



Northern  
Territory  
Government

Department of Treasury and Finance

# Northern Territory Electricity Market Reform

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Information Paper

February 2014

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# Introduction

As part of the 2012 Mini Budget, the Northern Territory Government commenced a program of improving the efficiency of the Power and Water Corporation (PWC) and moving it to a commercially sustainable footing. Since that decision, the Government has announced a further package of reforms with the following two broad components:

- a range of reforms to the regulatory framework governing the Northern Territory's electricity market, to be implemented progressively over the coming 18 months to two years; and
- the structural separation of PWC's monopoly and contestable businesses into stand-alone government owned corporations (GOC) with separate boards, with a view to these arrangements commencing from 1 July 2014.

This paper provides information about the current status of implementation of these (related) reform decisions, and more details of the Government's plans.

## Overview

The reform initiatives being undertaken are key to achieving the Government's overriding objectives for the provision of electricity to Territorians, namely that provision be:

- safe
- reliable
- and at least cost.

The Government's focus is on pursuit of the **long-term** interests of Territory consumers; specifically, in relation to 'safety, reliability and cost'.

These have been the overarching objectives of similar reforms implemented in other states since the 1990s, and currently underpin operation of the National Electricity Market (NEM).

That said, the Government is also mindful of the potential costs of regulatory reform and structural separation, particularly given the small and dispersed nature of the Territory market. The actual costs will depend on the implementation paths chosen. For this reason, the Government has set as key objectives not only that the reforms be achieved 'on time' and 'within budget' and 'at no disruption to end users', but also that the future benefits to Territorians outweigh the costs.

In a nutshell, the reforms are all about removing inefficiencies and more effectively keeping a lid on costs and prices.

To this end, nothing is more effective in capping costs and prices than promoting competition in the Territory's electricity supply industry.

In addition, the Government is intent on doing all that it can to encourage the Territory's continuing growth, but limits on the Government's borrowing capacity mean that the private sector has to step up to the mark when it comes to new investment in the electricity sector, especially generation.

Due to the lack of competition and the integrated structure of PWC, Territory tax payers have made a substantial contribution to financing electricity supply operations and infrastructure over the last few years, at the same time as PWC's debt was becoming unsustainable. The reforms aim to reduce these imposts by improving the efficiency of electricity supply and

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by encouraging private electricity suppliers to enter the Territory market and compete with PWC generation and retail businesses.

And why structural separation? It is essential to facilitating competition. Separation is the most effective way to give competitors confidence that they will succeed (or fail) on their own merits. In addition, separation also provides for more effective and accountable management of PWC's businesses, and improves incentives for the businesses to be operated efficiently and sustainably.

Some important things will not change.

- The Government will continue to determine retail electricity tariffs for households and small business customers and water and sewerage tariffs for all customers, and maintain such regulated tariffs at uniform levels across the Territory.
- Electricity supply in remote communities and all other regional centres in the Territory (and so the operations of Indigenous Essential Services) will continue to be subject to Territory law and existing uniform tariff and government funding arrangements.
- Each of the GOCs commencing operations on 1 July this year is remaining in government ownership.
- The Government expects all market entrants to be self-reliant and prepared to take on all associated market and competitive risks. The Government is not going to subsidise competition.

## Regulatory reform: what's happening?

The focus of regulatory reform is on the electricity market.

Fundamentally, the Government has committed to the electricity markets in Darwin, Katherine, Tennant Creek and Alice Springs becoming subject to relevant provisions of the national energy laws and rules, and so the jurisdiction of the Australian Energy Market Commission (AEMC) and the Australian Energy Regulator (AER).

Introduction of the National Electricity Law and the National Electricity Rules will impact mainly on the Territory's (monopoly) electricity distribution networks (the poles and wires which transport electricity from power stations to customers). The aim is to replace our local law and rules relating to electricity networks with those applying under the national regime.

