



LEGISLATIVE ASSEMBLY OF THE NORTHERN TERRITORY

12th Assembly

Committee on the Northern Territory's Energy Future

Public Hearing Transcript

9.45 am – 10.00 am, 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

Jacana Energy

Witnesses: Mr Noel Faulkner: Board Chairman
Mr Stuart Pearce: Chief Executive Officer

Mr CHAIR: Thank you for coming today. On behalf of the committee, I welcome everyone to this public hearing on electricity pricing options. I welcome to the table to give evidence to the committee today from Jacana Energy Mr Noel Faulkner, Board Chairman, and Mr Stuart Pearce, Chief Executive Officer.

Thank you both for coming before the committee. We appreciate you taking the time to speak to the committee today and look forward to hearing from you. This is a formal proceeding of the committee and the protection of parliamentary privilege and the obligation not to mislead the committee apply.

This is a public hearing and is being webcast throughout the Assembly's website. A transcript will be made for use of the committee and maybe put on the committee's website. If at any time during the hearing you are concerned that what you will say should not be made public, you can ask the committee to go into closed session and take your evidence in private. I will ask each witness to state their name for the record and the capacity in which they appear. I will then ask you to make a brief opening statement before proceeding with the committee's questions.

Could you please both state your name and the capacity in which you appear.

Mr FAULKNER: Thank you, Mr Chair. Mr Noel Faulkner, Chairman of Jacana Energy.

Mr PEARCE: Mr Stuart Pearce, Chief Executive Officer of Jacana Energy.

Mr CHAIR: Noel, would you like to make an opening statement?

Mr FAULKNER: Thank you, Mr Chair. I am mindful of the time we have available so just a few brief comments. First, a little about myself, I have 28 years in the electricity industry, CEO of three or four electricity utilities in Queensland and Victoria, about seven or eight years in water utilities and about eight years in local government.

Mr Stuart Pearce has 20 years retail energy experience, most recently as General Manager Retail Strategy for Energy Australia based in Melbourne. Stuart's recent knowledge and experience in the retail sector in the electricity utility business is of upmost importance in the future success of Jacana Energy. Stuart has a lot to add in the deliberations of this particular committee.

I will make a couple of general comments about the matter before the committee. First, if I could reinforce the fact of the cost build-up of the tariffs that are applied to customers of Jacana. About 60% of that cost flows from the cost of generation, about 38.5% from network, so the retail side of the cost equation is only approximately 1.5%.

Three or four key issues need to be considered in the deliberation of the committee. First, as you would be aware, it is important not to forget the end-use customer. Any tariff structures that are being considered should be simple, easy to understand, and introduced only after an appropriate level of communication and consultation with the end-use customers who are going to be affected.

There might even be a need for some pilots to be undertaken prior to full-scale introduction of any tariff changes, and potentially, some sort of price path if the committee is thinking about introducing any changes.

The second important point is consideration of a move to cost-reflective pricing. It is the old demand charge versus the consumption charge. Most customers' charges, under the 750 MW/h consumption fee, are based solely on consumption. But it is not consumption that drives the cost of the electricity system, it is demand. That is the same for a lot of infrastructure. A lot of infrastructure investment is made to meet requirements which are only for two or three hours a day.

It is demand versus consumption. Time-of-use tariffs are an important issue to consider as well. There is the old chestnut of the inclining versus declining block tariffs. A declining block tariff only encourages further consumption over a high-demand period, which in turn drives increased investment in the network.

The third point I mention is customer equity. We need to make sure each customer meets their appropriate level of the costs associated with supplying the customer base in general and to the extent that is possible, eliminate cross-subsidies between customer classes.

Another one that has been around for a while that only applies to major industrial and commercial customers is power factor oppression. I am sure that is something that has been mentioned already today by PWC because it is significant for the network business.

The final point I make is to suggest the consideration of an appropriate feed-in tariff for PV and make that cost-reflective as well. At the moment the feeding tariff for PV covers network, generation and energy. Whereas the

network side of the business in particular currently gets no benefit from PV installations because there is obviously no storage capacity yet available, that situation is changing. The cost of battery storage and the technology associated with battery storage is improving significantly. But at the moment it is just not available.

They are the only comments I would like to make, Mr Chair. Stuart, do you have anything to add?

Mr PEARCE: No, not really. I think that covers the key points or principles.

