



**LEGISLATIVE ASSEMBLY OF THE NORTHERN TERRITORY**

**12th Assembly**

**Committee on the Northern Territory's Energy Future**

**Public Briefing Transcript**

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Litchfield Room, Level 3, Parliament House

- Members:** Mr Gary Higgins, MLA, Chair, Member for Daly  
Mr Kon Vatskalis, MLA, Deputy Chair, Member for Casuarina  
Ms Larisa Lee, MLA, Member for Arnhem  
Mr Gerry McCarthy, MLA, Member for Barkly  
Mr Francis Kurrupuwu, MLA, Member for Arafura
- Witnesses:** Dr Patrick Walsh: Utilities Commissioner  
Mr Mike Robson: Associate Utilities Commissioner  
Mr Peter Caldwell: Associate Utilities Commissioner  
Ms Vanessa Sutcliffe: Director Utilities Commission

**Mr CHAIR:** Thank you all for coming. On behalf of the committee, I welcome everyone to this public hearing into key challenges and opportunities associated with meeting the Northern Territory's future energy needs.

I welcome to the table to give evidence to the committee Dr Patrick Walsh, the Utilities Commissioner; Mr Mike Robson, Associate Utilities Commissioner; Mr Peter Caldwell, Associate Utilities Commissioner; and Ms Vanessa Sutcliffe, Director Utilities Commission. Thank you all for coming before the committee. We appreciate you taking the time to speak with the committee and look forward to hearing from you today.

As you all know, this is a formal proceeding of the committee and the protection of parliamentary privilege and the obligation not to mislead the committee apply. Being a public hearing, it is being webcast through the Assembly's website. A transcript is made for use of the committee, and it may be put on the committee's website. If at any time during the hearing you are concerned that what you say should not be public, you may ask the committee to go into a closed session and take that evidence in private.

I will ask each witness to state their name for the record and the capacity in which they appear. I will then invite you to make a brief opening statement before proceeding to the committee's questions. Witnesses, could you please state your name and the capacity in which you are appearing.

**Dr WALSH:** Patrick Walsh, Utilities Commissioner.

**Mr CALDWELL:** Peter Caldwell, Associate Utilities Commissioner.

**Mr ROBSON:** Mike Robson, Associate Utilities Commissioner.

**Ms SUTCLIFFE:** Vanessa Sutcliffe, Director Utilities Commission.

**Mr CHAIR:** Dr Walsh, would you like to make any opening statements.

**Dr WALSH:** Yes, thank you for the opportunity to appear before the committee. I note there is a lot of synergy between your terms of reference and the role of the Utilities Commission.

Briefly, I am the Utilities Commissioner. I suppose one of the reasons I was appointed to this role was I also Chair the Essential Services Commission of South Australia, so I have some relevant experience. The two Associate Commissioners are both vastly experienced in their respective field: Peter in economic and energy policy, Commonwealth and Territory government; Mike in the electricity industry around Australia, including with the national energy market operator; and Vanessa is the Director of the Office of the Commission. We have four staff.

Mr Chair, your letter of invitation suggested various issues you would like to discuss with us. I thought I might make some brief comments on at least two of those; namely, the regulatory

environment by perhaps giving you a brief overview of the Northern Territory regulatory environment, and also comment briefly on regulatory reform initiatives in the electricity sector.

First to the regulatory environment – the Commission is a statutory authority established under the *Utilities Commission Act* as an independent economic regulator with functions given to it through that act and other industry-specific legislation. Our current set of functions are confined almost entirely to electricity. We have a small role in water and sewerage. Our electricity role includes administration of the licensing regime and industry codes, a network price determination, and administration - that is virtually our only price determination role, preparation of an annual power system review, dealing with complaints from industry participants, providing advice to the regulatory minister who is the Treasurer and the portfolio minister, the Minister for Essential Services, from time to time, and conducting inquiries as requested by the regulatory minister.

We have some discretion as to how we carry out our functions, but we certainly cannot engage in activities that go beyond the functions that are specified in legislation. I should also emphasise the regulatory framework in the Territory encompasses more than that part of it that is administered by the Commission. For example, we have no direct role in the setting of electricity retail prices through pricing orders, although we administer pricing orders. The process by which retail prices are set, clearly, is part of the regulatory framework in the Territory.