Nevertheless, given differences in size and interconnectivity between electricity networks in the Territory and those in the NEM, the Government is intent on ensuring that adoption by the Territory of the National Electricity Law and Rules does not impose unwarranted regulatory and compliance costs which would ultimately have to be borne by consumers. In fact, the Australian Energy Market Agreement provides for jurisdiction-specific exemptions (or 'derogations') to be negotiated where the costs of implementing and applying specific National Electricity Laws or Rules are likely to exceed the benefits for consumers in the medium term.

In the electricity retail sector, the Government intends to abolish PWC's effective monopoly over residential and small business customers by two reforms.

- First, the existing subsidy for households and small customers, which is currently only provided to PWC customers, will be made available to all customers regardless of their supplier.

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- Second, standard supply contracts for residential and small business customers paying regulated retail tariffs will be introduced, with these contracts setting the default tariff and terms and conditions and customers then being free to negotiate an alternative market contract with an electricity retailer where beneficial.

In addition, at an appropriate time, introduction of the National Energy Retail Law in the Territory will also see the regulation of the Territory's retail energy market – apart from retail price regulation – being transferred to the AER. The AER will then be responsible for consumer protection, retail competition and performance monitoring.

In the electricity generation sector, the Government has decided that, initially in the Darwin-Katherine market, wholesale market arrangements will be established which are suitable to the Territory's circumstances and capable of operating cost-effectively. Currently, generators and retailers can only trade electricity through contracting directly with each other. This represents a significant barrier to competition in the Territory's electricity supply industry. The establishment of a wholesale market will allow generators and retailers to trade electricity through an independent market operator or exchange, in real time, rather than through negotiating individual contracts with terms of three to five years.

A wholesale market also provides for price transparency as the market prices are published at regular intervals. It also allows decisions to be made on how to most efficiently use generation plant to meet market demand. Wholesale markets currently operate in the NEM and in Western Australia.

More details of the Government's intentions regarding regulatory reform in the Territory's Electricity Supply Industry are provided in the Regulatory Reform 'Blueprint' document at Appendix A.

## Structural separation: what's happening?

Since the 1980s, PWC has been an integrated multi-utility government owned business performing operations that can be most efficiently supplied through a single, or monopoly, provider as well as those that can be provided in a competitive market.

As such, PWC is responsible for a wide range of businesses. The main businesses are as follows:

- Water and Sewerage: which involves the storage, supply and sale of water, and the collection and treatment of wastewater;
- Power Networks: which involves the transmission and distribution of electricity across the system of poles and wires;
- Power Retail: which involves the billing, credit control and customer interface associated with the supply of electricity;
- Power Generation: which involves the generation of electricity in all major centres in the Territory;
- Gas Purchasing: which involves the sourcing and aggregation of natural gas for sale to electricity generators and to other major users of gas; and
- Indigenous Essential Services (IES): which involves the provision of electricity, water and sewerage services in remote Territory communities on a not-for-profit basis.

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The main structural separation options involve alternative combinations of related lines of business.

The Government has decided on a three GOC model, involving:

- PWC's non-contestable or monopoly functions (where it is not economically efficient to have more than one supplier) such as water and sewerage, electricity networks, gas trading and Indigenous Essential Services being retained under a monopoly GOC; and
- the remaining businesses, being electricity generation and electricity retail that are open to competition (and so referred to as 'contestable businesses'), being separated both from the monopoly businesses and from each other.

Structural separation involves **both** 'legal' **and** 'governance' separation.

- Legal separation involves the establishment of separate corporations under the Territory's *Government Owned Corporations Act*, including separation of financial information, assets and employees.
- Governance separation involves each company being subject to separate boards and executive management teams, as well as operational separation of policies, processes and systems which will be accomplished over a period of 18 to 24 months.

Neither of these features – that is, neither legal separation nor governance separation – are part of the corporatisation model adopted a decade ago, which saw the establishment of PWC as a single integrated GOC with a governing board accountable to the Government through a Shareholding Minister.

More details of the Government's intentions regarding PWC's structural separation are provided in the Structural Separation 'Blueprint' document at Appendix B.

