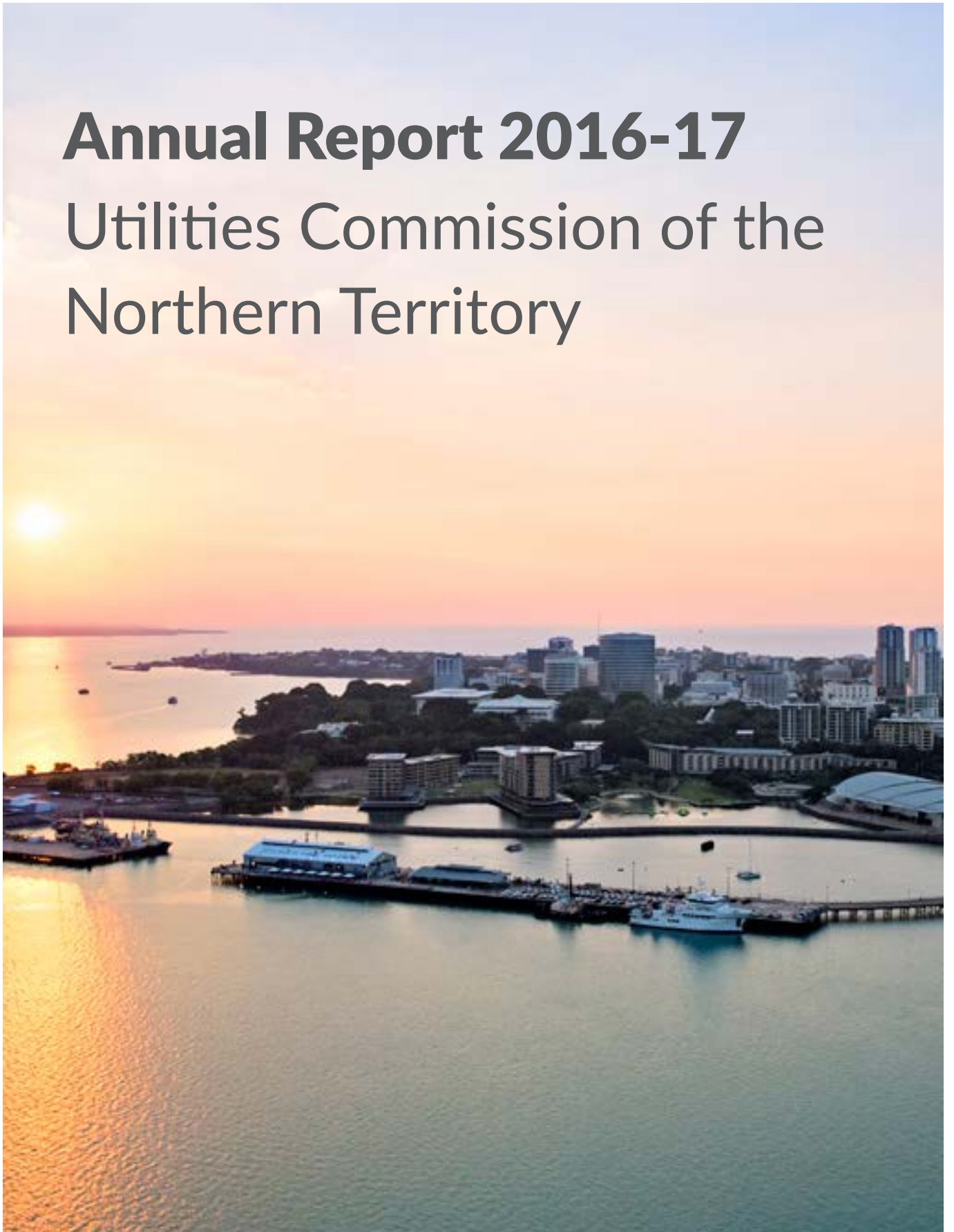


Annual Report 2016-17

Utilities Commission of the Northern Territory



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Inquiries

Inquiries may be directed to the Utilities Commission at any of the following:

GPO Box 915

DARWIN NT 0801

Telephone: +61 8 8999 5480

Email: utilities.commission@nt.gov.au

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Glossary

Term	Definition
ACCC	Australian Competition and Consumer Commission
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
CBD	central business district
CFAR	Compliance Framework and Reporting Guidelines
Commission	The Utilities Commission of the Northern Territory
DPO	Darwin Port Operations Pty Ltd
EDL	EDL NGD (NT) Pty Ltd
EIP Code	Electricity Industry Performance Code
electricity network	An electricity network as defined in the <i>Electricity Reform Act</i>
EPO	Electricity Pricing Order
ERM	ERM Power Retail Pty Ltd
ERS Code	Electricity Retail Supply Code
ESS Code	Electricity Standards of Service Code
GEMCO	Groote Eylandt Mining Company Pty Ltd
generation	Generation of electricity as defined in the <i>Electricity Reform Act</i>
GSL Code	Guaranteed Service Level
IES	Indigenous Essential Services
I-NTEM	Interim Northern Territory Electricity Market
IPP	Independent Power Producer
ISO	Isolated system operations
Jacana Energy	Power Retail Corporation, a government owned corporation established in accordance with the <i>Government Owned Corporations Act</i> and trading as Jacana Energy
LNG	liquefied natural gas
MWh	Megawatt hours
NEL	National Electricity Law
NEM	National Electricity Market

NER	National Electricity Rules
NPD	Network Price Determination
NTEM	Northern Territory Electricity Market
NTC&PC	Network Technical Code and Network Planning Criteria
PSR	Power System Review
PV	photovoltaic
PWC	Power and Water Corporation, a government owned corporation established in accordance with the <i>Government Owned Corporations Act</i>
QEnergy	QEnergy Limited
Regulated power systems	Refers to the Darwin-Katherine, Alice Springs and Tennant Creek power system
Rimfire	Rimfire Energy Pty Ltd
SAIDI	System Average Interruption Duration Index – the average number of minutes that a customer is without supply in a given period
SAIFI	System Average Interruption Frequency Index – the average number of times a customer’s supply is interrupted in a given period
SCTC	System Control Technical Code
SMMP	Safety Management and Mitigation Plan
SSG	Secure System Guidelines
structural separation	The structural separation of PWC’s retail and generation business units into Jacana Energy and Territory Generation in accordance with the <i>Government Owned Corporations Act</i> , effective from 1 July 2014
System Control	The System Control business unit of PWC
Territory Generation	Power Generation Corporation, a government owned corporation established in accordance with the <i>Government Owned Corporations Act</i> and trading as Territory Generation
The Minister	For electricity, water and sewerage, the Regulatory Minister (the Treasurer) as determined by the Administrative Arrangement Orders For ports, the Minister for Infrastructure, Planning and Logistics
UFLS	under frequency load shedding
WSPO	Water Supply and Sewerage Services Pricing Order

Charles Darwin Centre 19 The Mall DARWIN NT 0800

Postal Address GPO Box 915 DARWIN NT 0801

Tel (08) 8999 5480 **Web** www.utilicom.nt.gov.au

The Honourable Nicole Manison MLA

Treasurer

GPO Box 3146

DARWIN NT 0801

Dear Treasurer

In accordance with section 35 of the *Utilities Commission Act (Act)*, I am pleased to provide you with the Annual Report of the Utilities Commission of the Northern Territory (Commission) for the financial year ended 30 June 2017.

The report covers:

- the administration of the Act during the 2016-17 year; and
- the activities of the Commission under the *Electricity Reform Act*, *Water Supply and Sewerage Services Act*, and the *Ports Management Act* during the year.

The Commission notes the Act provides that a copy of this report is to be tabled in the Legislative Assembly within six sittings days of receipt.

Yours sincerely

A handwritten signature in black ink, appearing to read "Patrick Walsh".

Dr Patrick Walsh

Utilities Commissioner

30 September 2017

Commissioner's Overview

I am pleased to present the Annual Report for the Utilities Commission of the Northern Territory (Commission) for the year ending 30 June 2017.

During the year, the Commission consisted solely of myself as the Utilities Commissioner, a position to which I was re-appointed for a second five-year term on 28 October 2016 in accordance with the *Utilities Commission Act*. The appointments of Associate Commissioners Peter Caldwell and Mike Robson expired on 30 June 2016. I thank both Associate Commissioners for their dedication to the work of the Commission since 2009, and their support to me in my role as Utilities Commissioner.

A major priority for the Commission in 2016-17 has been its role as the independent economic regulator for the Port of Darwin following the appointment of a private port operator for the port in November 2015. This role involves the monitoring of standard prices charged by the port operator and regulation of access to prescribed services.

In March 2016, the private port operator, Darwin Port Operations Pty Ltd (DPO), submitted a draft Port Access Policy to the Commission for approval in accordance with the *Ports Management Act*. The Commission worked closely with DPO and other stakeholders over an extended period of time to ensure the approved Port Access Policy met the requirements of the legislative framework. The Commission approved the Port Access Policy and published its Final Decision on this matter on 30 June 2017.

The Commission continued to provide advice to the Government during the year on possible reform of electricity industry regulatory arrangements for the Territory, and in particular on adoption of relevant provisions of the National Electricity Rules (NER). Work is underway to develop appropriate arrangements for the Territory wholesale market, power system security, reliability and planning, metering arrangements, and customer protections. As part of its ongoing role in licensing participants in the electricity industry, the Commission is considering arrangements for the introduction of large solar power stations into the Territory's power system.

An important aspect of reform in the electricity industry has been the structural disaggregation of Power and Water Corporation (PWC) and the establishment of Jacana Energy and Territory Generation from 1 July 2014. The Commission has observed greater transparency and clearer responsibilities evident in the roles and interactions between the separated entities in providing efficient and reliable electricity to end-use consumers.

2016-17 also marked the entrance of a second standalone generator to the Territory's electricity market. On 30 June 2016, the Commission granted licences to EDL NGD (NT) Pty Ltd (EDL) for generation and retailing of electricity. EDL started operation as a standalone generator in June 2017 through its pine creek power station. The entrance of EDL marks an important step in the evolution of competition in the wholesale market. However, the Commission notes further changes are necessary to increase competition and ensure a reliable and secure supply of energy is maintained for customers.

The Commission strongly supports the objective of establishing a role for national bodies in the Territory's electricity industry, including the Australian Energy Regulator (AER), Australian Energy Market Commission (AEMC) and Australian Energy Market Operator (AEMO), where efficient to do so. During 2016-17, the AER commenced work on determining revenue requirements for

prescribed networks operated by PWC in accordance with the Territory amended version of the NER. This role had formerly been undertaken by the Commission.

The Commission continued its focus on contributing, where possible, to improvements to the reliability and security of the Territory's power system by encouraging improvements in incident reporting by System Control as well as engaging AEMO to assist with the production of the 2015-16 Power System Review (PSR). The Commission acknowledges the significant work undertaken by PWC's System Control and networks' business units, and Territory Generation to improve power system performance in the Darwin-Katherine region.

