Utilities Commission Annual Report 2012-13

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UTILITIES COMMISSION

The Honourable David Tollner MLA
Treasurer
Parliament House
DARWIN NT 0800

Dear Treasurer

In accordance with section 35 of the *Utilities Commission Act* (the Act), I am pleased to provide you with the Annual Report of the Utilities Commission of the Northern Territory (the Commission) for the financial year ended 30 June 2013.

The Report covers:

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

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

Yours sincerely

Dr Patrick Walsh
Utilities Commissioner
30 September 2013

Chapter 1: Commissioner's Overview

I am pleased to present this year's Annual Report which records the 2012-13 key achievements and activities of the Utilities Commission of the Northern Territory (the Commission). It was another busy year for the Commission with the review of the Electricity Retail Supply Code, a new Standards of Service Code, commencement of the 2014 Network Price Determination process and monitoring the technical compliance and future capacity of the Territory's power system.

The Territory's power and water systems are of fundamental importance to the future development of the Territory and it is essential that standards of service are agreed by all stakeholders and efficiently delivered and priced. The Commission acknowledges the Territory Government initiatives to reform the Territory's utilities market, including aligning the regulatory arrangements with those in other jurisdictions, and structural changes to Power and Water Corporation (PWC) to improve efficiency, financial sustainability, transparency and facilitate further competition in the market. The Commission is keen to assist the Government in its reform process.

As part of the regulatory reform progress, the Commission will continue to provide advice to the Government on the appropriate arrangements and rules to facilitate further competition in the electricity market and provide appropriate certainty to electricity retailers, the electricity network service provider, electricity generators and potential market participants on the rules and obligations associated with electricity supply activities. The Commission is keen to see the reforms in the electricity industry align with industry best practice and be consistent with national arrangements, where possible. In this regard, the Commission acknowledges the advice on National Electricity Market (NEM) rules and processes provided by the Australian Energy Market Operator (AEMO) and the Australian Energy Regulatory (AER).

The Commission considers that there is also a strong case for independent and transparent regulation of the water and sewerage industry to drive efficiency gains while also ensuring that efficiencies are not achieved at the expense of customer service levels.

I thank the various stakeholders, industry participants, Territory Government representatives and the general public who have engaged with the Commission during its various regulatory processes in 2012-13.

I thank my fellow Commissioners for their contribution to the work of the Commission during the year and staff of the Commission for the assistance and support they have provided during the year. I acknowledge the commitment and professionalism of the Commission staff as displayed through the conduct of their work.

Highlights of 2012-13

Review of the Retail Supply Code

During 2012-13, the Commission undertook a major review of the Electricity Retail Supply Code (ERSC). The ERSC came into effect on 3 August 2011 to facilitate the entry of new retailers in the Territory by providing a set of rules to support retail supply activities.

In May 2012, QEnergy Limited (QEnergy) made an application to the Commission to amend parts of the ERSC, expressing a number of concerns relating to the credit support requirements between generators and retailers, access to metering data and customer transfer arrangements governed by the ERSC. In response, the Commission released a number of public consultation papers and, after consideration of the issues raised by QEnergy and other submissions, the Commission made its final decision to amend the ERSC in accordance with a Final Decision Paper. The revised ERSC came into effect as of 1 June 2013.

Cost Pass Through Application

On 5 February 2013, the Commission received an application from PWC for a cost pass through of network expenditure related to the implementation of the recommendations from the Davies Review (the 2008-09 inquiry into the failure of the Casuarina Zone Substation and subsequent outages).The Commission, following public consultation, decided PWC's application satisfied the requirements of the NT Network Access Code and determined an amount to be passed through to network users.

For small and medium size customers (those consuming less than 750MWh of electricity per annum), retail tariffs are regulated by a Pricing Order which sets the maximum amount that PWC is able to charge these categories of customers. A change to the network price as a result of the Commission's Final Determination will not impact the current Pricing Orders.

2014 Network Price Determination

Following the consideration of submissions to a consultation paper released in June 2012, the Commission released its 2014 Network Price Determination Framework and Approach Final Decision Paper in November 2012. The paper sets out the Commission's final decision on the form of control mechanism that will apply to standard control services during the 2014-19 regulatory control period. The Commission has decided to adopt, where practicable, the approach used by the Australian AER and to apply those parts of the National Electricity Rules (NER) in relation to electricity network businesses in the National Electricity Market (NEM) that are consistent with the NT Network Access Code. The Commission consulted with the AER in the preparation of its Regulatory Information Notice (RIN) and accompanying information request templates prior to formally serving the RIN on PWC. The Network Price Determination is a two-year resource-intensive process for both the Commission and PWC. It is the first time the Commission and PWC have undertaken a full 'building-blocks' approach to identify the cost of services covering all networks by applying the relevant sections of the NER.

Network Technical Code and Planning Criteria

As part of the 2014 Network Price Determination, the Commission considered a revised Network Technical Code and Planning Criteria provided by PWC. The Commission's view was that the revised Network Technical Code and Planning Criteria were relatively consistent with similar technical documents in other jurisdictions when reasonable allowance is made for network differences.

Standards of Service Code

During 2012-13, the Commission published a new Electricity Standards of Service Code (ESS Code). The new ESS Code took effect from 1 December 2012, replacing the 2005 ESS Code. The new ESS Code is the result of extensive consultation with industry participants and stakeholders in the electricity supply industry.

The new ESS Code establishes standards of service and performance measures in the electricity supply industry, monitors and enforces compliance with and promotes improvement in standards of service.

After extensive consultation with PWC and after receiving appropriate technical advice, the Commission also released Feeder Category Guidelines to apply to target setting and reporting against performance indicators in the ESS Code. In July 2013, the Commission approved target standards for the distribution and transmission network performance to apply from 1 July 2014.

Power System Review

In the 2011-12 Power System Review, the Commission continued its focus on the technical performance of the Territory's power systems and forecast supply/demand balance. The Power System Review provides an independent robust assessment of the adequacy and performance of the power system, including generation, transmission and distribution networks. The Commission will continue to develop and expand the scope of the annual Power System Review, so that, over time, it evolves towards a more robust system planning report that provides comprehensive and authoritative data to industry participants, prospective participants, customers, regulators and policymakers.

Water Supply and Sewerage Services

Although the Commission's authority in relation to water supply and sewerage services is limited, the Commission monitored licensee compliance with licence obligations, including a review of water and sewerage asset management plans provided by PWC. Given the significant investment planned for water and sewerage infrastructure in the next five years, the Commission will continue to place emphasis on the need for robust asset management plans.

Future Priorities

2014 Networks Price Determination

The Commission will continue to progress the 2014 Network Price Determination. This is a legislatively required major price review undertaken by the Commission every five years in consultation with stakeholders to set the regulated network charges. The price review determines the revenue or price cap to be applied to regulated network services for the five-year regulatory control period and the methodology by which prices may be escalated during that period.

Safety Management and Mitigation Plans

In 2011-12, the Commission was required to vary PWC's networks and generation licences to include a provision for safety management and mitigation plans relating to public, employee and contractor safety. The Commission will continue to work with PWC to move towards the finalisation of safety management and mitigation plans, consistent with good industry practice.

Guaranteed Service Level Code

A Guaranteed Service Level Code (GSL Code), which establishes a scheme for payments to be made by a network provider to small customers where the supply of electricity and other related services do not meet the pre-determined guaranteed service levels, took effect from 1 January 2012. PWC is progressively implementing the GSL Code and the Commission will continue to monitor compliance with the GSL Code.

Networks Capital Contribution Policy

During 2012-13, the Commission reviewed a revised Network Capital Contribution Policy submitted by PWC. The Commission intends to consult with relevant stakeholders on the revised policy as part of the 2014 Network Price Determination process.

