



SUBMISSION

Northern Territory Wholesale Electricity Generation Market Review Consultation Report

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Electrical Trades Union Queensland and Northern Territory Branch
38 Woods Street
Darwin, Northern Territory, 0801.

Introduction

1. The Electrical Trades Union (ETU) Northern Territory Branch represents workers in the Northern Territory energy industry and with many of those are directly involved in the generation sector. We are therefore pleased to have the opportunity to participate in this consultation process as the implications of any reform to the Territory generation market will have a direct impact on our members and a broad impact on the community with regards to issues where the ETU has an organisational position, such as price and reliability.
2. A secure, reliable and affordable supply of electricity is fundamental to ensuring the expected standard of living of a majority of the population for a first world country such as Australia and the Territory Government has the responsibility of providing essential services such as electricity to its taxpayers in a reliable, affordable and sustainable manner.
3. The review of generation arrangements to examine the viability of establishing a wholesale generation market represents a significant reform in the Northern Territory energy sector.
4. In fact, when placed alongside other reforms currently underway such as the dis-aggregation of the fully vertically integrated government owned energy corporation Power and Water Corporation (PWC), the Northern Territory energy sector is currently undergoing some of the most fundamental and significant reforms it has ever been subjected to.
5. Given electricity's status as an essential service, it is of the utmost importance that these reforms lead to positive outcomes for Territory consumers and taxpayers. Reforms such as these cannot, and should never be under any circumstances, reform for its own sake.

The Review

6. Before addressing the report that has been circulated for consultation, the ETU notes that answer to the threshold question of 'What are the faults with the current system' needs to be clearly addressed and publically articulated by the government. This has not yet occurred.

7. The Government commenced the current review process by tasking the Utilities Commission with providing a report to government and issued the Commission with review Terms of Reference. The Utilities Commission in turn then commissioned Oakley Greenwood consultants to produce a report titled 'Review of wholesale electricity market' which has informed for the Utilities Commission's draft report for consultation which will form the basis of its final recommendations to government.
8. Fundamentally the report finds that a competitive market can be established in the Territory and outlines, in the broadest and most strategic terms only, market design, governance and operation arrangements.
9. For example, escalation of electricity prices is at the top of the list when it comes to cost of living issues for a majority of communities across the Territory, so when it comes to reforming the energy sector, the government needs to address taxpayers with wha

Market Design and Operational Mechanics

10. To be clear, the ETU is not convinced that a competitive wholesale generation is viable for the Territory, in fact we note that the Utilities Commission has found that new generation capacity is not required for a number of years¹.
11. We do not propose to restate in detail the arrangements contained in the report, however we will respond to the major market elements as proposed.
12. The market design put forward by the review is similar to some of the fundamentals of both the National Electricity Market (NEM) and the Western Australia Western Energy Market (WEM). The review also makes reference to benchmarking with various international markets.
13. Assuming it could be truly demonstrated that establishing a competitive market was viable, there should be separate financial reliability and trading functions within any potential market.

¹ Oakley Greenwood, p20.

14. The Reliability Assurance Mechanism (RAM) approach advocated by the review provides a broad, theoretical and strategic approach to ensuring reliable financial investment in a Northern Territory Energy Market (NTEM). Far more detail, including modelling, would be required before any real judgement could be made as to whether or not the RAM is a suitable market design tool for facilitating reliable investment in any future NTEM. The Reliability Assurance Mechanism is a critical part of the proposed market and yet the review provides scant detail on its design and operation.
15. In relation to energy trading, the arrangements proposed by the review take in account Territory specific considerations such as stable weather, relatively stable demand (comparative with other jurisdictions), the dominant market share and short ramp up times for gas generation and the flexible contract arrangements for supply quantity.
16. Given the market dominance of PWC the review position of a dispatch price linked, or capped to the cost of production needs to be further developed with detailed modelling before a proper analysis can occur. A competitive market should safe guard against vertical integration of any customer other than state owned entities, and even then their dominance needs to be accounted for through market regulation.
17. Independent gas regulation is needed to underpin the competitiveness of any mooted generation market, therefore, the arrangements outlined in relation to gas are supported in principle, particularly because of the high reliance on gas as generation fuel in the Territory.
18. The review recommends that the market rules for a NTEM be developed using the National Electricity Rules (NER) as a template² with the necessary changes that are dictated by the Territory's particular circumstances.
19. Again, assuming that it was able to be demonstrated that the reform model proposed was actually viable for the Territory, the proposition that adopting the NER rules as a template will reduce establishment costs, time and reduce regulatory duplication and/or conflict with other jurisdictions seems entirely logical.