The Commission will continue to liaise with relevant electricity licensees in 2017-18 to ensure any major incidents are appropriately investigated and recommended actions implemented for sustained and measurable improvements in power system performance.

During 2016-17, the Commission continued to focus on ensuring licensees maintain adequate systems and processes to safeguard compliance with the relevant regulatory obligations. Following receipt of the Annual Compliance Reports in October 2016, the Commission worked closely with licensees to review and consider the reported compliance breaches and licensee compliance registers. In February 2017, the Commission published its second Annual Compliance Report, which provides a summary of compliance reports received from the licensees during the year.

In January 2017, the Commission published an audit report concerning PWC's compliance with the 2014 Network Price Determination (NPD). The review was initiated following the Commission being informed of a material breach of the 2014 NPD in relation to standard network connections. The Commission required the breach to be rectified by PWC as a priority. The Commission will continue to monitor PWC's compliance through regular audit and review and will continue to work with PWC to ensure it complies with its regulatory obligations.

During 2016-17 the Commission continued to make, and monitor the operation of, codes and rules regarding the conduct or operations of regulated industries and licensed entities. This included a review of the Trade Waste Code (in the water and sewerage services industry), continual work on the Electricity Retail Supply Code, and the proposed merging of the Electricity Standards of Service Code and the Guaranteed Service Level Code to form the Electricity Industry Performance Code. The Commission is committed to making sure appropriate consultation occurs throughout such code developments.

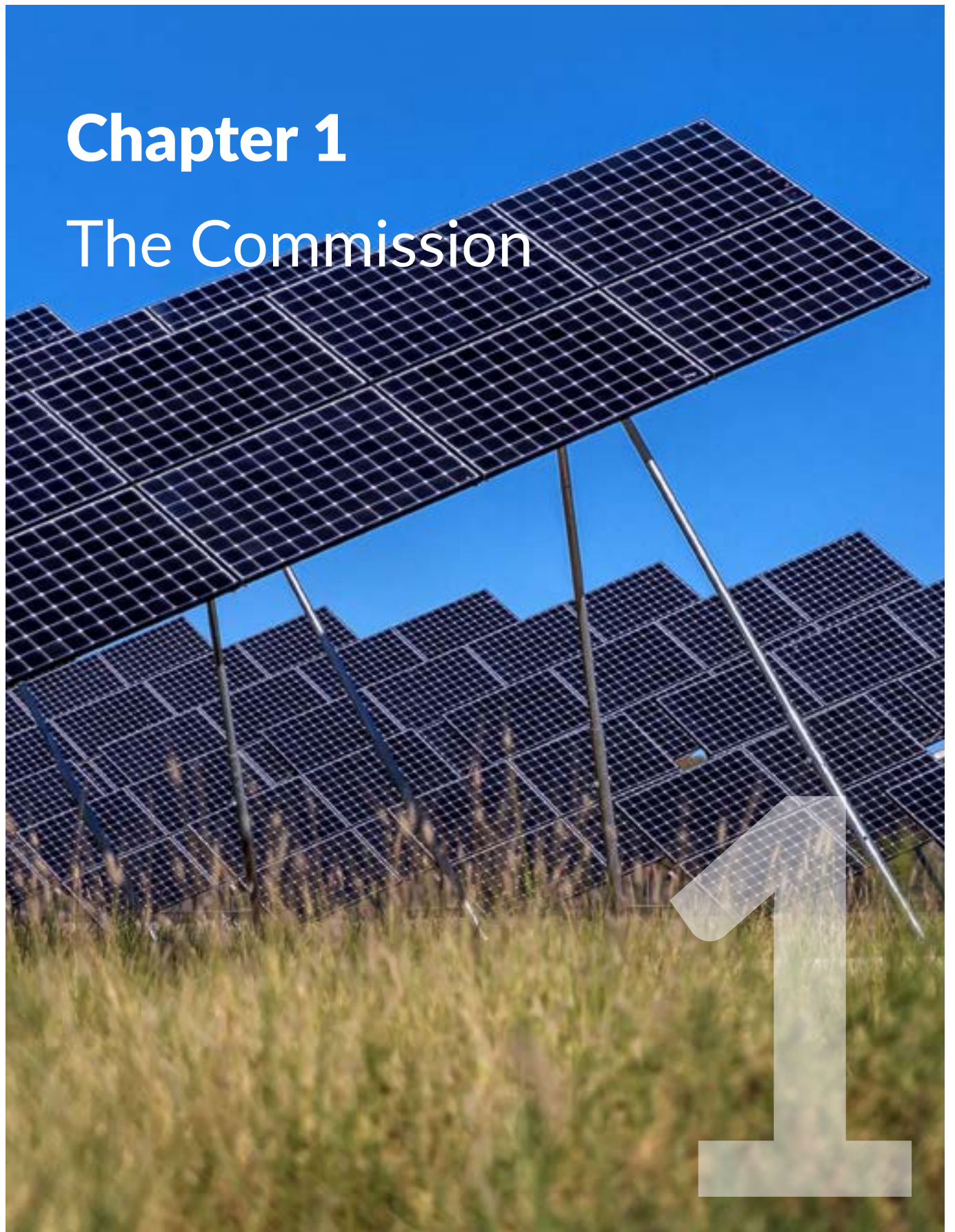
In February 2017, the Director of the Commission, Vanessa Sutcliffe, took up a position as Director Commercial and Contracts in the Department of Treasury and Finance. Vanessa led the staff of the Commission during times of extreme change in the regulated industries in the Territory and did so with incredible effectiveness and a high level of leadership and professionalism. I thank Vanessa for her five years of dedicated service to the Commission and welcome Justin Martyn as the new Director of the Utilities Commission.

I also thank the various stakeholders who have engaged with the Commission during its various regulatory processes in 2016-17. The Commission places the highest priority on effective stakeholder engagement.

Dr Patrick Walsh
Utilities Commissioner

Chapter 1

The Commission



Introduction

The Utilities Commission of the Northern Territory (Commission) was established in 2000 by the *Utilities Commission Act*.

The object of this Act is to create an economic regulatory framework for regulated industries that promotes and safeguards competition and fair and efficient market conduct or, in the absence of a competitive market, promotes the simulation of competitive market conduct and the prevention of the misuse of monopoly power.

The Commission is an independent statutory body with defined roles and functions for economic regulation. The industries that the Commission currently provides regulatory services to are the electricity, port, water and sewerage industries.

Over the last few years the Commission's responsibilities have changed. From 1 July 2015 a component of the Commission's electricity industry's responsibilities were allocated to the national energy regulator, the Australian Energy Regulatory (AER). Additionally, in 2015 the Commission's role was expanded to include economic regulation for declared ports.

Regulated Industry Legislative Overview

Electricity

The relevant industry regulation Acts applying to the electricity supply industry are the *Electricity Reform Act*, the *Electricity Networks (Third Party Access) Act* and National Electricity Law (NEL) and Rules (NER) as applied in the Northern Territory. The Commission has responsibilities under the *Electricity Reform Act*.

From 1 July 2015, a component of the Commission's responsibilities was allocated to the national energy regulator the AER. Specifically, responsibility for network price regulation and oversight of network access in accordance with the *Electricity Networks (Third Party Access) Act* and the Network Access Code was transferred to the AER. The main impact is that the AER is now responsible for undertaking network services determinations. The AER is working on the next determination with Power and Water Corporation's (PWC) network business, which is due for completion and implementation by 1 July 2019.

The *National Electricity (Northern Territory) (National Uniform Legislation) Act* commenced in the Territory on 2 July 2015. This applies the NER, modified by Territory regulations under this Act. The Territory is undertaking a staged approach with parts of the NER, as modified, being progressively applied from 1 July 2016. Only those sections of the NER required for the AER to undertake the network services determinations have been adopted to date.

Ports

The *Ports Management Act* establishes and defines the ports' access and price regulation regime for which the Commission is the economic regulator.

Water and Sewerage

The Commission is the economic regulatory under the *Water Supply and Sewerage Services Act*.

Figure 1 provides an overview of the existing regulatory framework administered by the Commission for the Territory, as at 30 June 2017.

Figure 1: Legislative Framework Administered by the Utilities Commission

Legislation	Codes	Licences	Price Regulation
<p><i>Utilities Commission Act</i></p> <p>Utilities Commission Regulations</p> <ul style="list-style-type: none"> Electricity Standards of Service Code Ring-fencing Code Electricity Retail Supply Code Guaranteed Service Level Code 	<p>Developed by the Commission</p> <p>Developed by industry participants, subject to the approval of the Commission</p>		
<p><i>Electricity Reform Act</i></p> <p>Electricity Reform (Administration) Regulations</p> <p>Electricity Reform (System Control and Market Operator Functions Code) Regulations</p>	<p>System Control Technical Code</p> <p>Network Technical Code¹</p> <p>Energy Loss Factors Code¹</p>	<ul style="list-style-type: none"> Retail Licences – Network Licence Generation Licence System Control Licence Special Licences – Independent Power Producer Licence Exemptions 	<p>Electricity Pricing Order for Prescribed Customers using < 750MWh per annum</p>
<p><i>Ports Management Act</i></p> <p>Ports Management Regulations</p>	<p>Port Operator's Access Policy</p>		<p>Price Determination for price monitoring</p>
<p><i>Water Supply and Sewerage Services Act</i></p>	<ul style="list-style-type: none"> Trade Waste Code Water Metering Code 	<ul style="list-style-type: none"> Sewerage Licence Water Licence Licence Exemptions 	<p>Water and Sewerage Pricing Order²</p>

1 Prior to 1 July 2015 and the transfer of network regulation to the AER, the Network Access Code and Energy Loss Factors Code were authorised by the *Electricity Network (Third Party Access) Act*.

2 Pricing Orders are issued by the Minister. The Commission is responsible for monitoring compliance with the pricing orders, enforcement and investigation of complaints from customers in relation to pricing orders.

The Commission

Dr Patrick Walsh

Dr Walsh was appointed as the (part-time) Utilities Commissioner on 28 October 2011, with a further five-year appointment commencing 28 October 2016. Dr Walsh has served as the Chairperson of the Essential Services Commission of South Australia. He is a Fellow of the Australian Institute of Energy and has professional affiliations with the Institute of Public Administration Australia, the Association of Business Economists, the Australian and New Zealand Solar Energy Society (of which he was formerly the national vice chairman) and the Australian Conservation Foundation. Dr Walsh has held several senior positions in the energy regulation and reform area for over many years.

Commission Staff and Resources

The Commission is supported by four staff seconded from the Department of Treasury and Finance.

