



**Submission to Utilities Commission**

**on**

**Review of Electricity System Planning, Monitoring and  
Reporting**

January 2011

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## EXECUTIVE SUMMARY

The Northern Territory Major Energy Users (NTMEU) have a strong interest in the cost, reliability, quality and the long term sustainability of electricity (and gas) supplies. Accordingly, the NTMEU supports the Utility Commission's review of the NT's electricity system, planning, monitoring and reporting and the identification of the relevant issues raised in the Issues Paper.

This review, however, needs to recognize that PWC is a vertically integrated business and controls the entire supply chain. Therefore, each element of the PWC supply chain must be subject to the regulatory bargain and appropriate standards and practices set and enforced. Brief responses to the specific questions raised by the Utilities Commission are as follows:

- The NTMEU agrees that specific standards of performance are necessary, whether they are related to generation or networks. Such standards need to be set in relation to what consumers see, such as USE and individual feeder performance. These types of standards have relevance to consumers and will allow PWC to make informed choices about balancing cost to reliability.

Financial incentives/penalties are of considerable assistance in achieving the regulatory bargain (which balances cost versus reliability) and, if properly constructed, should over time lead to an overall increase in performance.

- By making PWC the generator of last resort, this effectively ensures that PWC will ensure there is long term reliability of supply.
- The NTMEU sees that every opportunity must be taken to create the basics for a competitive market so that new entrants have the ability to make informed decisions about whether to enter the NT market or not. Currently PWC uses its unique position to

ensure there is a minimum of public reporting so that the current state of affairs can continue<sup>1</sup>.

- The introduction of a regulatory investment test (RIT) is an essential part of ensuring that investment is efficient and the outcome is provided at the least cost.
- Monitoring alone is insufficient to ensure that the sought after outcomes are achieved. Action must be an outcome if the monitoring identifies if there is a short coming. To achieve the desired outcomes requires that the definition of monitoring is widened to ensure that the monitoring encompasses the monitoring of the processes and practices so that if the monitoring identifies that the processes and practices are less than best practice, then best practice will be implemented.
- In this regard, the NTMEU suggests that the testing requirements be expanded now to include assessments made in terms of consumers and that the outcomes of the testing regime be also measured in terms of increased reliability and availability, and at least cost. This is a target listed by UC as being a longer term goal.
- The NTMEU sees that the testing regimes should be benchmarked against best performance in the NEM as an explicit requirement.
- The NTMEU fully supports the requirement that the processes be formalised by PWC into a standard operating procedure. However, the NTMEU adds that these should be reviewed publicly and formally approved by the UC.
- The NTMEU would add that PWC should publicly report these performance measures and to provide a commentary on any shortcomings identified.

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<sup>1</sup> In this regard, the lessons learned in WA are informative. In WA Western Power used every opportunity to prevent the WA government from introducing reforms to the electricity market in that state.

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- The NTMEU considers that the UC is correct in its assessment of the lack of useful reporting by PWC – it is this lack of transparency that allows PWC much greater ability to treat its customers that way it does.
- The NTMEU shares the concerns evinced by UC in respect to system adequacy projections. The PWC has persisted in its “cost plus” mentality in addressing the needs of the electricity supply system in the Territory and its most recent decision to use N-4 as its generation reliability criterion just exemplifies this view.
- The NTMEU supports PWC Networks being required to provide a comprehensive annual planning report which would be publicly available. To ensure that it is adequate for the needs of the electricity system, it has to take into account the planning carried out by System Control and Generation, with input from PWC Retail. Unless this integration is carried out, the result will be a series of unconnected planning reports.
- The NTMEU agrees with the UC that the supply of gas is a critical element in ensuring reliability of the electricity supply in the Territory and therefore reporting on this key element is essential.
- The NTMEU agrees that there is a need for independent reporting of all significant incidents that occur in the supply system. This approach follows that used in the NEM where AEMO and AER report on incidents that impact consumers.

The NTMEU further suggests that independent reporting, supplemented by effective enforcement are required, as are sound benchmarking of performance levels, appropriate contracting out of services and a framework for enhancing demand side responsiveness.

