

INDEPENDENT REVIEW OF WHOLESALE GENERATION MARKET

TERMS OF REFERENCE

Background

The electricity supply industry in the Northern Territory is dominated by the Power and Water Corporation (PWC). The Territory Government wishes to provide greater impetus to the application of competitive forces in the generation and retail sectors of the industry. These sectors are already contestable in the sense that legal impediments to the entry of new participants have been removed, with the Utilities Commission (Commission) being responsible for the licensing of new entrants. At the present time, however, there are no competitors to PWC in the generation sector, while in the retail sector two licensees may compete with PWC to sell electricity to all customers. However, PWC continues to be the primary retailer for smaller customers, including households and small business, as the current tariff structures and community service obligations in respect of these customers render them commercially unattractive.

A significant impediment to competition in the generation and retail sectors is the lack of operational wholesale market arrangements in the Territory, such as exists in the National Electricity Market (NEM) and in the South West Interconnected System of Western Australia (SWIS). At present, competing retailers in the Territory contract bilaterally with PWC Generation for the supply of electricity to meet customers' requirements. It is acknowledged that the current reliance in the Territory on direct (bilateral) contracting between generators and retailer, and the associated regulatory arrangements, is by far the most significant regulatory barrier to private sector investment in and entry into the Territory's generation market.

Referral

Pursuant to section 31 of the *Utilities Commission Act 2000*, the Commission is to conduct a review into wholesale electricity market arrangements that are appropriate for the Territory, and to recommend preferred arrangements.

Review Objective

The preferred wholesale market arrangements recommended by the Commission should be based on the achievement of the following market objectives:

- (a) to promote the economically efficient, safe and reliable production and supply of electricity and electricity related services of the Territory;
- (b) to facilitate competition among generators and retailers in the Territory's electricity system, including by enabling efficient entry of new competitors;
- (c) to minimise the long-term cost of electricity supplied to customers from the Territory's electricity system; and
- (d) to encourage the use of measures that more efficiently manage the volume of electricity used including the variations between peak and average loads.

It is recognised that the NEM is an established best practice regulatory framework which has been developed over a decade and provides a reference point for the Territory's future regulatory framework.

Review Scope

The Commission should consider the applicability of the NEM and SWIS models. In its consideration of appropriate wholesale market design, the Commission should have consideration for the Government's package of electricity supply industry reforms, including greater alignment of the Territory's regulatory framework with the NEM, transfer of network regulation to the Australian Energy Regulator and adoption of the National Electricity Rules. Any proposed market design arrangements would need to be compatible with these reforms.

The Commission is to consider wholesale market arrangements that are suitable to the Territory's circumstances and capable of cost effectively replacing sole reliance on bilateral contracting.

The Commission is to provide recommendations regarding the design and rules that could be adopted initially in the Darwin-Katherine generation market.

In recommending the appropriate wholesale market arrangements, the Commission is to develop the proposed rules in consultation with relevant stakeholders

Timing

In accordance with section 34 of the *Utilities Commission Act*, the Commission is to provide its final report to the Minister by 28 February 2014.

Review Process

The Commission is to undertake the review in the manner it considers appropriate, including consultation with key stakeholders.

Consultation should include, but not be limited to:

- Australian Energy Market Operator
- Australian Energy Market Commission
- Western Australian Independent Market Operator
- Economic Regulation Authority of Western Australia
- Power and Water Corporation
- Department of Treasury and Finance
- Other industry participants (or potential participants)

In accordance with section 32 of the *Utilities Commission Act*, the Commission will publish a notice of the review, including the Terms of Reference in the newspaper and send a copy to licensed entities.