Draft 2025-26 Pricing Proposal

System Control and Market Operator

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Abbreviations

The following table provides a list of abbreviations and acronyms used throughout this document. Defined terms are identified in this document by capitals.

Term	Definition
AR	Annual revenue
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
ARR	Adjusted revenue requirement
Commission	Utilities Commission of the Northern Territory
CPI	Consumer price index
ER Act	Electricity Reform Act 2000
kWh	Kilowatt-hour
MWh	Megawatt-hour
NTEM	Northern Territory electricity market
NTESMO	Northern Territory Electricity System and Market Operator
NT NER	Northern Territory national electricity rules
Pricing Order	NT government electricity pricing order
SCTC	System control technical code
TAR	Total allowed revenue
WACC	Weighted average cost of capital

Executive summary

Power and Water's proposed 2025-26 system control and market operator charges are a very small proportion of a customer's electricity bill. These regulated charges for 2025-26 reflect the increase in proposed revenue requirements proposed in the NTESMO revised regulatory proposal.

Power and Water Corporation (**Power and Water**) is pleased to submit our 2025-26 system control and market operator pricing proposal to the Utilities Commission of the Northern Territory (**Commission**). Power and Water's system control and market operator functions under our System Control Licence are subject to economic regulation and our service charges are regulated by the Commission.

The Commission is currently considering our NTESMO 2024-25 to 2026-27 revised regulatory proposal, which will set NTESMO's annual revenue requirement for each year of the regulatory period. This pricing proposal uses our proposed annual revenue (**AR**) for each regulatory year expressed in real June 2024 dollars. Our revised regulatory proposal also includes indicative charges, this is calculated as AR divided by the consumption forecast. In setting the 2025-26 charges, we expect the Commission to use its approved AR to calculate the approved 2025-26 system control and market operator charges.

Our revised regulatory proposal also proposes that Power and Water submit an annual pricing proposal for the last two years of the 2024-27 regulatory period using an updated annual pricing mechanism as set out in Appendix 1. This mechanism adjusts the AR for inflation, X-factor price movements, updated energy forecasts, under-over recovery amounts, and pass-through amounts. In future regulatory periods, we propose to transition to the AER's approach for the price mechanism.

2025-26 proposed charges

The 2025-26 proposed system control and market operator charges in combination are 155% higher than in 2024-25. Table 1 shows that our proposed system control and market operator charges for 2025-26 are higher than 2024-25.

Table 1 Comparison of approved 2024-25 and proposed 2025-26 system control and market operator charges

	2024-25 approved charge ($/kWh, nominal)	2025-26 proposed charge ($/kWh, nominal)
System control*	0.005527	0.011823
Market operator*	0.000585	0.003769

*Charges have been rounded to six decimal places for System Control charges and Market Operator charges.

The key reasons for higher charges are:

- Proposed revenue in this regulatory period is increased mostly due to modernising our processes and tools to manage the transition to new technologies connected to the power system.
- The 2024-25 approved prices were based on applying a 6% CPI to 2023-24 charges as a placeholder. The 2025-26 and 2026-27 include partial recovery of the shortfall in revenue compared to the building block component.
- In 2025-26, we are recovering the actual revenue shortfall in 2023-24 and 2024-25, noting that 2024-25 prices did not enable recovery of the shortfall in actual revenue in 2023-24.

Proposed indicative bill impacts

Table 2 shows the indicative change in a customer's average electricity bill impact between 2024-25 and 2025-26 in Alice Springs and Tennant Creek where system control regulated charges apply.[1] Table 3 shows the indicative change in a customer's average electricity bill impact between 2024-25 and 2025-26 in Darwin-Katherine. For all customers we're proposing increases, however, note that around 99% of customers who consume less than 750 MWh annually are covered by the NT Government's Pricing Order (**Pricing Order**). We anticipate the Pricing Order will continue in 2025-26 and these customers will only be subject to the Pricing Order increases.

