



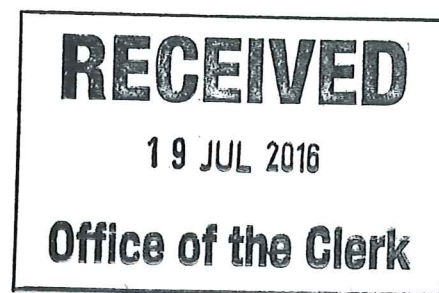
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Mr Michael Tatham
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Dear Mr Tatham

Thank you for providing me a copy of the Committee on the Northern Territory's Energy Future's report into *Electricity Pricing Options*. I recognise that the report is the culmination of more than two years of work by the Committee and thank the Committee for its work.

In addition to the work undertaken by the Committee, the Northern Territory Government is implementing a significant reform program for the Northern Territory electricity industry. Many of the recommendations made by the Committee are currently being addressed directly under various components of the reform program or are complimentary to this work.

As such, in considering whether to adopt or act on the recommendations of the Committee, careful consideration needs to be given to whether the work proposed by the Committee is not already underway as part of the regulatory reform program, that it is not contradictory to the electricity reform work and that the cost of delivering the work does not outweigh the benefits to Territory customers.

On this basis, my responses to the Committee's recommendations are attached.

Yours sincerely


DAVID TOLLNER

14 JUL 2016

Committee on the Northern Territory's Energy Future

Electricity Pricing Options Report – Territory Government Response

Introduction

The Committee on the Northern Territory's Energy Future's (the Committee's) Electricity Pricing Options report has made a series of recommendations aimed at improving the delivery of electricity and related services to Territory consumers. These recommendations primarily relate to the provision of electricity retail services (the interface with the customer) for residential and small business customers.

In addition to the work undertaken by the Committee, the Northern Territory Government is implementing a significant reform program for the Northern Territory electricity industry to promote competition in the electricity supply industry and greater alignment of regulatory arrangements with those operating in the National Electricity Market (NEM).

This reform program includes the structural separation of the Power and Water Corporation (PWC), the transfer of economic regulation of electricity networks to the Australian Energy Regulator (AER), the implementation of a wholesale electricity market and reform of the Territory's electricity retail sector. The primary objective of these reforms is that provision of electricity to Territorians be safe, reliable and at least cost.

Territory electricity industry reform package

In late 2013, the Territory Government approved a wide ranging reform package for the Territory's electricity industry. There are four streams of work under this reform package that are targeted at enhancing competition, improving efficiency and financial accountability for government-owned corporations and providing for greater customer choice.

1. Structural Separation

The first reform was the structural separation of PWC's contestable and monopoly businesses. This has resulted in the creation of two new government-owned corporations, an electricity retailer, Jacana Energy, and electricity generator, Territory Generation. The electricity networks, system and market operator functions, gas purchasing, indigenous essential services and water and sewerage businesses have been retained within PWC.

Structural separation represents an important first step to facilitate greater competition in the electricity retail and generation markets and was necessary to achieving financial transparency and enhanced prospects for competition.

The legal separation was completed on 1 July 2014 while the operational and financial components are both ongoing. It is anticipated these aspects of structural separation will be resolved by the close of the financial year.

2. Transfer of economic regulation of electricity networks

A further reform underway is the transfer of economic regulation of the Territory's electricity networks from the Utilities Commission of the Northern Territory to the AER and greater alignment of the Territory's regulatory arrangements with the national framework, which will,

among other things, provide certainty for national electricity suppliers to establish operations in the Territory.

The transfer and staged transition to the national framework began on 1 July 2015 through commencement of the *National Electricity (Northern Territory) (National Uniform Legislation) Act 2015*, which was developed following significant consultation between the Territory and the Commonwealth Department of Industry, Innovation and Science, the Australian Government Solicitor, the AER, and the Utilities Commission, and approved by the Council of Australian Government's Energy Council in accordance with the Australian Energy Market Agreement.

Progress is well underway for the staged implementation of the National Electricity Rules (NER) in the Territory, including appropriate derogations and transitional arrangements, with the first phase, to adopt elements of the NER relating to economic regulation required for the AER to commence preparing PWC's 2019-24 Network Price Determination to commence on 1 July 2016.

3. Establishment of a wholesale electricity market

The decision to establish a competitive wholesale electricity market is a key component to achieving the Territory Government's overriding objectives for the provision of electricity to Territorians.

Wholesale electricity trading in the Territory currently relies on bilateral contracting arrangements, which represent a significant barrier to competition in the Territory's electricity supply industry due to a lack of transparency around contract negotiations.

