



24 September 2009

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Utilities Commission Review of Full Retail Contestability for Northern Territory Electricity Customers: Issues Paper

The Energy Supply Association of Australia (esaa) welcomes the opportunity to comment on the Issues Paper for the Utilities Commission's review of full retail contestability (FRC) for Northern Territory electricity customers.

esaa is the peak industry body for the stationary energy sector in Australia and represents the policy positions of the Chief Executives of over 40 electricity and downstream natural gas businesses. These businesses own and operate some \$120 billion in assets, employ 52,000 people and contribute \$16.2 billion directly to the nation's Gross Domestic Product.

esaa agrees with the Commission's view that the small scale, along with certain structural and regulatory features of the Northern Territory electricity market, make it unlikely that competition will emerge if FRC is introduced for tranche 5 and 6 customers as currently scheduled. This view is supported by the present lack of competition for fully contestable tranche 1 to 4 customers. esaa therefore considers that there is little merit in following the present FRC schedule for tranche 5 and 6 customers without further reform.

Nonetheless, esaa considers that retail competition is important, where possible, for a secure, reliable and efficient supply of electricity to consumers. Accordingly, esaa considers that the focus in the Northern Territory should be on reforms that ensure the efficient supply of electricity and establish, where possible, the conditions for competition to develop, where those reforms are of net benefit to consumers taking account of the particular conditions of the Northern Territory market.

esaa notes that such a staged approach would broadly align with the reform sequences of states and territories that have introduced FRC to date. For instance, in all National Electricity Market (NEM) jurisdictions that have full retail contestability, FRC was only introduced after joining the NEM and conditions conducive for retail competition, such as a competitive and transparent wholesale market, were in place.

However, an important initial reform area is regulated retail tariffs. Despite some recent impetus for tariff reform, the current retail price limits in the Northern Territory are below cost. This is a strong commercial disincentive for new entrants to the

Northern Territory market, discouraging competition in both the retail and generation sectors.

Electricity prices that do not reflect the cost of resources used in production also impede the efficient operation of the electricity market. They blunt price signals to consumers to change their consumption patterns in response to the supply situation and obscure the signals to producers about the need to invest in new capacity. Furthermore, they create financial pressure for industry participants forced to absorb costs that cannot be passed on.

While esaa has long supported removing retail price regulation where retail markets are contestable, where markets are not contestable, such as in the Northern Territory, retail price regulation can be appropriate. However, for prospective retailers to enter regulated markets confidently, it is imperative that pricing determinations enable retailers to recover the efficient costs of supply and that the regulatory process is rigorous and transparent. This issue was addressed in the Northern Territory Treasury's consultation draft for a New Legislative Framework for the Northern Territory Electricity Industry, which stated that the methodology and process for applying price controls should be clearly stated to maximise investor certainty.

Should such efficient and cost-reflective pricing impact on the more disadvantaged members of Northern Territory society, appropriately targeted welfare measures that do not distort the functioning of the electricity market should, if required, be developed and funded by government.

The Utilities Commission identifies a range of reforms in addition to price regulation that could improve prospects for competition, including greater wholesale price transparency and stronger ring-fencing of Power and Water Corporation to address concerns about potential market power. esaa considers that there is merit in exploring the potential for these reforms to promote competition and be of net benefit to the Northern Territory.

The Issues Paper also canvasses views on broader reforms, such as structural reform of the industry or the implementation of NEM wholesale trading arrangements. The Northern Territory Treasury's consultation draft also considered adopting the institutional and regulatory arrangements of the NEM. esaa notes that such reforms seek to align the Northern Territory market's operation and governance architecture with Australia's other electricity markets and that this could facilitate national retailers to enter the Northern Territory market. While esaa firmly supports national regulatory frameworks, in light of the small scale of the Northern Territory market, a strong rationale and detailed analysis would be required before such reforms were implemented to ensure the expected benefits outweigh the expected costs.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Brad Page', with a stylized flourish at the end.

Brad Page
Chief Executive Officer