Commission Meetings and Decisions

The Commissioner and Commission staff meet to discuss work undertaken by the Commission, to provide direction for work and to approve decisions. During 2016-17, the Commission met nine times (six times in person and three by teleconference).

Table 1 sets out the Commission meetings during 2016-17 and the Commissioner decisions that occurred in 2016-17 are set out in Appendix A.

Table 1: Commission Meetings

Date	Commission Meeting
August 2016	5 of 2016 – Darwin
October 2016	6 of 2016 – Teleconference
November 2016	7 of 2016 – Darwin
December 2016	8 of 2016 – Darwin
January 2017	1 of 2017 – Darwin
February 2017	2 of 2017 – Darwin
April 2017	3 of 2017 – Teleconference
May 2017	4 of 2017 – Darwin
June 2017	5 of 2017 – Teleconference

Commission Funding

The Commission is funded directly from consolidated revenue. Appendix B provides a summary of the Commission's financial outcomes in 2016-17. Total expenditure for 2016-17 was \$1.20 million.

The Commission charges licence application fees and annual licence fees, which are receipted directly into consolidated revenue. Fees are fixed for a particular type of licence by the Minister and

are an amount the Minister considers to be a reasonable contribution towards administrative costs of the Commission. Total licence fee revenue for 2016-17 was \$0.48 million, which relates mostly to electricity licences.

The Commission also engages appropriate expert advice through the use of consultants and legal advice (see Appendix C for additional detail). Total expenditure on expert advice was \$0.56 million in 2016-17.

Functions

The Commission's functions and powers are defined in the *Utilities Commission Act*, with specific responsibilities regarding a particular industry assigned to the Commission by provisions in relevant industry regulation Acts.

The key regulatory functions of the Commission are set out below.

Licensing

The Commission performs licensing functions across the electricity, water and sewerage industries. Potential licence applicants have requested information and meetings with the Commission during 2016-17. However, no formal applications were received during 2016-17.

As well as providing advice to potential licence applicants during 2016-17, to further assist applicants the Commission has also published an updated licencing fact sheet on its website (June 2017).

Price and Access Regulation

While the AER has taken over the determination process for electricity, the Commission has a continued role to regulate prices charged by licence entities for providing certain monopoly services and certain services in regulated industries.

The Commission continues to monitor prices charged by Jacana Energy and PWC (regional and remote communities) in accordance with the Electricity Pricing Orders and Water and Sewerage Services Pricing Order.

[Page 30](#) of this annual report discusses an audit undertaken regarding a breach of the Electricity Pricing Order.

The Commission also monitors prices charged by the private port operator for prescribed services for the Port of Darwin. There was no change in prices of prescribed services for the Port of Darwin in 2016-17.

The Commission approved the Port of Darwin's private port operator's first Port Access Policy. The Commission continues to work on the draft Reporting Guidelines for the Port of Darwin.

Compliance

The Commission seeks to ensure and enforce compliance with and promote improvement in standards and conditions of service and supply.

For example, the 2015-16 Power System Review (PSR), published in July 2017, reports on the trends in adequacy and security of the Territory's power system. The review is a legislative requirement that informs stakeholders on the continued reliability of the Territory's power system. The PSR included a summary of the reporting information provided by market participants

in accordance with the Electricity Standards of Service (ESS) Code. As part of the PSR, the Commission monitors power system incident reporting and the progress of implementing recommendations made from reviews of previous incidents. Further information on the 2015-16 PSR is available on [page 26](#).

In March 2017, the Commission published the review of PWC's compliance with the 2014 NPD. The Commission continues to work on the reports of the Technical Audit and Spinning Reserve Review of PWC and Territory Generation. The Commission commenced the audit of PWC and Jacana Energy regarding compliance with the 2016-17 Pricing Orders.

Codes and Rules

The Commission makes, approves and monitors the operation of codes, guidelines and rules relating to the conduct or operations of a regulated industry or licensed entities.

A major workload during 2016-17 has related to the Commission reviewing the ESS, Guaranteed Service Level (GSL) and Electricity Retail Supply (ERS) codes during 2016-17.

The ESS and GSL codes are over five years old and are being reviewed together. The Commission has undertaken two consultation processes during March and July 2017.

Regarding the ERS Code review, the Commission has undertaken two public consultation processes so far.

Additionally, the Commission has worked with PWC on the Trade Waste Code. The Trade Waste Code will be formally submitted by PWC for approval by the Commission in 2017.

Complaints

The Commission has a role to investigate and help resolve complaints relating to the conduct or operations of licensed entities. The Commission did not receive any formal complaints against electricity entities during the 2016-17 year.

General Advice and Information

The Commission seek to inform licence holders, stakeholders, Government and the general public through a variety of methods.

The Commission places a strong emphasis on undertaking its reviews and decisions in a transparent manner, which where appropriate, includes undertaking public consultation. The Commission also publishes a number of documents on its website providing information on declared regulated industries in the Territory including the electricity, water and sewerage industries and regulatory arrangements.

Further, the Commission responds directly to queries from government agencies, the media, customers and the community on the role of the Commission, the Territory electricity market, water and sewerage industries, port and regulatory arrangements.

For example, the Commission has assisted the government regarding the Government's 50 per cent renewable policy and electricity market reforms during 2016-17.

Ministerial Advice

The Commission, when requested, advises the Minister on any matter. The Commission did not receive any formal request for advice from the Regulatory Minister during 2016-17.

Future Priorities

The Commission's priorities for 2017-18 are set out below.

Port Regulation

Regulation of the Port of Darwin, including completing the reporting guidelines and undertaking a review of the Port Access Policy and pricing regime. The purpose of the review is to determine whether there is an ongoing need for regulatory oversight of access to, and pricing of, prescribed services provided by private port operators. It will consider if there is a need to change the form of regulatory oversight of port access and prices and, if so, how. The review will report on whether any amendments should be made to the current legislation that establishes the regime.

Power System Review

The Commission is seeking to re-adjust the 2016-17 PSR to take into account stakeholder feedback, current and emerging issues, as well as seeking to significantly bring forward the publication date of the report. This includes continuing to place emphasis on planning and performance of the power systems, the increasing role of the system controller and market operator, improving incident reporting timeframes and monitoring of associated recommendations.

Electricity

Undertake electricity reforms and implementation of the Government's renewable energy plan, including working with Government to improve licencing arrangements, and completing the review of the ERS, ESS and GSL codes, and ensure all other codes are relevant. Additionally, the Commission will continue to provide advice and assistance in implementing the full Territory electricity wholesale market, as required. The Commission will encourage adoption of other aspects of national arrangements that may be appropriate to the Territory. This includes power system planning and reporting, customer protections, and development and advice on suitable transition arrangements.

Water and Sewerage

The Commission will continue to promote the benefits of oversight and transparency of service standards within the water and sewerage industry.

Compliance

Ongoing compliance and regulatory functions comprising: completing the Pricing Order Audit; updating the System Control reports; compliance with the System Control Technical Code (SCTC) and the rules of the interim wholesale electricity market (I-NTEM); ongoing engagement with stakeholders; and a review of the Commission's licensing fees.

Ministerial advice

Providing advice to the Regulatory Minister on any matter referred to the Commission by the Regulatory Minister (that is, the Treasurer).

Key Deliverables

The Commission remains committed to setting high performance measures in meeting its duties as the independent economic regulator in the Territory. This is illustrated in the *Economic Regulation* performance measures published in the 2017-18 Budget and set out in Table 2.

Table 2: Key Deliverables

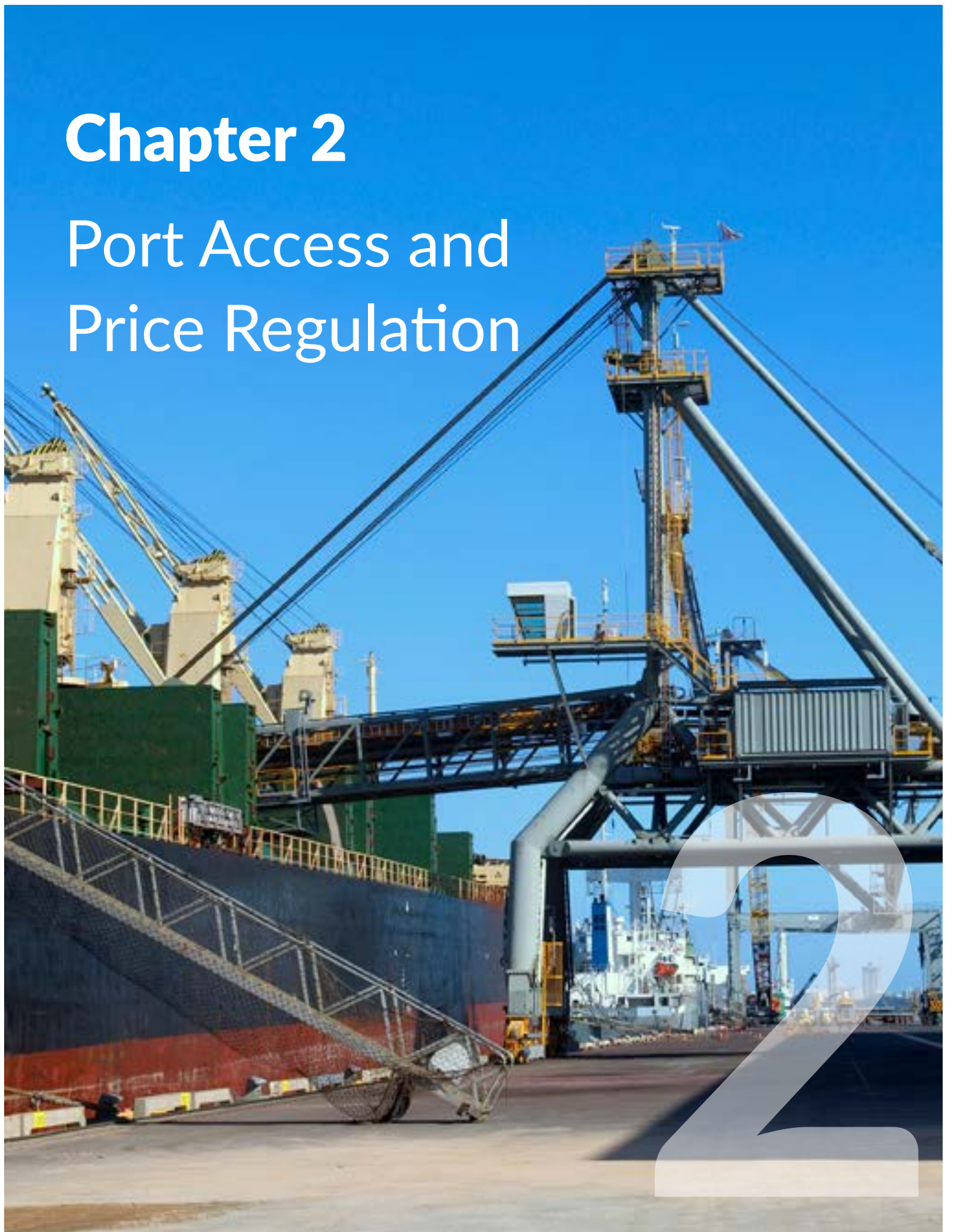
	2016-17 Estimate	2017-18 Budget
Determinations and approvals issued within statutory timeframes ¹	100%	100%
Stakeholder satisfaction ²	> 5	> 5

1 Covers determinations and approvals on monopoly pricing, minimum service standards and other activities as provided for under the *Utilities Commission Act* and other relevant legislation.

