



**LEGISLATIVE ASSEMBLY OF THE NORTHERN TERRITORY**

**12th Assembly**

**Committee on the Northern Territory's Energy Future**

**Public Hearing Transcript**

2.00 pm – 2.30 pm, Friday, 28 November 2014

Litchfield Room, Level 3, Parliament House

**Members:** Mr Gary Higgins, MLA, Chair, Member for Daly  
Mr Gerry Wood, MLA, Deputy Chair, Member for Nelson  
Mr Nathan Barrett, MLA, Member for Blain  
Mr Gerry McCarthy, MLA, Member for Barkly

**Apologies:** Mr Francis Kurrupuwu, MLA, Member for Arafura

**Energy Retailers Association of Australia**

**Witnesses:** Mr Cameron O'Reilly: Chief Executive Officer  
Mr Ramy Soussou: Deputy Chief Executive Officer  
Ms Alexandra Fraser: Public Affairs Manager

**Mr CHAIR:** Cameron, it is Gary Higgins. Do we have everyone there?

**Mr O'REILLY:** Yes. On our end there is me, Deputy CEO, Ramy Soussou, and our Public Affairs Manager, Alex Fraser.

**Mr CHAIR:** Thank you, that is everyone listed. I am Gary Higgins, the Chair of the committee and I am the member for Daly. I have with me Nicole Manison, the member for Wanguri, Gerry McCarthy, the member for Barkly, Nathan Barrett, the member for Blain, Gerry Wood, the member for Nelson and our secretariat staff. We will get under way as we only have half-an-hour.

Thanks again for making the time available. On behalf of the committee, I welcome everyone to the public hearing into electricity pricing options. I welcome to the table to give evidence to the committee from Energy Retailers Association of Australia Mr Cameron O'Reilly, the Chief Executive Officer, Mr Ramy Soussou, the Deputy Chief Executive Officer, and Ms Alexandra Fraser, the Public Affairs Officer.

Thank you all for coming before the committee. We appreciate you taking the time to speak to the committee and look forward to hearing from you today.

This is a formal proceeding to the committee and the protection of parliamentary privilege and the obligation not to mislead the committee applies. It is a public hearing which is being webcast through the Assembly's website. A transcript will be made for the use of the committee and may be put on the committee's website. If, at any time during the hearings, you are concerned that what you say should not be made public, you may ask the committee to go into closed session and take your evidence in private.

I ask each witness to state their name for the record and the capacity in which they appear, then I will ask you, Cameron, if you would like to make a brief opening statement before proceeding to the committee's questions. Each time someone talks, could you also indicate your first name during questioning so our Hansard people can pick that up.

First, could you all state your name and the capacity in which you appear. If we go to you last, Cameron, you can make a brief opening statement if you wish.

**Mr SOUSSOU:** Ramy Soussou, Deputy CEO. I am appearing as an observer.

**Ms FRASER:** Alex Fraser, I am the Public Affairs Manager, and I will also be appearing as an witness/observer.

**Mr O'REILLY:** I am Cameron O'Reilly, the Chief Executive Officer of the Energy Retailers Association of Australia. I would like to make an opening statement with the indulgence of the Chair.

**Mr CHAIR:** Thank you.

**Mr O'REILLY:** I thank the committee for the opportunity to give further evidence and expand upon our written submission to the inquiry on electricity pricing options in the Northern Territory. As background, the Energy Retailers Association represents organisations that provide the electricity and gas to over 10 million Australian households and businesses.

Most of our members are privately-owned companies which vary in size from very large companies with over three million customers to some smaller new entrant companies that result from retail competition laws on the National Electricity Market that have as little as 20 000 customers.

We are, therefore, very familiar and supportive of utility restructuring and the separation of network, retail and generation businesses. That has been, obviously, a theme in the National Electricity Market for a number of years since the competition policy reforms were signed in the 1990s.