Regulatory Compliance

The Commission will continue to work with PWC to ensure that its compliance audit process and reports provide assurance that PWC's compliance framework appropriately meets its licensee obligations.

Dr Patrick Walsh
Utilities Commissioner
30 September 2013

Chapter 2: About the Commission

The Commission is an independent statutory body with defined roles and functions for economic regulation in the electricity, water and sewerage industries in the Territory.

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, which promotes the simulation of competitive market conduct and the prevention of misuse of monopoly power.

Roles and Functions of the Commission

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.

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;
- perform licensing functions;
- develop, monitor and enforce compliance with, and promote improvement in, standards and conditions of service and supply;
- make, and to monitor the operation of, codes and rules relating to the conduct or operations of a regulated industry or licensed entities;
- investigate and help resolve complaints relating to the conduct or operations of licensed entities;
- assist consumers and others with information; and
- advise the Minister on any matter referred by the Minister.

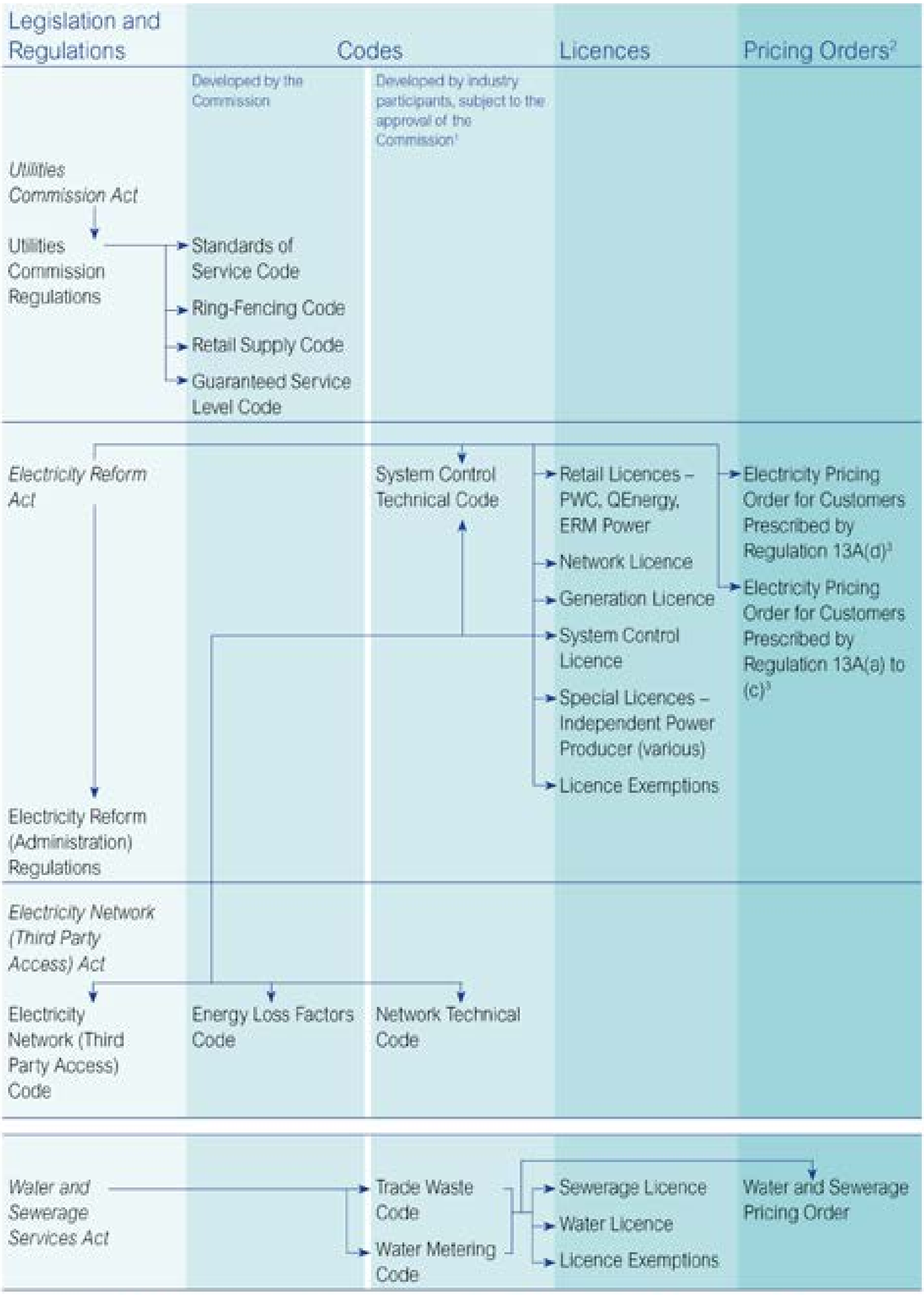
The relevant industry regulation Acts applying to the electricity supply industry are the:

- *Electricity Reform Act*; and
- *Electricity Networks (Third Party Access) Act*.

The relevant industry regulation Act applying to the water supply and sewerage services industries is the *Water Supply and Sewerage Services Act*.

The Commission acknowledges the complexity of the regulatory framework governing the electricity, water supply and sewerage services in the Territory. It also recognises the role of Government, other government agencies and industry participants in the regulatory framework. The diagram on the following page provides an overview of the regulatory environment for the Territory.

Existing Northern Territory Regulatory Architecture



1 Various instruments, policies and procedures are issued under different codes that require the approval of the Commission.
2 Pricing Orders are issued by the Treasurer. The Commission is responsible for monitoring compliance with the pricing orders, enforcement and investigation of complaints from customers in relation to pricing orders.
3 Electricity Reform (Administration) Regulations.

The Commission

Dr Patrick Walsh was appointed as Utilities Commissioner for a five-year term on 28 October 2011 and is joined on the Commission by two Associate Utilities Commissioners, Mr Peter Caldwell and Mr Mike Robson. All Commissioners perform their roles on a part-time basis.

Dr Patrick Walsh

Pat is also currently Chairperson of the Essential Services Commission of South Australia, a Fellow of the Australian Institute of Energy, Member of the Australian Institute of Company Directors, and member of the Advisory Board of the Centre for Regulation and Market Analysis (University of South Australia).

Pat has held senior public sector positions in the energy regulation and reform area in South Australia over the past 25 years. He holds a PhD in Applied Mathematics from the University of Adelaide.

Mr Mike Robson

Mike was appointed as an Associate Utilities Commissioner for a five-year term on 23 June 2009. He has more than 40 years' experience as a professional engineer and senior manager in the electricity industry, including 11 years with the NEM Management Company (NEMMCO).

Mr Peter Caldwell

Peter was appointed as an Associate Utilities Commissioner 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. He holds a Bachelor of Arts (Economics Honours) and was awarded a Public Service Medal in 2006 for outstanding public service and contribution to the strategic development of the Northern Territory economy. He is also a Fellow of the Australian Institute of Company Directors.