Mr CHAIR: In the proposed transition from a wholesale electricity market from 1 January, what advantages and disadvantages do you see for yourselves of the market pool pricing arrangements over the bilateral agreements that are there now?

Mr FAULKNER: I will hand over to Stuart for that one.

Mr PEARCE: Just a more structured approach to understanding what the true cost of generation is. The arrangements that will be in place on 1 January will be, as you mentioned, a transitional step towards a more effective wholesale market down the track. It will give all the parties an opportunity to test out processes and systems and get used to where the market is headed. The real benefit will come when there is a more fully competitive wholesale market in place, which will be probably 18 months down the track.

Mr CHAIR: In your opening remarks you mentioned communication and education. I presume you are talking about the domestic users. All this talk about wholesale pricing etcetera: how will that be communicated to and understood by domestic users?

Mr PEARCE: Small-scale customers tend to get a bundle price and do not see the components that go to make up the bill, you are quite correct. It is a difficult concept to explain to the small business and the residential customer. It is certainly a concept industrial and commercial users are quite comfortable with, but customers need to understand how the wholesale market works.

Noel's comments were more around the flow-on effect of introducing different retail pricing structures to end customers - certainly the small end of the market is more interested in what it means for them and probably less interested in the components that go to make up the bill and how those components are determined. Noel's comments are more around how do we communicate things like time of use tariffs, demand charges and some of those concepts to residential and small business customers.

Mr FAULKNER: I think the average domestic customer would be oblivious to the wholesale market and the impacts of the wholesale market to be quite honest. The main thing to manage would be an expectation that prices might potentially decrease as a result of the introduction of the wholesale market, whereas the best you could hope for would be constraint in price increases rather than decreasing prices.

Ms MANISON: In relation to your opening statement, for a retailer you have just made it very clear that your activities have very little impact on what it costs to provide electricity to customers. It is really the generators and the network providers that have a big impact on what it costs a customer to buy that electricity. However, you are the interactive face with the customer on a day-to-day basis as the retailer, and education around pricing - if any price structures or tariff structures are to change in the future - Power and Water has made it clear it is looking at the network tariff structures, yet you interact with the customer day-to-day and education would be a very big role in helping customers understand peak demand versus off-peak demand if pricing structures were to change around those two factors.

As a retailer, how do you go about managing that interaction with the customer given it is the actions of a generator and the actions of the network provider that will have the biggest impact on cost? Do you have agreements with Power and Water, the generator, so you can conduct your business? It strikes me that you would be the one with the biggest burden regarding education and helping a customer understand.

Mr FAULKNER: There is nothing we can do in isolation; it needs a close liaison with the network provider and also the generator. The other issue I will let Stuart comment on because he has mentioned it quite a few times now, and that is the timing and the way tariffs are determined and the timing of price increases.

The new generating prices will come out shortly. Network prices come out at a different time, and then the price determination is a separate time again. There is no correlation between the various prices changes. It does not really matter while you have a pricing order in place. Well, it matters but it is not as essential. When you have a pricing order in place but want to build up your tariff to make it cost-reflective, it is essential you get those costs aligned to feed into the final price for customers.

Mr PEARCE: Yes. In regard to the comments around costs and the wholesale market and where things are potentially headed, the market construct probably is not any different to any other jurisdiction in that regard - possibly slimmer retail margins - but the outlook is with the competitive wholesale market, if there were competing generators in the market bidding into a pool, then as a retailer we would be able to source competitive bids from those generators, and potentially, put some pressure on the wholesale costs which we cannot do at the moment where there is one generator.

As you quite rightly point out in regard to network charges, typically they are set by an independent regulator. In the absence of competition, the regulator plays that role of keeping a lid on network costs. The wholesale market where you have competing generators should keep a lid on, or at least competitive tension in the wholesale component.

As Noel pointed out, our role is to bundle that competitive wholesale cost with the regulated network cost and put that into a price and a pricing structure that we would then communicate the benefits of to our end customers. At the end of the day, that is our role: to source competitive generation to access the network charges and put appropriate retail costs on top of that and make it a simple, fair retail price for our customers to receive.

Ms MANISON: Are you in discussions with Power and Water? They were talking about rolling out 1000 smart meters. Is that something you have worked with Power and Water on to see the results of that?