2 Stakeholder is the Regulatory Minister (the Treasurer). Measures range from a rating of 1 = extremely dissatisfied through to 6 = extremely satisfied.

Chapter 2

Port Access and Price Regulation



Port Access Policy

On 30 June 2017, the Commission approved the Port Access Policy for the Port of Darwin.

The Port Access Policy aims to provide a framework for port users requesting access to prescribed services, the approach to be taken by the private port operator in determining access and the terms on which access will be provided at the Port of Darwin.

Background

The ports access and pricing regime is established and defined by the *Ports Management Act* and the Ports Management Regulations. The Commission is the regulator for Part 11 (Port Access and Pricing) of the *Ports Management Act*. It regulates standard services prescribed in the Regulations provided by a private port operator of a designated port.

The legislation requires the private port operator to submit a draft Port Access Policy to the Commission for approval. The private port operator is required by legislation to comply with its access policy.

The Commission commenced its regulator role for the Port of Darwin on 16 November 2015 upon the appointment of Darwin Port Operations Pty Ltd (DPO) as the private port operator. Note that unlike the electricity and water and sewerage industries, the DPO is not licenced by the Commission.

The services regulated by the Commission, as prescribed by Regulation 12, are:

- a) providing, or allowing for, access for vessels to the designated port
- b) providing facilities for loading or unloading vessels at the designated port
- c) providing berths for vessels at the designated port
- d) providing, or facilitating the provision of, pilotage services in a pilotage area within the designated port
- e) allowing entry of persons and vehicles to any land on which port facilities of the designated port are located.

The Commission's role in port regulation was established with the intention of being a light-handed regulatory regime.

Approval of Port Access Policy

The Port Access Policy was submitted by the DPO to the Commission for approval in March 2016. The approval process was complicated and lengthy mainly due to the regulatory process and the need for significant legal assistance in ensuring the Port Access Policy provisions were applied correctly. To assist the negotiation process, numerous amended versions of the draft Port Access Policy were submitted. The Commission conducted formal stakeholder consultation on three draft versions of the Port Access Policy, including the release of a draft decision.

The Commission approved DPO's Port Access Policy on 30 June 2017 and published its Final Decision shortly afterwards.

The Regulations require the private port operator to review the Port Access Policy within five years of it being approved. However, there is no obligation on the port operator to amend the

Port Access Policy following the review. The Commission has no right to review an approved Port Access Policy or to enforce the private port operator to amend it.

Port Access Regulation

The DPO is obligated to report to the Commission each year on any instances of material non-compliance with its access policy. Notwithstanding the Port Access Policy was not in place for the 2015-16 financial year, DPO reported to the Commission in October 2016 advising that it was unaware of any potential breaches.

The Commission is required to report to the Minister each year about any instances of material non-compliance by the private port operator with its access policy or the Commission's price determination. The Commission reported to the Minister in October 2016, setting out that the Commission was not aware of any potential breaches by DPO.

Price Regulation

The *Ports Management Act* and Regulations establish the framework for the Commission to make a determination about the charges fixed by a port operator regarding prescribed services. The Regulations provide that the determination must use price monitoring of the price levels of a prescribed service as the form of price regulation.

If the private port operator intends on changing or removing an existing charge, or introducing a new charge for prescribed services it must notify the Commission at least 20 days prior to the proposed change. The port operator is also required to publish the changes to the standard charges for prescribed services on its website.

Prices for prescribed services did not change during 2016-17, and the Commission was not provided with any notices of changes by the port operator.

Review of the Regime

The Commission is required to review the port access and pricing regime in accordance with section 123 of the *Ports Management Act* three years from the appointment of a private operator, and in each successive five-year period thereafter. The first review is due to be completed by November 2018. The Commission plans to start this review by early 2018.

Chapter 3

Electricity Industry

3



The electricity industry in the Territory is regulated by the *Electricity Reform Act*, *Electricity Networks (Third Party Access) Act*, *Utilities Commission Act* and associated legislation, and the National Electricity Law (NEL) and National Electricity Rules (NER) as applied by the Northern Territory. This statutory framework was introduced in 2000, with parts of the NER, as modified, being progressively applied from 1 July 2016.

The statutory framework is primarily focused on regulating the activities of electricity industry participants and customers in the Darwin-Katherine, Alice Springs and Tennant Creek power systems, which are referred to as the regulated systems. Key elements of the statutory framework are:

- all electricity customers are contestable
- the Commission, as the independent economic regulator, is to regulate monopoly electricity services, license market participants and enforce regulatory standards for market conduct and service performance
- the Australian Energy Regulator (AER) is to administer the third-party access and price determinations.

Licensing

To operate in the electricity industry, entities must be licenced. The Commission has established licences and subcategories of licences and combined licences to suit particular circumstances.

The Commission considers applications from entities seeking to operate in the Territory's electricity supply industry, in accordance with the provisions of the *Electricity Reform Act*.

Licence applications

There were no formal applications for new licences during 2016-17. However a number of entities inquired about the process for gaining an electricity licence. In response to this renewed interest in electricity licensing, the Commission, in June 2017, published an updated licencing fact sheet on its website.

Types of licences

Table 3 sets out the various licences available for entities who participate in the electricity industry.

Table 3: Types of Licences Currently Issued

Licence type	Description
Standard generation licence	It allows entities to generate electricity for sale to electricity entities holding generation or retail licences (or as otherwise stated in the licence).
Special generation licence – independent power producer (IPP)	It allows entities to generate electricity for sale to electricity entities holding a standard generation licence (or as otherwise stated in the licence). This licence is a ‘cut down’ version of a generation licence for those entities that do not wish to participate fully in the electricity supply market and instead generate electricity under contract for another generator.
Network licence	It allows entities to operate the electricity network in the geographical area stated in the licence. If stated in the licence, it allows entities to connect the electricity network to another electricity network.
Retail licence	It allows retail entities to sell electricity to customers who own or occupy premises anywhere in the Territory. It also allows entities to trade in electricity, where ‘trade’ means the buying and selling of electricity other than to final consumers.
Special licence – isolated system operations (ISO)	It allows entities to generate electricity at specified electricity generating plants. It also allows entities to sell electricity to other generators or a retailer. Entities can also sell electricity to customers, but only in respect of electrical installations or premises that are situated within specified locations. Finally, it allows entities to own and operate an electricity network within specified geographic areas and connect that network to another specified electricity network. This licence is a combination of generation, network and retail licence for entities operating in remote locations. For example, where a mining company supplies electricity to a nearby town that predominantly houses workers associated with the mine.
System control licence	This licence allows entities to monitor, plan and control the operation of the power system with a view to ensuring the system operates safely and securely. It gives entities the power to issue directions to other licenced electricity entities. In May 2015, the Electricity Reform (Administration) Regulations were amended to prescribe operating a wholesale market as an operation for which a licence is required. The Regulations also define that an entity licensed for system control is also licensed to operate a wholesale market in relation to that power system. A system control licence is only issued where the power system is of sufficient size and complexity to warrant monitoring and control ‘at arm’s length’. In isolated communities with a single generator of electricity, management of system loads and frequency control is undertaken by the generator. Coordination of generation with third-party inter-connected networks would be a matter for normal commercial contractual arrangements. In relation to the interim wholesale electricity market (I-NTEM), System Control is the market operator responsible for wholesale trading arrangements between generators and retailers, registration of market participants, market settlements, and daily publication of market prices and other wholesale trading data.

Exemptions

The Electricity Reform (Administration) Regulations provide an exemption from the requirement to be licensed for some activities. Licences are not currently required for:

- small scale renewable and own-use generation and low volume sales of electricity
- on-supply of electricity, as long as the on-supplier complies with certain conditions.

The Commission may, with the approval of the Minister, grant an exemption from the requirement to be licensed.

As at 30 June 2017, the following exemptions were current:

- an exemption from the requirement to hold a licence with respect to its electricity operations in the township of Nhulunbuy and at the mine, issued to Pacific Aluminium Pty Ltd
- an exemption from the need to hold a licence as defined by the general small scale renewable energy operations exemption, issued to GPT RE Limited and Innogen Australia Pty Ltd.

There were no requests for licence exemptions in 2016-17. As part of its consideration process of any application and consistent with good regulatory practice, the Commission would seek comments on licence applications from market participants and relevant stakeholders.

The Commission continued to provide advice to potential market participants on licencing requirements and processes in accordance with the *Electricity Reform Act* and Electricity Reform (Administration) Regulations.

Current Licences

As at 30 June 2017, there were six electricity retailers licensed in the Territory. The retailers were:

- Power and Water Corporation (PWC) which has retail operations are in Indigenous communities under the Indigenous Essential Services (IES) program, Jabiru, Nhulunbuy, Alyangula, and McArthur River Mine
- Jacana Energy, which has retail operations are in Darwin, Katherine, Tennant Creek, Alice Springs, Daly Waters, Borroloola, Timber Creek, Elliott, Newcastle Waters, Yulara, Ti Tree and Kings Canyon
- QEnergy Limited (QEnergy), which has retail operations in the regulated systems
- ERM Power Retail Pty Ltd (ERM), which has retail operations in the regulated systems
- Rimfire Energy (Rimfire), which has retail operations in the regulated systems
- EDL NGD (NT) Pty Ltd (EDL), which has retail operations in the regulated systems.

As at 30 June 2017, there were three standard generators licensed in the Territory. The latest licence issued by the Commission was EDL's generation licence, which was issued on 30 June 2016. The standard generation licensees were:

- Territory Generation, which has various power stations including Channel Island, Weddell, Katherine, Tennant Creek, Ron Goodin, Owen Springs, Yulara and Kings Canyon power stations

- PWC, which has power stations at Berrimah (decommissioned), in indigenous communities under the IES program and various minor commercial power stations (Elliott, Daly Waters, Ti Tree, Timber Creek and Borroloola)
- EDL, which has a power station at Pine Creek.

Other privately owned generators supply electricity under contract for a standard generation licensee rather than selling directly to an electricity retailer.