Commission Staff and Resources

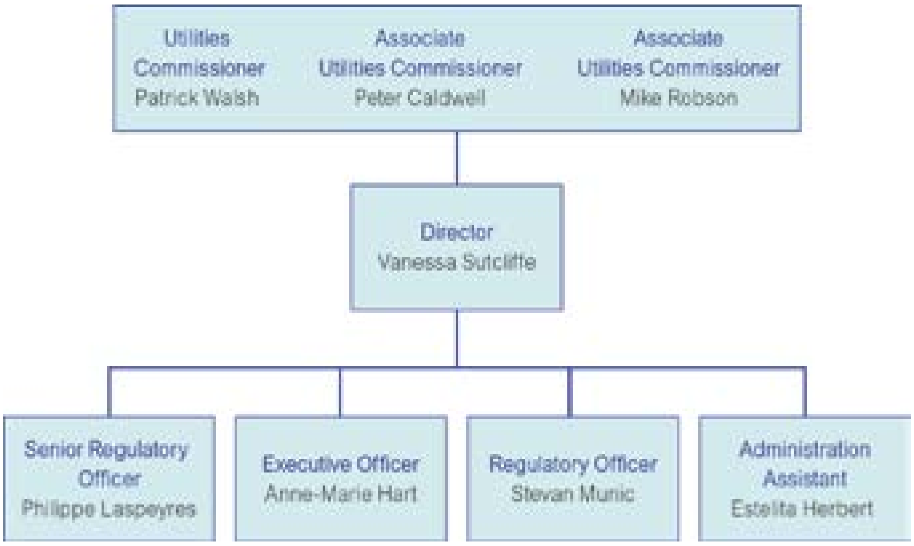
The Commission is supported by five staff members seconded from the Department of Treasury and Finance (Treasury).

Commission Meetings and Out-of-Session Decisions

The Commissioners and Commission staff meet around eight times a year to discuss work being undertaken by the Commission, provide direction and approve decisions. Due to the length between Commission meetings, it is necessary to sometimes approve an out-of-session decision if there is sufficient urgency.

Appendix A contains a full list of the Commission meetings and out-of session decisions in 2012-13.

Organisational Chart as at 30 June 2013



The Commission's expenditures are funded directly from consolidated revenue.

Appendix B provides a summary of the Commission's expenditures in 2012-13, as well as the associated receipts.

The Commission also accesses expert technical advice through consultants as detailed in Appendix C.

Chapter 3: Performance Summary

The Commission has continued to focus on the reliability of the Territory's electricity supply and performance of the electricity industry in 2012-13, in particular the development of more specific and detailed regulatory arrangements to facilitate retail contestability and the associated electricity retail supply activities.

Decisions made by the Commission during 2012-13 are set out in Appendix E, and Appendix F provides a list of reports published by the Commission during the year.

Economic Regulation

During 2012-13, the Commission undertook the following regulatory functions in accordance with its regulatory framework:

Function	2012-13 Work
To regulate prices charged by government and other businesses for providing certain monopoly services and for providing services in regulated industries as required under relevant industry regulation Acts.	Completed – In February 2013, the Commission received an application from PWC for a cost pass through event. The Commission released its Draft Determination for public consultation in March 2013. Following a review of submissions from industry participants and considering all the information before it, the Commission was satisfied that there were grounds for a cost pass through. The Commission determined the final amount to be recovered and issued its Final Determination in May 2013.
	Completed – The Commission released a Consultation Paper in June 2012, to facilitate discussion on the approach for the 2014 Network Price Determination process. After considering submissions received by industry participants, including a supplementary submission by PWC in late October, the Commission released its Framework and Approach Final Decision Paper in November 2012.
	Completed – The Commission finalised the Regulatory Information Notice (RIN) and associated information templates in April 2013. The RIN sets out the information PWC Networks is to provide for the 2014 Networks Price Determination.
To perform licensing functions under relevant industry regulation Acts.	Ongoing – The Commission did not issue any new licences and made no variations to the licence requirements of any industry participants, however the Commission continued to monitor the compliance of PWC with its licence obligations through its annual compliance audit.

To develop, monitor and enforce compliance with and promote improvement in standards and conditions of service and supply under relevant industry regulation Acts.	Completed – The Commission published the 2011-12 Power System Review which reports on performance and provides an assessment of the adequacy of the power systems to meet forecast demand in the medium term. The review is a legislative requirement that provides independent and regular reporting on the health of the power systems.
	Completed – The Commission published a new Electricity Standards of Service Code which took effect from 1 December 2012. The new Code includes reporting requirements for licensed entities and allows the Commission to set targets related to transmission and distribution network performance.
To make, monitor the operation of, and review from time to time, codes and rules relating to the conduct or operations of a regulated industry or licensed entities under relevant industry regulation Acts.	Completed – The Commission reviewed and amended the Electricity Retail Supply Code following extensive public consultation. The process began in July 2012 and, after reviewing submissions received to a consultation paper and options paper, the Commission released a Draft Decision Paper, a draft Code and proposed credit support guidelines. The Commission released its Final Decision paper and revised Code in May 2013.
	Completed – The Commission published a new ESS Code to incorporate the impact of full retail contestability. In May 2012, the Commission released the proposed ESS Code and an accompanying Consultation Paper for public comment. After reviewing submissions received, the Commission released a second proposed ESS Code and an accompanying Draft Statement of Reasons for public comment in October 2012. After considering the second round of submissions, the Commission published its final Statement of Reasons and ESS Code, which took effect from 1 December 2012.
To investigate and help resolve complaints relating to the conduct or operations of licensed entities under relevant industry regulation Acts.	Completed – The Commission investigated a complaint lodged by a large customer against a licensed entity.
	Ongoing – The Commission is investigating another complaint lodged by a large customer against a licensed entity.
Providing information to customers and market participants on the Territory electricity market and regulatory arrangements.	Completed – The Commission continues to place emphasis on public consultation and undertakes reviews and determinations in a transparent manner.
To advise the Minister on any matter referred by the Minister.	Not required – The Commission did not receive any requests for advice from the Minister.
To perform any other function assigned by or under this or any other Act or conferred by the Minister.	Completed – as detailed above.

Key Deliverables

The Commission remains committed to setting high performance measures for meeting its duties as the utility regulator of the Northern Territory. This is illustrated in the performance measures published in the 2013-14 Budget below:

Key Deliverables	2012-13 Mini Budget	2012-13 Estimate	2013-14 Budget
Determinations and approvals issued within statutory timeframes[1]	100%	100%	100%
Stakeholder satisfaction[2]	≥ 5	≥ 5	≥ 5

1 Covers determinations and approvals on monopoly pricing, minimum service standards and other activities as provided for under the *Utilities Commission Act* and other relevant legislation.

2 Stakeholder is the regulatory Minister. Measures range from a rating of 1 = extremely dissatisfied through to 6 = extremely satisfied.

Future Priorities

The Commission's priorities for 2013-14 include:

- working with Government, relevant government agencies and industry participants to ensure the Territory has a clear regulatory framework for the Territory electricity market that conforms with good industry practice in terms of the electricity market reforms and economic regulation;
- finalising the 2014 Network Price Determination process and monitoring the network price regulation arrangements to apply from 1 July 2014;
- continuing to focus on regulatory and technical compliance of electricity industry participants, including monitoring the progress of licensees in establishing and maintaining their compliance processes in accordance with the appropriate Australian Standards;
- further developing the scope of the Power System Review through increased interaction with industry participants and technical advisors, and advice from other regulators with the objective of publishing a more robust system planning report, consistent with those published for the NEM, to be used for assessing the supply-demand balance and investment needs of the Territory's electricity industry;
- continuing to develop more specific and detailed regulatory arrangements to facilitate retail contestability and the associated electricity retail supply activities; and
- continuing to advise Government on future regulatory reform and adoption of industry best practice.

Chapter 4: Electricity Supply Industry

The electricity supply industry in the 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. 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
- to regulate monopoly electricity services, licence market participants and enforce regulatory standards for market conduct and service performance.

There are currently three retailers operating in the market systems – PWC, QEnergy and ERM Power Retail Pty Ltd (ERM Retail).

In the three market systems, PWC is currently the main electricity generator, with 94 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.

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.

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 responsibility being licensing.

