

12 August 2008

Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4001

Attention: Moston Neck

Dear Sirs

COST PASS THROUGH APPLICATION ERGON ENERGY - TROPICAL CYCLONE LARRY

Origin Energy appreciates the opportunity to respond to the Queensland Competition Authority's Draft decision, Cost Pass-through Application Ergon Energy - Tropical Cyclone Larry.

Origin generally agrees with the conclusions of the QCA and considers the Queensland Competition Authority (QCA) has adequately dealt with the Cost Pass-through Application under difficult circumstances. There is no contention that Ergon Energy successfully undertook a coordinated emergency response program after the devastation caused by Cyclone Larry near Innisfail and accordingly, Ergon is entitled to recovery of actual costs via this process. Whilst the QCA was presented with the challenge of insufficient information the QCA took steps to ensure a reasonable resolution was reached.

Origin believes this decision is significant for future cost pass-through applications and highlights some key matters:

- The QCA will endeavour to reach adequate conclusions to obtain a proper representation of unexpected cost events. In this instance, the QCA sort to satisfy itself of the actual costs and requested supplementary information from Ergon Energy and appointed technical consultants, Evans & Peck in order to obtain some semblance of transparency.
- There are clear difficulties associated with supporting a cost pass through application for distribution entities. The pass-through application endeavours to separate actual costs incurred due to an unexpected event from those previously funded in the regulatory determination. It is clear that without delineation of costs there can be no support for a cost pass-through application. Origin suggests the introduction of a simple, but standardised accounting system for cost pass through applications may eliminate future concerns.

Furthermore, as an electricity retailer in the Queensland market Origin Energy is mindful of the impact the cost pass through application may have on retail prices. The increased costs of distribution companies is relevant in ascertaining the benchmark retail cost index (BRCI) which adjusts retail tariffs annually in accordance with changes in various input

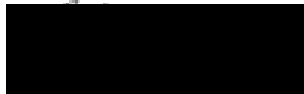
costs. The current interpretation of the BRCI sees the impact of any increases in distribution costs in either of the two Queensland distribution companies averaged across the State. In effect, all Queensland customers subject to the BRCI calculation will see increases in their retail price as a result of this decision.

The fact that the impact is shared across all Queensland customers under the current BRCI reinforces the importance, going forward, of distributors being obliged to fully and clearly account for their costs in order to be allowed pass-through application.

Having noted the importance of full disclosure, Origin believes cost pass-through applications that are unique to distribution areas should be better managed in the BRCI process, such that all customers do not bear the burden of events restricted to one distribution region. Accordingly, Origin believes the QCA might wish to consider alternative ways to achieve equitable retail pricing levels through the true reflection of actual distribution cost increases where these arise from unexpected, localised events.

Should you wish to discuss please telephone Madonna Mead on (07) 3405 9255.

Yours sincerely

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Beverley Hughson
National Regulatory Manager - Retail