

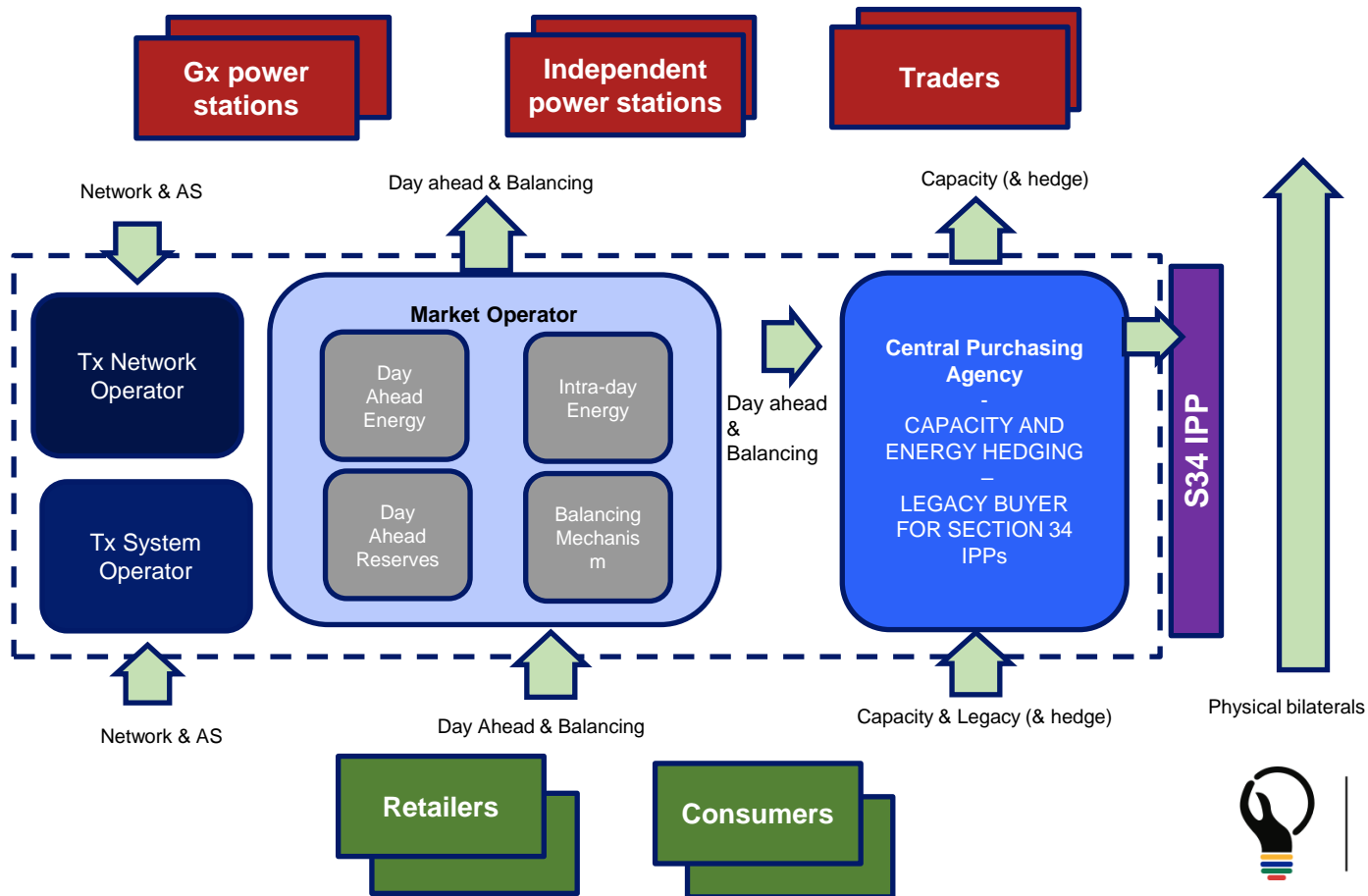
Market Code

Transition and the Central Purchasing Agency

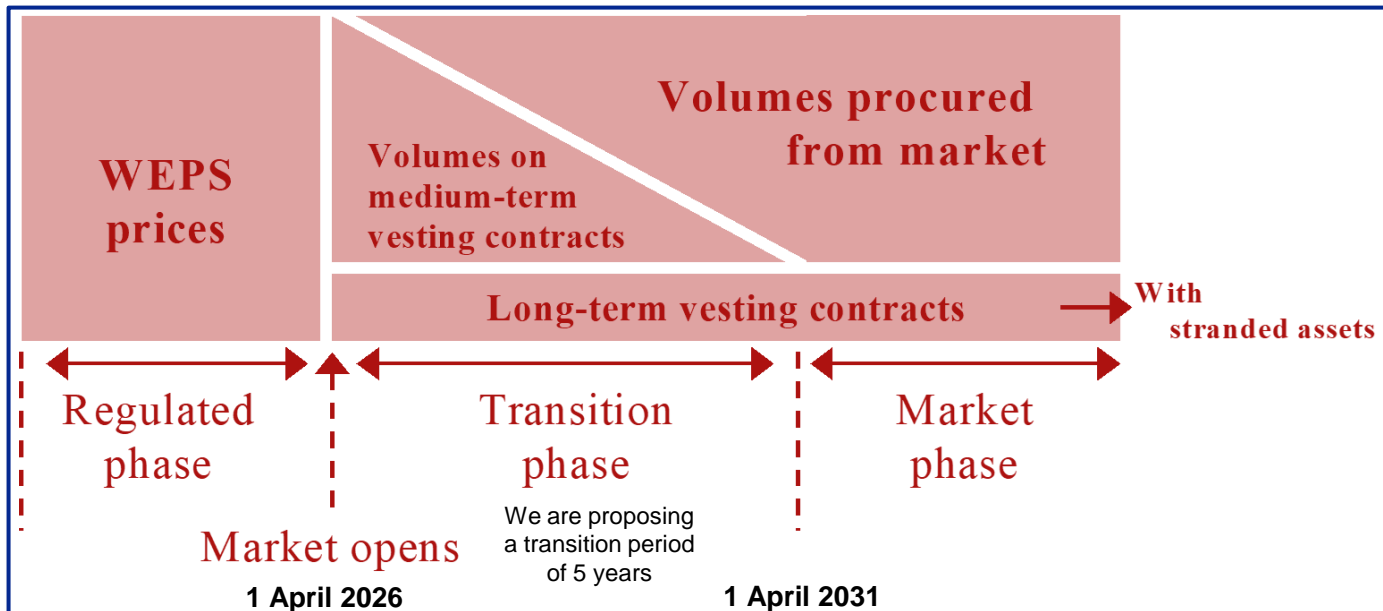


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Proposed multi-market model



Transition: Vesting contracts

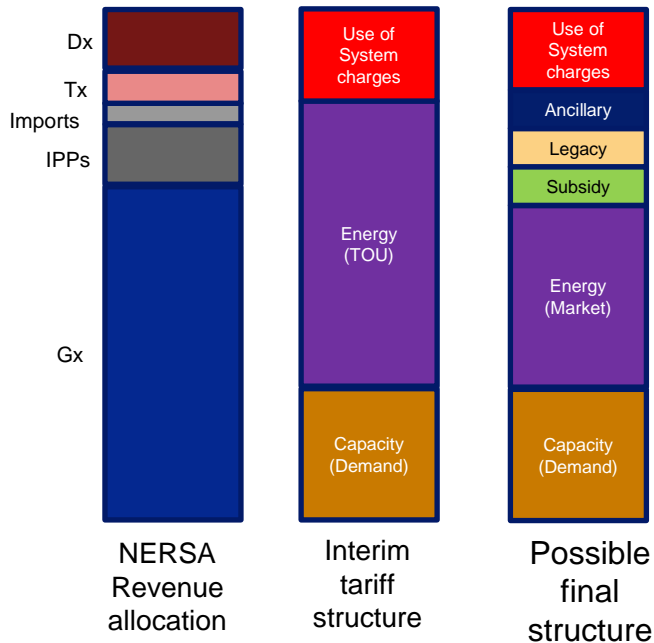


- Vesting contracts are aimed at curbing the **exercise of market power** by the generation companies, to promote efficiency and competition in the electricity market for the benefit of consumers.
- With the vesting contracts, generation companies are committed to sell a specified amount of electricity at a specified price
- This removes the incentives for generation companies to exercise their market power by withholding capacity to push up spot prices in the wholesale market.
- Vesting contracts can manage the transition to full competition in electricity and **manage the financial risk** of market participants.

Vesting contract: Contracts for Differences



Possible future wholesale tariff



- **Network charges (Tx & Dx)**
 - Connection charges
 - Network utilisation (demand and fixed)
 - Losses recovery charge
- **Ancillary services**
 - Part of network charges but escalating due to increased need and revaluation of services
- **Legacy charges**
 - To recover for legacy costs (REIPPP, stranded assets)
 - Potentially a fixed charge
- **Subsidy charges**
 - To recover for approved policy subsidies in tariffs, potentially including NPAs
 - Potentially a fixed charge
- **Energy tariff**
 - Time-of-use differentiated or market price
 - Approximating the true avoided cost of electricity generation after stripping out other cost elements – eventually replaced by competitive energy market outcomes
- **Generation Capacity or Standby charge**
 - Reflects the fixed costs elements of standby for system support
 - Charged as a demand charge on rolling 12-month maximum hour demand
 - Could also have a TOU component
 - Certain to be impacted by diversity of usage



Managing legacy costs