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;
- 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;
- monitor, and promote improvement in, standards and conditions of service and supply and the operations of the electricity supply industry and licensed entities;
- 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;
- 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;
- advise the Treasurer on any matter referred by the Treasurer; and
- assist consumers and others with information on the market and regulatory framework.

Licensing

Licensing Framework

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*.

The Commission has the power to customise licences and has developed subcategories of licences and combined licences to suit particular circumstances.

Table 1: Types of Licences Currently Issued

Licence Type	Scope
Standard Generation licence	• to generate electricity for sale; and • to sell electricity to electricity entities holding generation or retail licences (or as otherwise stated in the licence).
Special Generation licence – Independent Power Producer (IPP)[1]	• to generate electricity for sale; and • to sell electricity only to electricity entities holding a standard generation licence (or as otherwise stated in the licence).
Network licence	• to operate the electricity network in the geographical area stated in the licence; and • if stated in the licence – to connect the electricity network to another electricity network.
Retail licence	• to trade in electricity (where 'trade' means the buying and selling of electricity other than to final consumers); and • 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).
Special licence – Isolated system operations[2]	• to generate electricity at specified electricity generating plants; • to sell electricity to electricity entities holding a generation licence or a retail licence; • to sell electricity to customers, but only in respect of electrical installations or premises which are situated within specified locations; and • to own and operate an electricity network within specified geographic areas and connect that network to another specified electricity network.
System Control licence[3]	• 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.

1 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.

2 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.

3 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. Coordination of generation with third-party interconnected networks would be a matter for normal commercial contractual arrangements.

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.

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

Licensing Activities in 2012-13

On 30 June 2013, 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).

Retail electricity licences were also held by:

- QEnergy (until superseded, surrendered or cancelled); and
- ERM Retail (until superseded, surrendered or cancelled).

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);
- LMS Energy Pty Ltd (Shoal Bay power station, Darwin);
- Uterne Power Plant Pty Ltd (photovoltaic system at Alice Springs); and
- TKLN Solar Pty Ltd (photovoltaic systems at Ti Tree, Kalkarindji and Lake Nash – Alpurrurulam).

An isolated system licence was held by:

- Groote Eylandt Mining Company Pty Ltd.

On 30 June 2013, the following exemptions were current:

- an exemption from the requirement for Pacific Aluminium 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.

During 2012-13, the Commission did not issue any new licences and made no variations to the licence requirements of any industry participants.

The Commission continued to monitor the compliance of PWC with its licence obligations through its annual compliance audit. During the year, PWC also commenced an audit of its compliance with its technical obligations. The results of the audit are to be provided to the Commission in early 2013-14.

Market Conduct Regulation

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.

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.

Following the entry of additional electricity retailers, QEnergy and ERM Retail, the Commission recognised the need to provide further guidance to market participants on the conduct of retail supply activities.

During 2012-13, the Commission continued to focus on developing more detailed and specific regulatory arrangements to facilitate retail contestability, in particular, the review of the Retail Supply Code and consideration of PWC's revised business to business transaction rules (Service Order Procedures).

Electricity Retail Supply Code

In August 2011, the Commission implemented an interim Electricity Retail Supply Code (ERSC).

The purpose of the ERSC 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 and protect the ongoing integrity of the market. The ERSC 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
- the retailer of last resort (RoLR) mechanism to cater for any retailer failure.

Amendments to the Electricity Retail Supply Code

In May 2012, QEnergy made an application to the Commission to amend the ERSC due to a number of concerns relating to credit support requirements between generators and retailers, access to metering data and customer transfer arrangements governed by the ERSC. The Commission decided that there were grounds for a review of the ERSC and undertook an extensive consultation process which included release of a Consultation Paper, an Options Paper and a Draft Decision Paper. The Commission considered submissions from QEnergy, PWC and Northern Territory Major Energy Users (NTMEU).

In December 2012, the Commission was required to delay the release of the Final Decision Paper and amended ERSC to undertake further discussions with PWC following concerns regarding potential cost implications of the proposed changes. After further consultation with PWC, the Commission released the amended ERSC, the Final Decision Paper and Credit Support Guidelines in May 2013 with the ERSC taking effect as of 1 June 2013.

The amended ERSC intends to strike an appropriate balance between promoting a level playing field and facilitating full retail competition, while protecting the integrity of the market and discouraging inappropriate market signals among industry participants and stakeholders.

Service Order Procedures

Under the ERSC, PWC, as the network service provider, is required to submit Service Order Procedures to the Commission for approval. On 14 December 2011, the Commission approved procedures submitted by PWC, on the basis that the procedures meet the minimum requirements set out in the ERSC and provided a workable basis for retail competition in the Territory. The Commission acknowledged that a longer timeframe would be required to develop comprehensive procedures, but this had to be balanced with the need to get something in place quickly given the arrival of new retail competition.

The Commission approved the procedures for use until 30 June 2013, with PWC to review the procedures, in consultation with stakeholders and the Commission, with the aim of developing more detailed and robust procedures more consistent with those applicable in the NEM.

PWC undertook consultation on the revised procedures and submitted the revised procedures to the Commission for consideration in early 2013. The Commission extended the previous interim procedures until the end of August 2013 to allow further consideration and discussion with PWC. The Commission approved PWC's revised procedures to take effect from 1 September 2013.

Service Performance

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.

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.

Regular and comprehensive reporting on power system and distribution network performance and health is a feature of the electricity supply industry throughout Australia. Over a period of time, electricity businesses in other Australian jurisdictions have developed systems and processes for regular and comprehensive reporting of power system and distribution network performance.

The 2011-12 Review was released in April 2013 and continued an increased emphasis on conducting the arm's length review of the Territory's power system, commenced in the 2009-10 and 2010-11 reviews, to provide a robust assessment of the adequacy of the power system, including generation, transmission and distribution networks.

The 2011-12 Review made further progress towards aligning the Territory's reporting framework with that applying in jurisdictions operating in the NEM.

For 2011-12, the Power System Review provided:

- an assessment of the adequacy of PWC's forecasts;
- a review of methodologies used to develop energy and demand forecasts, and provision of a view as to the reasonableness of the underlying assumptions;
- 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;
- analysis of major power system incidents to identify design and operational matters that require addressing;
- 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.

The 2011-12 Power System Review noted an improvement in the demand forecasting methodology used by PWC. PWC had instituted new business processes that provided a more comprehensive approach to forecasts from 2012-13. As a result, the Commission did not generate its own demand forecasts for the Power System Review, but adopted PWC Networks' forecast of demand after a reasonableness check.

However, the Commission considered PWC's energy forecasts to be too high, which indicated that energy is growing faster than demand contrary to recent experience. The energy forecasts were modified to reflect the demand forecasts and recent trends in load factors.

Key Findings from the 2011-12 Power System Review

Generation Adequacy

The Commission found that it appears unlikely new capacity on the Darwin-Katherine system will be needed from December 2013 until 2021-22, following the commissioning of additional units at Channel Island, Weddell and Katherine power stations.

The Commission found that the Alice Springs system is expected to have sufficient generation capacity to meet forecast peak demand under any credible electricity demand growth scenario from 2012-13 to 2021-22. The level of the available capacity in the Alice Springs system is influenced by the timing of commissioning of new capacity at Owen Springs power station and decommissioning of capacity at Ron Goodin power station (Alice Springs).

The Commission found the generation supply-demand balance in the Tennant Creek region is adequate for the period to 2021-22.

The Commission identified that further work is necessary to find an optimum level of generation capacity for the Territory's power systems that recognises reliability and meets performance and cost objectives. The Commission considered undertaking probabilistic analysis of the adequacy of generation capacity necessary, particularly in the Darwin-Katherine and Alice Springs systems.