We also have some good insights and support issues such as retail competition and full retail contestability, which I believe has been established in the Northern Territory. We have some insights into what will be successful reforms for consumers, because, ultimately, that is what reform should be about. We are aware electricity pricing has been a topical issue across the country in recent years.

We think the steps being taken by the government to separate network from retail and generation is a sensible step. They are different businesses. Networks are natural monopolies. Retail is a business which is very much open to contestability. Generation is a business that can be set up in a competitive market to allow the best

pricing of wholesale energy for consumers. These are important mechanisms and steps to be taken to introduce better outcomes for consumers in the Northern Territory.

The important thing for retailers is they can have some sort of market to give them a price signal in relation to wholesale energy. Therefore, we think the establishment of a wholesale market exchange or pool for the larger Darwin/Katherine region will be an important step to support retail competition.

A wholesale market called the National Electricity Market has been established since 1998 and has functioned well to support retail competition and provided liquidity and price signals to support retailers entering the market.

The other thing that is important is to have a process of independence in setting retail prices. Often it is our belief, and it has been established in a number of the states in the National Electricity Market, deregulated retail prices is the way to go and using market monitoring and contestability is the way to discipline prices for consumers and will ultimately lead to the best outcomes and the most competition. Having said that, in many states there was a process of regulated tariffs until recently. The most important thing there is to have is a transparent process setting the regulated tariff run by an independent regulator.

I understand, for various reasons we are familiar with in Queensland, there are important community service obligations that exist in the Northern Territory market to ensure uniform pricing across the Territory. We are familiar with that in Queensland, as I said we believe that type of policy can still exist with retail competition if a community service obligation is applied through distribution pricing rather than retail pricing. In that respect we do not see utility restructuring or retail competition as inconsistent with objectives such as uniform pricing across the Territory.

We are also very familiar with some of the potential regulatory reforms that flow from the National Energy Customer Framework and the National Electricity Market regulatory framework applied by the Australian Energy Regulator and the Australian Energy Market Commission and recommended by the recent competition review could be applied into the jurisdictions that are not part of the NEM such as the Territory. From a retailer's point of view, we are getting to the stage where there is some degree of non-price regulatory consistency through the National Energy Customer Framework and for utilities that operate in an environment where regulation is cost any national harmonisation is a positive thing.

It also allows things like benefits to the consumer such as the Australian Energy Regulator's Energy Made Easy website made available to consumers to compare offers. In general therefore, we support the harmonisation of regulatory frameworks across markets that still are not connected necessarily to the National Electricity Market. We believe a harmonised regulatory framework will benefit consumers in the Territory.

As I said, it has been our view for a long time that, ultimately, retail competition should be established to introduce choice to consumers eventually once a degree of competition is established, and can move to price monitoring and price deregulation and allow competition and switching by customers at disciplined prices. That has been the case in Victoria since January 2009, and Victoria has the least concentrated market in the country and the most number of retailers active in the market. From the middle of this year New South Wales also moved to a price monitored market.

What we have seen in Australian retail markets on the east coast is up to one in four customers switch supplier each year. Therefore, Australians tend to embrace the retail choice and retail competition in electricity and gas.

When it comes to feed-in tariffs, we also believe competitive markets provide the best way to determine the value for electricity produced by photovoltaic units. We view that ultimately the competitive market can provide the best estimate of value to retailers of the electricity generated by distributed generation fed back into the grid.

We know all too well on the east coast that if you provide too much subsidy or feed-in tariffs that are overly generous for PV units and any form of distributed generation, ultimately this leads to cross-subsidies from a range of consumers without the PV to those who have it.

Recent research by AGL estimated the cross-subsidies amount, on the east coast, to up to \$200m a year, and the PV units subsidy feed-in tariffs have seen PV penetration reach as high as 21% in southeast Queensland.

Whilst we understand there are benefits of distributed generation and they have appeals to consumers, we do not believe they should be supported by way of a cross-subsidy from the rest of the community. We believe through a deregulated market, the retailers can provide the best and the most appropriate value for any electricity generated by PV that is fed back into the grid.