Our legislative objectives given to us by parliament emphasise the achievement of economic efficiency and market-based approaches in the conduct of our functions. Our establishment was partly a response to electricity commitments that were entered into by the Territory and other jurisdictions during the 1990s; for example, the national competition policy agreements of 1995. They, of course, had a strong focus on the role of markets.

The Commission views its role in the electricity sector as being to protect the long-term interests of Territory consumers of electricity services through regulation that enhances economic efficiency in that industry; for example, by promoting competition where feasible and effectively regulating non-contestable parts of the industries which ensures that consumers' needs – for example, reliability and quality of supply – are met.

You would be aware the electricity supply industry in the Territory is now segmented into separate generation networks and retail functions, and there is some degree of competition in generation and retail. In fact, there are no competitors to Power and Water in generation, and there are just two in retail. Power and Water, of course, has a role in each of those areas - retail generation and networks. In addition, there is a power system management function which currently resides within Power and Water which helps to ensure the system operates reliably, safely, and securely.

Our current priority tasks include the network price determination for Power and Water networks for the period July 2014 to June 2019 - it is a five-year determination we are very much in throes of making at the moment; the 2012-13 power system review, a review of wholesale electricity market operations for the Northern Territory which was referred to us by the Treasurer quite recently. Public reports in each of these areas will be available by April of this year – sorry, April of next year, 2014, and the commission will be pleased to engage in further discussions with the

committee on these matters at that time. We are more than happy to come back to talk to you about that.

Briefly on the network price determination, we have been working on this for the past 18 months. It is an intensive process of two years duration, approximately, to determine network tariffs to apply from 1 July 2014 for five years. The commission's view is that generally accepted regulatory practice for such determinations is a process undertaken by the Australian Energy Regulator in accordance with National Electricity Rules. Working towards alignment with such national arrangements is in the long-term interests of Territory electricity consumers. We are happy to talk to you at more detail about how we apply that.

Moving briefly on to regulatory reform, which is the second area. The need for a concerted reform program for the electricity industry in the Territory has become apparent in recent times, with increasing concern about the financial sustainability of Power and Water and its electricity infrastructure maintenance practices and reliability of electricity supply.

The commitment to commercial sustainability for Power and Water requires that prices for electricity services reflect the economically efficient cost of providing those services, leading to a more efficient allocation of resources in the production and consumption of electricity. It, thus, becomes essential to maximise efforts to enhance efficiency in the electricity industry in the Territory. Such efforts would include exposing those industries to the forces of competition where feasible, and driving efficiency improvements in natural monopoly segments of the industries, while also ensuring that services that are appropriate in reliability and quality are provided to consumers.

What we are advocating is, in sense, a fairly conventional route. It is, I suppose, a renewed and strengthened approach in the Territory to implementation of the principles inherent in the legislative arrangements, including those that established the Commission itself, which were enacted in the Territory more than a decade ago. We note that arrangements are in place in other jurisdictions, for example, through the national electricity market, may serve as a blueprint for the Territory but, of course, they need to be tempered by the realities of the Territory itself, its scale, and so on.

Independent economic regulation is an important part of the reform approach. Key regulatory priorities, in our view, include:

- addressing impediments to competition in the generation and retail sectors; for example, the wholesale market review that is currently under way. It can be seen as seeking to address an impediment to competition in generation
- establishing efficient revenue requirements and appropriate pricing principles for Power and Water networks. We are engaged in that process at the moment, but there is a long way to go before it becomes, we think, a process of sufficient quality. We are transitioning to a much better process
- establishing and monitoring performance by Power and Water networks against service standards

- implementing a consumer protection regime for both small and large electricity customers in the Territory. That is one area where the Territory contrasts with other jurisdictions. Many of the basic consumer protection provisions seem to be absent here
- providing independent advice to government on proposals for regulated retail prices. There is an argument that process needs to be more transparent and independent, not necessarily in the setting of prices, but at least in the provision of independent advice.