Mr PEARCE: Yes, we have had very preliminary discussions with Power and Water on that. That is definitely something we want to explore a lot more and something we have identified in our pricing submission. We are very keen to look at the appropriate use of feedback technology and pricing signals to put customers in more control of their own usage. In a market where cost pressures are pushing prices up, it is important to be able to put our customers in a position where they can manage their usage and have some influence over the outcome.

Ms MANISON: Thank you.

Mr CHAIR: On 1 July, the regulation of the retail energy market, other than the tariffs, will be transferred to the Australian Energy Regulator and subject to the National Energy Customer Framework. What impact is that going to have on Jacana and consumer protection in the Northern Territory?

Mr PEARCE: We look forward to those developments. It puts more structure and transparency around how decisions are made and relationships in the market. It also gets us into line with other jurisdictions as well which, from a competitive perspective if we are trying to get competition in this market, it is important that it looks like the market other retailers and generators are familiar with.

We very much look forward to those developments and think it will make it a lot easier and more transparent for us to manage relationships, not just with our customers but also with other parties such as the generator and the distributor. It will also help explain and manage the relationship between the end customer and the network business, the end customer and the retail business, and manage the relationship between the network provider and ourselves, which is an important part of competitive markets.

Mr McCARTHY: In the retail business, to grow it you are looking at critical mass of customers - yes?

Mr PEARCE: For our business?

Mr McCARTHY: Yes, the retail business in that energy sector. Mr Faulkner said it is such a small percentage of the triple partnership. So you are looking at a critical mass of new customers to be able to grow that sector?

Mr PEARCE: Well, we are the dominant retailer, so it is very hard for us to grow our market share any further than it is. As the dominant retailer we will lose market share. That is what happens in competitive markets.

The way this market needs to operate, which is probably different to larger markets where you have three to five million customers, is about getting competitive tension in the key parts of the cost chain. For us, that is about doing what we can to support the development of a competitive wholesale market. It is about us being involved in ensuring that there is visibility and transparency around how network prices are set, and for us it is about being as efficient as we can in our own operations to deliver the level of service that our customers expect us to deliver.

It is very hard for us to generate economies of scale when we are in a market with 90 000 customers. It is a different business model and we have to look at managing those other parts of our cost base.

Mr McCARTHY: In the Territory it would be a very challenging environment.

Mr PEARCE: It has its challenges, yes.

Mr FAULKNER: If I could make a few comments here. Firstly, in relation to the introduction of the national rules into the Territory market, we need to be careful with the elements we accept in the Territory. There needs to be a cost-benefit analysis mindful of the jurisdiction and the market, and only introduce those elements that are fit-for-purpose in the Territory market. I am sure that is something we will be looking at.

Stuart and I were chatting on the way up because the trends at the moment are for - it gets back to the matter I raised previously about the demand versus the consumption - but the trends for consumptions **are -** not necessarily in the Territory market but more **holistically -** the consumption, so the energy used tends to be dropping off while the demand component is increasing. With the current tariff structures in particular, that has implications for any retailer anywhere in Australia. **It may well be -** I spoke before about the battery technology and how battery technology is improving. That could reach the stage where PV is associated with appropriate and cost-effective battery technology and it takes the pressure off the network side of the business, takes pressure off the generator, but impacts significantly on the retailer's revenue and margin.

One thing a lot of retailers are looking at is alternative products to compensate for the reduction in energy consumption.

Mr McCARTHY: In a broad term about developing northern Australia with a customer base coming online more towards agriculture, pastoral and fishing, that is not the high energy user that will give you more brokerage?

Mr FAULKNER: Not unless there are value-added activities associated with the primary activities. That is where we would get some additional benefits for the retailer.

Mr McCARTHY: That is the: don't export the bulk rock phosphate; turn it into super phosphate. That is the value adding we need to focus on?

Mr FAULKNER: Food processing associated with agriculture.

Mr PEARCE: For us it is about supporting competition in generation, greater transparency around network prices and making sure we have a business model that is as efficient and low cost as it can be to deliver the services the customer expect of their retailer. Customer's expectations are changing with technology. People expect services to be available at different times through different channels and that is something we need to look at as well.

Mr WOOD: Can a large company avoid you? Can they go straight to Territory Gen and the network to buy power? They might be a big industrial company.

Mr PEARCE: As long as they have a licence.

Mr WOOD: That is what they need?

Mr PEARCE: Yes.

Mr WOOD: Is that a threat to your business if people are allowed to go down that path?

