

29 September 2023

REFERENCE NUMBER

Our Ref: 60:D23:6748

By Email: market.operator@powerwater.com.au

Dear NTESMO

Jacana Energy Response - NTESMO Revenue Proposal Consultation Paper 2

Thank you for the opportunity to make a submission in response to the Northern Territory Electricity System and Market Operator's (NTESMO) regulated charges for period commencing 1 July 2024 (Revenue Proposal) Consultation Paper 2 released by the NTESMO on 23 August 2023.

In general, Jacana Energy does not believe the proposed cost recovery should be sought from customers and does not support NTESMO's Revenue Proposal for the key reasons detailed below.

- Retrospective cost recovery should not be borne by customers given the drivers of these costs were foreseeable and should have been factored into previous proposals.
- The revenue proposal is heavily focused on the recovery of historical costs, however there is limited detail provided on step increase to baseline annual revenue (excluding cost recovery). Jacana Energy note that NTESMO's baseline revenue is proposed to step from \$11.2 million in FY25 to \$20.8 million and \$21.8 million in FY26 and FY27 respectively. Jacana Energy is concerned that the baseline is doubling every determination period and that there is a growing misalignment of costs comparative to other jurisdictions. The cost drivers for which cost recovery is being sought do not adequately meet the principles proposed by NTESMO for cost recovery.
- The benefits to market participants and customers achieved through the unrecovered expenditure have not been adequately defined.

Refer to Attachment A for detailed responses to the Revenue Proposal.

Yours sincerely

A handwritten signature in black ink, appearing to read "Louisa Kinnear".

Louisa Kinnear
Chief Executive Officer
Jacana Energy

Attachment A: Jacana Energy Response to NTESMO Revenue Proposal Consultation Paper 2

NTESMO Consultation Paper 2: Questions	Response
Chapter 1: Background and context	
<p>1. What further background information would be useful to include in our upcoming regulatory proposal in December 2023?</p>	<p>Jacana Energy note the following opportunities to enhance the background section of the paper:</p> <ul style="list-style-type: none"> • Providing information on how the charges compare to other jurisdictions (i.e. is the ‘about 2 per cent’ of energy bill for major customers similar to other jurisdictions?). • Explaining why the loss in value of an 8-hour outage was used, particularly in the absence of a legislated reliability standard, and providing further relevant context such as: <ul style="list-style-type: none"> ○ How many 8-hour outages have occurred in the past 5 years, including the region and number of customers impacted? If none, what is the actual outage metric that has been achieved. ○ How the value has been derived? • Provide details of the longer-term vision for NTESMO, such as: <ul style="list-style-type: none"> ○ What are the key goals / objectives of NTESMO? ○ What is NTESMO’s 10-year plan? ○ How do costs look beyond the current period? Does the investment result in a future decrease in costs to customers? • Provide greater detail on the benefits received by market participants as a result of the unrecovered expenditure incurred since 2019. • Provide greater detail for the basis of the assumptions for the previous determination period which were ultimately incorrect and led to additional costs. • Providing further detail around the mechanism for which costs would have been recovered, (e.g. “triggers”) and the parties involved in crafting the mechanism for cost recovery.
<p>2. Should we include a concise plain English ‘customer overview’ to accompany our regulatory proposal?</p>	<p>Jacana Energy is of a view that this would be beneficial for both customers and stakeholders.</p>

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Chapter 2: Stakeholder feedback	
3. Do you support NTESMO’s consultation approach, including publication of consultation papers and workshops?	In general, Jacana Energy support the approach to consultation, noting the points in question 4 below.
4. How can we improve our engagement going forward?	<p>Jacana Energy notes that stakeholder engagement can be improved by:</p> <ul style="list-style-type: none"> • Holding individual meetings with key stakeholders. • Providing more granular cost recovery data (for example, apportioning the amounts across the various cost drivers). • Providing options for individuals to attend the workshops virtually. • Condensing the workshops / providing shorter sessions. • Providing greater transparency of market participants invited to attend Peoples Panels forums and the level of engagement from the invitees. • Performing engagement throughout the determination period so that customers / stakeholders can be provided with greater foresight of future cost increases.
Chapter 3: Framework and approach	
5. Are there any elements of our preferred positions that NTESMO should re-consider and why?	<p>Jacana Energy believes the preferred position to maintain the current approach to charging structures provides transparency to customers.</p> <p>Jacana Energy note that alternative arrangements where a portion of recovery is sought from generators is unlikely to serve any benefit to customers, as generators would ultimately pass on these costs. For customers, this would likely reduce the transparency of charges they are incurring.</p>
Chapter 4: Charges and bill impacts	
6. Do stakeholders consider it fair for NTESMO to recover a shortfall in approved revenue and why?	<p>Jacana Energy does not consider the proposal to be either ‘fair’ for customers or ‘reasonable’ for the following reasons:</p> <ul style="list-style-type: none"> • NTESMO provide to the Utilities Commission an annual pricing proposal. NTESMO therefore should have been in a position to reflect on and adjust (if required) pricing in a more proactive manner.