Table 2 System control proposed regulated charges impact for typical customer bill in Alice Springs and Tennant Creek ($, nominal)

Customer type	Total charge ($, nominal)		Price Movement	
	2024-25	2025-26	$	%
Small Residential - average energy - (8500 kWh pa)	$46.98	$100.50	$53.52	113.9%
Large Residential (15,000 kWh pa)	$82.90	$177.35	$94.45	113.9%
Small Medium Business (30,000 kWh pa)	$165.81	$354.70	$188.90	113.9%
Medium Business (150,000 kWh pa)	$829.03	$1,773.52	$944.49	113.9%
Large C&I (500,000 kWh pa)	$2,763.42	$5,911.72	$3,148.30	113.9%
Industrial (1,000,000 kWh pa - LV)	$5,526.84	$11,823.45	$6,296.61	113.9%
Large Industrial (6,000,000 kWh pa - HV)	$33,161.04	$70,940.70	$37,779.66	113.9%

[1] Customer in Alice Springs and Tennant Creek do not have system control charges applied.

Table 3: System control and market operator proposed regulated charges impact for typical customer bill in Darwin-Katherine ($, nominal)

Customer type	Total charge ($, nominal)		Price Movement	
	2024-25	2025-26	$	%
Small Residential (8500 kWh pa)	$51.95	$132.53	$80.59	155.1%
Large Residential (15,000 kWh pa)	$91.67	$233.88	$142.21	155.1%
Small Medium Business (30,000 kWh pa)	$183.34	$467.77	$284.42	155.1%
Medium Business (150,000 kWh pa)	$916.71	$2,338.84	$1,422.12	155.1%
Large C&I (500,000 kWh pa)	$3,055.72	$7,796.13	$4,740.41	155.1%
Industrial (1,000,000 kWh pa - LV)	$6,111.43	$15,592.26	$9,480.83	155.1%
Large Industrial (6,000,000 kWh pa - HV)	$36,668.58	$93,553.53	$56,884.95	155.1%

Our major energy customers consuming above 750MWh annually represent 1% of the customer base and are not covered by the Pricing Order.

1. Background

1.1 NTESMO's role

Power and Water holds a System Control Licence to provide system control and market operator functions. These services are provided by the Northern Territory Electricity System and Market Operator (**NTESMO**) which is a ring-fenced business within Power and Water.

NTESMO's functions are set out under section 38 of the Electricity Reform Act 2000 (ER Act), the SCTC and the Northern Territory National Electricity Rules. As system controller, NTESMO plays a critical role in ensuring the reliability and security of the NT power systems in Darwin Katherine, Tennant Creek and Alice Springs. Its primary responsibility is to ensure the efficient scheduling and dispatch of generating systems to securely meet demand.

Under Northern Territory legislation, a system controller is entitled to impose and recover charges relating to the operations of the regulated system. The legislation states that the schedule of charges is to be approved by the Commission.

1.2 Regulatory context

In each regulatory year, Power and Water must submit an annual pricing proposal to the Commission which sets out our proposed system control and market operator charges for the following financial year.

In September 2024, the Commission published its decision paper on the regulatory framework to be applied to the 2024-27 regulatory period and future periods. This decision paper set out the regulatory approach, model and timing, however it did not provide further information on the annual pricing mechanism. Power and Water's revised regulatory proposal included $23.6 million (real 2023-24) in proposed revenue for the 2025-26 system control and market operator charges.

Currently, the Commission has not published its decision on NTESMO's revenue and the system control and market operator charges to apply for the 2024-2027 regulatory period. We expect the Commission to publish its draft decision shortly.

Part of Power and Water's revised regulatory proposal includes the annual pricing mechanism to apply for the 2024-27 regulatory period, Appendix 1 sets out the proposed formula. It should be noted that for 2024-25 regulatory year, in the absence of a Commission decision on the initial regulatory proposal (submitted December 2023), the Commission decided that the 2024-25 charges would be calculated based on applying a 6% CPI escalation to the 2023-24 charges.

The proposed 2025-26 system control and market operator charges are calculated based on the 2025-26 annual revenue requirement included in the 2024-27 revised regulatory proposal as the Commission has not yet approved annual revenue requirement. The proposed charges are payable by retailers based on the energy consumed by their customers:

- For the Darwin-Katherine power system, customers are charged for system controller and market operator services.
- For the Alice Springs and Tennant Creek power systems, customers are charged for system control services.

