



Address all correspondence to:
The Utilities Commissioner, GPO Box 915, Darwin NT 0801
Location: Level 9, 38 Cavenagh Street, Darwin
E-mail: utilities.commission@nt.gov.au

Telephone: (08) 8999 5480
Facsimile: (08) 8999 6262
Website: www.utilicom.nt.gov.au

EXTENSION OF APPROVAL OF PROCEDURES PURSUANT TO CLAUSE 5 OF THE ELECTRICITY RING-FENCING CODE

The Northern Territory Electricity Ring-fencing Code came into effect on 1 July 2001. The Code seeks to prevent any business with a statutory monopoly in a regulated industry that is affiliated to a contestable business in upstream or downstream markets from discriminating against a competitor of that affiliated business or from financially or competitively advantaging that affiliated business to the detriment of a competitor of that affiliated business.

To give effect to this objective with a minimum of regulatory cost, the Ring-fencing Code sets out the (high-level) obligations imposed on each business with a statutory monopoly in the Territory's electricity supply industry, with such monopoly businesses then required to develop Procedures that ensure compliance with the business's obligations under the Code in the manner best suited to the nature and circumstances of its operations.

In November 2001, the Commission approved both Accounting and Cost Allocation Procedures developed by Power and Water, with Information Procedures being approved in July 2002. These approvals were subsequently extended, with the latest approvals due to expire on 30 June 2006.

In initially approving the various Procedures, the Commission's approval was subject to Power and Water, in consultation with the Commission, reviewing the Procedures prior to expiry of the approval.

The Commission has now chosen to further delay the foreshadowed reviews of the Procedures under the Ring-fencing Code, to a date to be determined. The Commission has arrived at this decision for two main reasons.

First, the Commission understands that the Territory Government is currently considering if and when the Territory's electricity supply industry is to become subject to the jurisdiction of the new national bodies – the Australian Energy Regulator and the Australian Energy Market Commission. Until such time as the priority to be given to developing nationally-consistent regulatory instruments becomes clearer, the Commission considers it appropriate to place its reviews of the Procedures on hold.

Secondly, the Commission recently engaged the Allen Consulting Group to undertake a review of the cost allocation policies and practices of the Power and Water Corporation. The principal findings of this review were that, while Power and Water has generally implemented a single and internally-consistent model of cost allocation across all its entire businesses, the associated cost allocation and transfer pricing mechanisms are poorly documented. In view of these findings and in order for an effective review of the Cost Allocation Procedures to be undertaken, the Commission's preference is that Power and Water first updates and elaborates documentation of its cost allocation policies and practices.

For these reasons, the Commission has decided to extend approval of the current Accounting, Cost Allocation and Information Procedures under the Ring-fencing Code for an indefinite period. This allows Power and Water to further develop its internal policies and practices, in light of both the likely importance of more rigorous cost allocations under the Australian Energy Regulator's jurisdiction and the findings of the Allen Group Consulting report into its cost allocation policies and practices.

The Commission will consider reinstating reviews of Power and Water's Accounting, Cost Allocation and Information Procedures after the Government decides if and when the Territory's electricity supply industry is to become subject to the jurisdiction of the Australian Energy Regulator and the Australian Energy Market Commission.

Alan Tregilgas
Utilities Commissioner
(for the Utilities Commission)
12 May 2006