On 20 March 2017, Central Energy Power Ltd's commercial arrangements with Territory Generation expired. Subsequently its Special Licence (IPP Generation) has now also expired. Central Energy operated a plant at the Brewer Estate in Alice Springs.

As at 30 June 2017, special generation licences were held by the following generators:

- EDL for the McArthur River power station at McArthur River
- Energy Resources of Australia Ltd for Ranger power station at Jabiru
- LMS Energy Pty Ltd for a power station using landfill gas at Shoal Bay in Darwin
- Uterne Power Plant Pty Ltd for a photovoltaic system at Alice Springs
- TKLN Solar Pty Ltd for various photovoltaic systems at Ti Tree, Kalkarindji and Lake Nash – Alpururulam.

An isolated system licence is held by Groote Eylandt Mining Company Pty Ltd (GEMCO).

PWC is the network service provider and is also responsible for system control and market operations in the regulated system.

Codes and Guidelines

The Commission monitors the conduct and operations of the electricity supply industry and licensed entities. The Commission may also make codes and rules relating to the conduct or operations of the electricity supply industry or licensed entities, where authorised by legislation.

Electricity Retail Supply Code

The Commission has been undertaking a review into the Electricity Retail Supply (ERS) Code. The ERS Code establishes standards and obligations between licenced entities when dealing with each other and customers.

Throughout 2016-17, the Commission has completed two consultation processes for the ERS Code, noting that this Code required a number of updates to take into account the significant developments in the Territory electricity market since it was first developed in 2011.

In July 2016, the Commission released a Consultation Paper in response to an application made by PWC in April 2016. The application sought to make significant amendments to the ERS Code including to address: the introduction of a wholesale market; structural separation of PWC; and the entrance of new retailers. The Commission received a number of submissions from stakeholders which raised a number of additional issues. The Commission released a Position Paper in May 2017.

The Commission intends to release an amended draft code and statement of reasons in 2017 for comment by stakeholders. A final decision to amend the code, including the issuing of a varied code, will be made soon after.

Electricity Industry Performance Code

During the year, the Commission started a review of the Electricity Standards of Service (ESS) Code and the Guaranteed Service Level (GSL) Code. The Commission believes a review is necessary to ensure these codes remain relevant. There has been significant regulatory reform since the codes were implemented in 2012. Additionally, the updated codes will assist PWC with preparation of their regulatory proposals to the Australian Energy Regulator (AER) in February 2018.

The ESS Code establishes reporting requirements for electricity licence holders – network, retailers and generators. It also establishes the process that network entities must follow when setting targets for service standards.

The GSL Code establishes the guaranteed service level scheme, which sets minimum standards of customer service that network entities (network licence holders) have to achieve. If a network entity breaches this minimum level of service then the network entity has to make payments to customers.

The Commission is proposing to combine the ESS Code and GSL Code into a single Electricity Industry Performance (EIP) Code.

During 2016-17 the Commission undertook a consultation process with licence holders and stakeholders. This was followed by another consultation process in August 2017. Further information on the consultation process and submissions are available from the Commission's website.

The new code is due for finalisation in 2017.

Power System Review

The Commission publishes an annual Power System Review (PSR), reporting on the performance and capacity of the Territory's regulated power systems, namely Darwin-Katherine, Alice Springs and Tennant Creek.

Regular and comprehensive public reporting on power system and distribution network performance is an essential feature of the Northern Territory electricity regulatory regime. Transparent and robust reporting on system planning and performance matters also assists in holding electricity businesses accountable for reliability performance outcomes.

The Commission's overall objective of the PSR is to:

- report to the Minister on the overall health and performance of the electricity industry and provide early warning of future issues
- provide comprehensive and authoritative data to current and prospective industry participants, to assist in making key planning, investment and policy decisions.

Power System Review 2015-16

During 2016-17 the Commission worked with Australian Energy Market Operator (AEMO), the industry leader in demand forecasting and generation adequacy at a system level, and Entura to produce the 2015-16 PSR.

The 2015-16 PSR was published on the Commission's website in July 2017. Key findings are outlined below.

Demand and Supply Forecasting

The PSR found that demand forecasts across the Territory are expected to stay relatively flat. This is in part due to demand growth being offset by a growth in solar photovoltaic (PV) installations.

Maximum Demand

In Darwin-Katherine, maximum annual demand from the grid is expected to increase by 0.3 per cent per annum while the simulated contribution of solar PV generation at times of maximum demand is expected to increase by 8.4 per cent per annum.

For Alice Springs, growth in maximum annual demand from the grid of 0.3 per cent is met by growth in solar PV generation of 10.8 per cent per annum.

Tennant Creek is expected to see growth in maximum annual demand from the grid of 0.4 per cent, with an 8.1 per cent per annum growth in solar PV generation.

Minimum Demand

The significant uptake of solar PV is reshaping the daily generation demand profiles across the Territory. Solar PV uptake is decreasing minimum demand from the grid, as minimum demand shifts from overnight to during the day at times of peak solar PV output.

In certain modelling scenarios, Alice Springs might experience negative demand in the longer term, where the energy generated from solar PV exceeds that consumed from the grid.

In Darwin-Katherine, minimum annual demand from the grid is expected to decrease by 2.8 per cent. The simulated solar PV generated at times of minimum demand is expected to increase by 16.3 per cent.

In Alice Springs, decreasing minimum annual demand of 10.3 per cent is met by growth in solar PV generation of 12.2 per cent.

Tennant Creek is expected to see decreases in minimum annual demand of 0.8 per cent, with 7.9 per cent growth in solar PV generation.

Capacity

There is sufficient installed generation capacity to meet the maximum demand of Territory consumers, subject to improvements in generator outage rates.

Performance of the Power System

Generation performance in Darwin-Katherine improved in 2015-16, but deteriorated in Alice Springs. Tennant Creek experienced a slight increase in the number of major generation incidents.

Generation performance can be categorised as either 'response reliability' or 'capacity reliability'.

Response reliability

'Response reliability' is the level of generation reliability based on generator response and generator operating regimes, in particular, spinning reserve.

The generator response reliability standards were not met in 2015-16 and there were 20 under-frequency load shedding (UFLS) events in this category.

Capacity reliability

'Capacity reliability' is the technical capability of the generation system to satisfy demand. This reflects the performance of generation if it all connects and operates correctly.

Although there were technically no UFLS events associated with generation capacity reliability, five events did occur, three of which resulted in loss of electricity to Katherine customers. These events were classified as generation capacity reliability events for Katherine.

Generator Reliability

The reliability trends of individual generation units suggest there needs to be greater focus on the reliability of existing machines rather than installing new generation, particularly in Alice Springs. Further progress is needed to implement Territory Generation's improvements in asset planning to translate into realised performance.

Transmission

PWC has substantially completed work on the 132kV line from Channel Island to Hudson Creek to build robustness into this critical asset, and is managing and completing network projects that reflect the need to address capacity constraints at zone substation level. PWC met outage duration and frequency targets for the distribution network under the ESS Code in 2015-16.

The Katherine region seems to be over-represented in outages. The 2016-17 PSR will focus on the performance being achieved in the Katherine region.

Electricity Industry and Market Policy Matters

The Territory's electricity industry continues to undergo significant regulatory change, with the adoption of sections of the NER and increased involvement of national bodies. There is improvement in the performance of the government owned corporations (PWC, Territory Generation and Jacana Energy) following post-structural separation, particularly in coordinating the delivery of supply to customers.

The roles and responsibilities of the market participants in the Territory's electricity industry continue to develop, highlighting the importance of an independent and authoritative System Control unit (currently a business unit within PWC).

Formal arrangements should be established for independent planning for generation adequacy in the Territory that considers both economic trade-offs and the ability to meet system demand. The Commission understands this issue is being considered by the Territory Government as part of its review of existing wholesale market arrangements.

Network Outlook

Average substation utilisation during 2015-16 was 43 per cent and is projected to remain stable until 2019-20. Although contingency loading exceeds 100 per cent at a few stations including Archer, Palmerston, Strangways, Lovegrove and Sadadeen, this can be tolerated if PWC promptly executes contingency plans.

The Commission notes PWC has met its System Average Interruption Duration Index (SAIDI) targets since 2013-14 in all feeders, and all its System Average Interruption Frequency Index (SAIFI) targets since 2013-14 except for the central business district (CBD) feeder in 2013-14. The Commission will review the targets and whether they are set at appropriate levels as part of PWC's next price determination.

Customer Service

The PSR stated improvements need to be made in PWC's reporting on quality of supply and network-related complaints. Its current reporting does not allow for meaningful analysis or understanding of issues that allow it to make further improvements in this area.

Jacana Energy established its own call centre in January 2016. The transition and handover of call centre operations from PWC to Jacana Energy caused a significant deterioration in telephone answering performance in 2015-16.

The number of retail-related complaints increased, however this appears to be due to Jacana Energy's adoption of a broader definition of a 'complaint' in 2015-16 in line with the AER's definition.

Fuel Supply

Electricity supply in the three regulated power systems is dependent on continuous gas supply. Back-up arrangements with the two liquefied natural gas (LNG) producers in the Territory provide a high level of security for gas supply. Continuous supply is also reliant on infrastructure being available to process and transport gas. The Commission notes key aspects of the infrastructure do not have full redundancy back up. However, the risk of the continuous supply of fuel being interrupted due to infrastructure failure is mitigated by the availability of alternative diesel supplies.

Price Regulation

The Commission regulates certain prices in the monopoly sectors of the Territory's electricity supply industry in accordance with relevant industry legislation.

System Control Charges and Pricing of Ancillary Services

The Commission approves charges imposed by the System Controller and also has authority to determine prices for ancillary services to manage the quality of electricity supplied by the electricity supply industry. The system control charges, including ancillary services that applied during 2016-17 are those approved by the Commission with effect from 1 July 2004 and continue until superseded.

In 2016-17 the Commission was not required to approve any updated arrangements.

System Imbalance Charges

The Commission is responsible for overseeing prices paid (or received) by third-party generators when purchasing (or selling) any mismatches between energy generated by such generators and the load attributable to end-use customers supplied by these generators. The System Controller, in consultation with licensed generators, is required to develop arrangements for settlement of any out-of-balance payments between generators, with the arrangements subject to the approval of the Commission.

In 2016-17 the Commission was not required to approve any updated arrangements.

Review of PWC's Compliance with the 2014 Network Price Determination

In March 2017, the Commission published a review that was completed by PricewaterhouseCoopers Australia on PWC's compliance with the 2014 Network Price Determination (NPD) and Electricity Pricing Order (EPO).

Electricity Pricing Orders

The Commission is required to enforce compliance with an EPO as if it were a determination of the Commission under the *Utilities Commission Act*.

The Territory Government regulates the maximum price a retailer can charge a contestable customer consuming less than 750 MWh per annum through the EPO.