The Commission considered further analysis is required to assess actual system availability (that is, actual availability of generation sets), to assess the security and reliability (dynamic performance) of the system, with particular focus on forced outage rates and spinning reserve.

Fuel Adequacy

Natural gas is the main fuel for electricity generation in the Darwin-Katherine, Tennant Creek and Alice Springs systems. However, a number of generation units are dual fuel and able to use liquid fuels (for example, diesel) as an alternative fuel source.

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 from the Blacktip gas field, with a contingency supply arrangement with the Darwin Liquefied Natural Gas (DLNG) plant, line-pack gas and diesel stocks. These arrangements provide multiple fuel supply contingencies.

It was understood that PWC would consider a further contingency supply from the INPEX project, which would provide a second gas supply to meet any temporary shortfalls in the supply from the Blacktip gas field.

Recent issues relating to the supply of gas to Gove Alumina Refinery were not considered in the Review as they fell outside the timeframe of the Review. They will require consideration in future reviews.

Network Adequacy

Analysis of network capacity constraints in the Darwin-Katherine system indicated that under normal conditions, all lines operate within their ratings. However, under first contingency conditions (N-1) at times of peak load, a number of lines may exceed their normal rating. Under such conditions, the lines may operate at an emergency rating for a short time until switching can be performed in parts of the network to transfer load. These identified constraints will necessitate careful planning of maintenance outages to periods away from peak load times.

With all transformers in service, all zone substations should have sufficient capacity to meet forecast load for 2011-12. Subject to the implementation of planned works, this will also be the case in 2016-17. Under N-1 conditions (that is, the loss of one transformer), six substations face capacity constraints. The Commission noted that the construction of Woolner substation as a replacement for Snell Street substation is nearing completion and the rebuilding of City Zone substation will commence in the near future. Completion of the Snell Street replacement and Woolner substations should significantly reduce the risk of a multiple contingency event driven by the poor condition of Snell Street and City Zone substations

Unlike previous reviews, PWC Networks was able to provide load flow studies or measurements on the low voltage (11/22 kV) distribution network necessary for an assessment of loading and capacity. PWC Networks identified feeders that may exceed 100 per cent rating in 2012-13 and out to 2016-17. Having identified these, the Commission expected that PWC would implement plans to reduce feeder loading to within normal ratings as a matter of priority.

Customer Service and Reliability Performance

Territory customers experienced an average of 2.2 generation-related outages a year (SAIFI) between 2007-08 and 2011-12. The 2011-12 performance was 0.9 outages a year, less than half of the five-year average. Unfortunately, this improvement was not universally spread over each of the systems. While Darwin performance significantly improved, Katherine, Alice Springs and Tennant Creek incurred either their worst or second worst performance in the five year period.

Overall, the minutes off supply in the Territory due to network outages in 2011-12 were the lowest in five years. The main contributor was the absence of events that would normally be classified as ‘exclusions’ for the purposes of reliability reporting. Aside from this impact, the network minutes off supply and the number of outages was in line with the five-year average.

Examining feeder performance by feeder type to identify network performance trend is the accepted approach in Australia. This was the third year this data had been reported in the Territory. The Commission compared feeder performance in the Territory for 2011-12 with the minimum performance standards applicable to comparable network categories in Queensland.

Overall, 2011-12 feeder performance was reasonable in the CBD, Urban and Short Rural categories, particularly in terms of average outage time. Long Rural performance was significantly worse than the regulatory expectations in Queensland. The Commission considers this performance unreasonable and noted that PWC had initiated corrective action on the feeders involved. Feeder performance will be monitored in future reviews to assess feeder performance achieved in the Territory over time.

PWC received 2089 electricity service-related complaints during 2011-12, the lowest in the five year period.

An ongoing issue to be addressed was the level of spinning reserve to be provided across all systems. The level of spinning reserve is being reviewed by System Control in line with further probabilistic investigations and a cost benefit analysis.

The Power System Review is an evolving project. The Commission’s aim is for the Power System Review to move towards more NEM-like reporting, involving the routine release of comprehensive and authoritative data to industry participants, prospective participants, customers, regulators and policymakers, in order to:

- support planning and monitoring activities by providing data to assist identification of the optimal investment options, and to facilitate coordination of investment actions;
- advise on system performance against the price and service expectations of the regulatory bargain (for example, that associated with the monopoly network business); and
- assist in holding electricity businesses accountable for reliability performance outcomes.

Power System Performance

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.

During the year, the Commission received reports for January to June 2012 and July to December 2012 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 (for example, unscheduled busbar outages, firm capacity or reserve, and minimum spinning reserves);
- formal advice (for example, directions issued or declaration of lack of standby generation);
- system constraints;
- major power system incidents; and
- system performance statistics.

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.

These reports have identified some issues that are being addressed by the System Controller, including spinning reserve policies. The reports also identified that there are a range of common problems, some of which have been resolved, particularly communication issues with System Control, lack of training and equipment failure. The Commission will continue to monitor PWC's implementation of the incident reports recommendations.

Electricity Standards of Service Code

During 2012-13, the Commission finalised the new ESS Code. The new ESS Code replaced the 2005 Electricity Standards of Service Code from 1 December 2012. This followed extensive consultation with industry participants and stakeholders in the electricity supply industry.

The objectives of the ESS Code are to:

- establish standards of service and performance measures in the electricity supply industry;
- develop, monitor, and enforce compliance with, and promote improvement in, standards of service of supply in the electricity supply industry; and
- require electricity entities to have adequate systems in place which allow for regular reporting of actual performance in accordance with the ESS Code.

The Commission also released Feeder Category Guidelines which apply to target setting and reporting against performance indicators in the ESS Code.

In July 2013, following extensive consultation with PWC, the Commission determined distribution and transmission network performance targets applicable to PWC Networks for the next regulatory control period from 1 July 2014 to 30 June 2019. This was done in accordance with the ESS Code, which requires PWC Networks to submit its proposed distribution and transmission network performance standards to the Commission for approval.

Guaranteed Service Level Code

The GSL Code took effect from 1 January 2012, with staged implementation of one performance measure (duration of a single interruption) commencing from 1 January 2012, with other measures taking effect from 1 July 2012.

The Commission continued to monitor compliance of PWC with regards to the operation of the scheme.

Price Regulation

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

Prior to the start of each financial year, PWC must submit to the Commission for approval 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 NT Network Access Code.

In May 2013, the Commission approved the reference tariffs and charges for standard network access services to apply during the 2013-14 financial year. The tariffs and charges approved for 2013-14 are the maximum that the PWC can charge for standard network access services provided with respect to each electricity network.

In approving the proposed tariffs, the Commission considered the approved tariffs and charges to comply with the requirements and relevant principles laid down in the NT Network Access Code.

The NT Network Access Code empowers the Commission to act as an alternative dispute resolution body should there be any concerns that the prices charged are not fair and reasonable.

Cost Pass Through Application (2009 Reset)

On 5 February 2013, the Commission received an application from PWC for a cost pass through of network expenditure that had exceeded that allowed for by the Commission in its 2009 Network Price Determination. PWC submitted that this expenditure was a consequence of PWC's implementation of the Davies Review (the 2008-09 inquiry into the failure of the Casuarina zone substation and subsequent outages) recommendations and the subsequent enhancement of the network asset management regime. PWC submitted that the application was consistent with the requirements of clause 71(c) of the NT Network Access Code for the Commission to revoke and reset the 2009 Network Price Determination.

In March 2013, the Commission released its Draft Determination on PWC's cost pass through application for public consultation. Submissions to the Draft Determination were received from QEnergy and the NTMEU.