On 27 May 2015, an interim wholesale electricity market arrangement commenced trading with the first publication of wholesale energy prices on 28 May 2015. Work has commenced to facilitate the transition from the interim arrangements to the full wholesale electricity market design, termed the Northern Territory Electricity Market.

To drive the Northern Territory Electricity Market work program, a Stakeholder Working Group led by the Department of Treasury and Finance and comprised of key industry participants has been established. The establishment of the Northern Territory Electricity Market will allow generators and retailers to trade electricity on commercial terms and conditions while reliability and security of supply is closely managed within defined standards.

Greater competition among generators is expected to result in improved efficiency in the supply of electricity, and more timely investment in, and take up of, new technology. As a result, more effective competition can lower retail tariffs by putting downward pressure on the generation cost component of electricity tariffs. Wholesale electricity markets currently operate in the NEM and in Western Australia.

4. Reform to the electricity retail sector

The Treasurer, as the responsible Minister, currently regulates retail tariffs for customers that consume less than 750MWh per annum through the gazettal of an Electricity Pricing Order (the Pricing Order).

The Pricing Order sets the maximum electricity prices that electricity retailers can charge households and small businesses and applies a uniform tariff across the Territory (i.e. customers pay the same price regardless of their location and the cost of supplying electricity to them).

The existing regulated electricity retail tariffs are set below the cost of supply and subsidised by the Territory Government through the uniform tariff policy. Historically, regulated electricity retail tariffs for the majority of customers (domestic and small commercial) have only been provided by PWC and now Jacana Energy. This is due to government-owned electricity suppliers having sole access to the community service obligation (CSO) subsidy.

Following structural separation, the CSO can now be calculated on an efficient cost basis by customer and has been opened up to all retailers, removing a substantial barrier to retail competition and providing new retailers with a much larger market in which to compete and offer choice of retailer and flexibility to households and small businesses.

Further reform of the retail sector is required to ensure that the necessary processes to allow customers to switch electricity retailers are in place, that electricity metering is robust, that the CSO is delivering its objectives and that there are appropriate customer protections in place. Given the complexity and costs associated with electricity retail reforms, there needs to be appropriate planning and rigorous cost-benefit analysis to ensure the cost of these reforms does not diminish the benefits to end users.

Committees Recommendations

Many of the recommendations made by the Committee are either currently being dealt with under various components of the reform program or are complimentary to this work.

As such, in considering whether to adopt or act on the recommendations of the Committee, careful consideration needs to be given to whether the work proposed by the Committee is not already underway as part of the regulatory reform program, that it is not contradictory to the electricity reform work and that the cost of delivering the work does not outweigh the benefits to Territory customers.

Each of the recommendations has been considered against the wider electricity reform program and the responses are set out below.

Recommendation 1

The Committee recommends that the Utilities Commission of the Northern Territory, in consultation with Jacana Energy and other relevant stakeholders:

- a) undertake and publish a review of the regulated retail price determination process incorporating options for improving the efficiency and transparency of retail price setting in the Northern Territory; and*
- b) The Treasurer, as the Regulatory and Shareholding Minister, table a copy of the review in the Assembly by June 2016.*

There is currently no formal electricity retail price determination process in place and, as such, there would be little merit in reviewing it. Notwithstanding this, the Territory Government is committed to enhancing competition in the Territory's electricity retail market and improving transparency around how regulated tariffs are set.

Work is underway to assess how regulated electricity retail prices are set with a view to add more rigour and transparency to the process. This involves consideration of an appropriate electricity retail price determination process that is suitable for the Territory's circumstances.

Recommendations 2 and 3

The Committee recommends that the Government, in consultation with the Australian Energy Regulator, Power and Water Corporation, Jacana Energy and other relevant stakeholders:

- 1. Develop and implement a Northern Territory Policy for New and Replacement Electricity Meters in line with the Minimum Services Specification, as proposed by the Australian Energy Market Commission, that supports:
 - a) a market-led rollout of advanced meters that ensures competition in metering services; and*
 - b) facilitates uptake of dynamic retail tariff offers and associated products by small consumers.**
- 2. The Treasurer, as the Regulatory and Shareholding Minister, table a copy of the Northern Territory Policy for New and Replacement Electricity Meters in the Assembly by the end of the first quarter 2016.*

The Committee recommends that the Government, in consultation with the Power and Water Corporation and Jacana Energy, establish and implement an Advanced Meter Upgrade Rebate program that:

- a) compensates residential and small business customers that elect to upgrade their accumulation meter to an advanced meter for installation costs associated with the removal and replacement of switchboard and meter panels manufactured from an asbestos/resin or asbestos/coal tar pitch composite; and*
- b) the Treasurer, as the Regulatory and Shareholding Minister, table a copy of the Advanced Meter Upgrade Rebate program in the Assembly by the end of the first quarter 2016.*

The Northern Territory Government recognises that the Territory's current electricity metering framework requires significant improvement (both the technology and the regulatory aspects). However, electricity metering reform is a complex and costly exercise due to the upfront capital costs associated with installing the metering technology and the ongoing costs associated with the operational and regulatory aspects of metering. As such, metering reform is a significant body of work that should not be rushed.

