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Mr Lyndon Rowe
Utilities Commissioner
Utilities Commission of the Northern Territory
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By email: Utilities.Commission@nt.gov.au

Dear Sir

Submissions by Territory Generation on the Issues Paper - Ring-Fencing Code and Guidelines review

Thank you for your letter dated 22 May 2019 in regards to the above mentioned subject.

The letter sought submissions from Territory Generation ("TGen") on the 'Issues Paper – Ring Fencing Code and Guidelines review' (the "Issues Paper").

The scope of the review states the Commission will have regard to:

- promote competitive and fair market conduct
- prevent misuse of monopoly or market power
- facilitate entry into relevant markets
- promote economic efficiency
- ensure consumers benefit from competition and efficiency
- protect the interests of consumers with respect to reliability and quality of services and supply in regulated industries
- facilitate maintenance of the financial viability of regulated industries
- ensure an appropriate rate of return on regulated infrastructure assets.

Although it is not clear how wide ranging the scope of the review will be conducted, TGen welcomes this review as the Territory embarks on the next phase of the Northern Territory Electricity Market implementation.

TGen proposes that the review takes into consideration the following issues:

- 1) The inclusion of the Alice Springs and Tennant Creek electricity markets.
- 2) The extent of the application of the Ring Fencing Code on competition and the markets that currently exists.
- 3) The benefits which are anticipated by competition and efficiency in each market.

- 4) The method used in measuring economic efficiency and the level of reliability for the protection of consumers.
- 5) The role played by the Market Operator going forward especially in regards to ring fencing.
- 6) The Issues Paper notes that while it is sometime since the Ring Fencing Code was first introduced the majority of services are still supplied by Power and Water Corporation ("PWC").
- 7) Given the complete economic regulation of the electricity network by Australian Energy Regulator ("AER") has been achieved in the Territory, the time may be ripe to consider removing System Control functions completely from PWC.

In response to the list of questions in Appendix A: Consolidated list of questions for stakeholders, of the Issues Paper, TGen makes the below general statements that would assist in providing some part answers to the questions:

Gas Supply:

- PWC's Gas business unit is the only gas supplier to TGen. The gas is TGen's major fuel source in the production of electricity. Consequently, the more gas TGen burns the more money PWC makes.
- PWC's System Control business unit determines the system security requirements for the regulated electricity networks. Some of these system security requirements often place restrictions on efficient dispatch of TGen generation units. This includes increasing spinning reserve requirements and other constraints on operating efficient engines. In most of these circumstances, the constraints determined by PWC's System Control require TGen to purchase more gas from PWC's Gas business unit.

Lack of commercial consequence:

- In June 2012, clause 5.1 of the *System Control Technical Code* ("SCTC") was introduced which places an obligation on PWC's System Control to establish a regulatory mechanism to procure ancillary services. To date in 2019, no such regulatory mechanism is in place.
- Establishing an ancillary service procurement regime is a pre-requisite to determining and establishing Network Support Services regime.
- PWC's System Control approves outages for networks (currently only PWC has a network licence) and generators. In approving outages for PWC's Networks to take effect, there are often constraints placed on generation that requires the generation to run at an economic disadvantage. In other jurisdictions, such sub-optimal economic performance directive is compensated for by the Network Service Provider as provided by the *National Electricity Rules* ("NER"). However, there are no mechanisms in place in the Territory for such compensation.
- A recent example of such a directive was in Alice Springs:
 - On the 18th and 19th June 2019, PWC's Networks performed planned maintenance on a Lovegrove 66/22kV transformer. This left supply from Owen Springs Power Station passing through a single transformer. Although this transformer was not at

- risk of being overloaded the outage placed the system at increased security risk if the remaining transformer tripped.
 - PWC's System Control's response to mitigate this increased system security risk, by way of issuing a Risk Notice, was to require TGen to run increased Ron Goodin generation and decreased Owen Springs Power Station's output. This resulted in machines at Ron Goodin Power Station running on diesel fuel.
 - On the 18th June 2019, a second risk notice was issued by PWC's System Control that was for the second PWC's Networks Lovegrove 66/22kV transformer to undertake the same maintenance on the 20th and 21st June 2019.
 - PWC's System Control were unsympathetic to the increased costs experienced by TGen throughout this process.
 - The risk was introduced by PWC Networks and there has been no offer of compensation to TGen. The increased cost to TGen to provide this support for the power system was quite substantial.
 - The planned maintenance could have been undertaken at alternative times that would have imposed less additional costs to TGen's operations. However, TGen's additional cost was not a consideration in the timing of these outages.
- Another recent example of such a directive was in Katherine:
 - PWC's System Control routinely requires Katherine Power Station to be dispatched uneconomically to address over/under voltage conditions when the Darwin Katherine system is lightly/heavily loaded.
 - This occurs on most nights during the dry season.
 - Other examples exist where PWC's System Control constrains TGen's generation on, without regard to it being run sub-optimally and without consideration of the increased cost to TGen, to facilitate outages on PWC's Network. There is no mechanism for TGen to recover the cost of this from PWC's Networks or System Control.

PWC Operating Model project:

- It is noted that PWC is in the midst of implementing a project to "evolve the way PWC business is structured, the way PWC interacts across traditional business lines and the way PWC operate." The stated reason for this is so that PWC can "efficiently deliver the best service to customers".
- TGen acknowledges that there are efficiency gains to be made, however, it appears that the changes being made are entangling the System Control and Network functions further into the other parts of PWC's business. This has the potential to further blur the lines when it comes to ring-fencing.

Technical Codes:

- The *Network Technical Code* ("NTC") and the SCTC are where the rules and standards associated with connection performance, market, system security and etcetera are located for the electricity market in the Northern Territory.

- The NTC requires that the Network Operator is responsible to maintain and review the NTC code (see clause 1.9 of the NTC). Similarly the SCTC requires that the Power System Controller is responsible to maintain and review the SCTC code (see clause 1.8 of the SCTC).
- Both of these situations are a conflict of interest with the rule maker/administrator also being the rule enforcer.

I hope the above provides some useful insight for the Commission's review.

If you have any questions, please contact Hieu Nguyen at hieu.nguyen@territorygeneration.com.au.

Yours sincerely

A handwritten signature in black ink, consisting of a stylized 'T' and 'D' followed by a long horizontal stroke.

Tim Duignan
Chief Executive Officer

28 June 2019