1.3 Calculating annual charges

Consistent with the Commission decision paper, Power and Water have applied a revenue cap to each regulatory year. Our revised regulatory proposal applied a building block method to calculate the revenue for each year, under the proposed pricing proposal and adjusts this for pass through and under and over recovery of revenue in previous years. The following steps are used to calculate the AAR for 2025-26:

- For the first regulatory year (2024-25), calculate the TAR by calculating the price set by the Commission in 2024-25 multiplied by the forecast energy consumption in 2024 -25.
- For subsequent regulatory years, the TAR for the regulatory year is AR for that regulatory year escalated by actual CPI (using a lagged December indicator of CPI).
- Calculate the TAR for a regulatory year by adjusting regulatory year's AR and the balance of the unders and overs and any Commission approved cost pass through amount.
- The system control and market operator charge are calculated by dividing the TAR by the energy forecast.[2]

1.4 Forecast consumption for 2025-26

We have re-forecast our energy consumption forecasts for 2025-26 consistent with the approach applied in our pricing proposal for standard control services for regulated networks.

Our forecasts considered 6 months actual data on total energy consumption and compared this to the 2023-24 audited actuals. In general, we found that residential energy consumption was higher than predicted in our forecasts. Offsetting this, was slower energy consumption growth in the major customer tariff type due to delays in new customers connecting to the regulated networks.

We note that for the purpose of estimating actual revenue in 2024-25, we have used energy consumption forecasts that were consistent with the 2024-25 Network Pricing Proposal submitted to the AER. This is consistent with the approach applied to proposing prices for the regulated network, where under and over recovery amounts are based on t-2 actuals only.

[2] The system control (or market operator) forecast quantity of energy consumption (kWh) is consistent with the energy consumption forecast submitted in Power and Water's 2025-26 network pricing proposal to the AER. For system control, this is the sum of forecast quantity of energy consumption for tariffs 1, 2, 3a, 3b, 3c, 4, 5, and 6 for the three regulated networks. For market operator, forecast energy consumption is 86.4% of the energy consumption forecast for system control.

2. Proposed 2025-26 system control charge

Power and Water has applied the formulae in **Appendix 1** to calculate our proposed 2025-26 system control charge. Table 4 sets out the key inputs used to calculate the system control charge.

Table 4: Key inputs to derive system control charge for 2025-26

Terms	Input
Annual revenue in 2025-26* ($AR_{2025-26}$)	$18,368,250
Consumer price index update ($\Delta CPI_{2024-25}$)	4.05%
Consumer price index update ($\Delta CPI_{2025-26}$)	2.42%
Adjusted revenue	$19,575,949
Unders and overs adjustment** ($B_{2025-26}$)	$723,634*
Pass through amounts ($C_{2025-26}$)	$0
Total allowable revenue ($TAR_{FY2025-26}$) ($, nominal)	$20,299,583
Energy forecast for 2025-26 for Darwin-Katherine (kWh)	1,716,891,715
Proposed system control charge for 2025-26 ($/kWh, nominal)	$0.011823

**Expressed in real June 2024 dollars. To adjust the revenue to nominal dollars we apply 2 years of CPI based on lagged December to December CPI series.*

***The under-over recovery balance is carried forward from the closing balance of FY2024.*

3. Proposed 2025-26 market operator charge

Power and Water has applied the formulae in **Appendix 1** to calculate our proposed 2025-26 market operator charge. Table 5 sets out the key inputs used to calculate the market operator charge.

Table 5: Key inputs to derive market operator charge for 2025-26

Terms	Input
Annual revenue in 2025-26* ($AR_{2025\text{-}26}$)	$5,200,948
Consumer price index update ($\Delta CPI_{2024\text{-}25}$)	4.05%
Consumer price index update ($\Delta CPI_{2025\text{-}26}$)	2.42%
Adjusted revenue	$5,542,906
Unders and overs adjustment** ($B_{2025\text{-}26}$)	$47,719*
Pass through amounts ($C_{2025\text{-}26}$)	$0
Total allowable revenue ($TAR_{FY2025\text{-}26}$) ($, nominal)	$5,590,626
Energy forecast for 2025-26 for Darwin-Katherine (kWh)	1,483,394,442
Proposed market operator charge for 2025-26 ($/kWh, nominal)	$0.003769

**Expressed in real June 2024 dollars. To adjust the revenue to nominal dollars we apply 2 years of CPI based on lagged December to December CPI series.*

***The under-over recovery balance is carried forward from the closing balance of FY2024*

Appendix A: Annual pricing mechanism formula

The formula to implement a revenue cap form of price control mechanism for the annual system control and market operator charge respectively are set out below. This is an extract from Attachment 11.2, which the Commission is considering for approval as a part of the NTESMO 2024-27 Revised Regulatory Proposal.