In concluding my remarks, I emphasise, as an industry body, we support the introduction of the recent reforms for the Northern Territory, and the objectives of regulatory harmonisation, utilities disaggregation and more competition in retail in the Territory. We believe that can provide more product options and choice for consumers and help to discipline prices for the long term.

We look forward to working with the Northern Territory in a way they can, hopefully, learn from some of our experiences in the industry on the east coast to achieve the objective they have for their reform. Thank you for the opportunity to address the committee.

**Mr CHAIR:** Thanks for that, Cameron. I might start off with my first question I picked up in your statement. The Northern Territory is proposing the uniform tariff because the community services obligation will be delivered by payment of a rebate directly to the end user. Going back through the licence retailers, as the case in regional Queensland, I noted in your opening statement you said that is better done through distribution rather than retail. Can you clarify why you believe that?

**Mr O'REILLY:** The important thing is that it is competitive neutrality between retailers, if you want to establish retail competition. At the moment, the Queensland government is considering how it delivers its uniform tariff in the Ergon Energy area, which is not subject to the competition that exists in the southeast corner because the CSO can only be paid to Ergon, therefore, other retailers cannot compete with Ergon in much of Queensland and provide the consumers with choice.

It does not necessarily have to be done a particular way for what you propose as being provided by way of a rebate to the consumer. That is open to the consumer whether they are with one retailer or another. That can still be an effective way to deal with it. The important thing is it could be done through distribution charges or a rebate. The important thing is that it is open to all retailers and it is a policy of the government to have uniform pricing. How that is achieved is up to them, but it should be done in a way that one retailer could compete with another on a fair basis.

**Mr CHAIR:** That clarified it. My understanding of what you said was the retailer should not do it. But as long as there is competition, you are happy with that?

**Mr O'REILLY:** Yes.

**Mr CHAIR:** Yes, okay. The other thing is you were talking about feed-in tariffs. In the Territory at the moment it is just a one-to-one - whatever we pay they get back. I presume when you talk about the feed-in tariffs you are talking about the excess generation that is fed back into the network?

**Mr O'REILLY:** That is right. There were various schemes introduced at various times in the last five years or so on the east coast which, at the extreme end, saw payments of up to 60c gross for each electricity unit generated. The consumers who got into those schemes early - good luck to them it is not their fault - ended up with very generous subsidies for the PV, and very quick payback times. Essentially, those particular schemes were paid for through distribution charges, therefore imposed upon the whole community. It was a case of some people enjoying substantial benefits at the expense of the rest of the community paying higher electricity prices. That is what we recommend avoiding.

In many cases, the economics of PV now are improving with time. The units are getting cheaper. In the case of the east coast, the rising grid price of electricity in recent times has made it an attractive option. It does not need further subsidisation.

**Mr BARRETT:** A quick question around the tariffs. We are trying to go for something that is cost-reflective and equitable. Currently, we only have accumulation meters in place. There are, obviously, various types of meters that do different things. I am wondering if the lack of advanced medium technology in Darwin available to domestic and small business customers is likely to discourage market entry by retailers. Does the retail group need to have these high-quality metering devices in place in order to create the markets they need?

**Mr O'REILLY:** Certainly not. It has only been quite recently we have had advanced metering infrastructure in Victoria, which chose to go down the path of a mandated roll-out and the tariff structures around that have only recently started to be developed by retailers.

In New South Wales they are talking about a different approach to introducing advanced metering infrastructure where the retailers would, on a voluntary basis – the consumer would have to adopt it - put a proposition to the customer to adopt a smart meter. However, the industry is very familiar with operating with accumulation meters and, obviously, the model has been largely around flat tariffs. The important thing, as you said, is tariffs are cost-

reflective and also, from a retailers point of view if you are a new entrant retailer - and one or two of our members already have licences in the Northern Territory - they feel that they can get wholesale energy at a competitive price. Market structures to establish liquidity in pricing for that is important, but the retail tariff has to be cost-reflective if you want choice and competition and it seems the government understands that.

