



Our Ref: cg0410

Your Ref:

Mr Alan Tregilgas  
Utilities Commissioner  
GPO Box 915  
Darwin NT 0801

*Alan*

Dear Mr Tregilgas

**RE: POSSIBLE REVIEW OF CERTAIN REGULATORY INSTRUMENTS -  
ISSUES PAPER**

I refer to your letter of 7 September 2007, providing a copy of the abovementioned issues paper for comment and advising of the Utilities Commission's in-principle decision to review the Northern Territory Electricity Ring-fencing Code and to develop contestable pricing guidelines, over the next year.

As you are aware, Treasury is currently examining the merits of adopting the national regulatory regime in the Territory, as the culmination of a major review of the existing electricity supply industry regulatory framework.

The findings are scheduled to be reported to Government in the first quarter of 2008, at which time a decision will be made to commence either incremental reform of the existing regulatory regime, or transition to the national regulatory regime.

While the Commission notes that changes could be made to existing ring fencing arrangements and contestable pricing principles in the short term, with minimal prospect of being overtaken by any transition to the national regime, Treasury contends that consideration of ring-fencing arrangements and contestable pricing principles are integral to the development and implementation of the broader reform program.

On this basis, Treasury considers that there may be potential risks and costs associated with the Commission examining specific aspects of the regulatory regime in isolation of the broader reform program. These include:

- reduced regulatory and investment certainty, as the broader reform process may result in changes to the regulatory regime which differ from those made by the Commission;

- the relatively narrow focus of the Commission's proposed process preventing a full assessment of possible options - for example, Treasury believes that ring-fencing and contestable pricing issues are more effectively considered in as part of the development of options for a wholesale market mechanism and retail price monitoring; and
- duplication of effort by Commission, Territory Government and industry representatives in providing input to reform proposals, particularly against the context of the upcoming networks reset.

Additionally, as part of preliminary discussions the Australian Energy Regulator has confirmed Treasury's view that vertical integration of the incumbent supplier and pricing arrangements are priority matters for consideration in any transition by the Territory to the national framework.

These concerns are exacerbated by timing issues. It is likely that the Commission's proposed exercise would be finalised prior to the development of broader market reform options, which could pre-empt the outcomes of that process. Alternatively, implementation of the findings of the Commission's review could be deferred until transition to the new regulatory regime, by which time the changes could be redundant.

Given these factors the Commission's resources could be more effectively deployed by focussing on the upcoming networks reset. The Commission's input to the development of policy options as part of the broader process being coordinated by Treasury would also be valued.

It would be appreciated if these issues could be given due consideration as part of the Commission's deliberations.

If you like to discuss the matters raised in this letter further, please contact Mr Craig Graham, Director Economic Frameworks (08 8999 7238).

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Jennifer Prince', with a large, stylized initial 'J'.

JENNIFER PRINCE  
Under Treasurer

31 October 2007