## Regulatory reform: why?

The objectives of the regulatory reforms are twofold:

- they seek to promote more effective competition in electricity supply; and
- where competition is not possible or effective, the aim is to more closely align the Territory's regulatory arrangements with those operating in the NEM.

What's proposed is just the next step in regulatory reform commenced in 2000, under the auspices of National Competition Policy. The previous CLP Government made a number of substantive reforms.

- The statutory monopoly in the electricity generation and retail sectors held by the (then) Power and Water Authority was abolished.
- Retail competition was invited through a phased introduction of a contestable customer program, commencing with largest customers in 2000 and extending down to medium sized customers by 2004.
- A regulatory regime for third party generators and retailers to access PWC's electricity networks was implemented.
- An independent jurisdictional regulator, the Utilities Commission (the Commission), was established with responsibility for administering the electricity networks third party access regime, licensing electricity suppliers, and monitoring of market conduct and performance.

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Subsequently, the former Government instituted two further key reforms.

- The Power and Water Authority was corporatised in 2002 under the *Government Owned Corporations Act*, and renamed the Power and Water Corporation.
- Full retail competition was introduced – with the last two customer tranches (customers using below 750 megawatt-hours per annum) made contestable, at least in theory, in 2010.

Despite all these earlier reforms, PWC remains the dominant electricity supplier in the Territory market. Both potential and new entrants remain concerned about differences (real or imagined) between the Territory's regulatory regime and the national one, the lack of price transparency in the Territory due mainly to the absence of a wholesale trading market in electricity, and the current arrangements for regulating and subsidising retail electricity tariffs.

The Government is intent on further unwinding market and regulatory arrangements which deter competition. Competitive markets will reinforce the efficiency reforms and cultural change necessary within PWC if it is to truly become more commercial.

While two private electricity retailers have been licensed to operate in the Territory, only one is active and has managed to sign a few medium-to-large customers, including Parliament House. However, the structure of PWC and the design of the Territory market represent a significant impediment to the further growth of private retail operations.

There are currently no private generators operating in competition with PWC in the Territory's regulated markets of Darwin-Katherine, Tennant Creek and Alice Springs. PWC's vertical integration and the lack of a wholesale electricity market represent significant impediments to third party entry.

The regulatory reform program aims to tackle these remaining barriers to competition head on.

Facilitating entry of new electricity retailers will both:

- promote competition among retailers; and
- encourage greater choice for consumers.

Adopting law and rules relating to electricity networks which apply under the national regime will:

- encourage greater third-party access to these networks because potential applicants are more familiar (and comfortable) with the national law and rules; and
- see a regulator with greater resources and expertise (the AER) bringing more effective pressure to bear on PWC's networks.

Establishing some kind of wholesale electricity market in the Territory is intended to:

- facilitate entry of new generators where this is economically efficient; and
- encourage competition among generators operating in the Territory's electricity supply industry.

What's needed, initially in the Darwin-Katherine generation market, are wholesale market arrangements that are suitable to the Territory's circumstances and capable of cost-effectively replacing sole reliance on bilateral contracting. Fostering actual competition in the generation sector will result in greater efficiency in the supply of electricity, and more timely investment in, and take up of, new technology. As a result, more effective competition

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will put downward pressure on retail tariffs by putting downward pressure on the generation cost component – around two-thirds – of electricity tariffs.

### Structural separation: why?

To date, the primary rationale for PWC's horizontally and vertically integrated structure has been to maximise economies of scale and scope, given that this business delivers services to a relatively small population dispersed over a large geographical area.

- Horizontal integration is associated with the multi-utility nature of PWC which sees it jointly undertake electricity, water and sewerage lines of business.
- Vertical integration refers to the joint undertaking of upstream and downstream (related) activities within the same line of business, and is especially important with regard to PWC's electricity business where it is involved in all stages: starting from gas sourcing, to generation, to distribution and transmission, to system control and finally to retailing to end-users.

However, PWC's integrated structure has not always translated into clear benefits for the Territory's electricity consumers.

In fact, while offering some potential benefits, the integrated structure of PWC also directly limits incentives for PWC to operate efficiently.