Mr PEARCE: Competition is what we are about. We are comfortable with competition, and if we cannot deliver the service or show we can deliver value-added services to our customers then we lose those customers. The pressure is on us to prove we add value and the customer should be dealing with us.

Mr FAULKNER: It is very rare you will see that happen. Thinking back to other companies I have been involved with interstate, I could probably think about one or two in Victoria where that has happened. It generally involves the construction of distribution lines and maintenance of those assets, and there are reliability issues associated with the maintenance and right of way. It is a pretty complex issue so it would have to be a big customer with a lot of benefit before they would think about going down that path.

Mr PEARCE: A lot of risk as well. There is a lot of risk involved in dealing directly with the generator. One of the benefits of having a large load is we can spread those risks across the whole customer base. If you are just a single customer dealing directly with the network, particularly in a competitive wholesale market, you need to make sure you have the appropriate risk management capabilities, techniques in place to manage those risks. Frankly, that is what potentially keeps a lot of larger customers out of those sorts of arrangements.

Mr CHAIR: When we talk about renewable energies, are there sufficient accredited renewable electricity generators in the Northern Territory to meet our obligations under the renewable energy target scheme?

Mr PEARCE: We purchase RECs from a variety of sources. They do not have to be Territory-specific. Our obligation is to surrender certificates consistent with the percentage of our load we need to. We purchase RECs off the market. If the question is whether we can purchase 100% of our RECs from the Northern Territory, I do not know what the answer to that is. We purchase them off the market. As to the origin of them, I am not sure where those RECs come from - that is not how the market works.

Mr McCARTHY: Can you explain a REC to me?

Mr PEARCE: I can, but how long do we have?

Mr McCARTHY: Very quickly, because my next question would be why are we not investing in the Territory, particularly with the opportunities of developing regional and remote areas and Indigenous employment? Why is the Territory still purchasing whatever the definition of a REC is, interstate?

Mr FAULKNER: I will let you explain it. To the first point, you need to understand the commercial arrangements are different from the physical arrangements. The way the money flows is different from the way the electrons flow.

Mr PEARCE: Definitely. There are generators in the Northern Territory that produce RECs and sell those RECs to third parties we buy those RECs from. Noel is quite correct. The commercial arrangements are we purchase RECs from third parties. Those third parties have sourced those RECs from various suppliers which include generators from the Northern Territory, Queensland and New South Wales. There are large generators producing RECs in the Northern Territory.

RECs are certificates that retailers need to surrender, in proportion to the amount of energy they take off the grid. We have to forecast what our load is likely to be 12 months in advance. Through the clean energy regulator, there is a percentage of that load that calculates the number of renewable energy certificates we have to surrender at different times of the year. Those RECs are generated by large-scale generation activities - so renewable energy plants, wind farms, landfill, biogas, solar. There are small-scale certificates which we need to surrender which are generated by mostly rooftop PV.

So when rooftop PVs are installed in Alice Springs, for instance, that activity generates small-scale technology certificates. They are sold into the market when we purchase RECs from the market. I daresay part of that is being contributed by solar PVs in Alice Springs, or renewable energy plant in Darwin.

Mr FAULKNER: I must admit I was surprised at the level of penetration of PV in the Territory. I do not know the absolute numbers, but I know how much the feed-in tariff costs us. It is about \$1.5m per annum which is not all that significant. There is an opportunity for additional PV in the Territory, there is no question about that. Having said that, that \$1.5m was half that 12 months ago. So there is a significant increase over the last 12 months in the number of installations.

Mr McCARTHY: When you talk about rooftop PVs, how does the one-to-one ratio affect you?

Mr CHAIR: It is a pretty open question. It has given you the floor.

Mr FAULKNER: Yes, a pretty open answer. It puts a fairly onerous obligation on us as a retailer because the benefit that we derive from a rooftop PV is the avoided cost of generation, which is a significantly less than the cost of the total tariff. In a one-for-one we are talking about 25c or 26c per kilowatt hour and the avoided cost of generation is probably more like 6c to 8c, which is in line with feeding tariff schemes in most other jurisdictions.

The problem with these things, with FiTS in particular, is if you set them too low - this is a bit of an infant industry argument - you will not get people investing in them, if you set them too high it creates significant cross-subsidies and a drain on the public purse. That is why, in other jurisdictions, the gross feed-in tariffs scheme have basically being closed. They are now net schemes that typically are based on either a voluntary fit set by the retailer or a mandated fit equivalent to the avoided cost of generation.

