

# Regulating electricity prices under retail competition

## Introduction

The Tasmanian Government is reforming the State's electricity industry to meet four key objectives:

- Lowest sustainable electricity bills.
- Long-term safe, secure and reliable supplies of electricity.
- Maximise the value of Tasmania's low carbon advantage and the brand benefits of clean Tasmanian electricity.
- Financial viable state-owned electricity businesses that run efficiently and effectively and maximise the overall economic benefits to Tasmania.

An important part of the reforms is the introduction of full retail competition for Tasmanian households and small businesses from 1 January 2014. The move to a competitive market is being implemented in a sensible, staged way to ensure that customers' rights are protected and to minimise confusion.

As part of this process the Government has asked the Tasmanian Economic Regulator to determine electricity retail prices to apply under the transition to full retail competition in the Tasmanian market.

## Why is it necessary to have price regulation in a competitive market?

In virtually every electricity market where full retail competition has been introduced, regulatory control of prices has applied for a period of time until it can be demonstrated that the competitive market is functioning effectively.

The Government has decided to retain retail price regulation in Tasmania until retail competition is sufficiently effective to remove the need for regulated price protection for customers. This means that customers can choose whether to stay on a contract that is reviewed and regulated, or exercise their choice to take up unregulated offers.

Under national competition rules, all retailers are required to have available a 'standard retail contract', the terms and conditions of which are standard and set out under the National Energy Retail Law.

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This means customers will always have access to a standard retail contract, where prices are set according to what the Regulator considers to be fair and reasonable.

The Tasmanian Economic Regulator will make a pricing determination for standard retail contracts that covers the period from 1 January 2014 to 30 June 2016.

### Why has the Government made a submission on pricing?

Previously, Aurora Energy provided submissions to the Regulator at the start of the price investigation process. However, as Aurora will no longer be a retail business from 1 January 2014 the Government is making the submission to ensure that the Regulator has the necessary inputs required to make the determination.

### What does the Government recommend in its submission?

The Government has prepared a very detailed submission, supported by a report prepared by independent consulting firm, Ernst and Young. The submission is designed to place downward pressure on prices, protect customers from adverse price impacts and support competition by encouraging the entry of national retailers into the Tasmanian market.

### Does the Regulator have to adopt the Government's submission?

The Tasmanian Economic Regulator is an independent body. The *Electricity Supply Industry (Pricing and Related Matters) Regulations 2013* outline the process to be followed by the Regulator in determining maximum prices for standard retail contracts to be offered by Regulated Offer Retailers. This process includes taking into account the submission made by the Minister, but the Regulator is not bound to accept it.

### What factors must the Regulator consider in making the pricing determination?

The Regulator must consider a range of factors including volatility in regulated retail prices, transmission and distribution costs, and the retailers' cost to serve customers. The interim determination should also allow for a range of reasonable costs including market fees and ancillary services and renewable energy scheme costs.

### Why is the pricing determination so important?

The retail price determination is critical to the success of the reform package. It establishes the price to be paid by small customers who choose to remain on the standard retail contract offered by their purchasing retailer. It also sets the benchmark price off which the competitive market offers of retailers are typically discounted, because retailers who offer products above the regulated price are unlikely to attract any customers. This will contribute to the level of retail competition that emerges in the Tasmanian retail market in the future.

It also establishes the initial level of revenue and risk for potential new retailers entering the Tasmanian market, which could play a role in influencing whether retailers choose to bid for Aurora's customer base.

### Will the Tasmanian community be consulted as part of the determination process?

This is a matter for the Tasmanian Economic Regulator. However a streamlined approach may be necessary on this occasion as the determination must be completed by 31 July 2013 to enable the Government to conduct the sale process for Aurora's customer base.

### How will Aurora's customers be sold?

Authorised electricity retailers will be invited to submit bids for Aurora's customer base. All residential and small business customers will be sold in two main 'bundles' to the two successful retailers. This will occur in the second half of 2013.

The identity of the retailers entering the market will not be known until the Government has completed the sale process. All customers will be notified well in advance of 1 January 2014 who their new retailer will be and the arrangements that will apply from that date.

### What do customers need to do?

Customers will be transferred automatically from Aurora's regulated product to their new retailer's regulated product. They will not be required to make any arrangements for electricity supply. Details of any existing concessions will also be transferred so there will be no need for customers to reapply to receive concessions, and current payment plans for customers in arrears will also be transferred.

### What does it mean for customers when competition begins on 1 January 2014?

From 1 January 2014, the two successful private sector retailers will commence selling electricity to households and small businesses. Aurora Energy will cease retailing. For the first three months to 31 March 2014 customers will remain with their assigned retailer on either a regulated standard contract on the same terms and conditions as previously offered by Aurora, or they can take up a new 'market offer' from their new retailer.

### What happens at the end of this three month period?

From the beginning of April 2014 to 30 June 2014 customers will have some additional choices. They will be able to stay with their assigned retailer or move to the second of the two new retailers. There will be a limit of 1000 customer transfers a month due to technical constraints. If this limit has been reached customers will be put on a waiting list and transferred as soon as technically possible.

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### What does the next step involve?

From 1 July 2014 to 31 December 2014 customers will be free to choose any type of contract with any retailer that is offering retail services in Tasmania, and not just the initial two. However, the transfer limit of 1,000 customers per month will remain in place during this period.

### When does the limit on customer transfers cease?

From 1 January 2015 onwards, the limit on the number of transfers that can occur in any given month will be removed and customers will be able to choose any product offering from any retailer operating in Tasmania.

### Need more information?

To view a copy of the Government's Submission to the Tasmanian Economic Regulator on the Interim Retail Price Determination under FRC or for more information about the Tasmanian energy reforms:

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