- The lack of financial transparency has stymied shareholder (and regulatory) monitoring.
- The associated wide range of businesses has magnified the complexity facing a single board and management. Moreover, the skill set required for running monopoly businesses can be quite different to that required for contestable (or competitive) businesses.
- Finally, the inevitable presence of both monopoly and competitive activities directly deters competition emerging in the Territory's electricity supply market. Besides the considerable market power that PWC has been able to exercise by operating across all segments of the electricity supply chain, the potential exists for its monopoly activities to cross-subsidise or otherwise favour its associated or competitive activities.

Over much of the previous decade, the hope of all governments has been that adoption of corporatisation and introduction of jurisdictional regulation would see the benefits of PWC's horizontal and vertical integration being materialised at the same time as costs were minimised through improved governance and regulation.

When taking office in 2012, the current Government reached the conclusion that the improved governance and regulation put in place during the first decade of this century has not succeeded as well as had been hoped. Therefore, the Government concluded that further changes are required.

There are three organisational models that could be considered for the future operation of PWC. These are:

- separating PWC into line-of-business entities on an accounting basis, but retaining them within a single GOC ('accounting separation'); or
- separating PWC businesses into individual subsidiary companies, within a single multi-utility GOC framework ('legal separation'); or
- separating PWC into stand-alone, operationally independent businesses with separate boards ('governance separation').

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Under each of these options, the GOCs would continue to be subject to the *Government Owned Corporations Act*, with the board(s) fully accountable to the Territory Government through the Shareholding Minister.

But accounting separation by itself has not yet been close to being achieved within PWC, this despite such separation being an explicit objective of the governance and regulation arrangements that have been in place since 2000.

And legal separation alone under a single board would still see the board and management struggling to deal with the multi-faceted and conflicting nature of a multi-utility provider servicing urban, regional and remote centres.

The Government is convinced that changing PWC's structure to also bring about structural separation is the only sure way to bring about two essential changes.

- First, it will end the lack of financial transparency which has dogged PWC since its inception and so should result in a marked improvement in the governance and regulation of these government businesses.
- Second, it will considerably enhance the prospects for competition in the Territory's electricity generation and retail markets.

Hence, the Government considers that the pursuit of governance separation together with legal separation (together, what is referred to here as 'structural separation') promises a number of important benefits.

On the governance and regulatory fronts, structural separation promises to:

- provide more complete financial transparency from a shareholder perspective;
- expose the various lines of business to more rigorous performance monitoring and external reporting requirements and external financial audits;
- formalise all contractual arrangements between separated lines of business;
- increase the degree of specialisation by boards and executive management; and
- better target the degree of government supervision and operational arrangements appropriate to each line of business.

These changes make it easier and more appropriate to benchmark the cost of operations in the Territory against comparable businesses elsewhere, and to identify and act on areas of inefficiency otherwise concealed under integrated operations.

On the competition front, structural separation promises to:

- impose arms' length business dealings between monopoly and contestable businesses, for the avoidance of harm to third-party competitors; and
- reduce the scope for PWC's electricity generation and retail businesses to engage in anti-competitive conduct against private generators and retailers, as each business would operate independently and in accordance with its own commercial interests.

Competition is the ultimate arbiter when it comes to what types of operations and business practices are efficient and least cost. Ramping up competition will highlight and help cease inefficiencies that continue to be protected by monopoly operations.

The Government acknowledges that structural separation comes at a cost including:

- one-off legal costs of establishing the new corporations;

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- one-off costs of developing formal contractual arrangements between separated upstream or downstream companies (in place of the previous informal intra-company arrangements);
  - ongoing annual operating costs of additional company boards, which can only partly be addressed by limiting the number of directors appointed to such boards;
  - ongoing annual costs of additional executive management at the Chief Executive Officer and Chief Financial Officer level; and
  - ongoing annual costs of establishing separate corporate support functions and systems.

The Government is conscious of these costs, and is intent on keeping them to a minimum. Careful choices need to be made when it comes to implementing the regulatory reform and structural separation decisions. All incremental costs incurred in the process need to represent investments in the future that give rise at the very least to a commensurate pay-off in terms of reduced operating costs and improved service reliability that are not otherwise achievable.

