

Retail Competition Information Brief No. 2

Grace Period Arrangements

As part of the Government's decision to join the National Electricity Market (NEM), competition in the retail sector will be introduced from 1 July 2006.

Competition will be phased in by progressively allowing certain groups of customers (**tranches**) – starting with the biggest power users – to choose their electricity supplier (**retailer**).

Customers who can choose their retailer are called **contestable customers**. Customers who are not yet classed as contestable - termed **non-contestable** – continue to be supplied by Aurora Energy Pty Ltd.

What is the 'grace period'?

Amendments made to the *Electricity Supply Industry Act 1995* in 2003 included transitional arrangements to allow contestable customers a period of 12 months (after becoming contestable) to negotiate a contract with a retailer. This will ensure that contestable customers have sufficient time and information to make the best choice for their businesses.

Under the transitional arrangements, if a tariff customer becomes contestable, then Aurora Energy Pty Ltd (as host retailer) is obliged to continue to sell electricity to that customer on the basis of the relevant tariff schedule, in the same way as before the customer became contestable, for a maximum period of 12 months.

This 12 month period from the customer's date of contestability is referred to as the **grace period**.

At any time during this grace period, the customer may choose to enter into a retail contract with a retailer for the supply of electricity; either with Aurora Energy Pty Ltd or any other licensed retailer. Retailers in Tasmania are licensed by the Energy Regulator in accordance with the *Electricity Supply Industry Act 1995*.

If the customer is already supplied under a contract, then the contract will continue on foot. There will be no grace period for these customers when their contracts terminate.

The grace period for tranche 1 contestable customers (sites with an annual power consumption of 20 GWh and above) is due to expire on 30 June 2007, and for tranche 2 customers (annual consumption of above 4 GWh) on 30 June 2008.

What happens at the end of the grace period if I do not have a negotiated contract in place?

Where a tariff customer becomes contestable, and the 12 month grace period expires without the customer entering into a retail contract with a retailer, a Deemed Fallback Contract will come into effect.

This means that if the customer has not chosen another retailer or entered the wholesale market, they will still be supplied with electricity by the host retailer (Aurora Energy) – but not

under the regulated tariffs that will continue to apply to non-contestable customers. It is in the interest of customers to make sure that they have supply arrangements in place with their retailer of choice before the grace period expires. The Deemed Fall Back Contract is submitted by the retailer to the Regulator for approval, including the price under the contract.

Can I change my mind once I have entered the market?

No. Once a customer is contestable and enters into a retail contract or arranges to purchase electricity directly from NEMMCO through the wholesale electricity market, there is no going back to being a non-contestable tariff customer.

What is a deemed fallback contract?

The Deemed Fallback Contract comes into effect when there are no other contractual arrangements in place between a retailer and contestable customer for the sale of electricity and the customer is not participating directly in the wholesale market. Such situations include the following:

- a tariff customer becomes contestable, and the 12 month grace period expires without the customer entering into a retail contract with a retailer;
- a contract customer's negotiated retail contract comes to an end (either it expires or it is terminated), and the contract customer fails to enter into a retail contract with a retailer (and the contestable customer is not disconnected under the terms of the original retail contract);
- a new contestable customer takes over premises from another party and fails to enter into a retail contract with a retailer. This could be because of oversight (eg, the other party fails to notify its retailer) or because the customer is not able to negotiate terms it considers appropriate;
- a retailer terminates a retail contract with a contestable customer in accordance with its terms (for example, because the customer fails to pay), but for some reason the customer's premises are not disconnected; and
- a customer participating directly in the wholesale market is suspended or ceases to be registered as a market customer under the National Electricity Code, does not enter into a retail contract with a retailer and is not disconnected.

What will I pay for electricity under a Deemed Fallback Contract?

The prices charged by the retailer will be regulated, with the form of regulation depending on the size of the customer, as follows:

- for a larger customer (with an annual electricity consumption greater than 0.75 GWh/y - tranches 1, 2 and 3), the price will be the regulated network price plus the spot price plus a retail margin proposed by the retailer and approved by the Regulator; and
- for a smaller customer, (with an annual electricity consumption less than 0.75 GWh/y – tranches 4 and 5), the price will be determined by reference to a schedule proposed by the retailer and approved by the regulator.

For larger customers, the price paid for electricity under a Deemed Fallback Contract will be similar to a floating rate mortgage with a flow-through effect. It will change from billing period to billing period as market prices for electricity vary.

For small customers, the prices paid for electricity under a Deemed Fallback Contract is similar to a fixed mortgage, with a set price for a defined period of time.

Under a Deemed Fallback Contract:

- The contractual relationship, which will be between the customer and the host retailer (Aurora) will be created, or deemed, by regulations made under the *Electricity Supply Industry Act 1995*.
- Aurora must develop and submit a Deemed Fallback Contract to the Regulator for approval.
- There will be an obligation to advise contestable customers that a Deemed Fallback Contract is in place and of other contract options.
- The maximum term of a Deemed Fallback Contract is three months after which time a customer will be disconnected.

Why can't my grace period be extended?

Any extension of the grace period would act as a deterrent to negotiations, and reduce the scope for competition in Tasmania's electricity market.

12 months gives consumers sufficient time to negotiate new arrangements for supply of electricity.

What about large customers directly connected to the transmission network?

The Deemed Fallback Contract arrangements will not apply to a customer who takes supply directly from the transmission network. Such customers who are larger, more intensive users of electricity are likely to have the relevant experience, commercial interest and negotiating ability to enter into tailored contracts.

Where can I get further information?

Further information on Tasmania's energy reform framework is available on the Internet at www.treasury.tas.gov.au.

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Issued: 18 October 2004