The Minister issued the Uniform Tariff EPO, which includes standard network connection tariffs, in December 2015 applying from January 2016 to 31 December 2016. Subsequently, to align the EPO to financial years rather than calendar years, the Minister released a six-month EPO in December 2016.

Compliance Audit

The review was triggered when the Commission was made aware of a possible breach of the 2014 NPD in relation to standard network connections.

Based on the findings from the consultant's report and previous audits undertaken by the Commission, the Commission considered that PWC was in breach of clause 11.1 of its network licence. The Commission considered that PWC had also breached the Commission's Compliance Framework and Reporting (CFAR) Guidelines.

The Commission is satisfied that PWC has taken appropriate corrective action to remedy the breach. The Commission will continue to monitor PWC's compliance through regular audit and review and will keep working with PWC to ensure it complies with its regulatory obligations.

Technical Regulation

The Commission has various technical regulatory functions that it undertakes in the absence of a technical regulator in the Territory.

Technical Audit of PWC and Territory Generation

In 2014 the Commission audited PWC in relation to a system black in the Darwin-Katherine power system. During 2016-17 the Commission conducted a follow-up audit on PWC (System Control and Networks) and Territory Generation, with a particular focus on improvements made since 2014.

The audit of PWC and Territory Generation found there were significant positive technical improvements in each entity. For example, all areas previously found to be non-compliant have improved to be either partially or fully compliant.

The follow up audit demonstrated to the Commission that the individual entities now have a stronger focus on, and understanding of, their key regulatory obligations and responsibilities. This greater accountability can be attributed in part to the structural separation of PWC in July 2014. For example, the importance of the independence and authority of the System Control unit has now become more evident in coordinating and directing the different components of the power system in delivering reliable supply of electricity to consumers.

This stronger focus resulted in improvements in reliability performance by the three entities that were the subject of the follow-up audit. Due to the long life of the assets within the Territory power system, recent improvements in management of the system may not give rise to immediate improvements in customer services. However, there have been improvements in reliability performance over the last two years in Darwin-Katherine, and the Commission expects, in the longer term, this progress will be extended to Alice Springs and Tennant Creek.

The follow up audit will be published in early 2017-18.

Spinning Reserve Review

During 2016-17 the Commission reviewed the calculation of spinning reserve being set by System Control, and whether System Control, in setting those levels, complies with the System Control Technical Code (SCTC) and its associated Secure System Guidelines (SSG).

The review found that System Control is generally compliant with the way it calculates and applies the spinning reserve calculation methodology. However, the SCTC and SSG are currently broad and give System Control wide powers to direct market participants.

Where guidance is not provided through the existing SCTC or SSG, System Control is adequately managing issues in ancillary services (such as frequency control) required to maintain the stability of the system in the interim through occasional 'Short-Term Advice' directions it issues to market participants.

Recently, System Control published a revised Secure System Guidelines for consultation, which introduces detailed requirements for the provision of the ancillary services required to maintain the stability of the system.

The report on spinning reserve will be released in early 2017-18.

Incident Reporting

Under the SCTC prepared by PWC and approved by the Commission, the System Controller is required to report power system incidents that occur within the parameters of the SCTC to the Commission. The Commission monitors incidents reported for compliance and reports on trends in its annual PSR to encourage planning for a safe, secure and reliable power system.

Safety Management and Mitigation Plan

A Safety Management and Mitigation Plan (SMMP) is a licence condition for all generation and network licences issued by the Commission. The Commission considers the SMMP with consultation from the Electricity Safety Regulator, and provides comments to licence holders accordingly. The Commission considers the SMMP as a good representation of a licence holder's policies, procedures, systems and strategies to ensure the safety of employees, contractors and the public around electricity infrastructure. The Commission encourages licence holders to continually update and improve their plans to ensure the plan remains consistent with good electricity industry practice.

The SMMP's are considered as part of the PSR. All licence holders provided the Commission with a SMMP in 2016-17.

Complaint Investigation

Under section 48 of the *Electricity Reform Act*, the Commission must investigate complaints against any electricity entity made on the grounds the entity is engaging in conduct contrary to the objects of the *Electricity Reform Act* or the *Utilities Commission Act*. The Commission is exempted from investigating if it believes the complainant is not, or unlikely to be, adversely affected by the alleged complaint, the complainant has not shown a genuine attempt to resolve the complaint with the electricity entity, or the complaint is frivolous or vexatious.

During 2016-17, the Commission did not receive any formal complaints from parties in relation to licensed electricity entities.

Advice to the Minister

The Commission provides independent advice to the Minister on matters such as utility pricing, access to infrastructure, service quality and security of supply.

Advice to the Minister can be provided:

- when the Minister refers a matter to the Commission for inquiry under Part 7 of the *Utilities Commission Act*. Inquiries conducted under Part 7 of the *Utilities Commission Act* are public inquiries and the Commission's final report must be tabled in the Legislative Assembly, or
- when the Minister requests advice from the Commission in accordance with section 6(1)(g) of the *Utilities Commission Act*. The Minister may include a requirement in the terms of reference that the reports setting out the Commission's findings and recommendations remain confidential to Government.

The Commission is also empowered to provide advice to the Minister at its own initiative on the operation of the *Electricity Reform Act*.

During 2016-17, the Commission did not receive any requests from the Minister for formal advice.

Chapter 4

Water Supply and Sewerage Services



The *Water Supply and Sewerage Services Act* sets out the objectives regarding regulation of the water supply and sewerage services industry. In particular, regulation is to:

- promote the safe and efficient provision of water supply and sewerage services
- establish and enforce standards of service in water supply and sewerage services
- facilitate the provision of financially viable water supply and sewerage services
- protect the interests of customers.

To achieve these objectives, Ministerial responsibility has been split as follows:

- the Treasurer for provisions regarding economic regulation
- the Minister for Essential Services concerning supply and service provision under licence
- the Minister for Health for provisions regarding water quality standards.

Roles and Functions of the Commission

The Commission's regulatory role in the water supply and sewerage services industries is limited. The Commission is responsible for licensing and some compliance monitoring. The Commission has to also approve Water Metering and a Trade Waste codes. Additionally, if requested the Commission is to provide advice to the Minister on any matter referred by the Minister.

During 2016-17 the Commission and Power and Water Corporation (PWC) worked together on updating the 2001 Trade Waste Code, with a revised version approved by the Commission in August 2017.

Licensing

To carry on operations in the Territory's water supply and sewerage services industries, an entity must have a licence issued by the Commission. This will be based on specific geographical areas declared by the Minister.

For each water supply or sewerage service within a gazetted licence area, the Commission may only grant a single licence for each of the relevant services provided. The Commission is not empowered to issue licences for service provision that takes place outside a water or sewerage licence area.

As at 30 June 2017, PWC held two licences under Part 2 of the *Water Supply and Sewerage Services Act*, water supply and sewerage services.

A general exemption from the need to hold a licence is also in effect for people on-supplying water services within prescribed licence areas. This is conditional on the person having been granted the approval of the licensee of the water supply licence area to perform on-supply operations in the water supply licence area.

During 2016-17 there were no applications for water or sewerage licences or exemptions and no variations applied for or made to the terms and conditions of existing licences.

Price Regulation and Service Performance

The Commission has no role in setting prices or in developing service standards in the water and sewerage industry. Water and sewerage prices paid by customers are regulated by the Territory Government through a Water Supply and Sewerage Services Pricing Order (WSPO).

On 22 December 2015, a WSPO was issued to regulate prices from 1 January 2016 to 31 December 2016. In order to align pricing orders with the financial year the Minister released a six-month WSPO in December 2016.

Note the Commission is required to enforce compliance with the WSPO as if the order were a determination of the Commission under the *Utilities Commission Act*.

During 2016-17 the Commission started an audit of PWC's compliance with the WSPO. This compliance audit will be completed during 2017-18.

Water Supply and Sewerage Services Asset Management Plans

In accordance with the *Water Supply and Sewerage Services Act* and its water supply and sewerage services licences, PWC is required to maintain and implement an asset management plan, and each year submit an updated copy of the plan to the Commission. The purpose of the plan is to ensure optimal arrangements exist for creating, repairing and replacing the licensee's water supply and sewerage services infrastructure. The Commission considers the plans useful tools for monitoring and planning for the efficiency and effectiveness of future capital investment.

PWC was required to submit the 2015 asset management plans to the Commission in February 2015. However, the Commission did not receive the plans for the major centres (Darwin, Katherine, Tennant Creek, Alice Springs and Yulara) until November 2015. The 2015 asset management plans for the minor centres were not received by the Commission until 30 September 2016. The minor centres include Cox Peninsula, Daly Waters, Elliott, Larrimah, Mataranka, Newcastle Waters, Timber Creek, Ti Tree, Adelaide River, Batchelor, Borroloola, Kings Canyon and Pine Creek.

PWC advised the Commission it is in the process of conducting an Asset Management Plan Capability Program, which is intended to provide clarity and definition to PWC's Water Asset Management Strategy. The aim of this project is to improve future asset management plans including alignment with Australian and international standards. The Commission will continue to work with PWC to ensure improvement of the asset management plans and compliance with the *Water Supply and Sewerage Services Act* and its licence conditions.

In order to assist PWC with its strategic planning timeline, the Commission approved future asset management plans (for all centres) to be due to the Commission by October of the subsequent year.