The Territory's electricity metering framework is currently being reviewed as part of the work to adopt relevant provisions of the National Electricity Rules, the establishment of a wholesale electricity market in the Territory and the review of the Territory's electricity retail sector. This work will identify necessary enhancements to the Territory's metering consistent

with the national framework that governs the NEM, where suitable for the Territory's circumstances and where the benefits to the consumers are likely to outweigh the costs

Given the work that is already underway, it would not be practical to add an additional work stream of electricity metering reform.

Recommendation 4

The Committee recommends that the Government, in consultation with the Power and Water Corporation, Territory Generation, Jacana Energy and other relevant stakeholders:

- 1. Undertake and publish a review and evaluation of the Solar Buyback Scheme currently operating in the Northern Territory.*
- 2. Develop and implement a Northern Territory Policy for Feed-in Tariffs for Micro Generation in accordance with the Revised National Principles for Feed-in Tariff Arrangements that, as a minimum, addresses:*
 - a) methodology for calculating 'fair and reasonable' feed-in tariff rates;*
 - b) mandatory requirements to offer feed-in tariffs;*
 - c) independent regulatory oversight of FIT rates; and*
 - d) transitional and legacy arrangements.*
- 3. The Treasurer, as the Regulatory and Shareholding Minister, table copies of the review and Northern Territory Policy for Feed-in Tariffs for Micro Generation in the Assembly by June 2016.*

The current 1:1 feed-in tariff scheme inherited by Jacana Energy from PWC is not sustainable, is out of line with other Australian jurisdictions and is inequitable, in that customers without solar PV are subsidising those that do have a rooftop solar installation.

Other Australian jurisdictions initially introduced solar feed-in tariff schemes around a similar 1:1 level, and in some instances, well in excess. For example, New South Wales had a feed-in tariff scheme set at \$0.60/kWh. Feed-in tariff schemes set to this level have since been closed due to the cost burden on electricity retailers and that other electricity consumers end up subsidising solar rooftop P.V. users that are not paying for access to the grid (e.g. higher electricity network and generation costs). Most feed-in tariff schemes are now set to the value of the avoided cost of generation which is roughly around \$0.05-0.07/kWh depending on the jurisdiction.

Feed-in tariffs are an important component of the reform work currently underway for the Territory's electricity retail sector. These tariffs need to be set to facilitate the uptake of renewable energy technologies but not to create inefficient misallocation of electricity supply costs among customers.

Jacana Energy has recently undertaken a review into the 1:1 feed-in tariff scheme and I asked the Department of Treasury and Finance to review and lead the development and formulation of a policy on rooftop solar P.V. PWC is also responsible for the technical part of installing solar rooftop P.V. and will be invited to contribute to the development of a policy.

As such, the recommendation that the Department of Treasury and Finance undertakes a review of the 1:1 feed-in tariff scheme and associated policy development, in conjunction with Jacana Energy and PWC is supported.

Recommendation 5

The Committee recommends that the Government give consideration to establishing and resourcing an electricity market reform policy unit within the Energy Directorate that has the capacity, in consultation with key stakeholders, to formulate and implement policy advice as and when required.

The Territory Government has embarked on a wide-ranging reform program for the Territory electricity supply industry, including the structural separation of PWC, the work to adopt elements of the national framework that governs the NEM, the development of a wholesale electricity market and reform of the Territory's electricity retail sector.

This reform work is ongoing and the introduction of enhanced competition into the market will require ongoing monitoring and development to ensure the market framework benefits Territory customers. While the Energy Directorate was established to provide strategic direction in delivering Government priorities for the planning, development and regulation of the energy industry, the Department of Treasury and Finance provides advice on electricity market issues and is leading the electricity industry reform's process as the Minister currently responsible for electricity market structure and regulation is the Treasurer.

As such, I support this recommendation in-principle, with existing expertise and resources currently operating within the Department of Treasury and Finance best placed to perform this function.