



29 October 2013

The Hon Gary Higgins, MLA
Chair
Committee on the Northern Territory's Energy Future
GPO Box 3721
Darwin NT 0801

Sent via email: contef@nt.gov.au

Dear Committee Chair

Thank you for your letter of 23 September 2013 seeking input from the Northern Territory Major Energy Users (NTMEU) into your inquiry into the key challenges and opportunities associated with meeting the Northern Territory's future energy needs.

The NTMEU was established by the larger businesses operating in the Northern Territory to address strong concerns about the cost of energy supplies and to provide input to the development of a more commercially based approach to delivering energy to NT users. NTMEU member companies' main objective is to promote access to long term, reliable, sustainable and competitively-priced energy (electricity and gas) supplies in the Northern Territory.

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

The NTMEU notes the terms of reference that the committee is requested to address and makes the following observations:

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- The continuing reliance on the Power and Water Corporation (PWC) to be the dominant provider of electricity is concerning. Elsewhere in Australia, the opening up of competition to the state owned vertically integrated electricity providers has resulted in many benefits to consumers. The NTMEU has seen that there have been opportunities for increased competition to PWC generation by strong interconnection with other generators in the region (this especially applies to the Darwin-Katherine network) would have resulted in considerable benefits to all.

The NTMEU sees that the rules for electricity supply should be drafted to actively encourage all standby and islanded generation to seek to connect to the networks; this would ensure that there is an increase in the amount of generation connected and available within the network. The effect of increasing supply reliability will result in increasing competition to PWC Generation.

In particular, enabling the generation capability of the LNG plants in Darwin to be interconnected with the PWC Networks would have a significant impact on the main NT network but encouraging the more remote generators (such as Rio Tinto Gove and ERA plants) to interconnect would also be extremely beneficial to the market and increase competition.

- The NTMEU has affiliations with energy consumer groups in all other Australian jurisdictions and has observed that, compared to the other energy markets, PWC operates more on a "cost plus" operation than other providers of generation and networks. This does not provide consumer with the most efficiently priced energy supplies and does not enforce the pressures of competition onto PWC operations which would result in efficient costs and practices and so achieve outcomes in the long term interests of consumers.

NTMEU members have observed that this "cost plus" mentality within PWC has not driven PWC to operate efficiently in their relationships with consumers. There is an over-riding concern that the "ring fencing" of the different PWC operations is not as strong as it should be and that there is cross-subsidizing between the different operations within PWC which, again, does not lead to the most efficient outcomes for consumers.

Specifically, PWC generation costs and PWC overheads need to be addressed to ensure that these match those that would result if PWC operated in a competitive market. In this regard, the NTMEU expects that the Utilities Commission will ensure that PWC Networks are allowed only costs that are demonstrably efficient.

The NTMEU has noted that PWC has acted to ensure its energy retail arm, PWC Retail, has retained its dominant position as the primary provider of energy retailing. The NTMEU has been active in supporting the entry of new energy retailers and observed firsthand the difficulties in getting changes to the retail code to enable a new energy retail entrant into the Territory to be able to compete with PWC Retail on a "level playing field" basis. The ability of PWC Networks to support its retail arm so that there was no "level playing field" for new retail entrants is most concerning, as is the fact that a new energy retailer has to source generation from its dominant competitor.

Until there is competition in generation and equality for all retailing, PWC Retail will remain the dominant player in the market with the resultant negative impact on consumers.

- One of the significant changes seen in all other jurisdictions, is a pricing approach to energy supplies which encourages greater demand side involvement in the energy markets. As it currently stands, both in the Territory and other jurisdictions, is there increasingly sharper peak demands where the large amounts of the energy are used over relatively short periods. This peakiness in demand requires increased fuels supplies, increased infrastructure in generation and networks and exhibits lower thermal efficiency in energy conversion. All of these outcomes from a peaky demand increase costs and reduce efficient use of resources.