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	<p>Further, NTESMO should have been more proactive in sending signals to the market regarding future price increases if recovery in the prior period was not possible.</p> <ul style="list-style-type: none">• The timing of the cost recovery and period of recovery being sought is inconsistent with other jurisdictions. Further, it is Jacana Energy’s understanding that if the revenue proposal had been revised during the last period, for example, as triggered by the introduction of NTEM, the resulting revision to pricing would not have recovered retrospective costs incurred earlier in the determination period, and therefore the costs incurred up to that date would not have been recoverable through a pass through. It is therefore inconsistent to seek retrospective cost recovery now through cost pass through to customers and instead alternative recovery mechanisms should be sought.• The proposal does not provide adequate information to support the successful application of the principles put forward by NTESMO for seeking recovery of a shortfall in costs. From Jacana Energy’s assessment, it appears unreasonable to determine that cost drivers meet the principle of ‘Reasonably not foreseeable or certain’. See Jacana Energy’s response to question 8 for further details.• There is a lack of transparency of cost pass through for contingent projects. It is unclear what costs are being included and whether there are expenditure caps (i.e. if recovery is sought for project costs that are yet to be completed, what is the total forecast project expenditure and is there a limit to what can be recovered).• There has been a significant increase in NTESMO costs since 2018. Jacana Energy note that in the Western Australia Wholesale Electricity Market (WEM) market operator costs represent about 0.5% of the cost base of electricity bills, whereas here in the Northern Territory they are about 2%. Jacana Energy note that NTESMO’s revenue stepped from \$4.3 million in FY18 to \$9.7 million in FY19, and is now proposed to step from \$11.2 million in FY25 to \$20.8 million and \$21.8 million in FY26 and FY27 respectively. Jacana Energy is concerned that the baseline is doubling every determination period and that there is a growing misalignment of costs comparative to other jurisdictions. <p>NTESMO should clarify in its proposal whether any measures or alternative approaches could have been taken to avoid the unrecoverable costs growing since 2019, which is a long period for no action to be taken. For example, NTESMO note anticipated regulatory changes to occur in 2021 was to be a trigger for review, however as this trigger did not occur it appears NTESMO remained passive in any cost recovery measures. Further, NTESMO should also clarify what of the retrospective costs were deferrable and what of the costs were unable to be deferred, linking this back to the cost/benefit for customers and aligning this to each</p>
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financial year. It is unreasonable for a new commercial customer entering the market now to have to pay for costs that could have been avoided 3 years ago.

Jacana Energy believe is it prudent that NTESMO undertake a longer term forecast beyond 2027 so that a normalised cost can be determined, so that it is clear to market participants what portion of the cost could not be deferred and the related benefit for the customers resulting from the new investments.

Jacana Energy is also concerned with the signals being sent to customers, if this year they are being provided with energy relief funding from the Federal Government and then in future years they are going to be charged thousands of dollars more for expenditure that was incurred over 5 years ago.

Comparison to other jurisdictions Cost recovery relating to AEMO's role in the WEM

Given that the proposed increase in NTESMO's charges for the 2024-25 to 2026-27 regulatory period are substantial and are related to overspends of NTESMO during the 2019-20 to 2023-24 regulatory period, Jacana Energy is of the view that there is merit in considering how AEMO's expenditure for its market operator role in Western Australia is regulated given that it is a similar role to NTESMO's role in the Northern Territory.

AEMO performs system and market operations in the South West Interconnected System in Western Australia. The Economic Regulation Authority (**ERA**) determines funding for AEMO to execute its functions under the Wholesale Electricity Market Rules (**WEM Rules**) and AEMO recovers its costs from market fees from market participants. In accordance with the WEM Rules, every three years, AEMO must develop an '**Allowable Revenue**' (i.e. the allowable revenue for AEMO performing its functions) and '**Forecast Capital Expenditure**' (i.e. the predicted sum of capital expenditure required for a Review Period) proposal for its spending for the upcoming three year period (i.e. a **Review Period**) which is reviewed by the ERA and the ERA then determines AEMO's funding for that Review Period. During this process, AEMO and the ERA are required to comply with the proposal guidelines issued by the ERA in accordance the WEM Rules (**Guidelines**).

