

Samantha Byrne
Senior Director
Department of Treasury and Finance
Utilities Reform unit
By email

29 March 2019

Dear Sam,

NORTHERN TERRITORY ELECTRICITY MARKET CONSULTATION

We refer to the Northern Territory Electricity Market Consultation Draft Functional Specification (Market Documents) released for consultation and requests for submissions by the Department of Treasury and Finance (DTF). This submission is written from a private sector investor perspective.

Infrastructure Capital Group (ICG) has over 18 years' experience as an investor and operator of energy assets in Australia, through acquisition, project construction, asset management and debt arranging as investment manager of its various infrastructure funds. ICG is one of Australia's largest renewable energy investors and asset managers, having invested in over 450MW of renewable projects over the past 10 years across the National Energy Market (NEM) and the Western Australia Energy Market (WEM). ICG retains an office in Darwin and would be a natural investor in assets that would operate in the Northern Territory Electricity Market. ICG has reviewed the market documents released by DTF from that perspective.

The development and operation of an effective electricity market is a significant undertaking and we recognize the need for thorough and detailed workings being pursued by DTF. Our comments in this submission, however, relate only to the commercial and policy objectives of the market reforms, which we understand is to lower the wholesale price of electricity and to meet the 50% renewables target set out in the Road Map to Renewables.

The Market Documents include a dispatch and settlement system that is based on short-run marginal cost of participating generators. This approach is likely to be appropriate for ensuring economic efficacy at the point of dispatch and to ensure the most cost-effective generators run at a given point of time. However, this approach alone does not recognize the capital cost of developing and constructing the generation asset. Capital cost is the primary cost associated with the development of renewable generation and to attract investors a market mechanism will be required to provide greater certainty of capital return. One potential mechanism, such as a Power Purchase Agreement (PPA) with a creditworthy counterparty, as envisaged in the Road Map to Renewables, would attract investors. This mechanism, subject to the terms of the PPA, would likely attract private sector investment, result in the lowest levelized cost of energy in the NTEM and facilitate strong progress toward the 50% renewables target.

The NTEM would be roughly 10% the size of the WEM, and only 1% of the NEM. At such a size, private sector participants would have significantly less scope to manage market and price risk in the NTEM than in other markets. Without revenue (price) certainty, private sector investment in renewables and the benefits that result from that is unlikely to occur.

We look forward to observing the market reform process continue, and would be happy to discuss this letter or any other matters with you.

Yours sincerely,



Callan Harding

Senior Manager
Infrastructure Capital Group