The Commission considered the application from PWC and submissions from stakeholders and concluded that a valid cost pass through event had occurred. The Commission determined the total amount to pass through to network users to be $54.92 million with this amount to be recovered over two years beginning in 2013-14.

2014 Network Price Determination

In the lead-up to the commencement of the fourth regulatory control period, the NT Network Access Code requires the Commission, in consultation with interested parties, to review the network price regulation methodology used in the previous regulatory control period, with a view to modifying the methodology as appropriate.

The NT Network Access Code requires the Commission in consultation with interested parties, to review the network price regulation methodology used in the previous regulatory period (2009-2014), with modification as appropriate.

The NT Network Access Code requires the Commission to conduct its determination and approval processes in an open, transparent and competitively neutral manner, including consulting with network users, end-use customers, members of the public and all licensed electricity entities that may be affected, directly or indirectly.

The price review is a resource intensive two-year process. In November 2012, the Commission released its 2014 Network Price Determination Framework and Approach Final Decision Paper setting out the its final decision on the form of control mechanism that will apply to standard control services during the 2014-19 regulatory control period.

Where practicable, the Commission decided to adopt the approach used by the AER and on the application of parts of the NER in relation to electricity network businesses in the NEM that are consistent with the NT Network Access Code The Commission considers that this framework represents generally accepted regulatory practice at this time.

As part of the consultation process, the Commission will seek input from PWC on the constraints affecting the network business capacity to provide information to the standard required under the NER.

Networks Capital Contribution Policy

During 2012-13, the Commission considered a revised Network Capital Contribution Policy (NCCP) prepared by PWC. If approved, the revised NCCP will form part of the 2014 Networks Price Determination. The NCCP is prepared in accordance with the NT Network Access Code, and allows the network service provider to require a network user to make a capital contribution (in the form of assets or a financial payment) where the:

- provision of network access services to the network user requires new or upgraded connection assets or network system assets (involving asset augmentation or extension of connection equipment); and
- cost of these assets (including design, construction, installation and commissioning) cannot be fully recovered by the network service provider through future tariff revenue.

The Commission has been involved in the development of a consultation paper with the view that this will develop the policy for the upcoming fourth regulatory control period. The Commission intends to consult with stakeholders on the proposed NCCP in late 2013.

System Control Charges and Pricing of Ancillary Services

The Commission approves charges imposed by the System Controller and also has authority to determine prices for ancillary services to manage the quality of electricity supplied by the electricity supply industry.

The system control charges that applied during 2012-13 are those approved by the Commission with effect from 1 July 2004, which continue until superseded.

System Imbalance Charges

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. In consultation with licensed generators, the System Controller 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.

The System Control Technical Code contains a broad outline of economic dispatch arrangements and out-of-balance settlement.

Electricity Pricing Orders

Caps on retail electricity prices paid by small customers, whether residential or commercial, are regulated directly by the Government through an Electricity Pricing Order. The Commission is required to enforce compliance with the Electricity Pricing Order as if it were a determination of the Commission under the *Utilities Commission Act*.

The following Electricity Pricing Orders are currently in effect:

- for customers prescribed by regulation 13A(d) of the Electricity Reform Administration Regulations (that is, using up to 750 MWh a year), regulating the maximum price that can be charged to relevant customers for the period 1 May 2013 to 31 December 2013; and
- for customer prescribed by regulation 13A (a) to (c) Electricity Reform Administration Regulations (that is, using between 750 MWh and 2 GWh a year) setting a price path for increases in electricity prices charged by PWC for the period 1 May 2013 to 31 December 2013.

Technical Regulation

The Commission has various technical regulatory functions it undertakes in the absence of a technical regulator in the Northern Territory.

Spinning Reserve

Spinning reserve refers to generation capacity that is available for rapid despatch should a generator fail, to avoid collapse of the power system. Following a number of system black and under frequency load shedding events resulting in power system failure, and issues identified in the annual Power System Review, the Commission encouraged PWC to develop a comprehensive spinning reserve policy, consistent with good industry practice, for each of the Territory power systems.

In mid-2013, PWC commenced a review of its spinning reserve requirements. It is understood the review is due for completion in late 2013. The Commission determined that it was necessary to better define and understand PWC’s spinning reserve requirements with the overall objective of enhancing economic efficiency in the electricity industry while also ensuring consumer’s needs are met.

Network Technical Code and Planning Criteria

During 2012-13, the Commission undertook a review of a revised Network Technical Code and Planning Criteria provided by PWC. PWC had undertaken a review of its existing Network Connection Technical Code and Network Planning Criteria and combined the two documents into a single document.

In accordance with Clause 9 of the NT Network Access Code and the *Electricity Networks (Third Party Access) Act*, PWC submitted a draft to the Commission for review. The Commission concluded that the document was consistent with similar technical documents in other jurisdictions when reasonable allowances are made for network differences.

The revised Network Technical Code and Planning Criteria will be taken into consideration by PWC in the preparation of its 2014 Network Price Determination proposals.

Complaint Investigation

Under Section 48 of *the Electricity Reform Act*, the Commission is obliged to investigate complaints against any electricity entity made on the grounds that the entity is engaging in conduct contrary to its licence conditions, the objects of that Act or the *Utilities Commission Act*. Such objects include promoting efficiency and competition in the electricity supply industry.

During 2012-13, the Commission undertook a detailed investigation into a complaint lodged by a large customer against a licensed entity with regards to negotiations for supply of electricity. The investigation focused on pricing methodologies and conduct of the parties. The findings of the investigation were provided to the Minister (the Treasurer) and the parties to the complaint.

In February 2013, the Commission received another complaint from a large customer with concerns regarding their negotiations with a licensed entity for the supply of services. The Commission is currently undertaking an investigation of the issues raised in the complaint.

Advice to the Minister

The Commission provides independent advice to Government on matters such as utility pricing, access to infrastructure, service quality and security of supply.

Advice to the Minister can be provided:

- when the Minister refers a matter to the Commission for inquiry under section 31 of the *Utilities Commission Act*. Inquiries conducted under Section 31 of the Act are public inquiries and the Commission's final report must be tabled in the Legislative Assembly; or
- 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 the Territory Government.
- The Commission is also empowered to provide advice to the Minister at its own initiative on the operation of the *Electricity Reform Act*.

During 2012-13, the Commission did not receive any requests from the Minister for advice.

Chapter 5: Water Supply and Sewerage Services

The Commission is responsible for certain regulatory functions in the water supply and sewerage services industries.

The *Water Supply and Sewerage Services Act* (the WSS Act) regulates the water supply and sewerage services industries to:

- promote the safe and efficient provision of water supply and sewerage services;
- establish and enforce standards of service in water supply and sewerage services;
- facilitate the provision of financially viable water supply and sewerage services; and
- protect the interests of customers.

The Commission shares responsibility for administration of the WSS Act with other areas of government. The Commission, reporting to the Treasurer, is responsible for those sections of the WSS Act that relate to economic regulation. The Minister for Essential Services is responsible for those sections of the WSS Act that relate to supply and service provision under licence and the Department of Health is responsible for those sections of the WSS Act that relate to water quality standards.

Roles and Functions of the Commission

The Commission's regulatory role in the water and sewerage industry is more limited than its role in the electricity supply industry.

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 Minister for Essential Services may assign some service standard monitoring functions to the Commission under their respective regulatory powers.

In addition, the WSS Act requires PWC to develop a Water Metering Code and a Trade Waste Code, with those Codes being subject to approval by the Commission.

The Commission has the following functions in the water and sewerage industry to:

- perform licensing functions;
- monitor and enforce licensees' compliance with the WSS Act, the terms and conditions of their licence and the minimum standards; and
- advise the Minister on any matter referred by the Minister.