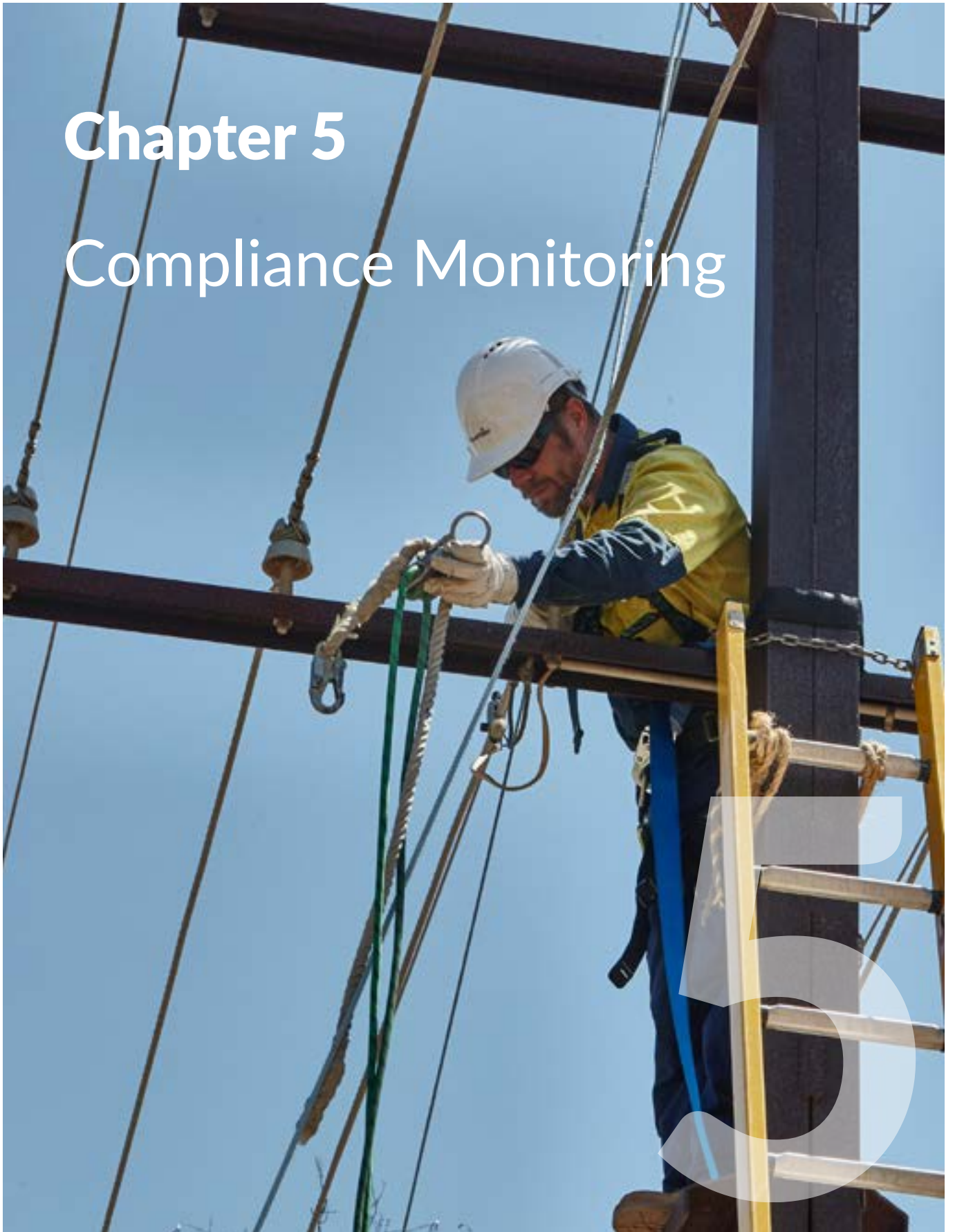
Accordingly, this means the Commission will receive the 2016 asset management plans in October 2017.

Advice to the Minister

During 2016-17, the Commission did not receive any requests from the Minister for advice in relation to water supply and sewerage services.

Chapter 5

Compliance Monitoring



The Commission is required under the *Utilities Commission Act* to monitor and enforce compliance by licensed entities with regulatory instruments, such as legislation, licences, codes and guidelines.

Compliance Framework and Reporting

Electricity

In addition to licence conditions and applicable laws, licensed electricity entities are obliged to comply with applicable codes, rules, protocols and standards, and to notify the Commission of a material breach as soon as reasonably practicable after becoming aware of the breach occurring.

The following codes made by the Commission were in effect during 2016-17:

- The Electricity Standards of Service (ESS) Code
- Energy Loss Factors Code
- Guaranteed Service Level (GSL) Code
- Electricity Retail Supply (ERS) Code
- Electricity Ring-fencing Code.

The following codes developed by Power and Water Corporation (PWC) and approved by the Commission were in effect during 2016-17:

- System Control Technical Code (SCTC)
- Network Technical Code and Network Planning Criteria (NTC&PC).

Water Supply and Sewerage Services

In addition to licence conditions and applicable laws, licensed water and sewerage entities are obliged to comply with applicable codes, rules, protocols and standards, and to notify the Commission of becoming aware of a material breach of any applicable regulatory instrument.

The following codes developed by PWC and approved by the Commission were in effect during 2016-17:

- Water Metering Code
- Trade Waste Code.

Ports

The ports access and pricing regime is established and defined by the *Ports Management Act* and *Ports Management Regulations*.

As of 30 June 2017, the following instruments were in effect:

- 2015-18 Prescribed Port Services Price Determination
- Port Operator's Port Access Policy.

Compliance Framework and Reporting Guidelines

Good compliance practice occurs when an organisation is able to demonstrate its commitment to compliance with relevant requirements. It enables an organisation to identify deficiencies and

take action before problems eventuate. The Commission uses the guiding principles of voluntary compliance, a risk-based approach, education and communication, transparency, consistency and flexibility, and continuous improvement in developing its compliance framework.

The Compliance Framework and Reporting (CFAR) Guidelines outline the Commission's compliance program for monitoring adherence with laws, rules, and regulations. It contains the Commission's risk assessment methodology, monitoring and reporting mechanisms, and enforcement options in response to regulatory breaches.

The *Electricity Reform Act* and *Water Supply and Sewerage Services Act* both require a licensee to lodge an annual licence return with the Commission by 1 August each year containing the information required by the Commission by condition of licence or by written notice.

Additionally, the CFAR Guidelines requires the board (or equivalent) of the licensee to provide a compliance report to the Commission, by 31 August each year. This compliance report is to have a declaration that the licensee has complied with the requirements of its licence.

The objectives set out in the CFAR Guidelines are to:

- communicate to regulated entities and industry participants the Commission's compliance objectives and expectations in relation to regulatory compliance
- communicate to regulated entities the value of adopting and endorsing a compliance framework to ensure compliance with the legislative framework
- inform regulated entities, industry participants and stakeholders about compliance monitoring and reporting
- clarify the enforcement and disciplinary process in cases of non-compliance.

Compliance Reporting in 2016-17

Annual Licence Returns

In 2016-17, PWC, Territory Generation, Jacana Energy, QEnergy, Rimfire, EDL and ERM lodged annual licence returns for the 2015-16 financial year.

For entities for which activities in the regulated industries are more limited, licence returns are not required to contain the same level of detail as those necessary from standard licence holders. The following electricity licensees also lodged returns for the 2015-16 financial year for their licensed areas of operation:

- Central Energy Power Pty Ltd
- Cosmo Power Pty Ltd
- Energy Resources of Australia Ltd
- Landfill Management Services Pty Ltd
- GEMCO
- Uterne Power Plant Pty Ltd
- TKLN Solar Pty Ltd.

No substantive issues arose from the 2015-16 licence returns.

Annual Compliance Reports 2015-16

In October 2016, PWC, Territory Generation, Jacana Energy, QEnergy, Rimfire and ERM lodged an annual compliance report for the 2015-16 financial year. Holders of special licences are not required to submit an annual compliance report. The Commission did not require EDL to submit a compliance report given it had only been granted a licence for generation on 30 June 2016, however it will have reporting requirements for 2016-17.

In February 2017, the Commission published a compliance report providing a summary of all of the compliance reports it received relating to 2015-16.

PWC has identified six breaches of regulatory obligations in its compliance report, two of which the Commission considered material:

- PWC reported a breach of the 2014 Network Price Determination (NPD) occurring when the cost of providing and installing a meter for a new connection for individual customers, which is classified as a standard control service under its revenue cap, was included as a separate and additional charge as an alternative control service. The Commission was made aware of the breach in late 2015, and was formally notified by PWC in March 2016. The Commission considered this breach to be material. In June 2016, the Commission undertook a detailed review of PWC's compliance with the 2014 NPD and the compliance processes leading up to reporting of the breach.
- PWC reported a breach of a delay in submitting its regulatory accounts for 2014-15. The regulatory accounts were submitted to the Commission on 31 August 2016. The Commission considers this breach to be major and notes PWC has addressed the issue, together with actions taken in relation to its financial statements.

No breaches were reported from the remaining licensees.

The Commission also reviewed the list of regulatory obligations provided by Territory Generation, Jacana Energy, ERM Power Retail Pty Ltd, QEnergy Limited and Rimfire Energy Pty Ltd, and considered them to be sufficiently detailed and adequately assessed.

Compliance Audits

Licensed entities are required to undertake compliance audits when requested by the Commission as a condition of the licence. Upon reasonable notice to a licensee, the Commission may require the licensee to appoint an independent auditor, or the Commission may appoint an independent auditor to undertake a compliance audit.

The Commission did not require ERM, QEnergy or Rimfire to undertake a compliance audit in 2016-17.

As previously discussed, the Commission undertook a review of PWC's Compliance with the 2014-19 Network Price Determination. Additionally, the Commission required Jacana Energy to appoint an independent auditor to assess whether it had established an adequate compliance framework in accordance with ISO 19600:2015 or equivalent. No substantial issues arose from this audit.

As previously discussed, during 2016-17, the Commission also started a review of compliance with the Electricity, Water and Sewerage Pricing Orders.

Chapter 6

Stakeholder Consultation and Regulatory Engagement



6

Consultation

The Commission is committed to a collaborative and cooperative approach to regulation. The Commission consults with interested parties and stakeholders to promote transparency and accountability.

The Commission may make codes and rules. As part of this process, the Commission is required to:

- consult the Minister, representative bodies and participants in the regulated industry
- give notice of the making, variation or revocation of a rule or code to the Minister and to each licensed entity to which the rule or code will apply
- ensure copies of the rule or code are made available for inspection by the public.

The Commission will also undertake consultation where appropriate in relation to the Commission's other functions and activities.

During 2016-17, the Commission consulted on a number of matters including, reviews of the Electricity Standard of Service (ESS) Code, Guaranteed Service Level (GSL) Code, and Electricity Retail Supply (ERS) Code and approving the draft Port Access Policy.

The Utilities Commission also publishes submissions and reports on its website <http://www.utilicom.nt.gov.au>.

Regulatory Engagement

In May 2017, the Commission hosted the biannual Utility Regulators Forum on behalf of the Australian Competition and Consumer Commission (ACCC). The forum took place over two days, 25 and 26 May. These forums are attended by the various regulators across Australian, including the Northern Territory Utilities Commission.

The Territory last hosted the forum in 2003. Around 40 people attended the forum, with around 30 of these interstate guests. Commission and Department of Treasury and Finance staff were also in attendance.

The forum agenda included an update from each regulator, pricing reforms in New Zealand, the recently announced ACCC inquiry into retail electricity pricing, bulk grain export costs, tools for regulators, telecommunication access determinations and the value of better information.