## 1. Introduction

The Northern Territory Major Energy Users (NTMEU) welcomes the opportunity to provide comments on the Utilities Commission's Review of electricity system planning, monitoring and reporting Issues Paper, dated December 2010. Particularly pleasing is the Utilities Commission's (UC) invitation "to add to that list of issues". The issues raised by the UC is particularly pertinent following the recent loss of supply from the Casuarina zone substation and the application from QEnergy to enter the NT electricity market as a retailer.

The NTMEU comprises the larger end users of electricity in the Northern Territory and includes the following companies: Northern Cement Limited, International Hotels Group, NT Airports, Darwin Central Hotel, Darwin Private Hospital, SkyCity, and BOC Limited.

The NTMEU has been established by the larger businesses operating in the Northern Territory. The members of NTMEU cover a range of industries: from manufacturing through to tourism. Member companies have identified that there are potentially more commercial options for providing essential services of electricity (and gas) than currently apply in the Territory, and are prepared to work with the Government and the Utilities Commission to improve the current energy supply arrangements. The NTMEU does recognise the unique nature of the NT (its relatively small population and low population density, its large land area, and its remoteness from other Australian markets) but it considers that large amounts of gas available nearby and the closeness of northern (overseas) markets can provide a basis for a more competitive Northern Territory energy market, which in turn drive additional downstream investments and expand employment opportunities in the Territory.

NTMEU member companies' main objective is to promote access to long term, sustainable and competitively-priced energy (electricity and gas) supplies in the

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Northern Territory. We have identified a key interest in the **cost** of energy supplies (commodity, network services and transactions costs) as this represents a significant cost element in each member's business operations.

Although electricity (and gas) is an essential source of energy required by each member company in order to maintain operations, a failure in the supply of electricity (and gas) will cause every business affected to cease production and/or suffer loss. Thus the **reliable supply** of electricity (and gas) is an essential requirement of each member's business operations.

With the introduction of highly sensitive equipment necessary to maintain operations at the highest level of productivity, the **quality** of energy supplies has become increasingly important, with the need for a focus on the performance of the distribution networks. Variation of electricity voltage, especially voltage sags, momentary interruptions and transients (and also of gas pressure) by even small amounts, now has the ability to shut down critical elements of many production and/or service processes.

Each of the businesses represented in the NTMEU has invested considerable capital in establishing their operations and in order that they can recover the capital costs invested, long-term **sustainability** of energy supplies is paramount. If sustainable supplies of energy are not available into the future, investments made by energy users quickly lose their value.

Accordingly, the NTMEU has a keen interest in addressing issues that impact on the **cost, reliability, quality**, and the long term **sustainability** of member companies' electricity (and gas) supplies.

NTMEU comments are provided below on the issues specifically raised by the UC in its Issues Paper.

## **2. Aspects of specific concern to NTMEU members**

The Issues Paper raises a number of quite specific aspects that UC sees need to be addressed by PWC in terms of planning, monitoring and reporting, and the NTMEU would concur that all of the issues raised are quite valid and must be addressed. However, the NTMEU considers that the UC review should also address the following aspects.

1. PWC controls the entire supply chain – gas provision, electricity generation, transmission, distribution and system control, as well as retail. This creates tension in where PWC is to devote attention in order to get the maximum benefit from the commitment of limited resources. In particular, the NTMEU is concerned that PWC could allow one element of its operations (eg generation, electricity networks, water collection, water reticulation, sewage reticulation or sewage treatment) to be devoted more resources rather than another equally deserving element but which has lower public profile.

The approach in the NEM is that each element of the electricity supply chain is addressed by a separate corporation (eg generation, transmission, distribution, system control) and therefore each element receives focused attention. The structure of PWC does not provide this.

2. Essentially the structure of the PWC networks does not differentiate between transmission and distribution, so the way PWC managed Casuarina ZS can be classed as

typical across PWC Networks, but the Davies Inquiry also identified that PWC Generation had similar approaches to PWC Networks.

