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Northern Territory Government (NTG)  
Department of Treasury and Finance (DTF)  
Utilities Reform Unit  
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Dear Sir/Madam,

**Northern Territory Electricity Market Consultation Draft Functional Specification**

Jacana Energy welcomes the opportunity to comment on the Draft Functional Specification ('the Specification') for the Northern Territory Energy Market (NTEM).

Overall, Jacana Energy is supportive of the staged reform approach being proposed in the Specification and acknowledges that the proposed changes are likely to have minimal impact on market activity in the immediate term.

Jacana Energy supports the shift away from a gross pool market design given this would have resulted in significant changes to wholesale purchasing requirements, including the need for retailers to operate under financial services licenses.

If implemented successfully, the reform approach will provide a measured way to introduce and monitor critical reform elements to ensure they have the desired impact before progressing further.

Jacana Energy would welcome confirmation of the start date for these market reforms to ensure industry participants have sufficient time to prepare.

In responding to the Specification, Jacana Energy has considered a series of outcomes that it believes should result from the proposed energy market reforms and has structured its response around these outcomes:

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

## 1. A more efficient electricity market

### 1.1 *Transitional arrangements*

In order to ensure the staged reform approach is successful, it is important to make clear the essential reform components that need to be established to ensure the market functions effectively in the short term.

Uncertainty around the timeframes for transitioning from short term to long term design could result in sub-optimal market performance. To ensure that the reforms drive the most efficient outcomes, Jacana Energy believes that the short term market design should go further in addressing aspects of reliability, vesting contracts, capacity and ancillary services as outlined below.

As a point of clarification, Jacana Energy also notes that in Table 2 of the Specification<sup>1</sup>, the key entities making up the Market Rule Maker in the short term should be DTF, *System Controller* and the Utilities Commission. While Jacana Energy would prefer for the System Controller function to be completely independent, this clarification ensures market rule activities continue to be ring-fenced from the other relevant functions within the Power and Water Corporation in the short term.

### 1.2 *Reliability standard*

Jacana Energy welcomes the introduction of a reliability standard that provides a thorough and robust mechanism to assess the timing and volume of system capacity requirements. Jacana Energy believes, however, that a customer focused reliability standard is the most appropriate model to drive optimal market outcomes for all participants and would prefer that a customer focused standard is introduced as part of the short term market design.

As noted in the Specification<sup>2</sup>, initial estimates assume that current generation capacity may exceed the requirements set by a reliability standard. The intent to introduce a generator-focused reliability standard that adopts current generation levels as a transitional arrangement is likely to overstate system capacity requirements and pass through unnecessary costs to customers.

Jacana Energy would prefer that further analysis is undertaken to test the assumptions around excess capacity, analysis which could also form the basis of a customer-focused reliability standard introduced as part of the short term market design.

Jacana Energy notes that in both national (NEM) and western (WEM) markets the market operator is responsible for issuing an annual statement of opportunities (SOO) which forecasts supply adequacy up to ten years in advance, taking into account planned asset retirements. Jacana Energy would welcome a similar approach within the NTEM in order to provide industry participants with further transparency and certainty around future supply requirements. This methodology could then form the basis for determining the reliability standard and subsequent capacity obligations.

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<sup>1</sup> NTEM Consultation Draft Functional Specification, page 9

<sup>2</sup> NTEM Consultation Draft Functional Specification, page 7

### 1.3 Vesting contracts

Requiring transitional (vesting) contracts as part of the short term market arrangements has merit where those contracts are intended to guarantee continuity of supply as well as limit the market power of dominant players during the transitional period. Vesting contract prices that are determined on the basis of the proposed generator-focused reliability standard (ie. n-3) however, substantially increases the risk that customers will pay for excess capacity. To avoid this situation Jacana Energy would prefer that:

- further consideration is given to whether separate capacity obligations are required where load following contracts are in place;
- if capacity obligations are required for load following contracts, an early statement of capacity requirements is made available so they can be incorporated into contracts as soon as possible;
- a timeline is established to allow market participants to accommodate any changes to capacity requirements as a result of a change in the reliability standard; and
- price-setting for vesting contracts is transparent and makes reference to efficient market benchmarks to ensure that customers are not disadvantaged during the transitional period by paying for capacity that is not required.