Under the WEM Rules and Guideline framework AEMO is required to annually report on its expenditure to provide:

- a) transparency as to how AEMO's actual expenditure is tracking against its approved forecast expenditure; and
- b) accountability in how AEMO expends funds and recovers expenditure through the market.

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	<p>During this annual reporting process, where the revenue earned for the functions performed by AEMO via market fees in the previous financial year is less than AEMO's expenditure for that Financial Year, AEMO's current budget must take into account the difference between AEMO's Market Fees revenue and AEMO's expenditure in the previous financial year, by increasing the budgeted revenue by the amount of any revenue shortfall.</p> <p>Further, during this process if it becomes apparent that AEMO's budget is likely to result in revenue recovery over the current Review Period of:</p> <ul style="list-style-type: none">a) in respect of the Allowable Revenue, an amount over the threshold specified in clause 2.22A.12, then AEMO is required to apply to the ERA to reassess the Allowable Revenue for that Review Period; and/orb) in respect of the Forecast Capital Expenditure, an amount over the threshold specified in clause 2.22A.13, then AEMO is required to apply to the ERA to determine the adjusted Forecast Capital Expenditure for that Review Period <p>In addition to the above, rule 2.22A.14 of the WEM Rules enables AEMO to apply to the ERA at any time during a Review Period, for additional costs to be considered by the ERA as part of the Allowable Revenue and Forecast Capital Expenditure for that Review Period. Further, AEMO is only able to apply for additional costs to be considered by the ERA they must fall into the following categories:</p> <ul style="list-style-type: none">a) for the Allowable Revenue:<ul style="list-style-type: none">i. costs previously rejected by the ERA;ii. new costs for new projects or new functions conferred on AEMO since AEMO's proposal for its Allowable Revenue for the current Review Period was submitted; andiii. costs which were not able to be estimated with reasonable confidence at the time the Allowable Revenue for the current Review Period was submitted; andb) for the Forecast Capital Expenditure:<ul style="list-style-type: none">i. costs previously rejected by the ERA;ii. new costs for new projects or new functions conferred on AEMO since AEMO's proposal for its Forecast Capital Expenditure for the current Review Period was submitted; and
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	<p>iii. costs which were not able to be estimated with reasonable confidence at the time of the Forecast Capital Expenditure for the current Review Period was submitted.</p> <p>Where AEMO submits such an application, there is a process that the ERA must follow to assess, and make a determination in relation to, AEMO's application.</p> <p>Jacana Energy is of the view that NTESMO should be monitoring its costs and expenditure more closely and that the Northern Territory would benefit from NTESMO being required to comply with regulatory proposal requirements similar to those that AEMO is required to comply with in WA.</p> <p>Cost recovery re AEMO's role in the NEM</p> <p>In addition, Jacana Energy also thinks it is important to note that in relation to its market operator role in the National Electricity Market, AEMO also funds those operations through market participant fees and that it:</p> <ul style="list-style-type: none">a) publishes its budget and fees annually on its website; andb) consults with the Financial Consultation Committee¹ which was established in 2023 to consider and provide feedback on the development of AEMO's budget and is made up of various stakeholders in the industry. <p>Further, as a company limited by guarantee (noting that AEMO's members fall into two categories, Government members² (60%) and Industry Members³ (40%)), it is required to comply with its Constitution which provides that, in relation to AEMO's budget:</p> <ul style="list-style-type: none">a) no later than one month before the commencement of each financial year, the Directors must prepare and submit to Members, a draft annual budget relating to that financial year.b) the Directors must consider any comments on the draft annual budget which are submitted by Members to the Secretary within one month of the commencement of the AEMO's financial year; and
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¹ The current members of AEMO's Financial Consultation Committee are from the following industry stakeholders, TransGrid, Energy Queensland, Pacific Hydro, Hydro Tasmania, Engie Australia and New Zealand, Synergy, Energy Consumers Australia, Energy Users Association of Australia and two observers from the Department of Energy, Environment and Climate Action and the NSW Department of Planning, Industry and Environment. See <https://aemo.com.au/consultations/industry-forums-and-working-groups/list-of-industry-forums-and-working-groups/financial-consultation-committee>

² AEMO's Government Members are currently the Commonwealth Government, the ACT, the State of NSW, the State of Queensland, the State of SA, the State of Tasmania, the State of Victoria and the State of WA. See <https://aemo.com.au/en/about/our-people/our-members>