### Regulatory reform: what's still being decided?

A number of design elements are not yet set in concrete. Here are some examples in the regulatory reform area.

- The Government is intent on negotiating appropriate exemptions ('derogations') from the National Electricity Rules, and the National Energy Retail Rules, with the aim of ensuring that the costs of regulation by the AEMC and AER in the Territory context do not exceed the benefits to be achieved. The scope for derogations will be carefully considered by the Government. Negotiations are currently underway with Commonwealth officials, with the view to the AER assuming responsibility for electricity network regulation from 1 July 2014, and retail and customer protection regulation from 1 July 2015.
- With abolition of PWC's effective monopoly over residential and small business customers, the Government is considering how best to deliver the uniform tariff community service obligation (CSO). A range of options exist, from the payment of rebates directly to end users through to payment to all licensed retailers. These options are being developed for Government's consideration.
- Options for wholesale market arrangements in the Territory are being examined by the Commission. In particular, the Commission has been asked to develop and recommend wholesale market design and rules suitable for the Territory's circumstances. Based on the Commission's findings and recommendations, the Government will approve the set of rules to be followed by an independent market operator in the Territory. The Commission released a draft report for stakeholder consultation in December 2013, and is scheduled to release a final report by end February 2014. Copies of the draft report can be located on the [Utilities Commission website](#). Following consideration of the Commission's recommendations, the transition to the new wholesale market is expected to commence no later than 1 January 2015.

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## Structural separation: what's still to be decided?

Likewise, a number of issues are still being worked through in relation to the Government's structural separation decision. The following are some examples.

- Consideration is being given to whether the various monopoly business within the monopoly GOC itself need to be legally separated or just subject to accounting separation, albeit under a common board.
- The extent to which back office services will be shared between the new GOCs still requires detailed consideration.
- The Government is faced with various options with regard to the future management of PWC's gas contracts. As the Territory is primarily reliant on natural gas for electricity generation, and PWC has currently secured sufficient gas to supply the entire Territory market until 2034, the future management of these gas contracts will be important in facilitating competition. The prudent management of the contracts is also vital in terms of ensuring longer term energy security for the Territory. For these reasons, careful consideration needs to be given to the appropriate legal entity to manage the contracts.
- The Government will need to consider various options in regard to power system control. Currently, PWC is responsible for operating the power system and ensuring there is always sufficient electricity available to meet demand. In a competitive wholesale market, there may be merit in having the system operated independently from PWC's businesses. This matter requires careful consideration given the implications for reliability of electricity supply.
- The legislation necessary to establish the new legal and corporate governance structure for PWC is currently being prepared for introduction in the Legislative Assembly in February 2014, with operation of the new GOCs to commence from 1 July 2014. Development of options for the future management of gas contracts and system control will be considered against the context of the wholesale market review during the remainder of 2014.

## Summary

The Government has embarked on the next stage of the reform of the Territory's utilities markets. The reforms will encourage private suppliers to establish in the Territory to compete with the new GOCs at the same time as ensuring those GOCs are more efficient and accountable. In turn, these developments will ensure that the new GOCs achieve financial sustainability and that future electricity and water tariffs are the minimum necessary to ensure reliable and efficient standards of service.