This reinforces two concerns to NTMEU – that PWC will tend to focus on the issue that is most public to the detriment of equally deserving elements, and that there is endemic within PWC a “cost plus” mentality that prevents PWC from implementing controls and processes that have now become “de rigour” throughout the NEM, such as condition monitoring and preventative maintenance practices.

3. The normal reaction to plant failures by PWC seems to be that it should invest more capital to replace assets where there is concern. This is a traditional approach used by vertically integrated monopoly service providers. From a PWC viewpoint, it is a monopoly and can therefore pass such costs directly to consumers and this investment approach would appear to be the easy and obvious option for PWC. From a consumer viewpoint, already paying very high prices for electricity supplies (relative to the NEM regions) this approach is not attractive because it tends to unnecessarily inflate the cost of the services.

The introduction of the NEM (and the disaggregation of other monopoly service providers such as gas, water and sewage) has resulted in significantly increased reliability and lower costs. This has been achieved by structuring businesses to focus on specific elements of the supply chain (eg generation, transmission, distribution, system control and retail) and to introduce competition where possible (eg generation and retail), thereby driving efficiency gains.

PWC needs to reflect these trends in its operations. It is recognised that the scale of the PWC operations does not readily lend itself to allowing major competition, it is by the regulator imposing controls and outcomes (surrogate competition) that will drive PWC to providing a better service to consumers at a lower cost.

4. Reliability of supply is a combination of all supply chain elements, although the NEM data shows that distribution is the element which causes the most disruption to consumers.

This means that an essential aspect of the PWC processes must be towards looking at reliability of supply from the perspective of consumers, rather than seen as being purely supply side issues. Particularly for a vertically integrated monopoly providing an essential service, this approach requires the PWC to totally change its mindset from one of “we know what is required” to one of seeing its service in terms of consumer needs.

Such a change is an integral part for the processes the UC is seeking to implement by way of this Issues Paper.

5. In a competitive environment the approach that is taken is one which has the least cost overall. This might be a capital approach but also might be one based on more maintenance and closer operator attention. Certainly a business operating in a competitive environment would ensure that its operations would be proactive to ensure that failures do not occur at critical times. Competitive businesses know that reliability

of service is a core element of their business, and that the impact of a failure of the product or non-delivery of service is likely to lose consumers.

It is recognised that retention of a customer is possible at a lower cost than that needed to secure a new customer. PWC is a monopoly provider and therefore does not need to treat its customers as if the customers were able to secure service from another provider as if they might lose them to a competitor.

6. The implication of such practices is that in a regulatory environment where there is a regulatory bargain between consumers and providers, the regulator should ensure that those practices which are used in a competitive environment are implemented by PWC as a matter of course.

7. PWC controls all elements in the electricity supply chain, especially generation. This means that any new retailer in the region must buy its power from PWC. This means that monitoring and reporting of PWC generation pricing is essential, as is the security of supply.

Because PWC is an integrated electricity service supplier as well as an integrated water and sewage service provider, it therefore follows that every aspect of the PWC supply chain must be subject to the regulatory bargain and the regulator should (on behalf of all consumers) enforce proper practices to ensure that electricity (and the other services) is provided at the least cost but at a commensurate level of reliability.

### 3. The UC views on PMR

In section 1 of its Issues Paper the UC posits a series of observations and seeks comment about each. The NTMEU supports this questioning by the UC and sees that the UC has identified many of the key elements of a successful PMR program. The NTMEU residual concern is whether all of the critical aspects identified are sufficiently comprehensive.

#### **“Planning**

1.16 The Commission is seeking comment about whether:

- the reliability and security standards established by the Territory’s regulatory framework can be made more explicit so as to effectively support appropriate investment and performance outcomes;
- the reliance on PWC Generation, as the only market participant, to invest in new generation capacity warrants development of a last resort provider mechanism to provide certainty that investment in generation capacity will be adequate to maintain reliability of supply; and
- further or alternative arrangements are required to assist in achieving efficient and effective distribution network investment outcomes that ensure capacity will be adequate to maintain reliability of supply, on a cost effective basis.