### 1.4 Capacity

Jacana Energy notes that the transitional arrangements for capacity are unlikely to have a major impact on market participants in the short term, but is interested to understand the next level of detail as to how capacity will be allocated and prices set as this is likely to influence short term market behaviour.

Experience in other capacity markets has been mixed with regards to the provision of accurate and timely investment signals. As the Specification acknowledges<sup>3</sup>, there is a need for the capacity price to be responsive in situations where forecasts do not result in an accurate reflection of the supply-demand balance.

In addition, Jacana Energy is seeking further clarity around the long term market design with regards to the annual reconciliation process for capacity.

The proposed reconciliation process implies that market participants will transition away from load following contracts at an undefined point in time and consequently be in a position to nominate contract volumes to support the reconciliation process. It is unclear how this process might work while portfolio generation still exists and load following contracts remain the norm. In addition, Jacana Energy requests that further detail on how reconciliation is achieved (for example, monetary transfer or reallocation of capacity credits) be provided and the impacts of this considered prior to implementation.

The intent of the reconciliation process is also unclear. If the intent is to make capacity available to new entrants, it is difficult to envisage under the current market design how new retailers could access sufficient energy and capacity in order to supply customers without a bilateral contract in place. It may be unrealistic to assume that the proposed reforms will result in multiple generators supplying multiple retailers, given the design is not based on a gross

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<sup>3</sup> NTEM Consultation Draft Functional Specification, page 33

pool market. As such Jacana Energy suggests that this is one element of the long term market design that may not be required.

### *1.5 Ancillary services*

Jacana Energy believes that the introduction of a competitive ancillary services market is critical to achieving greater efficiencies within the NTEM and is therefore supportive of the proposal to separate out this function. Given the potential for significant cost savings by procuring these services from a broader range of sources, Jacana Energy is keen to see competition in ancillary services introduced as soon as possible. A competitive market is more likely to ensure a lower-cost outcome for customers by incentivising the market to find effective solutions, rather than relying on a single service provider.

Market design must also ensure there is a clear way to distinguish between energy and capacity required to meet demand and energy and capacity required for ancillary services. Jacana Energy requests further clarity as to how these functions will be distinguished to ensure that market participants are not overcharged. One option would be to consider the use of constrained and unconstrained dispatch schedules to determine the ancillary services costs.

In addition, Jacana Energy supports moving towards a 'causer pays' model but would prefer a more cost-reflective approach within the short term. Given a portion of ancillary services costs are usually fixed, the fixed-cost component should be reflected when passing through these costs to customers. As such, Jacana Energy would prefer ancillary services charges to be passed through via a combination of fixed and variable charges as part of the short term design.

Jacana Energy is also seeking further clarity as to whether spinning reserve requirements are determined through the reliability standard or acquired via ancillary services mechanisms, in order to ensure that these requirements are not double-counted, resulting in further market inefficiencies.

## **2. Greater transparency of cost allocation**

### *2.1 Network support services*

Jacana Energy is supportive of the proposal that costs for network support services are borne by the network operator and recognises that this is a significant issue given Katherine Power Station provides these services. Costs associated with this station are currently paid for directly by customers through energy rates, rather than the network operator recovering these costs via the regulated asset base and associated network charges.

Given the significant expense associated with operating this power station Jacana Energy would prefer that these costs are allocated to the network operator as part of the short term design and would welcome consideration of how the network operator could be incentivised to reduce costs associated with this service.

## 2.2 Settlement

### 2.2.1 Energy out of balance

Jacana Energy is supportive of the approach to determine the balancing price but suggests there needs to be strong controls in place (transparency and oversight) into how the price and associated volumes are settled on an ongoing basis. Jacana Energy recommends that further detail around this process should be included in the market design.

### 2.2.2 Loss factors

Jacana Energy requires further clarity around the mechanism for allocating unaccounted for energy across market participants in a net pool market. At present, Jacana Energy carries the balance of non-technical losses, effectively subsidising competitors as a result. Jacana Energy considers this approach to be unsustainable, and requests that the short term market design consider how this imbalance is addressed.