We are in the opposite position; it is the gross feed-in and a one-for-one. We are paying out 25c and are getting the benefit of 6c to 8c.

Mr CHAIR: What is the different between gross and net?

Mr PEARCE: With gross your payment is based on the full amount of generation your PV produces. Net is - the amount you produce is netted off your own consumption, and if there is anything left that you export into the grid you get the payment on the net difference between what you have produced and what you have consumed.

Mr CHAIR: Your website says it is set by the regulator. Who sets that feed-in the tariff?

Mr PEARCE: Good question. We inherited the feed-in tariff. We have only being operating for nearly four months and that was a FiT that was set quite some time ago. I do not think it has ever been reviewed and the issue is the difference needs to come from somewhere. The difference between 6c and 25c is basically coming from non-PV customers.

Mr CHAIR: Is it cross-subsidised?

Mr PEARCE: It is cross-subsidisation. We have probably 2500 people getting the benefit of the FiT and probably around 83 000 customers carrying the cost of that. That is why setting this prices needs to be - it is not a precise science but it needs to be mindful of the fact that too low you will not get the results you are expecting and too high and you create cross-subsidies and a drain on the public purse.

As Noel mentioned, the amount we pay in fits has doubled in the last 12 months. That is something we probably we would not be comfortable with going forward.

Mr CHAIR: Who sets the FIT?

Mr PEARCE: That was set 10 years ago and was probably set internally by Power and Water Corporation. I am not 100% sure, but I do not think it is independently set.

Mr CHAIR: We are running out of time. Are there any urgent questions?

Mr WOOD: Regarding PV on the roof, you say it is cross-subsidised by those who do not have panels on their roof. If the network people decided to charge PV people using their network would that stop cross-subsidisation?

Mr PEARCE: If they were to charge people for ...

Mr WOOD: If someone with solar on their roof uses the network they use it for free. I find it difficult to believe someone can complain they are not getting enough money for solar panels on their roof but do not pay to use Power and Water's network. They realise that they do not, but is that not where the cross-subsidy is occurring?

Mr PEARCE: Yes, that is certainly part of the cross-subsidy.

Mr FAULKNER: The issue is installation of the PV does not reduce the cost of providing the network services because you still have to have the network there as backup. If it is a cloudy day or the PV goes down, the network has to be there to provide the energy and the capacity at the peak periods.

Mr WOOD: You are sending your excess electricity through the network - is that correct? Is that what happens?

Mr FAULKNER: That is what happens when the PV is generating, yes. In investment in infrastructure, having PVs does not help. The only time that would help, as indicated previously, is if battery or storage technology gets to the stage where they can store while they are using excess and then use it when they are not generating enough, during peak periods.

Mr WOOD: The batteries are not cheap.

Mr PEARCE: They are getting cheaper.

Mr FAULKNER: The technology is improving, they are getting cheaper. But you are right, it is not there yet.

Mr CHAIR: We will just have one more question.

Ms MANISON: One clarification, just to be clear. You have inherited the FiT? The feed-in tariff for solar, for domestic customers, is to change. Is that something that Jacana would change? Who else would make that decision about changes to the FiT?

Mr PEARCE: We would. In the first instance, we would look at what we think would be appropriate and how we would go about doing that. That is with all prices.

Ms MANISON: So, ultimately, you own that decision about what that FiT is?

Mr PEARCE: We make recommendations, but at the end of the day it is a question for the shareholder to decide what prices actually get ...

Ms MANISON: Ultimately, the shareholding minister in the government?

Mr FAULKNER: It is a policy decision of the level of subsidy to encourage those installations, yes.

Ms MANISON: Thank you, I appreciate that clarification.

Mr CHAIR: Before we finish, is there anything else you fellows would like to add?

Mr FAULKNER: In terms of the smart meters that Stuart mentioned previously. With another hat on – in a water utility, we have just rolled out a pilot for smart meters for water to about 20 000 customers. It has been extremely successfully. The software is available - the technology is available now where they can go in and look at their instantaneous demand and manage that demand to suit their energy bill. They can go in and see the cost per hour. That sort of technology is available. It sounds as though it is something PWC has been looking at already as well. We encourage that.

Mr CHAIR: Thank you very much for coming today. I am sure we will speak again.

Mr FAULKNER: We look forward to it. Thanks very much for your time.

Mr PEARCE: Great. Thanks for having us.