring functions and activities undertaken by electricity suppliers, industry regulators and governments to ensure that power system security and reliability outcomes are in the long term interests of customers. It sets out the Commission's draft proposals for system and distribution planning, monitoring and reporting arrangements in the Territory, and discusses implementation considerations.

3.167 The Commission plans to deliver a Final Report with final recommendations to the Treasurer in late 2011.

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*Review of Electricity System Planning and Market Operation Roles and Structures*

- 3.168 The purpose of the review is to report on the efficiency of system planning and market operation arrangements, including the role and structure of the system control unit of PWC and to recommend a course of action that ensures that the allocation of functions to do with system planning and market operation promote efficient and reliable electricity system performance
- 3.169 The focus of this review is on the effectiveness of the Territory's governance arrangements for system and market operation and system planning, including the role and structure of the system control unit of the PWC, so that these activities contribute to achieving the reliability and price levels nominated through the regulatory bargain.
- 3.170 The Commission did not release an Issues Paper for this review. Rather, the Commission considered that a more effective approach would be to initiate the review by releasing a Draft Report in conjunction with the Draft Report for the Review of the Electricity System Planning Monitoring and Reporting.
- 3.171 The Commission considered that this would allow options to be identified for allocating responsibility for electricity system planning and market operation roles and functions based on the proposals outlined in the Draft Report for the Review of the Electricity System Planning Monitoring and Reporting. In particular, this would facilitate an informed discussion of the options for the allocation of responsibilities for system planning and market operation, taking into account the Territory's circumstances and practice elsewhere in Australia.
- 3.172 A Draft Report was released for comment in August 2011, setting out the Commission's proposals for the allocation of responsibility for market and system operation activities in the Territory electricity supply industry and discusses implementation considerations.
- 3.173 The Commission plans to deliver a Final Report with final recommendations to the Treasurer in late 2011.

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## **Inquiries referred under section 6(1)(g) of the Utilities Commission Act**

### *Review of the PWC Asset Management Capability.*

- 3.174 The purpose of the review is to provide an independent and expert assessment of PWC's Asset Management Capability (AMC) Project to confirm the anticipated benefits and identify the risks associated with implementation of the PWC proposal to bring its asset management capability to a level of good industry practice.
- 3.175 PWC's AMC project was initiated following an internal review of PWC's core business processes, systems and data, which identified serious problems with PWC's asset management and the supporting asset management information technology systems and business processes. The AMC project is expected to improve PWC's capability and performance in asset management, and to contribute to the delivery of investment and maintenance, and improved occupational health and safety and risk management.
- 3.176 The Commission commenced this review in January 2010 with the engagement of consultants Sinclair Knight Mertz (SKM) to provide an independent and expert assessment of PWC's asset management systems. The scope of SKM's assessment is broader than simply IT system implementation projects progress within the organisation. It includes a more holistic review of the asset management practices currently in PWC and also organisational changes.
- 3.177 SKM provided its report to the Commission in June 2010. The Commission gave PWC the opportunity to make a management response to the findings and recommendations of the final SKM report.
- 3.178 The Commission delivered its Final Report to the Treasurer in November 2010.

### *Review of the Power and Water Corporation's (PWC) Capital and Maintenance Programs.*

- 3.179 The purpose of the review is to provide an independent and expert assessment of PWC's capital and maintenance programs to ascertain whether the programs represent an efficient and prudent response to forecast demand and applicable service performance outcomes.
- 3.180 The Commission commenced this review in January 2010 with the engagement of consultants SKM to undertake a review and report to the Commission on the forecast costs and assumptions underpinning PWC's capital and maintenance programs, and on the efficiency of the program, given forecast demand and service standards.
- 3.181 SKM also examined PWC's decision making systems and their consistency with efficient and prudent asset management practice to identify if these systems, assuming they are applied as stated, would achieve outcomes that reflect efficient and prudent asset management practice.
- 3.182 SKM provided the Commission with a final report in November 2010, incorporating responses to an earlier draft report by the Commission, PWC and Treasury.
- 3.183 The Commission plans to deliver a Final Report with final recommendations to the Treasurer in late 2011.

**Electricity Industry Reform Implementation Group**

3.184 A working group has been established to investigate potential implementation matters arising from the Commission's reviews.

3.185 A preliminary meeting in May 2011 initiated discussions on:

- an overarching agreement about the implementation program policy intentions and approach; and
- a developing understanding of the task associated with the implementation program, including the immediate priorities and milestones.

3.186 Options for obtaining expert assistance to facilitate the project management of the implementation plan were also considered.

