

## DRAFT REPORT ON EARLY TERMINATION FEES FOR ELECTRICITY CONTRACTS FOR SMALL CUSTOMERS

**21 October 2013**

The Independent Pricing and Regulatory Tribunal (IPART) has today released its draft report on the maximum amounts for early termination fees to commence on 1 March 2014. This will limit the fees that retailers can charge customers for breaking their electricity supply contracts early.

Under the draft decision, the maximum fee that retailers can charge electricity customers who terminate their market contract early will be:

- ▼ **\$130** within 12 months of the date of first supply, and
- ▼ **\$45** thereafter (until the end of the contract)

plus, the payback of any upfront inducement costs.

This is a maximum fee only and retailers can set lower fees in their contracts as they compete for customers – as is already the case in NSW, where many retailers charge no fee at all. Retailers will not be able to charge this fee to customers on hardship and payment assistance programs.

Retailers will also be able to add a reasonable amount in order to claim back upfront benefits, such as rebates on the first bill, provided to the departing customer.

IPART Chairman Dr Peter Boxall said the draft decision reflected reasonable cost recovery for retailers, ensuring all consumers do not end up footing the bill for those customers who choose to terminate their contract early.

Dr Boxall said IPART was satisfied there were legitimate costs to retailers when consumers terminate their contract early including costs involved in acquiring customers in the competitive market, administration and bad debts.

“Allowing retailers to recover the legitimate costs through the early termination fee means these costs will not need to be recovered through higher electricity prices for market customers,” Dr Boxall said.

Dr Boxall said calls to set the caps at zero or a very low level are not in the long term interests of customers as it would reduce the range of electricity retail offers available and increase electricity prices. “Currently NSW electricity customers can choose between market offers with different early termination fees, including offers with a zero fee,” he said.

“By enabling the recovery of reasonable costs associated with early termination, we consider that our draft decision will contribute to product diversity by enabling retailers to continue to profitably offer competitively priced fixed term contracts.”

Stakeholders will have the opportunity to comment on the draft decision by making a submission, or attending a public forum on 4 November 2013.

### **Customers should compare market offers**

The Australian Energy Regulator operates a free electricity and gas on-line price comparison service, [www.energymadeeasy.gov.au](http://www.energymadeeasy.gov.au), that lets consumers compare offers from energy retailers in NSW.

IPART's draft report and accompanying documents are available on IPART's website, [www.ipart.nsw.gov.au](http://www.ipart.nsw.gov.au).

For further information, media should contact: Jodie Brough 0428 298 629

### **Background**

Currently, early termination fees for electricity market contracts are unregulated in NSW. Energy retailers can decide whether or not to charge an early termination fee, and how much to charge. The fee must be a reasonable estimate of the costs to the retailer resulting from the early termination and it must not include costs based on lost supply or lost profit.

The NSW Government has recently decided to impose requirements on retailers in relation to early termination fees under the new National Energy Retail Rules (NSW). These rules will come into effect on 1 March 2014. The Premier of NSW asked IPART to conduct a review of the maximum amount of early termination fees for small customers under market contracts for electricity, or the electricity component of dual fuel contracts.

Under the National Energy Retail Rules (NSW) early termination fees must not exceed the sum of:

- ▼ the base early termination fee cap(s) determined by IPART, and
- ▼ the payback of any upfront inducement costs of the retailer.

The amount for any payback of upfront inducement costs is determined by retailers and is uncapped. However, this amount must reflect the monetary costs to the retailer of the upfront benefit provided to the customer, calculated on a pro-rata basis.

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## IPART's role in regulating market contracts

NSW households and small businesses can choose between a standard electricity supply contract where the maximum average price is regulated by IPART, or a more competitive market contract where the prices and other terms and conditions are set by retailers according to various consumer protection requirements.

IPART's role in regulating market contracts is limited to setting the maximum Early Termination Fee base (ETF), to which retailers may also add their own conditions to recover any upfront benefits they offer to customers entering into the contracts.