That finishes my opening statement. It has sought to deal with two of the areas you raised.

**Mr CHAIR:** You have answered the first question that I had down here. However, what impact does the regulatory framework have on the overall cost of electricity in general terms?

**Dr WALSH:** I should emphasise the Commission's role in this area as I said at the moment is limited to determining the price of electricity in terms of networks. We conduct network price regulation. We have a small role in relation to system control charges as well.

Total electricity charges are made up of a number of components: generation, network, retail, and system operation as well. Generation is the dominant component, we believe, but there is, in fact, not great information available in the Territory about wholesale costs.

**Mr VATSKALIS:** Why is that so?

**Dr WALSH:** Why is that so? There has been no concerted study of that, and there is no process by which generation prices are routinely made public and disclosed.

**Mr VATSKALIS:** So, Power and Water cannot provide the information of how much it costs them to generate ...

**Dr WALSH:** Oh, a review could be undertaken with Power and Water which would shed much light on those costs, yes.

**Mr ROBSON:** We do not have a role that entitles us to ask. The concepts put in place more than a dozen years ago were that competition would drive those prices, but competition has not worked here so you essentially had a decade of no competition and no regulation.

**Mr VATSKALIS:** Yes, okay. How do you go about the tariff price determination if you do not have information about the production of electricity?

**Dr WALSH:** We do not go through a retail price determination. Our focus is on networks. If one were to go through a process of transparently setting a retail price, yes, you would need to make a call on those wholesale costs and you would be looking at what are efficient costs for generation of electricity in the Territory, and you would be seeking to incorporate those into the retail price together with the network component and allowance for retail costs as well.

That is the process that has gone through in other jurisdictions where regulated retail prices still exist and in which independent regulators conduct the determination.

**Mr VATSKALIS:** As Mike said, we do not have a private generator yet. If we get one, who will determine what price he or she pays to put the power through the network? Will it be Power and Water or an independent body?

**Dr WALSH:** If they each have a generator, they would each produce electricity at a price they are prepared to sell it at.

**Mr VATSKALIS:** Yes, but they have to incorporate the cost to put through the Power and Water network.

**Mr ROBSON:** The regulated network component then gets added on, and whatever small retail component gets added on.

**Mr VATSKALIS:** Who determines the price for the transmission? I know how much it costs them to produce the power, I want to put it through the power because we had an example like that before of which and Peter is very well aware - it cost us a lot of money as the Territory government. Who determines then ...

**Dr WALSH:** The network price is determined by the Utilities Commission.

**Mr VATSKALIS:** An independent body?

**Dr WALSH:** Correct, and the reason for that is it is a clear natural monopoly. It should be regulated, you might say heavily, and in an independent way generation retail contestable segments, and arguably the forces of competition, should be used to determine price.

**Mr McCARTHY:** In power generation, we already have several private players in the market in the Territory. How do they do that? How does that work?

**Dr WALSH:** They are operating under contract to Power and Water.

**Mr McCARTHY:** They purchase power off Power and Water and on-sell it to make a profit.

**Mr ROBSON:** Are you talking about retailers?

**Mr McCARTHY:** Yes, retailers.

**Dr WALSH:** Sorry, yes that is right. They have to purchase their wholesale electricity from Power and Water generation and then seek to sell to customers. Of course, they will be dealing with Power and Water networks in the transmission of electricity through the network.

**Mr McCARTHY:** Are there any private owners of transmission networks in the Territory?

**Dr WALSH:** No.

**Mr CALDWELL:** In the past yes, but not anymore.

**Dr WALSH:** Our role, by the way, is confined to the three regulated networks as they are called - Darwin, Katherine, Alice Springs and Tennant Creek.

**Mr CALDWELL:** But there are no - even outside those - privately owned transmission lines.

**Dr WALSH:** Do you want me to continue with your question?

**Mr McCARTHY:** Yes.

**Dr WALSH:** Retail tariffs for small and medium size customers are regulated by a pricing order which sets the maximum amount Power and Water can charge those customers. Those prices are not, as far as we know, determined by a cost reflective build-up of the different components of generation, networks and so on. Retail tariffs for small or medium size customers are also subsidised through community service obligation payments. We do not have a role in determining CSO payments.