² Oakley Greenwood, p,18.

20. Given this approach to the establishment of market rules and the similarity between the roles and functions of the reliability manager and the system controller with the roles and functions of National Energy Market agencies such as the Australian Energy Regulator (AER) and the Australian Energy Market Operator (AEMO), that the possibility of these agencies being engaged to establish and operate a potential NTEM in whole could be fully explored.
21. This builds upon and goes beyond the possible allocation of roles and functions as listed in the review³ and would provide optimal confidence for prospective participants and consumers alike.

Pricing

22. With respect to the Terms of Reference for the review we note in particular Objective 'C'⁴:
- (c) to minimise the long-term cost of electricity supplied to customers from the Territory's electricity system.*
23. We further note the review states that the proposed market design 'involves trade-offs between precision in economic pricing, complexity and likely cost⁵'.
24. The ETU is concerned that neither the Utilities Commission draft report for consultation nor the Oakley Greenwood report contains cost estimates or projections of the price impact of an operational market as proposed.
25. Such information is essential to ensure the requisite data analysis is taken into consideration should there be any substantial effort in meeting Objective C of the terms of reference.
26. In the absence of this modelling the ETU would consider it to be reckless public policy and regulatory reform of the highest order for a government to take any decisions to press forward with such wide-ranging and fundamental reforms to the Territory energy sector.

³ Oakley Greenwood, p 34.

⁴ Utilities Commission, p8 & Oakley Greenwood, p6.

⁵ Oakley Greenwood, p3.

27. Further, the ETU is alarmed that the review states a major rationale of ‘a well functioning market (that) will produce investment and total charges to customers that recover the cost of investment and provide a competitive profit⁶’ with no mention of balances of safeguards for consumers and no hard data analysis on price impacts – as is usually the case in mature and functioning competitive markets such as the NEM.
28. The ETU submit that there needs to be detailed modelling performed on price paths to ascertain the likely impact of a competitive wholesale generation market on retail and wholesale electricity prices over 5, 10 and 15 year periods.
29. We also submit that in the interests of transparency and accountability, the Government should make public all costs associated with the review process itself and the establishment and ongoing operational costs of any future market. For example, the financial impost associated with the new role required to administer the Reliability Assurance Mechanism or an independent gas regulator.
30. These costs will be significant and need to form a major part of considerations. Indeed the review specifically makes mention⁷ of ‘fit for purpose solutions therefore will closely manage overheads and transition costs’.
31. It also must be made public how much, if any, of these costs the government will allow to be passed on to consumers via electricity prices.
32. The wholesale market as proposed in the review report is for power generated for the Darwin to Katherine network only, with potential to be expanded to include Alice Springs and Tennant Creek⁸ in the future.
33. Given this, it must be made clear what the pricing impacts of having two separate generation arrangements will be for consumers inside the wholesale generation market in Darwin and Katherine, as compared to consumers outside the market in Alice Springs and Tennant Creek.

⁶ Oakley Greenwood, p2.

⁷ Oakley Greenwood, p5.

⁸ Oakley Greenwood, p5.

34. Despite the clear intent of Objective 'C' in the Terms of Reference, we note the minimal to non-existent references in the review report that relate directly to consumers and price impact. Merely stating the ubiquitous references to 'greater market efficiencies' in a generic and strategic sense.