Licensing

Licensing Framework

The Commission issues licences to persons wishing to carry on operations in the Territory's water and sewerage industries under a sole supplier model.

Specific geographical areas may be declared by the Minister, by way of a notice in the Northern Territory Government gazette, to be a water or sewerage supply licence area pursuant to sections 8 and 9 of the WSS Act.

A licence is required for the provision of water supply services and sewerage supply services within an area gazetted under the WSS Act as a water or sewerage supply licence area.

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.

The Commission must make a water supply or sewerage services licence subject to conditions approved by the Minister.

Licensing Activities in 2011-12

On 30 June 2013, PWC held two licences under Part 2 of the WSS Act:

- water supply (to 31 December 2027); and
- sewerage services (to 31 December 2027).

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.

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

The Commission has no role in developing service standards in the water and sewerage industry.

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

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 WSS Act.

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*. The WSPO is made by the Minister and sets a price path for increases in water and sewerage prices.

There were some changes to the Pricing Orders during 2012-13. In December 2012, the 1 July 2009 WSPO was revoked and a new pricing order came into effect from 1 January 2013 to 30 June 2013. Subsequently, there was another WSPO issued that revoked the previous order, which took effect from 1 May 2013 to 31 December 2013.

Advice to the Minister

During 2012-13, the Commission did not receive any requests from the Minister for advice.

Chapter 6: Compliance Monitoring

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.

Statement of Approach on Compliance

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

The Commission's Statement of Approach on Compliance outlines the Commission's compliance program for monitoring compliance with electricity laws, rules, and regulations. It contains the Commission's risk assessment methodology, monitoring and reporting mechanisms, and enforcement options in response to regulatory breaches.

The objectives set out in the Statement of Approach are to:

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

Electricity

Licensed 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.

The following Codes made by the Commission are in effect:

- Electricity Ring-fencing Code, which aims to ensure 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 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;
- 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;

- GSL Code which establishes a guaranteed service level scheme providing for GSL payments to be made by a network provider to small customers where the supply of electricity and other related services does not meet the pre-determined guaranteed service levels and provides a dispute resolution process for this Code; and
- Electricity Retail Supply Code which provides the framework and mechanisms for retail competition between retailers for contestable customers and protects the ongoing integrity of the market.

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 coordination between network users and the network operator to achieve these.

Compliance Reporting in 2012-13

Annual Licence Returns

During the year, PWC lodged returns with respect to the 2012-13 financial year for each of its licensed areas of operation.

QEnergy and ERM Retail also lodged returns for 2012-13 with respect to the retail operations of the two electricity providers.

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.

During the year, the following licensees also lodged returns with respect to the 2012-13 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
- Groote Eylandt Mining Company Pty Ltd (GEMCO)
- Uterne Power Plant Pty Ltd
- TKLN Solar Pty Ltd

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

Compliance Report of Operations of PWC

PWC is also required to undertake an audit when requested by the Commission by condition of licence.

On 16 August 2012, the Commission gave notice to PWC to appoint an independent auditor to undertake an audit of PWC's compliance with licence obligations.

The 2011-12 compliance audit was undertaken by an independent auditor, KPMG. The engagement scope for 2011–12 included:

- examining the status of progress made in implementing PWC's compliance frameworks against the key requirements of AS3806 (Compliance Programs). The scope also requested that PWC's individual business units be assessed with respect to their compliance obligations through a self-assessment process;
- examining compliance with the Ring-Fencing Code by testing for compliance with a sample of obligations; and
- examining compliance with the Electricity Retail Supply Code by testing for compliance with aspects of the Code relating to 'Market Data'.

The audit report found that while PWC has made significant progress in implementing an organisation wide governance framework, a supporting system, ongoing effort and attention is required to ensure that the compliance obligations of individual operating business units are incorporated into the framework in a timely manner.

The report also identified there was an opportunity to formalise the approach for ring-fencing compliance training.

KPMG reported that PWC is compliant in most areas, although minor breaches were identified in the documentation and formal sign-off of documentation.

In developing the scope for the 2012-13 compliance audit, the focus will be on PWC's compliance with specified aspects of Licensing requirements, Ring-fencing Code, Electricity Retail Supply Code and GSL Code.

The Commission is committed to working with PWC to ensure that the 2012-13 compliance audit process and report are useful tools for providing assurance that PWC's compliance framework is appropriate for meeting its licensee obligations.

Compliance by QEnergy

The Commission did not require a compliance audit for the 2011-12 year.

Compliance by ERM Retail

The Commission did not require a compliance audit for the 2011-12 year.

PWC Safety Management and Mitigation Plan

PWC Network and Generation licences were amended in October 2011 to require PWC to develop and implement safety management and mitigation plans. PWC originally submitted a draft plan, with the Commission providing comment on the draft. The Commission has been working with PWC to further develop its plan to reflect industry best practice. It is expected that the finalised plan will be available for the Commission to consider in October 2013.

Water and Sewerage

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.

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; and

- 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.

Water and Sewerage Asset Management Plans

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

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

Following ongoing consultation over 2012-13, PWC submitted updated Water and Sewerage Asset Management Plans on 30 April 2013 and also provided an update on its progress for developing more detailed and robust asset management plans. The Commission considered the plans to be an improvement from previous years and noted PWC progress in developing a strategic asset management framework. The Commission will continue to work with PWC to ensure that the plans reflect industry best practice.

Chapter 7: Stakeholder Consultation

The Commission is committed to a collaborative and cooperative approach to regulation. The Commission will consult with interested parties and stakeholders to promote transparency and accountability in its decision-making process and exercising its regulatory functions under the *Utilities Commission Act*, *Electricity Reform Act, Electricity Networks (Third Party Access) Act*, *Water Supply and Sewerage Services Act* and associated legislation.

More specifically, the Commission may make codes and rules for regulated industries. As part of this process, the Commission is required to:

- consult with the Minister and representative bodies and participants in the regulated industry;
- give notice of the making, variation, or revocation of a rule or code to the Minister and to each licensed entity to which the rule or code will apply; and
- ensure copies of the rule or code are made available for inspection for the public.

The Commission is also required to consult in relation to the approval or setting of network prices under the *Electricity Networks (Third Party Access) Act.* The Commission will ensure that prices are approved or set in an open, transparent and competitively neutral manner. The Commission will consult with all relevant parties who are directly or indirectly affected by network prices.

The Commission will consult if it is deemed necessary, desirable or convenient to carry out any of its functions. This includes any inquiry and matter referred to the Commission by the Minister (consistent with the relevant terms of reference) under the *Utilities Commission Act*.

During 2012-13, the Commission consulted on a number of matters including the Electricity Retail Supply Code, Electricity Standards of Service Code, PWC's Cost Pass Through Application and 2014 Networks Price Determination.

For a full list of the submissions received by the Commission over the year, refer to Appendix F.