For larger customers on negotiated contracts of supply consuming more than 750 megawatt hours per annum, they would feel the impact of a decision the Commission made in network prices, although that would depend upon the individual contract terms and conditions with their retailers as to how that was passed through. Customers on pricing orders, the small- and medium-sized customers, do not directly feel the impact of a network price determination we make, since those retail prices are not determined through that cost-reflective build-up of the different components. Hopefully, that provides some insight into...

**Mr VATSKALIS:** One question here, Patrick. I understand the more you consume you can negotiate the better product. Who can determine the Territory's price for domestic power consumption? In Europe, you have day tariff and night tariff. The night tariff is much cheaper than the day tariff for various reasons. One of them is the generators still have to spin a lot of power which is not going anywhere - sell it and get some money back. Why do we not have something like that here? Places like Alice Springs can use night tariff to heat the house or use special equipment to heat the house during the day. Why would we not have something like that?

**Dr WALSH:** This is a matter for government policy. I suggest there may well be a rationale for that sort of tariff to be applied.

**Mr VATSKALIS:** The Commission has no role?

**Dr WALSH:** The Commission has no role in relation to these matters.

**Mr ROBSON:** It is important to note in the Territory, because of the climate, it means there is not a lot of difference between peak and off-peak. It is hot at night time, same as the day. Because you have a single fuel source – gas - the nature of generation from gas means you cannot arbitrage between the different generation types as happens in other jurisdictions. For example, in a

jurisdiction that has a coal-fired power station, they have in the past traditionally had an off-peak price to keep the coal-fired power station running overnight. That made it attractive to running hot water systems or whatever overnight because it was a cheaper tariff because they wanted to keep the power station running. Here, with a gas-fired power station, you can turn it on and off when you want so you do not have to keep it running. You are driven more by the climate. The climate is pretty constant, therefore, the price is pretty constant.

**Dr WALSH:** It is likely that the peaking problem is not as great in the Territory as it is in some of the jurisdictions, say South Australia, for instance.

**Mr VATSKALIS:** No, Mike is right about the climatic conditions. I should tell you, Mike, when I first went to Alice Springs I laughed when I saw a slow combustion stove - until night time.

**Mr ROBSON:** Yes, it is cold at night down there.

**Mr VATSKALIS:** Minus 6. I was a bit cool.

**Mr CHAIR:** Okay. You have already mentioned your terms of reference overlap ours in some regard. One of the things we are aware of is you do an annual review of the NT's power system. I would like to find out is some overview on any of the findings you had, say, in regard to the forecast demand scenarios we might have. How do you balance your generation and supply, and have you ever had a look at the adequacy of the fuel supply? Can you answer all our questions?

**Dr WALSH:** Absolutely! I might bring the last Power System Review up on the iPad. The preparation of the Power System Review is one of the most important roles the Commission performs because the information it provides - both the forecast of demand, forecast of supply in this area to meet demand, as well as the review of past system performance. It is a very important public information that needs to be out there, both for customers, system participants, and so on.

It focuses on the three systems of Darwin, Katherine, Alice Springs and Tennant Creek. It does not look at the localised generation systems or remote locations. We have increasingly sought to align the Power System Review with the power system planning documents in other jurisdictions so it does become a useful tool for possible new entrants into the industry, for example, but also for Power and Water. It supports identification of economic options for augmentation expansion of infrastructure to ensure security and reliability are maintained cost-effectively for the long-term benefit of the Territory consumers. This is a work in progress since Power and Water is in the process of upgrading its demand forecasting techniques and assets management capabilities.

You are interested in the forecast system demand area and how that is going?

**Mr VATSKALIS:** Yes.

**Dr WALSH:** The most recent review, which was for the 2011-12 year, showed peak demand forecasts - peak demand is obviously a key factor in determining the necessary infrastructure and we were just talking about that - peak demand forecasts are somewhat lower than they have been. For example, Darwin/Katherine 2.7% per annum, Alice Springs 0.5% per annum - very little growth



at all. In Tennant Creek no growth – well below previous forecasts. Whilst there is strong economic activity which, arguably, should be increasing and would be putting upward pressure on peak demand that is, to some extent, balanced by increasing prices, so that is inducing conservation and that is a good thing. There is also, possibly, the impact of photovoltaic systems – roof top PV systems ...