Prelude to Privatisation

35. The ETU is concerned that the wholesale generation review, along with the dis-aggregation of PWC, is simply making the necessary market reforms to easily facilitate future energy privatisation within the Territory.

36. Privatisation is often justified on, among other grounds, that it will create greater efficiencies through competition and help retire current levels of debt or ameliorate future debt. However, the ETU rejects these assertions completely.

37. Privatisation of essential service assets or agencies such as electricity, which are usually natural monopolies, is not in the long term economic interests of governments or consumers.

38. Governments have historically pursued competition policy and tried to create more competitive energy markets via reviews such as the one currently and by separating generation, transmission, distribution and retail supply of electricity as is being done currently in PWC. Ironically in jurisdictions where this has occurred, such as Victoria and South Australian, has simply led to public oligopolies being replaced by private ones.

39. Privatisation as policy in government goes far beyond that of misplaced confidence in a particular ideology, there are numerous independent reports that have analysed privatisation parts of Australia's energy sector and shown that in almost every case it has failed to deliver on its promises and led to worse economic and social outcomes compared to public ownership.

40. In its 2013 paper titled '*Electricity and Privatisation – what happened to the Promises?*' the Australia Institute⁹ found that:

41. *“The advocates of electricity reforms in the 1990s and since have argued for privatisation, corporatisation and competition with the promise of a more efficient industry and lower costs. The pervasive nature of this advocacy suggests there should be some solid evidence by now, especially with two decades of experience of these ‘reforms’ behind us. Despite the promise of lower prices and a more efficient industry, electricity prices instead have been a major cause for concern on the part of Australian consumers. Over the period since March 1995 electricity prices have outpaced the CPI with an increase of 170 per cent compared with an increase of 60 per cent for the CPI.”*

42. The reforms currently underway in the Territory have a very familiar and, we suspect, predictable tone that has less to do with improving consumer outcomes for taxpayers through effective energy sector reform, and more to do with providing opportunity for the corporate sector to make private profits from Territory consumers.

Conclusion

43. Fundamentally, the review report merely represents a broad strategic view about how a competitive wholesale electricity market may look in the Territory.

44. While this may be a useful providing a particular frame for further policy reform deliberations, it does not provide the required information or data needed to make a decision about even in-principle establishment of a NTEM, nor how it would compare to the status quo or a variation thereof.

45. Much more detailed review and analysis must be done before there can be any confidence that the market reforms will be sound enough to be of benefit to prospective entrants and customers.

⁹ Richardson, D, *Electricity and Privatisation – What happened to the promises?*, Technical Brief 22, The Australia Institute, Canberra, Australia, 2013, p11.

46. The review itself supports this position, stating that a minimum timeframe of 12 months plus consultation would be required to establish any formal arrangements¹⁰ could be formulated. The extensive list of 'next steps'¹¹ must be undertaken and consulted on before any further consideration of NTEM can occur.

47. Due to the severe lack of detail we do not consider it appropriate for interim arrangements to be considered for implementation in an essential service industry. Interim arrangements provide no confidence or certainty to either market participants or consumers and will only serve to deter prospective entrants.

48. In summary, The ETU submits that before the reform process proceeds any further the government must:

- Undertake and make public modelling of cost impacts on retail pricing of each and every reform model under consideration. Without which no confidence can be given on financial efficiency and price for consumers;
- Undertake and make public generation demand and supply models for each reform model under consideration. Without which no confidence can be taken on security of supply;
- Provide modelling that shows impacts on all Territory consumers, not only those that would be within a potential wholesale market (eg: Darwin and Katherine).
- Not enter into any interim market arrangements;
- Rule out future privatisation of publicly owned energy assets;
- Immediately make public all actual and projected establishment and operational costs associated with each market model under consideration;
- Investigate whole market establishment and oversight by NEM regulatory agencies.

49. We look forward to the opportunity to meet and discuss the contents of our submission.

¹⁰ Oakley Greenwood, p4 & 37.

¹¹ Oakley Greenwood, p36-37.