2. Year one – 2024-25

2.1 Revenue requirement

The total allowed revenue (TAR) for 2024-25 are the system control (or market operator) prices approved and set by the Commission in its pricing determination multiplied by the forecast energy consumption.

$$\mathrm{TAR}_{\mathrm{FY2024\text{-}25}} = \mathrm{P}_{\mathrm{2024\text{-}25}} \times \mathrm{Q}_{\mathrm{2024\text{-}25}}$$

Where:

$\mathrm{P}_{\mathrm{2024\text{-}25}}$ – is the approved system control (or market operator) charge in 2024-25 ($/kWh)

$\mathrm{Q}_{\mathrm{2024\text{-}25}}$ – is the system control (or market operator) forecast quantity of energy consumption (kWh) consistent with the energy consumption forecast in Power and Water's 2024-25 network pricing proposal submitted to the Australian Energy Regulator (AER). For system control, this is the sum of forecast quantity of energy consumption for tariffs 1, 2, 3a, 3b, 3c, 4, 5, and 6 for the three regulated networks. For market operator, forecast energy consumption is 86.4% of the energy consumption forecast for system control.

2.2 Unders and overs calculation

Unders and overs were not considered when setting year one charges but are accounted for in year two and year three charges.

2.3 Cost pass through

Cost pass throughs were not considered when setting year one charges but are accounted for in year two and three charges.

3. Year two – 2025-26

3.1 Revenue requirement

The TAR for 2025-26 is to be calculated as:

$$\mathrm{TAR}_{\mathrm{FY2025\text{-}26}} = \mathrm{AR}_{\mathrm{2025\text{-}26}} \mathrm{x}\ (1 + \Delta CPI_{\mathrm{2024\text{-}25}})^{*}(1 + \Delta CPI_{\mathrm{2025\text{-}26}}) + \mathrm{B}_{\mathrm{2025\text{-}26}} + \mathrm{C}_{\mathrm{2025\text{-}26}}$$

Where:

$AR_{\mathrm{2025\text{-}26}}$ – is the annual revenue for 2025-26 as approved by the Commission in the determination (real $2023-24)

$\Delta CPI_{\mathrm{2024\text{-}25}}$ – is the annual percentage change in the ABS CPI All Groups, Weighted Average of Eight Capital Cities from December quarter 2022 to the December quarter 2023

$\Delta CPI_{\mathrm{2025\text{-}26}}$ – is the annual percentage change in the ABS CPI All Groups, Weighted Average of Eight Capital Cities from the December quarter 2023 to the December quarter 2024

$\mathrm{B}_{\mathrm{2025\text{-}26}}$ – is any overs and unders amounts from the previous regulatory period (2019-20 to 2023-24)

adjusted for the time value of money. See section 3.2.

$C_{2025\text{-}26}$ – is the sum of approved cost pass through amounts approved to be included in prices in the 2025-26 regulatory year. See section 3.3.

3.2 Unders/overs calculation

This calculation seeks to adjust for the balance of under / over recoveries in the 2019-20 to 2023-24 regulatory period adjusted for the time value of money.

$$B_{2025\text{-}26} = CB_{2023\text{-}24}$$

Where:

$CB_{2023\text{-}24}$ – is the under/over recovery closing balance as at 30 June 2024 in NTESMO for the 2019-24 regulatory period based on the calculation set out in the Commission's 2019-24 determination including adjustments for the time value of money using relevant allowed nominal vanilla weighted average cost of capital (WACC) approved by the AER.

3.3 Cost pass through calculation

It is expected that the value of $C_{2025\text{-}26}$ will equal zero however the following formula is provided for completeness.

$$C_{2025\text{-}26} = G_{2023\text{-}24} \times (1 + WACC_{2023\text{-}24})^{.5} \times (1 + WACC_{2024\text{-}25})$$

Where:

$G_{2023\text{-}24}$ – is the value of any cost pass throughs approved by the Commission in the 2023-24 year.

$WACC$ – is the nominal vanilla WACC approved by the AER applied to the approved cost pass through values approved in the previous period to account for the time value of money for the 18 months between the middle of the final year of the previous period and when it is recovered.