**Mr CALDWELL:** Certainly in Alice Springs.

**Dr WALSH:** Yes, very much in Alice Springs. We have noticed the load factors falling very slightly in Darwin, Katherine and Alice Springs. Arguably that is not a good thing; that suggests in fact peak demand is growing at a slightly higher rate than average demand or total energy consumption. We have scrutinised Power and Water's energy forecast as opposed to their peak demand forecast and in the 2001-12 review we took the view their energy forecast was somewhat inflated and we substituted our own somewhat lower forecasts which were more consistent with a falling load factor. That is demand forecasting. I suggest that we are encouraged by the progress Power and Water is making in upgrading its demand forecasting capacity and I think that is a good news story.

In generation capacity to meet forecast demand, our analysis conducting the most recent review suggests that under so called N-2 conditions - that means with the two largest generation units not operating - there is sufficient capacity to meet forecast demand ...

**Mr VATSKALIS:** That is the generators in Darwin?

**Dr WALSH:** In Darwin/Katherine through at least until 2019-20, and arguably 2021-22. We do a 10-year projection.

**Mr VATSKALIS:** The N-2 generators are based in Darwin?

**Dr WALSH:** Yes, so that is Darwin/Katherine, but also separately for Alice Springs and Tennant Creek. We formed that same conclusion based on the generation currently there and likely to be there across that period. There are various ways you can do this analysis. The so called N-2 approach is perhaps a bit simplified so we are encouraging Power and Water to go to so-called probabilistic methods which are more used in the national electricity market. Power and Water has done that type of analysis for Darwin/Katherine. In relation to their being sufficient capacity, the results look pretty good. Satisfactory reserve plant margins greater than 20% have been shown under that type of analysis.

Of course, it is important to monitor these things continually and we do a year by year analysis so we are currently engaged in the 2012-13 Power System Review.

**Mr VATSKALIS:** You look at the demand with regard to generation. Do you look at the demand with regard to transmission? You only need one bit of transmission to fail - does not matter how much power ...

**Dr WALSH:** Yes, that is a separate part of the analysis. We absolutely look at networks - the high voltage networks for transmission as well as low voltage ...

**Mr CALDWELL:** We also retrospectively look back at system failures and what caused them - where the causes were.

**Dr WALSH:** In this area - certainly coming out of the 2011-12 system review, there were no looming catastrophes, if you like, in the ...

**Mr VATSKALIS:** Peter knows after \$10m spent on some of the substations I do not expect to have ...

**Dr WALSH:** That said, and I believe this is common to all network businesses across Australia, when you do this projection, yes, there will be network constraints that arise at some point in the future. The important thing is for those things to be appropriately monitored and steps taken to address them. Whether it is through augmentation or, indeed, through possible demand management ...

**Mr CALDWELL:** Or maintenance.

**Dr WALSH:** Yes. Our role, as much as anything, is to ensure Power and Water has in place appropriate measures to monitor and address these network constraints as they arise.

**Mr VATSKALIS:** Network constraints, we hear a lot – I do not know if you look at it, but we hear many times from Power and Water we cannot get a lot of photovoltaic units because they put pressure on the network. What happens if a private producer puts, all of a sudden, 300 Megawatts in the system? Do you look at the capacity of the system to cope with this added load?

**Mr CALDWELL:** If someone applied to us for a licence for 300 Megawatts, is that what you are asking?

**Mr ROBSON:** We do not do the network design analysis, but what typically happens in other jurisdictions is the proponent for a power station - does not matter what type – who wants to connect into the system pays for the system upgrade to allow the attachment.

**Mr VATSKALIS:** Okay.

**Mr McARTHUR:** In forecast and analysis Power and Water, as a global entity, and the Utilities Commission is focused on what I am calling the urban networks. What is the percentage of the bush versus town? If the Utilities Commission does not look at the regional or remote areas - and to give you a pragmatic example of 110 new houses at Maningrida that are now normalising with white goods and air-conditioners and that high power usage, how can we have an accurate analysis of regulation and costs?