**Mr BARRETT:** When you were talking about the regulator setting a retail price, how do they do that?

**Mr O'REILLY:** Historically it is quite a complex exercise. The network charges are regulated charges that are the path to a retail price. In the case where there was, and still is in some cases, regulated price setting on the east coast, a regulator that tends to get an estimate of the wholesale cost of energy based on historic data and often done a modelling on what they think a retailer may pay. Sometimes that is market data, sometimes it is the marginal cost of new generation and then they take the network charges and make estimates of the retail operating costs. Sometimes, if it is a competitive market, some costs are related to customer switching and also a fair margin to reflect the risk retailers take. Obviously, if you squeeze margins too much you will not get that competition.

It involves quite a complex exercise by the regulator trying to anticipate future market developments. That is why we recommend retail competition as the best way forward through price monitoring, but if you choose to have a regulated tariff there are a lot of precedents in Australia and some established models and methodologies to work out what is an appropriate allocation for wholesale energy and retail costs.

**Mr WOOD:** Cameron, there has been a lot of discussion, especially in the Territory, of moving from a government-owned monopoly to, at the present time, allowing a competitive market by splitting up our Power and Water. On the other side, we have also heard competition in other states has not necessarily meant prices are much cheaper. In fact, I was looking at the website where it shows South Australia has some of the highest prices for electricity in the world.

Is competition really achieving lower prices and, if it is, is that at the expense of anything else for instance, service or maintenance - if some of these companies had to maintain networks. You would remember the fires in Victoria where it was claimed a pole had not been maintained in East Kilmore and, from that, the fire started. Are there downsides in competition?

**Mr O'REILLY:** Always be a little hesitant about drawing conclusions from interstate because there are a whole range of differences. For instance, South Australia has fairly high cost generation and has the highest levels of renewable penetration of any of the states. It also has historically quite high network charges because it is largely a city state and therefore there are quite high costs for distribution outside the Adelaide area. A retail tariff is, in most cases, made up of - 40% to 50% will be the network charges and that is certainly the case in the bigger states, and 30% to 35% wholesale energy and the rest will be the retail component. Whatever the end price is it will reflect really the cost of distribution and the cost of generation.

Much of the NEM now is privatised. The benchmark comparison, for instance done as recently as yesterday - the Australian Energy Regulator established in their benchmarking studies the privatised networks of South Australia and Victoria were more efficient than the ones in New South Wales and Queensland.

That indicates that the privatised networks are not a big factor in the end retail price. In the case of generation the biggest factor will be what you sources of generation are. At the moment, for instance, Tasmania has largely hydro-generation. As I said, South Australia has tended to have higher cost sources of generation. At the moment, the wholesale energy price in New South Wales is quite low because we have an oversupplied market with lots of black coal, and now the carbon price has come off. There is a range of factors. Remember, whilst there is a National Electricity Market there are regions within that market, and most of the wholesale generation trading occurs within those state boundaries.

There is a range of factors influence the price comparisons between the states. We never sell retail competition and pricing simply on the basis of cheaper outcomes, we sell it on the basis that customers have power choice. You get more innovation, and in the end, if you want to have that, the important thing is you have cost-reflective tariffs.

If you have a look at the Western Australia electricity price, it might look okay. But if you are providing \$700m or \$800m in subsidy a year because you have a dealing with your legacy of a 15-year tariff freeze, that is not really saying that is not a good tribute to state ownership in Western Australia. The industry is overwhelmingly state owned, because it has to be, because it is not economic.

At the end of the day, what Victoria and South Australia have shown is that privatised industry will deliver the service just as reliably as the public sector will. The networks, by benchmarking, have established to be more efficient. But in the generation market - private or public - it is a competitive market structure that is going to deliver you the best outcomes, rather than any considerations around ownership.