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## CHAPTER 4

### Water Supply and Sewerage Services

#### Introduction

- 4.1 The Commission is responsible for certain regulatory functions in the water supply and sewerage services industries.
- 4.2 The *Water Supply and Sewerage Services Act* regulates the water supply and sewerage services industries:
- to promote the safe and efficient provision of water supply and sewerage services;
  - to establish and enforce standards of service in water supply and sewerage services;
  - to facilitate the provision of financially viable water supply and sewerage services; and
  - to protect the interests of customers.
- 4.3 The Commission shares responsibility for administration of the *Water Supply and Sewerage Services Act* with other areas of government. The Commission, reporting to the Treasurer, is responsible for those sections of the Act that relate to economic regulation. The Minister for Essential Services is responsible for those sections of the Act that relate to supply and service provision under licence and the Department of Health and Families is responsible for those sections of the Act that relate to water quality standards.

#### Roles and functions of the Commission

- 4.4 The Commission's regulatory role in the water and sewerage industry is more limited than its role in the electricity supply industry.
- 4.5 The Commission's activities in the water and sewerage industries relate mainly to licensing and some compliance monitoring, although the Treasurer may assign some price monitoring functions and the Essential Services Minister may assign some service standard monitoring functions to the Commission under their respective regulatory powers.
- 4.6 In addition, the *Water Supply and Sewerage Services Act* requires PWC to develop a Water Metering Code and a Trade Waste Code, with those Codes being subject to approval by the Commission.
- 4.7 The Commission has the following functions in the water and sewerage industry:
- to perform licensing functions;
  - to monitor and enforce licensees' compliance with the Act, the terms and conditions of their licence and the minimum standards; and
  - to advise the Minister on any matter referred by the Minister.



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## Licensing

### Licensing framework

- 4.8 The Commission issues licences to persons wishing to carry on operations in the Territory's water and sewerage industries under a sole supplier model.
- 4.9 Specific geographical areas may be declared by the Minister, by way of a notice in the Gazette, to be a water or sewerage supply licence area pursuant to sections 8 and 9 of the *Water Supply and Sewerage Services Act*.
- 4.10 A licence is required for the provision of water supply services and sewerage supply services within an area gazetted under the Act as a water or sewerage supply licence area.
- 4.11 For each water or sewerage supply service within a gazetted water or sewerage supply licence area, the Commission may only grant a single licence for each of the relevant services provided. The Commission is not empowered to issue licences for service provision that takes place outside a water or sewerage licence area.
- 4.12 The Commission must make a water supply or sewerage services licence subject to conditions approved by the Minister.

### Licensing activities in 2010-11

- 4.13 On 30 June 2011, PWC held two licences under Part 2 of the *Water Supply and Sewerage Services Act*:
- water supply (to 31 December 2027); and
  - sewerage services (to 31 December 2027).
- 4.14 A general exemption from the need to hold a licence is also in effect for persons on-supplying water services within prescribed licence areas, on the condition that they have been granted the approval of the licensee of the water supply licence area to carry on on-supply operations in the water supply licence area.
- 4.15 There were no applications for water or sewerage licences or exemptions and no variations applied for or made to the terms and conditions of existing licences during the year.

### Service performance

- 4.16 The Commission has no role in developing service standards in the water and sewerage industry.
- 4.17 Minimum standards that a licensee must meet in providing water supply and sewerage services to customers are set by the Minister for Essential Services.

### Price regulation

- 4.18 Water and sewerage prices paid by customers, whether residential or commercial, are regulated directly by the Territory Government via a Water and Sewerage Pricing Order (WSPO) made under section 60 of the *Water Supply and Sewerage Services Act*.

- 4.19 The Commission is required to enforce compliance with the WSPO as if the WSPO were a determination of the Commission under the *Utilities Commission Act*.
- 4.20 On 1 July 2009, a WSPO was made by the Minister that set a price path for increases in water and sewerage prices through to 30 June 2013, with prices increasing by 20 percent in each of the first three years and then in line with the CPI in the final year.

## Compliance monitoring

- 4.21 The Utilities Commission is required under the *Utilities Commission Act* to monitor and enforce compliance by licensed entities with regulatory instruments – legislation, licences, codes and guidelines.
- 4.22 Licensed water and sewerage entities are obliged to comply with applicable codes, rules, protocols and standards, and to notify the Commission of becoming aware of a material breach of any applicable regulatory instrument.
- 4.23 The following Codes developed by PWC and approved by the Commission are in effect:
- Water Metering Code, approved by the Commission in July 2006, which sets out the arrangements and conditions for installing, testing, verifying and replacing meters owned by the licensee and must be in accordance with guidelines published by the National Standards Commission.
  - Trade Waste Code, approved by the Commission in December 2001, which sets out the conditions on which the licensee will approve trade waste being discharged into the licensee's sewerage services infrastructure.