**Dr WALSH:** This lies outside regulated networks, you are saying, it is not ...

**Mr McCARTHY:** Yes.

**Mr CALDWELL:** The fundamental point is if the government wanted us to look at those it could change the scope of the regulated networks.

**Mr McCARTHY:** Would Power and Water not need that analysis as a global picture?

**Mr CALDWELL:** At one level, no, because Power and Water is a service provider to those remote communities; it is just under contract, it does not have the same obligations as it has in the Darwin, Katherine, Tennant Creek and Alice Springs systems.

**Mr McCARTHY:** How does that work in terms of production, transmission and ...

**Mr VATSKALIS:** And the cost to the consumer, because the urban environment subsidises the rural and remote areas.

**Mr CALDWELL:** So does the budget, of course, as well.

**Mr VATSKALIS:** Yes.

**Mr CALDWELL:** We have a very limited role indeed. We only license the provider, we do not ...

**Mr McCARTHY:** That is what I have learnt from this. It seems to me in a rough analogy, or a metaphor, that the bush is the ball and chain around Power and Water's leg and if serious analysis is not done, particularly in forecasting, then how can we get a balanced view of power charges across the Northern Territory?

**Mr ROBSON:** Can I just add some framework comments on the role we play and where we sit within that whole debate. The industry, per se, has been migrating from what used to be vertically integrated, self-regulated, more or less structures. Government said, 'Do the right job, guys, don't tell us about your disasters' and then progressively got into the framework because of the evolution of the national market to say: competition policy says it is better if we have some components exposed, but that really means we need to take over the regulatory framework for the monopoly elements and the monopoly regulations started to grow.

In the Territory, you are still transitioning from a vertically integrated, more or less historically self-regulated business and, on the regulated networks side taken the step to say, 'Well, in theory, we would like to have competition in generation and retail so, therefore, regulate the network in those areas. We do not expect to have competition in generation and retail in the remote and Indigenous areas, so we have not had to worry about that so far'. That, to me, is a gap issue. At some stage, the questions you are asking need to be, perhaps, surfaced. However, at present, we do not have a role in that space so, like the gap in generation, whether it is left to some other forces or regulation still needs to be sorted out.

On the demand management issue, that is an area – when I first was involved with the Commission, which is now four-and-a-half years ago – it was a clear gap. When we started talking

to Power and Water, a Power System Review was done, but it was a very superficial review. We immediately put a lot of emphasis, at that stage, on to things like demand management, incident reporting, of which there was none, and some of the operational dimensions linked to how they were running the generators.

The demand management side has improved steadily every year. We do not do the analysis ourselves in this area, we draw in expert consultants. Those expert consultants went through Power and Water. Power and Water's feedback was, 'Gee, that was helpful', because they learnt some techniques. They started to apply them, then the next year we got the consultants to focus on 'let us move the techniques a bit closer to the national market techniques'. Power and Water has responded positively each time and, now, we are starting to see that the techniques and the information is starting to come up to scratch, but they are still just getting there.

You have this transition that has been going on over the last few years in important areas like demand analysis and incident reporting, and some of the operational drivers. Because we have been putting the focus on, we have been seeing, steadily, improvements in the way Power and Water is doing it, but it is still coming from a long way back.

**Dr WALSH:** You had a question on, I think – or part of that question related to the sufficiency of fuel supply for electricity generation. Our analysis of that is, even under the so-called multiple contingencies, there is sufficient fuel to – that is, obviously, largely gas supplemented by diesel as required – to maintain electricity supply over the forecast 10-year period. That is a positive outlook.

Peter, I do not know whether you wish to add to that.

**Mr CALDWELL:** Just saying that an analysis done in 2011-12 did not have regard to diversion of gas to Gove because it was not a settled matter at that time. Of course, our analysis this year will not either because it is a settled matter in another way. Certainly, Power and Water has adequate gas at least for the 10-year review period, and probably much longer.

