

# NT Major Energy Users

## Proposed Changes to the Electricity Market

Presentation to Treasurer  
October 2008



# NTMEU Objectives

To address the high cost of energy in the NT, to identify approaches that would lead to efficient costs of energy, and to ensure the security and reliability of energy supplies.

# Key NTMEU Principles

- To ensure that energy markets in the NT are developed and maintained in a manner that is conducive to growth and long term sustainable investment
- To actively pursue the interests of large energy users in NT to ensure the highest practicable quality, reliability and longevity of electricity and gas supplies are made at the lowest appropriate delivered cost
- Advocacy must be equitable to all users of energy such that it does not negatively impact on small businesses or residential consumers

# What NTMEU members see in NT

- Compared to other states, power prices are excessively high
- Reliability is lower than in other jurisdictions, as are service standards – the recent blackout is a case in point
- PWC acts like the monopoly it is, and is relatively inflexible
- PWC acts on a cost plus basis, with little attempt to be competitive
- PWC has priority control of the available gas into the foreseeable future – barrier to new entrants
- There is no competition, and what there was early in the decade as a result of changes made, has disappeared
- When competition might occur, PWC works to deter competition (eg why no connection to the CP LNG plant?)

# What NTMEU members see in other jurisdictions

- Competitive and flexible approaches to power supply are the norm
- Generator availability has increased dramatically
- Prices are closer to the true cost of supply based on competitive offerings from a number of generators seeking to lock in base load power
- Reliability has improved remarkably, as have service standards (both performance and customer)
- Where competition was encouraged setting the structure right (eg the early attempts in WA) we saw the same outcomes as in NT with the monopoly working to limit competition by impeding new entrants



# The Draft Treasury Proposal .....

1. Decide to make a change – and this is supported
2. Retain PWC as is, to minimise “costs”
3. Decide on the better of a NEM/WEM framework
4. Transition to have AEMC, AER, NEMMCo provide the market services and regulatory arrangements
5. The outcome of these changes will be
  - competition will result, and
  - consumers will be better off

# Concerns with Proposed Approach (1)

- There is a bold assumption that competition will result merely from the existence of a NEM/WEM framework – it hasn't elsewhere and is a very dangerous assumption for consumers
- Retaining PWC in its current form will prevent competition occurring (barriers to entry) and with deregulation could easily be accompanied by opportunistic rent taking
- The NT market is relatively small, and large-market based solutions might not be cost effective
- There has been no cost benefit analysis to assess whether the transition to AEMC, AER and NEMMCo will be beneficial in cost and service level terms

## Concerns with Proposed Approach (2)

- The concept of moving from the current arrangements is sound ... BUT
- Both previous and current market arrangements have not promoted competition and consumers have suffered
- PWC has not been driven to be efficient or consumer responsive, and needs competition and operational disaggregation to achieve higher efficiency
- The Treasury paper considers that
  - Just implementing a NEM/WEM approach will automatically deliver competition
  - It is optimum to retain PWC in its current form due to cost savings



## Concerns with Proposed Approach (3)

- The Treasury paper does not propose to follow “how” other jurisdictions made the transition to the NEM/WEM
- In each case the jurisdiction made sure there was competition before the change, even where all parties were government owned, eg
  - In WA, initially attempted to achieve competition without disaggregating Western Power, and WP acted to prevent competition in various ways
  - Ultimately WP was legally separated into generation, retail and networks, generation was separated, and private generation encouraged by capacity credits
  - SA ensured there was a new entry generator (IP’s Pelican Point to add to the three other generators) and two start retailers (AGL and Origin) to supply energy
  - Victoria created six generators, and five retailers
  - In Tasmania, the sole generator Hydro Tasmania published its power prices and these were set relative to dam levels

# NTMEU Proposed Solution

- Staged Process
  1. Create conditions for competition
  2. Take direct steps to engender competition
  3. Look to expand the network to be inclusive of other supply options and consumers
  4. Review the benefits of sub contracting market services (eg to AEMC, AER and NEMMCO)
  5. Transition to NEM or WEM style market, whichever best suits the NT