Appendices



Appendix A: Commission Decisions

Decisions

Decision	Date of decision	Expires	OOS
Consultation Darwin Port Access Policy	Sep-16	NA	Y
Circulation of the PriceWaterhouseCooper's review of Power and Water Corporation's (PWC) compliance with the 2014-19 Network Price Determination	Oct-16	NA	N
Publication of the summarised findings of the PriceWaterhouseCooper's review of PWC's compliance with the 2014-19 Network Price Determination in the Annual Compliance Report	Oct-16	NA	N
Engagement of the Australian Energy Market Operator (AEMO) to provide advice on the 2015-16 Power System Review	Oct-16	NA	N
Engagement of Entura to provide advice on the 2015-16 Power System Review	Oct-16	NA	N
Response to PWC following review of the 2015 Water and Sewerage Asset Management Plans for Minor Centres	Oct-16	NA	N
Publication of the consolidated annual compliance report by the Commission	Nov-16	NA	N
Commission's report to the Minister pursuant to section 121 of the <i>Ports Management Act</i>	Nov-16	NA	N
Publication of the Retail Supply Code Proposed Positions Paper	Nov-16	NA	N
Electricity Retail Supply Code Preliminary Positions Paper	Jan-17	NA	N
Publication of the Request for Submissions on the Electricity Standards of Service Code and the Guaranteed Service Level Code Review	Feb-17	NA	N
Approval to engage WSP Parsons Brinckerhoff to undertake the Technical Audit of PWC and Territory Generation Licence Compliance	Feb-17	NA	Y
Approval Annual Compliance Report 2015-16	Feb-17	NA	Y
Approval for Assistant Under Treasurer to sign AEMO agreement	Feb-17	NA	Y
Approval to engage WSP Parsons Brinckerhoff to undertake the Review of Spinning Reserve	Mar-17	NA	Y
Approval to engage CQ Partners for review of Electricity Standards of Service and Guaranteed Service Level codes	Mar-17	NA	Y
Approval to engage PriceWaterhouseCooper's for review of PWC and Jacana Energy's compliance with the Electricity and Water and Sewerage Supply Services Pricing Orders	Mar-17	NA	Y

Decision	Date of decision	Expires	OOS
Approval of release and publication of the amendments to the Electricity Retail Supply Code Positions Paper and consultation timelines	May-17	NA	Y
Approval of release for publication and consultation of the Port of Darwin Final Draft Access Policy, Draft Decision and Draft Reporting Guidelines	May-17	NA	Y
Communications Plan for the draft Port Access Policy	Jun-17	NA	N
Review of Licences and Exemptions (Electricity)	Jun-17	NA	N
Publication of Technical Audit and Review of Spinning Reserve	Jun-17	NA	N
Publication Licensing Fact Sheet	Jun-17	NA	N
Approval of the final draft Access Policy as submitted by Darwin Port Operations Pty Ltd (DPO) on 16 May 2017 and as amended on 21 June 2017	Jun-17	NA	Y

* NA: not applicable. OOS: Out of Session decision

Appendix B: Expenditure and Receipts

The Commission is established as a separate administrative unit within the Department of Treasury and Finance (DTF). The Commission does not separately compile its own financial statements, but its activities are included in the consolidated financial statements provided in DTF's Annual Report.

This appendix publishes the expenditures of the Commission funded directly from consolidated revenue, as well as the associated receipts.

Expenses by Category of Cost

	2015-16 \$000	2016-17 \$000
EMPLOYEE EXPENSES	406.1	501.2
GENERAL EXPENSES	766.4	698.3
Regulatory/Commission expenses	243.7	92.6
Expert advice (including legal)	506.6	556.2
Recruitment and staff training	2.5	36.6
Office expenses, administration and other	13.5	12.9
TOTAL EXPENSES	1172.5	1199.5

Account	2015-16 \$000	2016-17 \$000
FEES AND CHARGES		
Licence application fees	-	-
Electricity licence fees	407.6	428.4
Water and sewerage licence fees	50.0	50.0
TOTAL REVENUE	457.6	478.4

Note: Section 19 of the *Utilities Commission Act* provides that, unless otherwise directed by the Minister, fees and other monies received by the Commission are paid into the Consolidated Revenue Account. No such direction has been issued.

The licence fee schedule was approved by the Minister effective 1 July 2013, to reflect a reasonable contribution towards administrative costs of the Commission.

Appendix C: Advisers to the Commission

In 2016-17, the Commission used the services of various consultants. The costs for the year totalled \$0.556 million, compared with \$0.507 million in the previous year. This expenditure includes legal fees paid to external legal advisers.

The Commission engaged consultants and legal advice in 2016-17 on a range of projects that included the 2015-16 Power System Review (PSR), compliance audit of the 2014 Network Pricing Determination (NPD), technical audit and spinning reserve, draft Port Access Policy and review of various codes.

Consultants

PricewaterhouseCoopers

The Commission engaged PricewaterhouseCoopers Australia to conduct a review of Power and Water Corporation's (PWC) compliance with the 2014 NPD.

PricewaterhouseCoopers Australia also started a review of Jacana Energy's and PWC's compliance with the Government electricity and water and sewerage pricing orders. The majority of this work will be undertaken in 2017-18.

WSP (formerly WSP/Parsons Brinkerhoff)

The focus of WSP's audit was on key obligations related to the provision of:

- ancillary services, in particular, black start capability
- Territory Generation and PWC Network's responsiveness to the directions of the System Controller and the recommendations of technical audits and investigations performed by or on behalf of the System Controller
- the maintenance and operation of Territory Generation and PWC Network's in accordance with good electricity industry practice.

CQ Partners

The Commission undertook a review of the Electricity Standards of Service (ESS) Code and the Guaranteed Service Level (GSL) Code. CQ Partners provided technical advice in relation to the reporting requirements for generators, network licence holders and GSL performance standards.

AEMO and Entura

The Commission received advice relating to the 2015-16 PSR from Australian Energy Market Operator (AEMO) and Entura.

For the 2015-16 PSR AEMO provided services relating to:

- forecasting, including overall electricity load, generation adequacy (capacity and reliability) and historical transmission network constraints
- power system stability
- review of any significant transmission-related incidents
- network management plans.

Entura provided services relating to:

- fuel supply arrangements and security of supply
- customer service performance
- review of any other significant incidents
- progress against findings from previous reviews and major incident reports.

Legal Advice

The Commission received legal advice on a number of issues relating to licencing, review of various codes and regulatory reforms (Allens Linklaters), and the draft Port Access Policy (Johnson Winter Slattery Lawyers).

Appendix D: Publications and Reports

During 2016-17, the Commission published the following reports and documents:

Date released	Publication
July 2017*	Access Policy for the Port of Darwin and Final Decision
June 2017	Amendments to the Electricity Retail Supply Code Positions Paper
June 2017	Fact Sheet: Northern Territory Electricity Industry Licensing Arrangements
May 2017	Final Draft Access Policy, Draft Decision and Draft Reporting Guidelines
March 2017	Review of Power and Water Corporation's Compliance with the 2014 Network Price Determination
March 2017	Request for Submissions on the Guaranteed Service Level Code and the Electricity Standards of Service Code
February 2017	Annual Compliance Report 2015-16
November 2016	2015-16 Utilities Commission Annual Report
September 2016	Amended Port Access Policy (and various associated documents)
July 2016	Application to amend the electricity Retail Supply Code: Consultation Paper

* The decision to release this report was made in 2016-17, but the report was not subsequently released until July 2017.

These publications can be viewed on the Commission's website: www.utilicom.nt.gov.au

Appendix E: Supplementary Information on Codes

Electricity

The following codes made by the Commission were in effect during 2016-17:

- The Electricity Standards of Service (ESS) Code establishes a process by which generation, networks and retail licence holders report against set performance indicators. In addition, the ESS Code provides a process for setting targets for network service entities. In 2013, the Commission approved distribution and transmission network performance target standards applicable to PWC from 1 July 2014 to 30 June 2019.
- The Energy Loss Factors Code sets out the high-level principles underlying the calculation of the energy loss factors to be used by the System Controller in determining out-of-balance energy supplied or demanded by generators operating in the Territory's electricity supply market.
- The Guaranteed Service Level (GSL) Code establishes a GSL scheme providing for payments to be made by a network entity to small customers where the supply of electricity and other related services does not meet the pre-determined minimum levels.
- The Electricity Retail Supply (ERS) Code provides the framework and mechanisms for retail competition between retailers for contestable customers.
- The Electricity Ring-fencing Code aims to ensure monopoly businesses in regulated industries affiliated to contestable businesses do not discriminate against a competitor of that affiliated business; financially or competitively advantage that affiliated business; or financially or competitively advantage that affiliated business to the detriment of a competitor of that affiliated business.

The following codes developed by Power and Water Corporation (PWC) and approved by the Commission were in effect, were in effect during 2016-17:

- The System Control Technical Code (SCTC) sets out the System Controller's competitively neutral operating protocols, arrangements for system security and system dispatch, as well as arrangements for the interruption of supply and investigation, and reporting of power system incidents. The SCTC also provides the rules for the interim Northern Territory Electricity Market (I-NTEM).
- The Network Technical Code and Network Planning Criteria (NTC&PC) specifies the technical performance requirements of the network and the requirements for coordination between network users and the network operator to achieve these. The current version is prepared by PWC in consultation with the Commission under the Network Access Code, a schedule to the *Electricity Networks (Third Party Access) Act* in December 2013. Following transfer of responsibility for the *Electricity Networks (Third Party Access) Act* to the Australian Energy Regulator (AER) in 2015, authority for the NTC&PC was moved to section 66A of the *Electricity Reform Act*. Transitional arrangements provide that the current NTV&PC remains in effect. PWC is required to consult with the Commission and the AER in making or amending the NTC&PC.

Water Supply and Sewerage Services

In addition to licence conditions and applicable laws, licensed water and sewerage entities are obliged to comply with applicable codes, rules, protocols and standards, and to notify the Commission of becoming aware of a material breach of any applicable regulatory instrument.

The following codes developed by PWC and approved by the Commission were in effect during 2016-17:

- The Water Metering Code, approved by the Commission in July 2006 sets out the arrangements and conditions for installing, testing, verifying and replacing meters owned by the licensee and that must be in accordance with guidelines published by the National Standards Commission (now the National Measurement Institute).
- The Trade Waste Code, approved by the Commission in December 2001 and updated in August 2017 sets out the conditions on which the licensee will approve trade waste discharged into the licensee's sewerage services infrastructure.

Ports

The ports access and pricing regime is established and defined by the *Ports Management Act* and *Ports Management Regulations*. The Commission is the regulator of the regime. It regulates access to and pricing of the standard services prescribed by the regulations provided by a private port operator of a designated port.

As of 30 June 2017, the following instruments were in effect:

- The 2015-18 Prescribed Port Services Price Determination, made under section 132 of the *Ports Management Act* and section 20(1)(a) of the *Utilities Commission Act*. The determination takes into account section 6(2) of the *Utilities Commission Act*, all relevant matters under the *Ports Management Act* and regulation 16(1) of the *Ports Management Regulations*. It sets out the basis upon which the Commission intends to monitor price levels.
- The Port Operator's Port Access Policy was approved by the Commission on 30 June 2017. The Port Access Policy provides a framework for port users requesting access to prescribed services, the approach to be taken by the private port operator in determining access and the terms on which access will be provided at the Port of Darwin.