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# Appendix A

## Electricity Industry Regulatory Reforms: Blueprint

1. With respect to the economic regulation of prescribed **electricity networks** in the Territory:
  - a. the administration of such regulation is expected to be transferred from the Territory's jurisdictional regulator (the Commission) to the national regulator (the AER) effective from 1 July 2014;
  - b. the initial transfer will be based on the AER regulating the Territory's prescribed electricity network according to the Territory's regulatory framework and that this continue for the duration of the upcoming Network Price Determination (that is, for the period 2014-2019); and
  - c. relevant parts of the National Electricity Law, and the National Electricity Rules for economic regulation of distribution networks, will be enacted in the Territory by 1 July 2015, and apply at the expiry of the 2014-2019 Network Price Determination.
2. With respect to the economic regulation of **electricity retail** in the Territory:
  - a. all applicable functions of the National Energy Customer Framework other than retail price regulation (for example, the consumer protection, retail competition and performance monitoring functions) is expected to be transferred from the Territory's jurisdictional regulator (the Commission) to the national regulator (the AER) commencing from 1 July 2015;
  - b. the Territory Government will retain the power to set regulated retail tariffs;
  - c. regulated retail tariffs will be maintained with respect to customers using up to 750 MWh per annum (that is, residential and small business customers);
  - d. retail price regulation will cease for all customers in the Darwin-Katherine market using between 750 MWh and 2 GWh per annum (that is, medium-sized businesses) from 1 January 2015;
  - e. independent regulation of retail prices will be adopted from 1 July 2017, based on nationally recognised best practice retail price regulation principles and methodology, with appropriate regulatory arrangements being considered by the Government closer to that time;
  - f. uniform pricing at the retail level for customers using up to 750 MWh per annum outside of the Darwin-Katherine market will be maintained;
  - g. PWC's effective monopoly over residential and small business customers will be abolished by delivering the uniform tariff CSO by payment of rebates directly to end users or through licensed retailers rather than indirectly by payment solely to PWC, with details of such arrangements to be developed by the Treasurer and submitted to Cabinet for approval; and
  - h. standard supply contracts for residential and small business customers paying regulated retail tariffs will be introduced, which set the default tariff and terms and conditions, with customers free to negotiate an alternative market contract with an electricity retailer where beneficial.

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3. With respect to **electricity generation** in the Territory:
    - a. wholesale market arrangements (whereby generators sell their output into a power exchange or pool, and retailers purchase their requirements from that power exchange or pool) that are suitable to the Territory's circumstances and capable of cost-effectively replacing sole reliance on bilateral contracting will be developed under Territory law and adopted initially in the Darwin-Katherine generation market;
    - b. the Treasurer has sent terms of reference to the Commission seeking its recommendations by no later than 28 February 2014 regarding the design and set of rules that would be most appropriate as the basis for these wholesale market arrangements;
    - c. the Treasurer and the Minister for Essential Services will approve the set of rules to be followed by those administering any wholesale market arrangements, based on their consideration of the Commission's recommendations;
    - d. the transition to the approved wholesale market arrangements will commence no later than 1 January 2015; and
    - e. the wholesale market arrangements will be administered by an independent market operator that at a minimum is structurally separated from PWC.
  4. Licensing and technical regulation in the Territory's electricity supply industry not being transferred to the AER will be transferred instead from the Commission to the Office of Energy within the Department of Mines and Energy as part of the process of disbanding the Commission.
  5. The Commission will be retained post 1 July 2014 to facilitate transition of regulatory responsibility to the AER. Subject to suitable transitional arrangements, the Commission is to be wound up on 1 July 2015, with licensing, technical, network reliability standards and performance monitoring and economic regulation of water and sewerage services being assigned from that time to the relevant agencies and funded entirely from licence revenue.