Jacana Energy is aware that in other Australian markets, marginal loss factors can affect generators differently. Further clarity around how loss factors will be allocated to generators is required to ensure that industry participants can assess the impact of transitioning to the proposed arrangements, particularly given there is currently no defined reference node. These reforms could result in an increase in losses, which will have significant implications for retail prices. Jacana Energy therefore recommends that the implications of these changes need be carefully assessed prior to implementation.

## 3. Level playing field for new entrants

The need to ensure that new entrants have a level playing field is an essential component of any new market design. Jacana Energy has approached its review of the Specification with the view that both the short and long term market design should incentivise new entrants based on their ability to provide the required services as economically as possible.

Jacana Energy notes that the cost of large-scale renewable projects has decreased dramatically over the past few years to the point at which it is now one of the most competitive sources of generation available (acknowledging there are still challenges with intermittency and limitations in addressing baseload requirements). In considering how Jacana Energy might meet customer demand into the future, a key consideration is to ensure it can meet customer energy demands in the most economical way possible. As such, Jacana Energy's comments below seek to ensure that the proposed market reforms do not preference one source of generation over another.

### 3.1 *Document hierarchy and generator performance standards*

Jacana Energy is aware of the proposal for the generator performance standards (GPS) to be embedded within the Network Technical Code rather than via network connection contracts. If this is the case, new generators may be required to meet different performance standards than incumbents. Further consideration should be given as to why new generators need to be treated differently and whether the resulting outcomes are consistent with the intent of the market reforms.

### *3.2 Capacity obligation and solar generation*

Jacana Energy welcomes further analysis on the contribution of large and small-scale solar generators in meeting retailer capacity obligations. The current proposal of 5 percent of the nameplate rating seems too low and based on high level assumptions with regards to the impact of cloud cover during peak periods. Jacana Energy would prefer that further evidence-based assessments are undertaken to validate the level of solar output that can be attributed to capacity requirements before capacity obligations are introduced. Consideration should also be given to the climate differences between Darwin and Katherine which will affect solar output in these regions differently.

In addition, Jacana Energy is seeking clarification if the proposed nameplate rating applies to both large and small-scale solar generators. Jacana Energy observes that large-scale behind the meter solar installations are increasing as commercial and industrial customers seek to reduce energy costs. There are now examples of behind the meter solar installations that are collectively larger than some transmission connected solar projects. It will be important that market reforms and network connection policies consider renewables integration in front of and behind the meter.

### *3.3 Generator performance standards and the dispatch process*

Requiring all forms of generation to be scheduled has potential to create inequities between new entrant and incumbent generators as it may not take into account the technological differences between these energy sources. Applying such onerous forecasting requirements for semi-scheduled or unscheduled generation may be seen as adding unnecessary complexity and costs for new entrants and consequently impeding future renewables investment.

As a result Jacana Energy recommends that further work be undertaken to determine how the System Controller can incorporate semi-scheduled and unscheduled generation as part of the dispatch process. More specifically, Jacana Energy is interested in how demand forecasting, the application of the GPS and the dispatch process will be used to operationalise supply requirements 60 minutes ahead using more flexible scheduling arrangements.

Accommodating semi-scheduled generation into the dispatch process not only reduces the barriers to entry for renewable generators but can be used to better manage both dispatch requirements and cost at a portfolio level.

In addition, it appears to be implicit in the Specification that solar generation will need to be constrained off for security reasons, however, this may not be the lowest cost option for the dispatch period. While Jacana Energy understands the need to limit generation for security purposes, there needs to be better alignment between the intent of the market reforms, government policy and network access arrangements in the NTEM. To achieve this, further clarity around network access rights and causer pays arrangements is required to ensure there is a level playing field between incumbents and new entrants.

### *3.4 Contingency Frequency Control Ancillary Services (CFCAS)*

Consistent with the position outlined in section 1.5, Jacana Energy would prefer that all generators capable of providing CFCAS are adequately compensated for providing this service. Jacana Energy does not believe that because a process for assessing and capturing the value of these services does not currently exist, that this should prevent a process from being

developed as part of the short term market design. New entrants should not be prevented from providing these services where they can do so at demonstrably lower cost than current arrangements.

Thank you for the opportunity to comment on the Specification. Please do not hesitate to contact me should you wish to discuss the contents of this letter.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'D Brown', with a long horizontal flourish extending to the right.

David Brown

Acting Chief Executive Officer

**Jacana Energy**