#### **Monitoring**

1.19 The Commission is seeking comment about whether:

- the Commission’s view that the practices of the Australian Energy Regulator for monitoring compliance with behavioural and technical obligations should guide the development of compliance monitoring arrangements and practice in the Territory;
- the existing regulatory arrangements and approach to monitoring equipment capability and performance promote confidence that the capability of electricity infrastructure is well understood and that assets will perform as expected;
- more comprehensive incident reporting arrangements that provide clear guidance about when and how an incident should be investigated are important for effective monitoring of electricity industry performance; and

- routine and comprehensive monitoring of system and distribution network performance is important to provide critical information about system security and reliability trends.

### **Reporting**

1.23 The Commission is seeking comment about whether:

- routine and comprehensive reporting of historical and forward looking information about the power system and distribution network is necessary to support effective planning and operation decisions, and timely and cost effective investment outcomes;
- routine and comprehensive reporting on system adequacy, consistent with the approach adopted in the NEM by the Australian Energy Market Operator, should be adopted in the Territory;
- adopting more comprehensive and specific network reporting requirements would be beneficial by establishing an effective and flexible reporting framework that provides investors, customers and the Commission with a comprehensive understanding of network adequacy;
- that assessing the adequacy of the source and supply of fuel for electricity generation in the Territory is warranted, given the importance of fuel availability to a reliable and secure electricity supply;
- reporting on performance and health, including the outcomes of investigations of compliance with technical performance standards would encourage and support the efforts of PWC Networks, generators and System Control to operate electricity infrastructure according to the standards required by relevant reliability and security criteria; and
- reporting should facilitate the development and the coordination of planning activities throughout the electricity supply chain. This would involve reporting the key information necessary for investors to make informed and timely investment decisions.”

The NTMEU considers that the answer to each of these questions is “yes, these features are all important” and provides unqualified support for the UC views.

The NTMEU notes that the UC seems to consider that the processes extant in the NEM are the goals to which PWC should aspire. The NTMEU notes that its affiliates representing consumer interests in the NEM regions have some concerns as to whether the practices and processes in the NEM are world’s best practice. In fact they advise NTMEU that the NEM practices and processes are still work in progress and require

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further enhancement to bring the NEM to best practice levels. Bearing this in mind, the NTMEU fully supports the UC approach to bring the PWC practices into the twenty first century, but only as an initial first step in achieving best practice.

However the NTMEU considers that there is need to extend the scope of the reporting (especially in terms of PWC Generation) and the NTMEU views on aspects where extended PMR aspects are provided below.

#### 4. Responses to specific questions raised by the UC

Generally, the NTMEU considers that the UC has prepared a competent assessment of the needs for planning, monitoring and reporting (PMR) in the Territory. To a large degree the UC sees that the practices and processes used in the NEM provide good guidance in developing a set of PMR rules and controls. The following comments made by NTMEU recognise this and are to be seen as additional elements to the already comprehensive assessment made by the UC.

**Question 1**

What additional matters do you believe need to be addressed to ensure that the Territory's regulatory framework establishes reliability and security standards for electricity generation, transmission and distribution that support effective investment outcomes?

The NTMEU agrees that specific standards of performance are necessary, whether they are related to generation or networks. Such standards need to be set in relation to what consumers see, such as USE and individual feeder performance. These type of standards have relevance to consumers and will allow PWC to make informed choices about balancing cost to reliability.

Financial incentives/penalties are of considerable assistance in achieving the regulatory bargain (cost versus reliability) and, if properly constructed, should over time lead to an overall increase in performance.

The suggestion that the current generation reliability level of N-2 should be extended to N-4, shows that PWC Generation is performing poorly. N-2 is a very high standard and N-4 is excessive. Such an approach typifies the blatant cost plus mentality within PWC and reinforces the Davies Inquiry outcomes that identified PWC has very poor monitoring and maintenance practices. Continuing the use of N-x approach only addresses supply in terms of a supply side view. A far better outcome for consumers

will be using a standard which is set in terms of consumer needs. The move to N-4 reflects the poor maintenance of existing generation.