Appendix A: Commission Meetings and Out-of-Session Decisions

During 2012-13, the Commission held the following meetings and out-of-session considerations:

Date	Commission Meeting or Out-of-Session Decision
August 2012	Commission Meeting No. 5 of 2012 – Teleconference
September 2012	Commission Meeting No. 6 of 2012 – Darwin
October 2012	Out-of-session decision No. 4 of 2012 (approval for engagement of Evans & Peck for the 2011-12 Power System Review)
October 2012	Out-of-session decision No. 5 of 2012 (approval for release of Draft Statement of Reasons Electricity Standards of Service Code)
November 2012	Commission Meeting No. 7 of 2012 – Teleconference
November 2012	Out-of-session decision No. 6 of 2012 (approval of the Electricity Standards of Service Code and statement of reasons)
December 2012	Commission Meeting No. 8 of 2012 – Darwin
December 2012	Out-of-session decision No. 7 of 2012 (Commission confirmed approval of the Electricity Standards of Service Code and statement of reasons)
January 2013	Commission Meeting No. 1 of 2013 – Teleconference
February 2013	Out-of-session decision No. 1 of 2013 (approval of Mixed Feeders in accordance with the Standards of Service City Feeder Category Guidelines)
March 2013	Out-of-session decision No. 2 of 2013 (release of draft Regulatory Information Notice and templates to PWC)
March 2013	Commission Meeting No. 2 of 2013 – Darwin
March 2013	Out-of-session decision No. 3 of 2013 (approval to release Cost Pass Through Application Draft Determination)
April 2013	Out-of-session decision No. 4 of 2013 (approval to release 2011-12 Power System Review)
April 2013	Out-of-session decision No. 5 of 2013 (approval to serve Regulatory Information Notice for the 2014 Network Price Determination on the Power and Water Corporation)
May 2013	Commission Meeting No. 3 of 2013 – Darwin
May 2013	Out-of-session decision No. 6 of 2013 (approval to release Cost Pass Through Application Final Determination)
May 2013	Out-of-session decision No. 7 of 2013 (approval to release the 2013-14 Network Tariffs)
June 2013	Commission Meeting No. 4 of 2013 – Darwin

Appendix B: Expenditure and Receipts

The Utilities Commission is established as a separate administrative unit within 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	2011-12	2012-13
	$000	$000
Personnel Costs	**464.5**	**525.9**
Operational Expenditure	**470.5**	**642.8**
Regulatory/Commission expenses	122.3	211.8
Expert advice	277.8	417.1
Official travel, accommodation and related expenses	36.6	11.1
Recruitment and staff training	29.2	1.5
Office expenses and administration	4.6	1.3
Overheads Allocation	**202.2**	**409.0**
Total Expenditure	**1 137.1**	**1 577.7**

Note: In 2012-13, the Commission's operational budget and expenditure were adjusted to include the remuneration of one Associate Commissioner position previously allocated to Treasury. Personnel costs increased to reflect the full year cost of one additional staff member.

Overhead allocations are provided by Treasury. The agency has advised that in 2012-13 overheads for all output groups were revised and had not previously been changed in 2011. The Commission's overhead allocation was based on a percentage of total employees and includes some one-off costs incurred by Treasury in 2012-13.

Receipts by Account

Account	2011-12	2012-13
	$000	$000
Fees And Charges		
Licence application fees	1.0	-
Electricity licence fees	140.4	148.4
Water and sewerage licence fees	45.0	45.0
Total Revenue	**185.4**	**193.4**

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 C: Advisers to the Commission

In 2012-13, the Commission used the services of the following consultants. The costs for the year totalled $417 092.02 compared with $277 807 in the previous year.

Greater than $50 000

Evans & Peck Pty Ltd

During 2012-13, the Commission received technical advice from Evans & Peck in relation to the preparation of the annual power system review.

Parsons Brinckerhoff

During 2012-13, the Commission received technical advice from Parsons Brinckerhoff in relation to the preparation of 2014 Network Price Determination and a Cost Pass Through Application.

Less than $50 000

ACIL Tasman

During 2012-13, the Commission engaged ACIL Tasman to assist in the development of the Electricity Standards of Service Code.

Minter Ellison

During 2012-13, the Commission received legal advice from Minter Ellison associated with the development of the Electricity Standards of Service Code.

CQ Partners

During 2012-13, the Commission engaged CQ Partners for assistance in relation to the Standards of Service Code.

Ernst & Young

During 2012-13, the Commission engaged Ernst & Young to assist in the development of the 2014 Network Price Determination.

Primrose & Associates

During 2012-13, the Commission engaged Primrose & Associates to assist in the development of the 2014 Network Price Determination.

Appendix D: Decisions in 2012-13

During 2012-13, the Commission made the following decisions:

Decision	Type	Date of Decision	Expires
Electricity Standards of Service Code	Code	November 2012	Effective from 1 December 2012 until revoked or superseded
2014-2019 Network Price Determination Framework and Approach Decision Paper	Decision	November 2012	30 June 2019
Electricity Retail Supply Code – Amendment	Code	May 2013	Until revoked or superseded
Network Access Tariffs 2013-14	Approval	May 2013	1 July 2013 to 30 June 2014
Cost Pass Through Application	Decision	May 2013	Until superseded by the next regulatory period
Electricity Standards of Service Code – Target Standards 2014-19	Approval	July 2013	30 June 2019

Appendix E: Publications and Reports

During 2012-13, the Commission published the following reports:

Date Released	Publication
July 2012	Application for amendments to the Electricity Retail Supply Code Consultation Paper
September 2012	Application for amendments to the Electricity Retail Supply Code Options Paper
October 2012	Draft Statement of Reasons – Electricity Standards of Service Code
November 2012	Utilities Commission Annual Report 2011-12
November 2012	Draft Decision Paper – Application for amendments to the Electricity Retail Supply Code
November 2012	Electricity Retail Supply Code proposed credit support guidelines
November 2012	Electricity Standards of Service Code 2012
November 2012	Electricity Standards of Service Code Statement of Reasons and Feeder Category Guidelines
March 2013	Cost Pass Through Application – Draft Determination
April 2013	2011-12 Power System Review
April 2013	Information Circular – Excluded Network Access Services
May 2013	Cost Pass Through Application – Final Determination
May 2013	Application for amendments to the Electricity Retail Supply Code – Final Decision
May 2013	Utilities Commission Analysis of Power and Water Corporation's Network Tariffs 2013-14

These publications can be viewed on the Commission's website at www.utilicom.nt.gov.au.

Appendix F: Submissions

During 2012-13, the Commission received the following submissions to consider:

Date Released	Publication
July 2012	Draft Electricity Standards of Service Code – submission from ERM Power Retail Pty Ltd
July 2012	QEnergy Application for amendments to the Electricity Retail Supply Code Supplementary Submission
July 2012	Draft Electricity Standards of Service Code – submission from Power and Water Corporation
August 2012	Application for amendments to the Electricity Retail Supply Code – submission from Power and Water Corporation
September 2012	2014 Network Price Determination Framework and Approach Consultation – submission from QEnergy
September 2012	2014 Network Price Determination Framework and Approach Consultation Paper – submission from Power and Water Corporation
September 2012	2014 Network Price Determination Framework and Approach Consultation Paper – submission from Northern Territory Major Energy Users
September 2012	Application for amendments to the Electricity Retail Supply Code – submission from Northern Territory Major Energy Users
November 2012	2014 Network Price Determination – supplementary submission from Power and Water Corporation
November 2012	Electricity Standards of Service Code Draft Statement of Reasons – submission from Northern Territory Major Energy Users
November 2012	Electricity Standards of Service Code Draft Statement of Reasons – submission from Power and Water Corporation
December 2012	Electricity Retail Supply Code Draft Decision – submission from Power and Water Corporation
December 2012	Submission from QEnergy Limited Draft Decision Electricity Retail Supply Code
December 2012	Letter from Power and Water Corporation for revocation and reset of 2009 Regulatory reset
April 2013	Power and Water Corporation submission in response to Commission's Draft Determination on cost pass through application
April 2013	QEnergy submission in response to Commission's Draft Determination on Power and Water Corporation cost pass through application
April 2013	Power and Water Corporation Supplementary Submission cost pass through application
April 2013	Northern Territory Major Energy Users Submission in response to Commission's Draft Determination on cost pass through application
May 2013	Power and Water Corporation Supplementary Submission Retail Supply Code

These submissions can be viewed on the Commission's website at www.utilicom.nt.gov.au.