**Mr WOOD:** A general question about networks. Who owns the networks in Victoria, South Australia, Queensland and New South Wales?

**Mr O'REILLY:** At the moment, in New South Wales they are owned by the state government, although the current government has a policy of selling 49% of those networks if they are elected in March next year.

In Queensland, the networks are still in government ownership, although the government has stated it will review that, and possibly lease them, after the next election if they are successful.

In Victoria, going back to the Kennett years, there are five major electricity networks in Victoria and they are all privately owned, in some cases by listed companies such as Spark Infrastructure. There is a combination of private capital which is on the ASX and some foreign ownership.

In South Australia, SA Power Networks is owned largely by some foreign investors.

At the end of the day, it comes down to the fact that the ownership has been a mix of government ownership, offshore ownership, Australian shareholders. However, what does not change on the east coast is those regulated network charges are regulated by the Australian Energy Regulator on the same basis and comparisons, whoever the owners are.

From a consumer's point of view, they can be fairly agnostic in ownership because it does not change the terms on which the prices will be set, which will be done by the independent Australian Energy Regulator based on the same methodologies, whether the networks are publicly or privately owned.

**Mr WOOD:** In the Territory, we have one owner of the network. Obviously, there are advantages in that because you simply have one person to maintain it. In Victoria, you are saying there are five owners of the network, which originally would have belonged to the state electricity commission. Do you run into problems with trying to have multiple owners of networks that cause a less efficient use or maintenance of that network, which then affects the price of electricity you sold it for?

**Mr O'REILLY:** Going back to the original rationale for breaking them up, there is a fair degree of benchmarking and comparison of the efficiencies of networks within Victoria. Studies done by the regulator does not establish that they are any less efficient as a result of it being disaggregated between a number of networks in that state. Of course, Victoria has the highest population density of any state and some efficiencies come from that. It really is a matter for the government if it chooses to own the network or privatise it with whatever structure they want. Whether it is with one owner or multiple owners is up to them. It does not change how the prices are set and how the networks are regulated under the National Electricity Law and that is by the Australian Energy Regulator.

**Mr CHAIR:** Thanks for that, Cameron. The member for Barkly will ask one more question because we have run out of time.

**Mr McCARTHY:** How realistic is it for the private market energy retailer to run a system in the Northern Territory over 70 remote communities operating on a community service obligation?

**Mr O'REILLY:** It is really a matter for the Territory and what type of market they want. I have two members who have shown enough interest in the Territory to get licences and compete there. You have a good economy. I would say it is easier where there is a certain degree of scale, and that is obviously your immediate focus. That is the Darwin/Katherine wholesale market. What we have seen in Victoria is plenty of competition in regional areas as much as there is in urban areas. It is the same in New South Wales.

The fact is there is commercial interest and that is why we have submitted to this inquiry and why I am making this presentation today. We have a couple of members who have already shown enough interest to say, 'If the Territory gets the conditions right we want to compete there'. There are lots of people and there is electricity use as well. You have some large customers and there is always a strong interest in our industry in obtaining large customers.

**Mr McCARTHY:** I agree with that, there is definitely the scale issue. I am talking about the bush and a massive geographical area with a small population base and huge climatic challenges. What is your advice to government,

which is going down the road of the private market delivery model - I live in the bush - and how they will handle the rest of us who live in the bush?

**Mr O'REILLY:** We are giving feedback from our experience on the east coast. I hope there are some useful insights in that. I do not feel close enough to give direct advice to government on what the right approach is.

You have a better understanding of your market than we do. We have, hopefully, a good understanding of what makes competition and choice successful. There have been proven examples that competition does not have to be confined to urban areas. If there are small pockets - I understand the Territory is unique and you, as parliamentarians, are best placed to make decisions about what is best for your constituents not us.

**Mr CHAIR:** We will have to call it quits there, Cameron. Thank you all for your time today. I am sure we will come back with further questions at some stage.