**Mr ROBSON:** And back-up strategies, even if the gas were to fail.

**Mr CALDWELL:** They have back up strategies with Darwin LNG. With diesel, they are negotiating, we understand, with INPEX. We think they will have plenty of sources. They have recently purchased a small amount of gas from a gas field near Alice Springs. It was more for quality reasons than quantity, but that has also added to the supply capabilities.

**Mr McCARTHY:** In that environment, it is my opinion we need a trigger to get exploration going, to really bring those reserves online. Without a trigger. we are in a holding pattern, are we not, and ...

**Mr CALDWELL:** One of the issues about the Territory which is probably the point you are making, Mr McCarthy, is this is an undeveloped market. If Power and Water buys gas, then it buys the gas field. There is not really a lot of gas left over for other purposes, and that has always been a

problem here. The contracts have been negotiated for very long periods to consume the entire gas in the field.

This is, potentially, an issue for generation competitors to Power and Water, although I expect if Power and Water is rational – which I hope they are, and think they are - they would be willing to sell gas to a competitor if it was needed.

**Mr CHAIR:** We will only keep you a few more minutes. You answered a question before about price keeping the demand down, and so forth, and you have answered a bit around the off peak. Is there any other regulatory regime that would have the same impact on the usage? I am looking at the demand side of it.

**Dr WALSH:** In my opening statement, I suggested the key, arguably, is to ensure prices overall are reflective of efficient costs, which will drive appropriate decision-making by consumers, to the extent that is not the case. Then, there is a question as to whether it is really worth worrying about peak versus off-peak. You ought to actually try to ensure that, overall, your average prices are cost-reflective.

We do not have any significant role in this question of peak versus off-peak. That said, the regulatory regime, particularly for networks, should assist in driving use of demand management techniques as an alternative to network augmentation.

In a sense, that is a matter of Power and Water having a network planning process that is transparent and which forecasts network constraints that are emerging over the forecast period - it might be five years, for example – and which seeks proposals for remedying those network constraints. Typically, that might involve reinforcing the network, but there may be other options; for example, so-called embedded generation which is often thought of as a demand management technique. However, there are other techniques as well, and that could include direct control of air conditioners, for example, which has been trialed in other jurisdictions.

The network planning process ought to be a good mechanism to at least provide the opportunity for demand management techniques to be considered alongside, if you like, the conventional techniques for augmenting electricity networks. Clearly, we have a significant regulatory role in relation to networks, principally through the pricing determination, but we are encouraging Power and Water to be more transparent in its planning processes of networks, and to annually release network management plans which will, in part, provide an opportunity for consideration of demand management techniques.

**Mr McCARTHY:** It is nice to know that prices will determine behaviour. It reflects middle Australia. When we have a significant population in the Northern Territory on fixed incomes, then it is a matter of freezing in the dark, isn't it? When the power card runs out there is no electricity. If we only exist on that platform, letting those market forces decide it, we are disadvantaging a significant area of the ...

**Dr WALSH:** I said earlier the one thing I believe is lacking in the Territory is a robust consumer protection regime. That exists in every other Australian jurisdiction. Increasingly, it is under what

is called the National Energy Customer Framework, which has now been adopted in Tasmania, the ACT, South Australia, New South Wales, and Victoria will shortly also move to adopt it. Even in Queensland and WA they have their own jurisdictional arrangements. These are significant regimes to protect, particularly customers who may be disadvantaged and are having trouble paying their bills. It is not easy for retailers in those jurisdictions to disconnect them for failure to pay. There is an extremely lengthy process that has to be gone through. However, there is a range of other customer protections that are in place as well.

It is absolutely the case that if you do move to a regime of cost-reflective pricing - there are some strong arguments to suggest that is in the interest of the Territory and, ultimately, in the long-term interest of Territory consumers – it will help to promote investment. That needs to be supplemented with a decent consumer protection regime, and that does not exist in the Territory at present.

**Mr ROBSON:** There are a lot of quite sophisticated demand management techniques being trialed all around the world – western world, particularly. Those trials of demand management are in jurisdictions where they have already gone through the market development competition framework largely, and have cost-reflective pricing because they are essentially trialing things that will signal to the consumer when there is a constraint in energy supply and one component of that is the price. However, the price has to be true and something the consumer is exposed to.