To overcome this loss of efficiency, other jurisdictions have structured the markets so there is an incentive for consumers to change their usage habits and so cause a flatter demand profile to make better use of resources and reduce the need for infrastructure investment - investment in infrastructure not only causes a cost to current consumers but also increases costs for future users. Energy costs in some jurisdictions have now reached a level where demand and consumption of energy are falling. This has resulted in existing infrastructure being under-utilized and causing increased costs per unit of energy for all consumers.

The NTMEU considers that increased demand side participation must be implemented in the Territory and this can only be achieved if government ensures there are strong incentives for consumers to change their energy usage habits.

- The Territory is located close to large natural gas fields which are also adjacent to its largest centre of population and industry. Despite this, the amount of gas that is available for domestic use is quite modest. The bulk of gas currently used domestically is for power generation although there is some industrial use of gas as well. Efforts to use this

resource more widely (such as for Rio Tinto Gove) have experienced considerable challenges as a result of the Territory not having sufficient control in the amount of gas being made available for domestic use.

Whilst the NTMEU is aware of the Federal government's opposition to gas reservation for domestic use and that the price for gas reserved for domestic use in WA is high, the NTMEU considers that the NT government must use its considerable leverage to ensure that not only is gas made available widely for domestic use in the Territory, it should use its powers to ensure that the price for this gas is constrained so that it can be readily used to increase the industrial base in the Territory.

Failure to reduce the cost of energy in the Territory will continue the overall constraint on growth and general employment opportunities, and limit the preparedness of industry to train young local employees.

- Governments have attempted in the past to "technology pick" to enable new developments to be introduced into the energy markets. The NTMEU does not consider that governments are best suited for this role. What is important is that the environment must be created to allow the markets to implement developments.

For example, the government should ensure:

- There is availability of gas and a competitive market where a new generator can set up in fair competition with PWC rather than continue to source electricity from PWC. The fact that PWC has contracted output of the few independent generators that can connect to the PWC networks clearly shows that the electricity market structure does not encourage competition for PWC
- That new generators (and even existing non-PWC generators) are actively empowered to connect to the PWC network rather than face constraints in attempting to connect. If technical constraints do exist, then government should actively address these so that they do not continue to prevent new connections
- Pricing of energy is established on a basis that leads to greater demand side participation. Two of the greatest impediments to DSP are where
 - pricing is not cost reflective (or not structured to deliver the efficient outcome sought) and
 - the provision of backup services to independent generators is priced to prevent self generation.
- PWC is restructured to prevent cross subsidies and compete in its elements (generation, retail) on a level playing field

The NTMEU is aware in other jurisdictions, governments have attempted to force change in consumer habits. The outcomes of such have resulted in significant distortions and massive cost imposts that have not achieved the desired results. An example of this is the proliferation of "energy efficiency schemes" where the outcomes have not replicated the desired results but caused considerable harm to the competitiveness of industry¹.

The NTMEU is aware that the Territory is faced with challenges in making its energy markets more efficient - a large land area and a modest population primarily located in the Darwin/Katherine region - but it has countervailing benefits such as large amounts of developable natural gas nearby and two large LNG facilities located close to its population centre.

The benefits and detriments facing the Territory will require an interventionist approach in the energy markets by government to maximize the benefit of the resources the Territory holds. In this regard, the NTMEU points out that, in terms of energy, the Territory is at a similar stage to where WA was in the early 1970s. In the late 1970s and 1980s, the WA government took a strong interventionist role and invested considerably in infrastructure and the addressed the impositions faced by energy developers to ensure that the best outcome for the state was achieved.

Bearing this in mind, the NT government should act now as the WA government did then so that a fully competitive market can emerge in the Territory to provide the basis for productive and efficient markets in the future.

In 2008 the NTMEU made a number of presentations to the NT government on how it saw the development of the NT energy markets. The NTMEU still sees the views it proposed then are still appropriate. The presentation made to the then Treasurer is attached to this letter.

Should you wish for future explanation of the points made above, please contact the undersigned at davidheadberry@bigpond.com

Yours sincerely



David Headberry
Secretary

¹ See for example the Victorian Energy Efficiency Target (VEET) scheme