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## Appendix B

### PWC's Structural Separation: Blueprint

1. PWC will be separated into the following three GOCs commencing on 1 July 2014:
  - a. a Power Generation GOC;
  - b. a Power Retail GOC; and
  - c. a monopoly GOC, comprising PWC's residual businesses.
2. With respect to the **Power Generation GOC**:
  - a. the Power Generation GOC will be formally named the 'Power Generation Corporation', with a business name to be decided and subject to the Shareholding Minister's approval;
  - b. the Power Generation GOC will commence operations on 1 July 2014, with enabling legislation possible prior to this date;
  - c. the Power Generation GOC will take responsibility for all relevant power generation operations on the day of its establishment, although certain commercial arrangements and contractual relations of a generation nature with third parties will only be formally passed to the Power Generation GOC from the monopoly GOC upon the satisfactory conclusion of the novation of these arrangements;
  - d. the Power Generation GOC will perform all generator of last resort functions;
  - e. the Power Generation GOC will comprise the following associated activities:
    - i. Darwin-Katherine generation;
    - ii. regional generation (Alice Springs and Tennant Creek); and
    - iii. minor centre generation (Yulara, Borroloola, Ti Tree, Timber Creek, Kings Canyon, Daly Waters and Elliott);
  - f. these activities will be subject to the degree of accounting separation appropriate for governance and regulatory purposes;
  - g. the Power Generation GOC's board will be limited to a total of three non-executive directors;
  - h. the Power Generation GOC will not be permitted to sell electricity directly to end-use customers or enter into exclusive arrangements with a retailer for a period of five years after the Power Generation GOC's establishment;
  - i. all existing frontline power generation staff and power generation-related assets will be transferred to the Power Generation GOC; and
  - j. initially, non-generation specific and shared services may be provided by the monopoly GOC, subject to transitional service agreements.
3. With respect to the **Power Retail GOC**:
  - a. the Power Retail GOC will be formally named the 'Power Retail Corporation', with a business name to be decided and subject to the Shareholding Minister's approval;
  - b. the Power Retail GOC will commence operations on 1 July 2014, with enabling legislation possible prior to this date;
  - c. the Power Retail GOC will perform all retailer of last resort functions;
  - d. the Power Retail GOC will comprise the following associated activities:

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- i. Darwin-Katherine retail;
  - ii. regional retail (Alice Springs and Tennant Creek); and
  - iii. minor centre retail (Yulara, Borroloola, Ti Tree, Timber Creek, Kings Canyon, Daly Waters and Elliott);
- e. these activities will be subject to the degree of accounting separation appropriate for governance and regulatory purposes;
  - f. the Power Retail GOC's board will be limited to a total of three non-executive directors;
  - g. all existing frontline power retail-related staff and power retail-related assets will be transferred to the Power Retail GOC on its establishment;
  - h. the Power Retail GOC will take responsibility for all aspects of the power retail relationship with contracted contestable customers on the day of its establishment;
  - i. with regard to residential and business customers still subject to the Government's pricing order, and those customers nominated to be on 'legacy contracts', all bills issued to such customers will continue to be prepared and branded by the monopoly GOC under a transitional service agreement; and
  - j. initially, the Power Retail GOC will be subject to sharing of corporate systems with the monopoly GOC provided under transitional service agreements.
4. With respect to the **monopoly GOC**:
- a. the monopoly GOC will continue to be named the Power and Water Corporation, and so legally will be the continuation of the current GOC;
  - b. amendments to the *Power and Water Corporation Act* may be required prior to 1 July 2014 to enable appropriate planning and governance of the separation with subsequent amendments to the *Power and Water Corporation Act* effecting legal separation on 1 July 2014;
  - c. these amendments will allow – for a transition period of 12 to 24 months – some of the responsibilities being transferred to the Power Generation and Power Retail GOCs to continue to be undertaken by the monopoly GOC via transitional service agreements with the two newly established GOCs, where doing so minimises any costs, or any disruption to end-use customers, arising from structural separation;
  - d. the monopoly GOC will comprise the following lines of business:
    - i. water and sewerage, including the associated retail functions;
    - ii. power networks, including all aspects of metering and relevant network control operations;
    - iii. power system control (subject to item h. below);
    - iv. until a later date approved by Cabinet, gas purchasing;
    - v. Indigenous Essential Services; and
    - vi. a shared corporate services unit;
  - e. these lines of business will be subject to the degree of accounting separation appropriate for governance and regulatory purposes, with consideration to be given to power networks at an appropriate time becoming a corporations law subsidiary of the monopoly GOC;
  - f. the monopoly GOC's board will be limited to a total of four non-executive directors;

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- g. the monopoly GOC is to provide a number of transitional or longer-term services to the Power Retail and Generation GOCs under formal service level agreements; and
  - h. once the Territory's wholesale electricity market arrangements are open to third-party retailers and generators:
    - i. the power system control function will be separated from the monopoly GOC; and
    - ii. subject to Cabinet approval, the gas purchasing function will be separated from the monopoly GOC.