## Development of a compliance policy

- 4.24 The Commission's approach to compliance monitoring for water and sewerage has been the same as that for electricity as discussed in the previous chapter. To date the Commission has relied on an annual compliance report by PWC's internal auditors, and advice from PWC on how deficiencies identified in the report are being addressed.
- 4.25 As discussed in relation to compliance in the electricity industry, the Commission will be undertaking a staged approach to an increased focus on compliance and has begun to explore options for ensuring that compliance systems and practices provide effective assurance of licensed entity's compliance with regulatory instruments.

## Compliance reporting in 2010-11

### *Annual licence returns*

- 4.26 During the year, PWC lodged returns with respect to the 2009-10 financial year for each of its licensed areas of operation.
- 4.27 No substantive issues arose as a consequence of these licence returns.

### *Compliance report of operations*

- 4.28 As part of its annual licence returns, PWC is also required to include an audit of operations authorised by each licence and compliance with licence obligations. As in previous years, the 2009-10 audit was undertaken by an independent auditor, Ernst & Young.

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4.29 Ernst & Young's audit found that PWC was broadly compliant for each of its licensed water and sewerage operations.

*Water and sewerage asset management plans*

4.30 PWC is required to maintain and implement asset management plans and submit an updated copy of the plan to the Commission each year.

4.31 The Commission granted PWC an exemption from having to submit asset management plans in 2011 to allow PWC to focus on the Asset Management Capability project, involving the development and implementation of an integrated IT system and development of new asset management policies and processes.

4.32 The Commission also foreshadowed a more rigorous interpretation of the requirements of the Water Supply and Sewerage Services Act and has commenced discussions with PWC to develop future water and sewerage assets management plans that detail arrangements for creating, repairing and replacing the licensee's water supply and sewerage services infrastructure.

4.33 PWC has advised the Commission that it intends to have a draft template of a Water and Sewerage Management Plan for the Darwin system by February 2012, as well as a documented plan to provide water asset management plans for more regions into the future.

## **Advice to the Minister**

4.34 As discussed in the previous chapter, during 2010-11 the Commission continued to focus on the Government's priority works program, comprised of a number of reviews aimed at increasing the efficiency of market participants including PWC, improving customer standards of service and reliability, and where possible, aligning the Territory electricity market with the national electricity market.

4.35 The two reviews relating to PWC's financial management referred to the Commission under section 6(1)(g) of the *Utilities Commission Act*, related to PWC's water and sewerage operations as well as its operations in the electricity supply industry:

- Review of the Power and Water Corporation Asset Management, and
- Review of the Power and Water Corporation's (PWC) Capital and Maintenance Programs.

4.36 These reviews have been discussed in the previous chapter.

4.37 The *Water Supply and Sewerage Services Act* also empowers the Commission to provide advice to the Minister at its own initiative on the operation of the Act. The Commission provided no such advice to the Minister during 2010-11.

## APPENDIX A

### Decisions in 2010-11

During 2010-11, the Commission made the following decisions:

<b>Decision</b>	<b>Type</b>	<b>Date of decision</b>	<b>Expires</b>
Power and Water Corporation – Electricity Generation Licence	Grant of licence	1 September 2010	until superseded
Uterne Power Plant Pty Ltd – Electricity Generation (Independent Power Producer) Licence	Grant of licence	22 November 2010	Until the licensee ceases to have in place arrangements to sell to an electricity entity holding a (standard) generation licence
QEnergy Limited – Retail Electricity Licence	Grant of licence	4 February 2011	until superseded
Power and Water Corporation – Electricity Network Licence	Variation	28 February 2011	to 30 June 2020
Power and Water Corporation – Electricity System Control Licence	Variation	28 February 2011	until superseded
Power and Water Corporation – Retail Electricity Licence	Variation	28 February 2011	until superseded
Network Access Tariffs	Approval	18 May 2011	1 July 2011 to 30 June 2012
Power and Water Corporation – Electricity Generation Licence	Variation	17 June 2011	until superseded

## APPENDIX B

### Publications and reports

During 2010-11, the Commission published the following reports:

Date released	Publication
18 August 2010	Draft Report – Review of Electricity Standards of Service for the Northern Territory
23 August 2010	Final Report – Review of Options for Implementation of a Customer Service Incentive Scheme for NT Electricity Customers
28 October 2010	Annual Report 2009-10
28 October 2010	Final Report – Review of Options for the Development of a retail Price Monitoring Regime for NT Contestable Electricity Customers
3 December 2010	Issues Paper – Review of Electricity System Planning Monitoring and Reporting
6 December 2010	Final Report – Review of Electricity Standards of Service for the Northern Territory
31 March 2011	2009-10 Standards of Service Performance Report
31 March 2011	2009-10 Power System Review
18 May 2011	Network Tariffs 2011-12: Commission Analysis
21 June 2011	Consultation Paper – Draft Electricity Retail Supply Code

These publications can be viewed on the Commission's website: [www.utilicom.nt.gov.au](http://www.utilicom.nt.gov.au)

In response to referrals from the Regulatory Minister in accordance with section 6(1)(g) of the *Utilities Commission Act*, the Commission also undertakes reviews for, and provides advice, to the Minister. Where required by the terms of reference issued by the Minister, the reports setting out the Commission's findings and recommendations remain confidential to Government.

During 2010-11, the Commission provided the following report in confidence to the Minister:

- Review of the Power and Water Corporation's Asset Management Capability - the final report was provided to the Treasurer in November 2010.

Section 6(b) of the *Electricity Reform Act* provides that the Commission also has the function of providing advice to the Regulatory Minister on the operation of the Act.

During 2010-11, the Commission provided no such advice to the Minister.

## APPENDIX C

### Expenditure and receipts

The Utilities Commission is established as a separate administrative unit within the Northern Territory Treasury. The Commission does not separately compile its own financial statements, but its activities are included in the consolidated financial statements provided in Treasury's Annual Report.

This Appendix publishes the expenditures of the Commission that are funded directly from Consolidated Revenue, as well as the associated receipts.

### Expenditure by category of cost

Category of cost	2009-10 \$000	2010-11 \$000
<b>PERSONNEL COSTS</b>	<b>533.4</b>	<sup>(a)</sup> <b>486.9</b>
<b>OPERATIONAL EXPENDITURE</b>	<b>234.9</b>	<b>312.1</b>
Expert advice	165.3	<sup>(b)</sup> 242.1
Official travel, accommodation and related expenses	43.8	44.5
Recruitment and staff training	14.8	15.0
Office expenses and administration	11.0	10.5
<b>OVERHEADS ALLOCATION</b>	<b>202.1</b>	<b>198.0</b>
<b>TOTAL EXPENDITURE</b>	<b>970.4</b>	<b>997.0</b>

(a) Reduction due to changed arrangements for Utilities Commissioner.

(b) Increase in cost of expert advice due to additional technical expertise being required for the Government's priority work program.

## Receipts by account

Account	2009-10 \$000	2010-11 \$000
<b>FEES AND CHARGES</b>	<b>191.9</b>	<b>162.5</b>
Licence application fees	0.0	1.5
Electricity licence fees	146.9	<sup>(c)</sup> 116.0
Water and sewerage licence fees	45.0	45.0
<b>TOTAL REVENUE</b>	<b>191.9</b>	<b>162.5</b>

(c) Reduction in fee income due all customers becoming contestable from 1 April 2010 and no licence fees applicable for retail operations in the non-contestable market

Note: Section 19 of the *Utilities Commission Act* provides that, unless otherwise directed by the Treasurer, fees and other monies received by the Commission are paid into the Consolidated Revenue Account. No such direction has been issued.

## APPENDIX D

### Advisers to the Commission

In 2010-11, the Commission used the services of the following consultants. The costs for the year totalled \$242,094 compared with \$165,262 in the previous year.

#### Greater than \$50 000

##### *Evans & Peck Pty Ltd*

During 2010-11, the Commission received technical advice from Evans & Peck in relation to the preparation of the annual power system review.

##### *Sinclair Knight Merz*

During 2010-11, the Commission received economic and technical advice from SKM in relation to:

- the Commission's review of the Power and Water Corporation Asset Management Capability; and
- the Commission's review of the Power and Water Corporation's Capital and Maintenance Programs.

#### Less than \$50 000

##### *Page Consulting Group*

During 2010-11, the Commission received high level advice from Page Consulting Group on the possible scope and structure of an Electricity Industry Code.

##### *CQ Partners Pty Ltd*

During 2010-11, the Commission received advice from CQ Partners Pty Ltd in relation to the drafting of the Electricity Retail Supply Code.

##### *Minter Ellison*

During 2010-11, the Commission received advice from Minter Ellison in relation to legal issues associated with the drafting of the Electricity Retail Supply Code.