In this regard, NTMEU has been advised of what can be achieved by sensible monitoring and maintenance practices. Under the stewardship of the Victorian electricity monopoly, Hazelwood power station (which comprises eight equally sized units) consistently had only six units available and those that were available tended not to operate at rated output. The sale of Hazelwood to International power, resulted in a large reduction in the maintenance workforce but with eight units consistently being available, and each unit often delivering more than its rated output. This example shows that proper processes and controls will deliver better outcomes and large savings to consumers. NTMEU considers that PWC, with better management and processes could achieve a much better outcome than addressing reliability in terms of N-x and certainly avoiding the large capital cost of providing power generation that would be idle for much of the time.

Moving to a USE approach is not sufficient in itself. This change must be accompanied by a requirement imposed on PWC by the UC to increase the reliability and availability of the generation plant they already control to benchmark performance. Such an outcome will be achieved by implementing such practices as International Power did with Hazelwood power station. If PWC Generation is unable to meet best practice levels for reliability and availability of the plant they have, then perhaps the operation and maintenance functions could be contracted to a party willing to achieve these outcomes.

Whilst USE looks at reliability in terms of consumers, USE alone is not appropriate as it does not reflect entirely what consumers see. The settings for reliability should reflect the reliability of the entire supply chain, including networks. One of the major failings of the NEM is that generation reliability is set at a level that does not reflect the reliability of the entire chain, with the result that there is an unnecessarily high cost imposed on generation to meet a standard of reliability that is not reflected in the delivery networks.

Question 2

What additional matters do you believe need to be addressed to provide certainty about that investment in generation capacity will be adequate to maintain reliability of supply?

Under the current arrangements there is no alternative but to encourage PWC Generation to be the “generator of last resort” and until there is active and viable competition to PWC Generation this state of affairs must continue. By making PWC the generator of last resort, this effectively ensures that PWC will ensure there is long term reliability of supply.

However, if PWC Generator or another party (such as PWC System Control which is analogous to AEMO) is required to prepare short, medium and long term projected assessments of system adequacy (PASA) and/or a statement of Opportunities then this would provide long term advice to generation providers of the potential for investment in generation. This then might provide the necessary avenue to introduce competition for PWC generation.

Question 3

What further or alternative regulatory arrangements would assist in achieving efficient and effective generation investment outcomes?

Currently PWC Generation has a monopoly role in the supply of electricity. If PWC Generation was required to make public its offers for generation and there was a requirement on PWC Retail to use these publicly available costs in their offers<sup>2</sup>, then there could be at least three positive outcomes.

Firstly, a new retailer could enter the NT market on a level playing field with PWC Retailer. This would create a competitive dynamic in the provision of retail activity.

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<sup>2</sup> The issue of internal transfer pricing would have to be addressed by the UC to ensure that there was transparency in this transfer pricing

Secondly, aspiring new generation entrants could identify whether there is sufficient “headroom” for them to be competitive in the NT market.

Thirdly, the UC could see if PWC Generation was actually operating at best practice levels, by carrying out appropriate benchmarking of performance.

The NTMEU sees that every opportunity must be taken to create the basics for a competitive market so that new entrants have the ability to make informed decisions about whether to enter the NT market or not. Currently PWC uses its unique position to ensure there is a minimum of public reporting so that the current state of affairs can continue<sup>3</sup>.

Question 4

What further or alternative regulatory arrangements would assist in achieving efficient and effective distribution network investment outcomes?

The introduction of a regulatory investment test (RIT) is an essential part of ensuring that investment is efficient and the outcome is provided at the least cost. The National Electricity Law (which causes the National Electricity Rules to be created) requires that the Rules be based on six principles<sup>4</sup> which overarch network regulation. These principles make it clear that the service should be provided at the least cost and that investment should be efficient.

Unless such an assessment is made public, there is the potential for PWC to obviate these requirements. This is probably the strongest reason for the implementation of the RIT as it allows independent review of the proposals by the network owner. Coupling a RIT with a public assessment of the need for new investment, provides a strong basis for limiting otherwise unfettered capital expenditure by networks.