# Stage 1

- Effectively ring fence PWC activities (generation, retail, networks, system ops) and prevent any cross subsidizing
- Regulator to set network tariffs (as AER does)
- Initially regulator to set cost reflective transfer prices for PWC Gen, and publish these for PWC retail and new entrant retailers to use.
  - PWC retailer would act in transparent competition to new entrant retailers on equal terms
- Assess whether disaggregation of PWC generation is feasible (eg sell off Katherine PS with its gas supply)

## Stage 1 (cont.)

- Gov't to call tenders for new entrant generation and perhaps allocate some PWC gas to new entrant (as done in SA)
- Review the options to connect to other regions to encourage and allow gas industry/miners with generation capacity to supply to grid and increase network size (and approaching the size of Tasmania):
  - Jabiru, Conoco Phillips, Gove, ENI, Inpex
  - Queensland Network
- Gov't to actively encourage existing and new entrants to connect to supply to and operate in the market

## Stage 1 (cont.)

- PWC system ops would provide dispatch service for competing generators using price offers for Dispatch (as NEMMCo does)
- Assess the merits of capacity and energy only markets, net and gross pools, and implement the one which creates more competition and encourages investment

# Stages 2 and 3

## Stage 2

- Assess whether competitive market has developed - if so PWC Generation would cease to publish its transfer prices
- Carryout cost benefit analysis to identify if subcontracting specific services to AEMC, AER and NEMMCo is cost effective

## Stage 3

- Transition to NEM or WEM approach
- Carryout cost benefit to assess whether using AEMC, AER, NEMMCo as full providers is cost effective

# The NTMEU proposal

- Electricity supply is an essential service for all NT consumers and we need to develop a solution which will be in the long term interests of NT consumers
- Recognises that the NT is a relatively small market and might need unique solutions – although demand in the NT compares to that in Tasmania
- Consistent with all other jurisdictions – ensures competition before making major shift in market design
- Allows for assessment of whether NEM or WEM style market is better for the NT
- Maintains PWC as a single corporate entity but segregates and ring fences its four basic activities and prevents cross subsidizing between activities

## The NTMEU proposal (cont.)

- Allows government to establish basics for competition (eg selling Katherine PS, diverting gas to a new entrant generator, encouraging other generators and creates a retail environment where a new entrant retailer can compete with PWC)
- Major Users now have many years of experience in operating in the NEM and WEM to call on
- NTMEU has direct access to this experience and wants to provide input into development of options for the NT
- NTMEU proposes a joint Treasury-NTMEU Task Group to work up An Energy Policy Options Framework (incorporating the existing Treasury and NTMEU proposals) for Ministerial consideration





What does the Treasury paper propose?	NTMEU Comment
1. A more competitive model for NT electricity supply	Agree
2. Wants incentives to improve efficiency and service levels and consumers to see benefits	Agree, but transparency and penalties needed
3. Keep PWC as is, as there is no reason to change	Disagree. This will not encourage any competition
4. Competition in generation and retail will occur naturally in medium term	Disagree, especially with PWC dominant as in point 3

What does the Treasury paper propose?	NTMEU Comment
5. Current arrangements do not give competition	Agree
6. Transparency and independence will allow competition to grow	Agree, but need to create initial competition as well
7. Reverting to a stat vertical monopoly is not an answer and inaction prevents any benefits	Agree, but it might be “less bad” than current
8. Revising the existing structure will not be effective in the long term	Agree, but it could be part of a staged approach providing the basis for competition – see NTMEU approach

What does the Treasury paper propose?	NTMEU Comment
9. Migrating to a NEM approach will have a lower cost than having an NT structure	There has been no modeling done to prove this, so this is not currently supported
10. NEM and WEM facilitate competition – NT to use these as proven systems	Agree, but competition <u>must</u> be established first
11. There is a cost benefit in using AEMC, AER and NEMMCo	Disagree pending modeling being done. NT could subcontract specific tasks to these entities on a commercial basis