³ In AEMO's 2022 Annual Report, AEMO listed 117 Industry Members. See page 87 at https://aemo.com.au/-/media/files/about_aemo/annual-report/aemo-annual-report-2022.pdf?la=en&hash=2CAFCA498838FA9552A8CFA6E50EFB11

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	<p>c) following consideration of Member’s comments (which may be adopted or rejected by the Directors in their discretion), the Directors must issue a final Annual Budget within three months of the commencement of AEMO's financial year.</p> <p>Whilst AEMO's budget in relation to its NEM role is not heavily regulated like its budget in relation to its WEM role, it is monitored on an annual basis and transparency is achieved through the involvement of the Financial Consultation Committee and its Members.</p>
<p>7. Do customers support our approach to allocate Rule development, NTEM reform advice, and managing renewables expenditure to System Control, unless there is a clear link to the market operator function?</p>	<p>Jacana Energy is supportive of NTESMO performing a role in rule development, NTEM reform advice, and facilitating renewable energy integration into the Northern Territory. However, Jacana Energy is concerned whether it is in fact NTESMO performing these duties or whether it is Power and Water Corporation. It has been noted within Consultation Paper 2 “<i>A key reason for the delay in developing our NTESMO proposal was limited regulatory resources while we simultaneously prepared our proposal to the AER for electricity network services.</i>”, highlighting the material reliance on resources that sit outside of NTESMO for regulatory support and the prioritisation of network services over System Control. This does raise concerns that in NTESMO’s role the best interest of Power and Water Corporation may achieve priority over the best interest of market participants.</p> <p>Jacana Energy is supportive of market reform that sees the separation of NTESMO from Power and Water Corporation, however, note should this separation occur, continued sharing of resources (in particular regulatory resources) with Power and Water Corporation could limit the functional independence the separation is designed to achieve.</p>
<p>Chapter 5: Drivers of higher costs</p>	
<p>8. What further information should we provide in our regulatory proposal to explain our cost drivers?</p>	<p>Jacana Energy is of a view that the cost drivers do not meet the principle of ‘<i>Reasonably not foreseeable or certain</i>’ and notes there is limited information to allow readers of the proposal to determine prudence and efficiency of associated expenditure.</p> <ul style="list-style-type: none"> • Transition to renewables: Power and Water Corporation is responsible for handling all new and existing generator connections to the grid, and therefore Jacana Energy believe that Power and Water Corporation would have good visibility of renewables investment in the Northern Territory. Further, the Northern Territory Government committed in 2017 to the 50% renewables target by 2030. It is therefore unreasonable to say that NTESMO was not able to foresee the accelerated growth of renewables.

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	<ul style="list-style-type: none"> • Settlement complexity: The explanation for increased settlement complexity focuses on an increase in smart meters. Power and Water Corporation are responsible for smart meter rollout and therefore it is unreasonable to say that this was unforeseeable. • Supporting Rule changes and NTEM reform: NTESMO noted its revenue proposal for the 5-year period FY19-FY23 was not revised in a more proactive manner due to as market reform was an anticipated trigger for review. Therefore, NTEM reform expenditure was foreseen. <p>Further, Jacana Energy believe that greater evidence could be provided to support that increased personnel costs and corporate cost allocations were efficient, economic and effective. In particular, Jacana Energy questions whether the increased investment in technology has translated into efficiencies around other corporate costs that should drive a cost reduction.</p>
Chapter 6: Options to mitigate bill impacts	
<p>9. Do you agree with the principles for seeking recovery of a shortfall in costs?</p>	<p>In general, Jacana Energy agrees with the principles used for seeking recovery of shortfall costs. Jacana Energy does however have concern over the application of the principles, as the revenue proposal provides no transparency over how these principles have been applied to derive the amounts being sought. Further, Jacana Energy disagrees that the cost drivers provided meet the principles for seeking recovery (refer to question 8 response).</p>
<p>10. Are there any other principles we should consider?</p>	<p>An additional principle to consider is:</p> <ul style="list-style-type: none"> • Community Service Obligation: was the expenditure incurred implementing government social policy.
<p>11. Do stakeholders agree that we should consider deferring revenue recovery to future periods?</p>	<p>Whilst Jacana Energy is of a view that these costs should not be recovered from customer, should they be recovered, Jacana Energy is of a view that a longer recovery period would reduce the impact on customers.</p>
<p>12. Do customers have a preferred option on the amount of deferral?</p>	<p>Jacana Energy does not have a preferred amount (number of years) of deferral, however suggests it would be appropriate to have consideration to the expected years of benefit from such investments and customer affordability.</p>