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<sup>3</sup> In this regard, the lessons learned in WA are informative. In WA Western Power used every opportunity to prevent the WA government from introducing reforms to the electricity market in that state.

<sup>4</sup> See appendix A

It must be remembered that in the second reading speech when proposing the National Electricity Law in 2005, the Minister observed that:

“The market objective is an economic concept and should be interpreted as such. For example, investment in and use of electricity services will be efficient when services are supplied in the long run at least cost ...”

This sentiment should be reflected in the regulatory requirements for PWC Networks.

Another issue that needs to be addressed is at what level is increased reliability no longer cost effective. In the NEM, AEMO is currently carrying out a review as to the price point at which the cost of increased investment in networks is not warranted by the benefits that would accrue from the investment. Traditionally this price point is referred to as the Value of Lost Load (VoLL) or VCR (Value of Customer Reliability). Unless such a price point is developed it becomes impossible to carry out a comprehensive RIT evaluation. Therefore as part of the planning process, such a price point must be developed.

<p>Question 5 What additional matters do you believe need to be addressed to ensure appropriate and effective monitoring of regulatory and technical compliance in the Territory?</p>
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Monitoring alone is insufficient to ensure that the sought after outcomes are achieved. Action must be an outcome if the monitoring identifies if there is a short coming. To achieve the desired outcomes requires that the definition of monitoring is widened to ensure that the monitoring encompasses the monitoring of the processes and practices so that if the monitoring identifies that the processes and practices are less than best practice, then best practice will be implemented.

The NTMEU sees that PWC (Generation and Network) need to be brought to operate at best practice and an intermediate step would be to benchmark PWC condition monitoring, operation and maintenance processes with those used in the NEM. The

ultimate goal would be that the reliability and availability of PWC assets would reflect best performance at a comparable cost that best practice would deliver. An intermediate stage would be that PWC assets would replicate reliability and availability of NEM assets at a comparable cost.

The NTMEU accepts that the costs might not be directly comparable because of other input costs that are unique to PWC operations, but the UC should be able to ensure that the necessary adjustments needed for comparability are made appropriately.

**Question 6**

What additional matters do you believe need to be addressed to ensure the existing regulatory arrangements and approach to testing equipment capability and performance in the Territory are adequate?

Whilst the NTMEU agrees with an appropriate testing regime, it points to the need not to overlook that it is not so much the testing that is critical, but the outcomes as seen by consumers is a key element for assessment.

In this regard, the NTMEU suggests that the testing requirements be expanded now to include assessments made in terms of consumers and that the outcomes of the testing regime be also measured in terms of increased reliability and availability, and at least cost. This is a target listed by UC as being a longer term goal.

**Question 7**

What additional comments do you have about the Commission's preliminary views on options for encouraging effective and appropriate testing of equipment capability and performance?

The NTMEU sees that the testing regimes should be benchmarked against best performance in the NEM as an explicit requirement.

Question 8

What additional matters do you believe need to be addressed to ensure effective incident reporting arrangements in the Territory?

The NTMEU fully supports the requirement that the processes be formalised by PWC into a standard operating procedure. However, the NTMEU adds that these should be reviewed publicly and formally approved by the UC.

Question 9

What additional matters do you believe need addressing to ensure the regulatory arrangements and approach to measuring performance and reliability performance trends are adequate?

The NTMEU would add that PWC should publicly report these performance measures and to provide a commentary on any shortcomings identified. This data should be specifically used by the UC when agreeing to the regulatory bargain made between the PWC with the UC on behalf of consumers.

Question 10

What additional matters do you believe need addressing to ensure that reporting arrangements and activities for the Territory are appropriate?

The NTMEU considers that the UC is correct in its assessment of the lack of useful reporting by PWC – it is this lack of transparency that allows PWC much greater ability to treat its customers that way it does.

Increased reporting, especially that which is independently assessed and where PWC is held accountable, will greatly increase customer involvement in the electricity supply arrangements. Equally important is that it will provide potential new entrants with sufficient knowledge to make informed decisions about entering the Territory market.