In the Territory, when you have generation costs where we do not have transparency to know the real cost or the efficiency of generators – the generation costs in proportion to the total that the consumer sees are double the costs experienced throughout the national electricity market. In the national electricity market, the generation component of the end use price is 35% to 40%. Of that end use price in the Territory, it is around 80%.

When you add a network price - and in proportion the network price here is not going to be a lot different to the network price in any other jurisdiction because the technology is the same, the skills are the same, the things they are trying to do are the same proportionate to the size, and in those other jurisdictions the network price is roughly 45% to 50% of the end user price. You start adding that to the 80% you have on the generation price, and add a little more for retail, then the CSOs that are bringing it back to whatever the government wants to set as a final consumer price is camouflaging a lot of price signals.

It does not matter what you do in demand management, if the consumers are not going to see the price signals then they are not going to respond. It does not matter how sophisticated the technique is you might put in with technology or whatever.

**Mr CHAIR:** You mentioned earlier you are doing the ...

**Mr KURRUPUWU:** I live in a remote community outside the 99-year lease. I live outside – but the power runs through the bore field. It is not far - the power connected to my area. Perhaps every 10 years – I have never received any Power and Water receipts. The only time I receive is 10 years' time and it goes up to \$10 000. I have bills to pay – \$10 000 – and I was shocked when I received this power bill.

**Mr McCARTHY:** Is that an outstation you are talking about, Francis.

**Mr KURRUPUWU:** Outstation, yes.

**Mr McCARTHY:** All right, an outstation.

**Dr WALSH:** It should not happen, should it?

**Mr McCARTHY:** Is it a Power and Water bill or are you paying into ...

**Mr KURRUPUWU:** Power and water bill.

**Mr McCARTHY:** To Power and Water, or are you paying to an Aboriginal organisation?

**Mr KURRUPUWU:** It is a Power and Water bill and they told me I could pay \$3000, but still I have not been consulted ...

**Mr ROBSON:** This is another part of the gap in consumer protection. Where does Francis go with that? As a customer he has a complaint.

**Mr KURRUPUWU:** Today I do not receive any power bills, so later on I will probably get a big bill.

**Mr ROBSON:** Yes, unfortunately we do not have a role in that.

**Dr WALSH:** Yes, as I said at the outset, our role is limited. We do not have unvetted powers to decide that, for example, there ought to be a customer protection regime in the Territory and we are going to do something about it. We do not have that power. We would need to get, via regulation for example, perhaps the power to make a retail code which provides a customer protection regime for the Territory.

I believe that is coming to the Territory. I believe, one way or another, it will be here in the next few years, possibly through the National Energy Customer Framework.

**Mr CHAIR:** You said earlier you are doing a review of the wholesale electricity market arrangements over 18 months or ...

**Dr WALSH:** That was the network price determination.

**Mr CHAIR:** The wholesale market report, do you know when that will be ready?

**Dr WALSH:** That was referred to us relatively recently and is proceeding very quickly. We will have a draft available for comment by Christmas. Within three weeks we are scheduled to release a draft report for public comment on some proposals or ideas for new wholesale market arrangements for the Territory. A final report has to go to the Treasurer by February 2014, so there would be a two-month period for public consultation on the draft. That report would be tabled

in parliament. It has been referred under Part 7 of the *Utilities Commission Act* which sets out a process for these inquiries which includes tabling of the report in parliament, so it will certainly be a public report.

**Mr CHAIR:** When was that back to the Treasurer?

**Dr WALSH:** By the end of February 2014 the report is due to be with the Treasurer, but there will be a draft release in a few weeks for public comment.

**Mr CHAIR:** Thank you very much for that. I am sure we will get you back again. I can positively say we will get you back again.

**Dr WALSH:** Yes, about April would be good because we will have a variety of new reports available.

**Mr ROBSON:** As we have commented to the Treasurer before, we are from the regulator and are here to help.

**Mr CHAIR:** Thank you very much.