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Review of Essential System Services in the Northern Territory's Regulated Electricity Systems – Draft Position Paper

Jacana Energy (Jacana) welcomes the opportunity to comment on the draft position paper reviewing Essential System Services (ESS) in the Northern Territory (NT).

In its response to all market reform proposals, Jacana Energy considers that the reforms should achieve the following objectives:

1. a more efficient electricity market;
2. greater transparency of cost allocation; and
3. a level playing field for new entrants.

With these objectives in mind, Jacana Energy is supportive of the intent to facilitate more competitive provision of essential services outlined in the draft position paper (including the proposed service types defined in section 2.4) and provides the following comments for consideration by the Design Development Team.

1. Context and Approach- Generator Performance Standards

With the revised GPS still not yet sufficiently tested, the relationship between GPS outcomes and ESS provision needs to be considered further. It could be argued that the revised GPS already drives a partial 'causer pays' approach that will go some way to addressing system instability driven by increased renewables penetration. This means that renewable proponents are responsible for the provision of ESS as part of the supply of energy, with the associated costs built into the price paid by off-takers (such as retailers like Jacana Energy) through bilateral contracts.

One of the benefits of the introduction of an ESS market is that ESS to support increased renewable penetration can be procured independently of energy supply, potentially at lower prices. An ESS market also has the potential to provide a new revenue stream for generators with the capability and capacity to supply ESS from existing assets.

This means that the current GPS provisions are effectively replicating the provision of ESS, with the cost of this service embedded within the bilateral energy price. Jacana Energy argues that this is not a transparent or efficient way to price ESS services and questions whether the GPS requirements should be reviewed following the establishment of the ESS market.

Alternatively, generators subject to the new GPS requirements should have a mechanism to be adequately compensated for the services they are providing without necessarily having to tender separately in the ESS market.

Without such a mechanism which makes the provision of these services under the GPS requirements transparent and appropriately valued, there is potential for an ESS market to exacerbate the oversupply of capacity within the Northern Territory Electricity Market (NTEM) and subsequently drive up energy costs. Therefore, this approach does not underpin a least-cost investment strategy with potential to furnish an oversupply or duplication of generation capacity, where GPS requirements and ESS obligations overlap.

2. Service requirements

In the absence of other arrangements, Jacana Energy would support the transparency and oversight brought by a review process of ESS requirements by the Utilities Commission, but suggests that an annual ESS Plan does not provide adequate timeframes for the procurement and provision of such services.

Consistent with the discussion at the stakeholder workshop held on 25 February 2021, Jacana Energy is supportive of a multi-year planning horizon that provides sufficient investment signals, coupled with an annual review process, all of which is overseen by the Utilities Commission.

Jacana Energy would also prefer that there is a mechanism for public consultation built into the planning process, but understands the need to balance this with a timely and efficient review process.

3. Service provision framework

While Jacana Energy accepts the initial practicalities of procuring ESS through bilateral contracts in a small market like the NTEM, the draft position is not currently sufficient to drive lowest cost provision of ESS. Under the proposed arrangement, there is no obligation on the System Controller to procure ESS from any other provider other than T-Gen. Given any ESS procurement process adds cost and complexity for the System Controller and the inherent interdependency that still exists between System Control and T-Gen on the provision of ESS, it is unlikely that the System Controller will seek alternative ESS unless required to do so, particularly if they believe that the existing ESS arrangements are sufficient for maintaining system security.

To address this issue, Jacana Energy strongly recommends that this approach be reconsidered to include an obligation on the System Controller to demonstrate first that the procurement of ESS from T-Gen is the most efficient option available. This could be completed through a small scale EOI process rather than a full tender or reverse auction process, or supported by a review process undertaken by the Utilities Commission.

In addition, while the draft position does not necessarily preclude retailers from participating in an ESS market, it is important to acknowledge the relationship between the GPS requirements, the proposed retailer capacity obligation and provision of ESS. As discussed above, the cost of generator compliance with the revised GPS will ultimately be passed through to retailers through bilateral energy contracts, who will be able to package up the provision of ESS alongside the procurement of capacity to meet their capacity obligation. This presents an opportunity for retailers to procure ESS alongside energy and capacity requirements in accordance with System Control requirements, thus negating the need for the System Controller to undertake a more costly tender process.

4. Administered pricing arrangements and market power mitigation

While Jacana Energy welcomes the opportunity to review the rate paid to Territory Generation (T-Gen) for ESS by other generators in the short-term, the implications of revising this rate prior to, or in the absence of, any further ESS reforms needs to be carefully considered.

The true cost of default essential service provision by T-Gen is currently built into the bundled energy price and passed through to retailers. Without sufficient transparency around the costs of providing essential services and a mechanism to trigger the separation of these charges from energy (and ultimately capacity) costs, the true costs of essential service provision is difficult to determine and measuring efficiency gains becomes almost impossible.

Consequently, Jacana Energy supports a direct transition to prescribed ESS standards and requirements with published administered prices for default services provided by T-Gen. In the absence of any further market information, these prices can be used as a benchmark by retailers to negotiate bilateral contracts with generators.

5. *Cost allocation and settlement*

Jacana Energy provides in-principle support to the concept of a causer pays ESS arrangement, but acknowledges that further work needs to be undertaken to demonstrate the best approach to identifying, allocating and settling ESS. Jacana Energy also acknowledges the technical limitations around metering and service identification that need to be resolved for the causer pays method to function properly. Consequently, Jacana Energy would welcome additional consultation on the allocation and settlement process once developed.

It is also important to acknowledge that retail electricity tariffs are highly regulated for all but a few hundred large commercial customers in the NT. Retailers are currently unable to pass through ESS costs attributable to customers to the majority of customers. While Jacana Energy is optimistic about the efficiencies that can be gained through the creation of an ESS market, without retail tariff reform and consideration of community service obligation impacts, there is the potential for unanticipated consequences.

6. *Implementation*

Jacana Energy is broadly supportive of the intent to align with the NT National Electricity Rules and the SCTC and Network Technical Code where appropriate. Jacana Energy also recognises that the implementation of market reforms is never perfect in practice and advises that there should be sufficient opportunities built into legislation and regulation for public consultation and review of the reforms in the short, medium and longer term.

In addition to the legislative and regulatory changes, Jacana Energy strongly recommends that institutional arrangements for the delivery of the full suite of market reforms are carefully considered. Given the significance of the reforms to the NTEM, there is a need for roles and responsibilities and any gaps in these to be identified and resolutions clearly articulated and understood.

Thank you for the opportunity to comment on the draft position paper. Please don't hesitate to contact Jacana Energy should you have any further queries.

Yours Sincerely



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