Question 11

What additional matters do you consider need to be addressed to ensure the Territory's arrangements for assessing and reporting on system and generation adequacy are appropriate?

The NTMEU shares the concerns evinced by UC in respect to system adequacy projections. The PWC has persisted in its "cost plus" mentality in addressing the needs of the electricity supply system in the Territory and its most recent decision to use N-4 as its generation reliability criterion just exemplifies this view.

However, the NTMEU points out that it is AEMO that provides the expectations of future demand and the ability of the system to meet these. If PWC Generation is tasked with this responsibility, there is an expectation that little will change, as PWC Generation has an incentive to build more generation capacity and pass these costs onto consumers. This raises the need for PWC System Control to be fully independent and not associated with PWC Generation and PWC Networks as this would ensure that assessments are made in the interests of consumers, rather than PWC.

It is important to note that the National Electricity Objective is written in terms of the needs of consumers. To ensure that consumers' needs are to the forefront when considering future needs, the assessment needs to be developed independently of all potential conflicts. An independent System Controller (as applies with AEMO in the NEM) would achieve this outcome.

Question 12

What additional matters do you consider need to be addressed to ensure the Territory's arrangements for assessing and reporting on electricity network adequacy are appropriate?

The NTMEU supports PWC Networks being required to provide a comprehensive annual planning report which would be publicly available. To ensure that it is adequate for the needs of the electricity system, it has to take into account the planning carried out by System Control and Generation, with input from PWC Retail. Unless this integration is carried out, the result will be a series of unconnected planning reports.

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To overcome this problem, one independent party needs to oversee the integration of the information so that it is consistent over all elements. Independence in the coordination is essential to ensure that the outcome meets the core requirement of being consumer focused.

Feedback to each element from the coordinator would require amendments to the individual reports to ensure consistency and contiguity.

**Question 13**

What additional matters do you consider need to be addressed to ensure the Territory's arrangements for assessing and reporting on the adequacy of the sources and supplies of fuel for electricity generation are adequate?

The NTMEU agrees with the UC that the supply of gas is a critical element in ensuring reliability of the electricity supply in the Territory and therefore reporting on this key element is essential.

The NTMEU notes that PWC has "locked up" gas supplies until 2034. Whilst this is sound operating practice in regard to long term security of electricity supply, it also creates an environment where PWC is less subject to competition as it controls gas supplies for power generation. Because of this, the reporting on gas supplies should address two other key aspects, viz:

1. The potential of new lower cost gas supplies that might become available.
2. The ability of new entrants to be able to secure their own gas supplies so that they are not dependent on PWC as a source of gas.

**Question 14**

What additional matters do you consider need to be addressed to ensure the Territory's arrangements for assessing and reporting on the performance and health of the Territory's power systems and distribution networks are adequate?

The NTMEU agrees that there is a need for independent reporting of all significant incidents that occur in the supply system. This approach follows that used in the NEM where AEMO and AER report on incidents that impact consumers.

As such reports could highlight that the failure was a result of poor PWC performance, The UC requirement for reporting must ensure that such is carried out by an independent party as any report is likely to put PWC in a negative light.

Question 15

What additional matters do you consider need to be addressed to ensure the Territory's arrangements for reporting on system and network development and the coordination of planning activities in the Territory are appropriate?

See comments above.

## **5. Additional specific elements that need to be addressed**

As noted earlier the NTMEU sees that the UC developed assessment for planning, monitoring and reporting (PMR) by PWC is the minimum that is required. The NTMEU adds the following suggestions for other specific element of PMR that the UC should consider integrating into its program requirements for PWC.

### **5.1 Independence**

Whilst the NTMEU has commented above on the benefits of increased independent reporting, it stresses that a sound reporting structure and enforcement has the major benefit of creating an environment where new entrant generation and retail has the ability to identify where and how they might be able to enter the NT market. This means that such reporting is both comprehensive and accurate. To ensure that these essential criteria are met, there needs to be considerable independence in the preparation of the reports, with strong obligations on the different PWC departments to provide accurate information which is used to develop the various reports.

