

## ***Post-Grace Period Arrangements***

As part of its commitment to National Competition Policy, the Northern Territory Government introduced competition into the Territory's electricity market from 1 April 2000.

Competition among generators and retailers is being phased in by progressively allowing certain groups of customers (***tranches***) – starting with the largest – to choose their power supplier (***retailer***).

Customers who can choose their retailer are called ***contestable customers***.

Customers who are not yet classed as contestable – termed non-contestable customers – continue to be supplied by the Power and Water Authority (PAWA).

### **1. What is the 'grace period'?**

The electricity reforms undertaken by the Government included transitional arrangements to allow contestable customers to take some time to negotiate a contract with a retailer, to ensure the contract is best suited to their individual needs.

Under its retail licence, PAWA is obliged to continue to offer to sell electricity to a contestable customer on the same tariff schedule as applied before the customer became contestable, for a period of two years from the customer's date of contestability.

This two-year transitional period is referred to as the ***grace period***.

At any time during this period, the customer may choose to enter into a negotiated contract with a retailer for the supply of electricity, whether that be with PAWA or NT Power (or any other organisation that may in future be granted a retail licence).

The grace period for tranche 1 contestable customers (sites with annual power consumption of 4GWh and above) is due to expire on 31 March 2002, and for tranche 2 (annual consumption of 3-4GWh) on 30 September 2002.

### **2. What happens at the end of the grace period if I don't have a negotiated contract in place?**

A contestable customer may not have completed negotiations with a retailer by the end of the grace period. The customer may have been slow to commence negotiations. Alternatively, the customer may be reluctant to complete negotiations because (for example) they may be facing a tariff increase.

The contract for the supply of electricity that is in place prior to the end of the grace period will terminate at the end of that period.

In view of the termination of the existing contract to supply at the end of the grace period, the Commission has put in place certain arrangements using its licensing powers aimed at providing affected customers with continuity of supply if a negotiated contract is not in place at the expiry of their grace period. These arrangements are outlined below.

### **3. How is continuity of supply to be achieved beyond the end of the grace period?**

PAWA's retail licence is being amended to nominate PAWA as the **default supplier**, obliging PAWA to continue to supply any customer who has not entered into a negotiated contract with a retailer at the end of the customer's grace period for as long as the customer pays the **default tariff**.

The effect of these arrangements is to ensure that a customer who has not entered into a negotiated contract with a retailer by the end of the grace period is automatically rolled onto a default supply arrangement with PAWA.

This default supply arrangement will be deemed to be in force between the customer and PAWA until such time as the customer commences taking supply under a contract negotiated with a retailer, whether that be PAWA or NT Power.

The ongoing supply will be conditional on the customer paying for the power received under these arrangements. If the default tariff is not paid, PAWA will have the right to discontinue supplying the customer.

### **4. How will I find out the terms of supply beyond the end of my grace period?**

PAWA will be obliged to advise each customer potentially affected at least 28 days before the expiry of the customer's grace period.

This advice will set out:

- the exact date that a customer's grace period expires;
- the default tariff that will apply to the supply of electricity to the customer's premises once the grace period expires; and
- any other terms and conditions that will apply to this supply of electricity.

### **5. What is the default tariff?**

The default tariff is the unit price that a customer is required to pay for electricity consumed under a default supply arrangement.

The default tariff will not be a regulated tariff. It will be a tariff that PAWA considers to be fair and reasonable in the circumstances. This tariff can be varied at any time after 28 days notice.

The default tariff is expected to be higher than the price a customer could secure by entering into a negotiated contract.

## **6. Why might the default tariff be higher than offered prices?**

The price a customer can secure by entering into a negotiated contract includes an allowance for the length of the term of the contract (e.g. three years) and for other certainties provided to the retailer by obligations on the customer under a contract that is clearly enforceable under contract law.

This price will invariably be less than the tariff to apply when – as is the case under the default supply arrangements – the sale of electricity can be terminated by the customer on short notice and is supplied in the absence of an explicit, signed contract.

In setting a default tariff, therefore, PAWA will take into account not only the cost of supplying the electricity but also the risks inherent in the short-term and ‘deemed contract’ nature of that supply.

## **7. What’s to stop PAWA setting unreasonable tariffs?**

PAWA is not unconstrained in setting default tariffs.

PAWA will be setting the default tariff in the knowledge that the customer can exit this arrangement on short notice by entering into a negotiated contract with another licensed retailer. Too high a default tariff will encourage this possibility.

PAWA’s amended retail licence will also require PAWA to sell electricity to a post-grace period contestable customer on terms and conditions that are fair and reasonable in the circumstances. Also, the tariff applying to a particular customer is to be determined by PAWA in accordance with principles published by PAWA as part of the standard terms and conditions of supply to post-grace period contestable customers.

## **8. Who could I complain to if I considered PAWA’s default tariff to be unreasonable?**

If a contestable customer felt that the default tariff they were being charged by PAWA was not fair and reasonable in the circumstances, that customer could make a complaint to the Utilities Commission under the complaints provisions in the *Electricity Reform Act 2000* (sections 48-51).

These provisions allow a contestable customer to make a complaint to the Utilities Commission on the grounds that PAWA is engaging in conduct that is contrary to one or more of its licence conditions. The Commission would investigate such a complaint – and decide on the action it would take to deal with the offending conduct – unless the Commission did not believe that the customer was being adversely affected by the alleged conduct or the customer had not made a genuine attempt to resolve the complaint with PAWA.

## **9. What should I do to avoid paying this higher default tariff?**

Customers need to actively seek and secure a negotiated electricity supply contract prior to the conclusion of their grace period or they will be required to pay the default tariff for electricity.

## **10. 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 the Territory's electricity market.

Two years is regarded as being ample time for a customer to have investigated the range of options available and to have negotiated a contract for supply of electricity. Other jurisdictions are less generous. For example, in New South Wales, customers were given only twelve months to conclude a negotiated contract.

## **11. Who can sell electricity to contestable customers?**

There are currently two parties licensed to sell electricity to end-use customers in the Northern Territory:

### **Power and Water Authority**

Contact: Mr Edwin Agcaoili  
Ph: (08) 8924 7250  
Fax: (08) 8924 7095

### **NT Power Group**

Contact: Mr Jeff Hutchison  
Ph: (08) 8932 2140  
Fax: (08) 8932 2118

*Utilities Commission  
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