3.4 Price setting

The total allowable revenue is converted to a system control (or market operator) charge in accordance with the following equation:

$$P_{2025\text{-}26} = TAR_{2025\text{-}26} / Q_{2025\text{-}26}$$

Where:

$P_{2025\text{-}26}$ – is the system control (or market operator) charge in 2025-26 ($/kWh)

$Q_{2025\text{-}26}$ – is the system control (or market operator) forecast quantity of energy consumption (kWh) consistent with the energy consumption forecast submitted in Power and Water's 2025-26 network pricing proposal to the AER. For system control, this is the sum of forecast quantity of energy consumption for tariffs 1, 2, 3a, 3b, 3c, 4, 5, and 6 for the three regulated networks. For market operator, forecast energy consumption is 86.4% of the energy consumption forecast for system control.

4. Year three – 2026-27

4.1 Revenue requirement

The TAR for 2026-27 is to be calculated as follows.

$$TAR_{FY2026\text{-}27} = AR_{2026\text{-}27} \times (1 + \Delta CPI_{2024\text{-}25}) * (1 + \Delta CPI_{2025\text{-}26}) * (1 + \Delta CPI_{2026\text{-}27}) + B_{2026\text{-}27} + C_{2026\text{-}27}$$

Where:

$AR_{2026\text{-}27}$ – is the annual revenue requirement for 2026-27 as approved by the Commission in the determination (real, June $2023-24)

$\Delta CPI_{2024\text{-}25}$ – is the annual percentage change in the ABS CPI All Groups, Weighted Average of Eight. Capital Cities from December quarter 2022 to the December quarter 2023

$\Delta CPI_{2025\text{-}26}$ – is the annual percentage change in the ABS CPI All Groups, Weighted Average of Eight Capital Cities from the December quarter 2023 to the December quarter 2024

$\Delta CPI_{2026\text{-}27}$ – is the annual percentage change in the ABS CPI All Groups, Weighted Average of Eight Capital Cities from the December quarter 2024 to the December quarter 2025

$B_{2026\text{-}27}$ – is the true-up in 2026-27 for any under or over recovery of actual revenue collected and the TAR for the 2024-25 year adjusted for the time value of money. See section 4.2.

$C_{2026\text{-}27}$ – is the sum of approved cost pass through amounts to be included in prices from the 2024-25 regulatory year. See section 4.3.

4.2 Unders/overs calculation

This calculation seeks to true up the difference between the 2024-25 approved expected revenue and the actual revenue recovered adjusted for the time value of money.

$$B_{2026\text{-}27} = (TAR_{2024\text{-}25} - D_{2024\text{-}25}) \times (1 + WACC_{2024\text{-}25})^{.5} \times (1 + WACC_{2025\text{-}26})$$

Where:

$TAR_{2024\text{-}25}$ –consistent with the calculation for first year revenue.

$D_{2024\text{-}25}$ – is the actual system control (or market operator) revenue recovered in 2024-25.

$WACC$ – is the allowed nominal vanilla WACC approved by the AER that the under / over recovery is adjusted for to account for the time value of money for the 18 months between when the under or over recovery occurred and when it is recovered.

4.3 Cost pass through calculation

This calculation seeks to adjust for any cost pass-through value approved in the year 2024-25 adjusted for the time value of money.

$$C_{2026\text{-}27} = H_{2024\text{-}25} \times (1 + WACC_{2024\text{-}25})^{.5} \times (1 + WACC_{2025\text{-}26})$$

Where:

$H_{2024\text{-}25}$ – is any cost pass through value approved by the Commission in 2024-25.

$WACC$ – is the nominal vanilla WACC approved by the AER applied to the approved cost pass through values approved in the previous period to account for the time value of money for the 18 months between the middle of the final year of the previous period and when it is recovered.

4.4 Price setting

The total allowable revenue is converted to a system control (or market operator) charge in accordance with the following equation:

$$P_{2026\text{-}27} = TAR_{2026\text{-}27} / Q_{2026\text{-}27}$$

Where:

$P_{2026\text{-}27}$ – is the system control (or market operator) charge in 2026-27 ($/kWh)

$Q_{2026\text{-}27}$ – is the system control (or market operator) forecast quantity of energy consumption (kWh) consistent with the energy consumption forecast submitted in Power and Water's 2026-27 network

pricing proposal to the AER. For system control, this is the sum of forecast quantity of energy consumption for tariffs 1, 2, 3a, 3b, 3c, 4, 5, and 6 for the three regulated networks. For market operator, forecast energy consumption is 86.4% of the energy consumption forecast for system control.

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