The NTMEU finds it difficult to identify that PWC operating as it currently does, can adequately ensure adequate ring fencing of the different elements, particularly between PWC Generation and PWC Retail. Greater separation between these elements of PWC is needed to ensure that increased requirements in planning, monitoring and reporting provide the result and outcomes sought by the UC and consumers generally.

### **5.2 Setting acceptable performance levels**

Generally the NTMEU sees that the proposals by the UC will result in better outcomes for consumers, but it points out that planning, monitoring and reporting just by themselves, will not achieve the goals of the UC. To gain the maximum benefit from these processes, requires that benchmark performance levels are used to identify if the

actual performance is less than should be provided for the funds involved. This means that an integral element of the new regime is that acceptable performance levels will indicate whether the actual performance needs to be enhanced.

### **5.3 Contracting services**

One issue associated with setting acceptable performance levels is what should be done if PWC cannot achieve acceptable performance levels. The NTMEU considers that the generators and networks in the NEM have identified that contracting with non-related parties has resulted in increased performance at lower costs than by carrying out the work directly. In response to question 1, the NTMEU points out that an independent operator/owner of Hazelwood power station was able to increase reliability and availability at a lower cost than the previous government owner. In fact the previous government owner's response to the apparent poor performance of Hazelwood, was to build new power stations, just as PWC is proposing for the very same reasons.

The NTMEU suggests that as part of this expanded PMR program, unless PWC achieves acceptable performance, the UC will recommend to government that a new approach (such as the assets being managed by an independent contractor operating with defined performance requirements) will be a potential outcome.

### **5.4 Demand side responsiveness (DSR)**

Throughout the UC Issues Paper, there has been almost no reference to the ability of the demand side to provide responses to achieve acceptable performance at the least cost. This is a major oversight. The demand side has the ability to improve overall reliability providing it has adequate incentives to do so.

For example in WA, consumers are actively incentivised to reduce demand at critical times. In the NEM some consumers operate on the spot market and reduce demand

when the spot price is high. Other consumers either reduce demand or self generate when the alternative is for increased investment in networks.

This means that the PMR processes should be expanded to allow these demand side responses to be properly integrated to ensure that the maximum benefit is achieved from the UC proposals for improved and better PMR.

However, to benefit from DSR, there have to be adequate incentives to ensure the responses are offered. As DSR should reduce the costs incurred in providing the services, sharing this benefit is an acceptable outcome for all consumers.

## Appendix A

### National Electricity Law

#### 7A—Revenue and pricing principles

- (1) The revenue and pricing principles are the principles set out in subsections (2) to (7).
- (2) A regulated network service provider should be provided with a reasonable opportunity to recover at least the efficient costs the operator incurs in—
- (a) providing direct control [network services](#); and
  - (b) complying with a regulatory obligation or requirement or making a regulatory payment.
- (3) A regulated network service provider should be provided with effective incentives in order to promote economic efficiency with respect to direct control [network services](#) the operator provides. The economic efficiency that should be promoted includes—
- (a) efficient investment in a distribution system or transmission system with which the operator provides direct control [network services](#); and
  - (b) the efficient provision of electricity [network services](#); and
  - (c) the efficient use of the distribution system or transmission system with which the operator provides direct control [network services](#).
- (4) Regard should be had to the regulatory asset base with respect to a distribution system or transmission system adopted—
- (a) in any previous—
    - (i) as the case requires, distribution determination or transmission determination; or
    - (ii) determination or decision under the National Electricity Code or jurisdictional electricity legislation regulating the revenue earned, or prices charged, by a person providing services by means of that distribution system or transmission system; or

(b) in the Rules.

(5) A price or charge for the provision of a direct control network service should allow for a return commensurate with the regulatory and commercial risks involved in providing the direct control network service to which that price or charge relates.

(6) Regard should be had to the economic costs and risks of the potential for under and over investment by a regulated network service provider in, as the case requires, a distribution system or transmission system with which the operator provides direct control [network services](#).

(7) Regard should be had to the economic costs and risks of the potential for under and over utilisation of a distribution system or transmission system with which a regulated network service provider provides direct control [network services](#).