



22 January 2010

Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4001

Email: electricity@qca.org.au

Dear Sir/Madam

DRAFT DECISION - PROPOSED AMENDMENTS TO ELECTRICITY INDUSTRY CODE

Origin Energy (Origin) acknowledges the *Draft Decision: Proposed amendments to the Electricity Industry Code requiring prior notice for price changes* (Draft Decision) issued by the Queensland Competition Authority (QCA).

As the QCA is aware, Origin supplies a large number of market and non-market small customers in Queensland and is therefore concerned with the Draft Decision's requirement for retailers to provide prior notice of price changes to small market customers.

Origin, as a national retailer operating in Victoria, South Australia and New South Wales as well as Queensland, does not support these draft requirements which are clearly more onerous than in other jurisdictions. Origin considers that the draft proposal goes well beyond that needed to address the original concerns of large and unexpected variations in the price by a single second tier retailer in Queensland.

Origin has previously submitted that the issue of price variation is best handled by ensuring that market customers are made more aware of the price variation provisions in a market contract. This could be done by requiring the retailer to obtain explicit informed consent for the price variation arrangements in a market contract (as introduced into Victoria in January 2009). Origin continues to hold this view.

However, the QCA appears to have determined that this is not sufficient and has focused on using prior notification requirements to eliminate retrospective pricing. Unfortunately, the suggested amendments to the *Electricity Industry Code* (Code) may eliminate retrospective pricing but will surely result in significant costs to retailers and will assuredly lead to unintended breaches of the Code due to the complexity of compliance with the requirements in a highly competitive market.

It is important for the QCA to understand the different circumstances under which price variations occur with market contracts and how these situations would need to be met by the draft amendments in order to understand why Origin believes that they are untenable.

Price variations to Queensland market contracts will occur in one of three situations:

- the customer may have taken up a contract that provides a special offer including discounts or rewards that only apply for a specific term. At the end of the term, the customers price may vary when the offer expires;

- a retailer may choose to vary the price of a specific product at any time because of a cost impost (eg an unexpected variation in a network price) or strategic decision; or
- at the end of the financial year, all retail products that are linked to the notified prices are varied according to the actual changes in regulated prices. For example, a product providing a 5% discount to the regulated price will increase on 1 July.

It is obviously the first two scenarios that would most concern the QCA with regard to avoiding retrospective pricing by ensuring that customers receive prior notice as the regulated price variation on 1 July is publicly notified and clearly transparent for all products linked to the notified prices.

However, it is the price variations on 1 July of each year that will be problematic under the QCA's draft Code amendments.

Under the first situation, retailers can clearly comply with the requirement for prior notice by issuing writing to the individual customers that have special offers or terms coming to an end. Origin already comply with this requirement as notice is sent to each customer prior to the ending of a special offer with detailed information on the rates they will be charged going forward.

Similarly, the price variation to an entire product at any time (not including the 1 July variations) can also be done in compliance with the QCA's draft Code amendment. Origin has not initiated such a price variation but believes that both alternatives of the Code amendment are possible as letters can either be sent to all customers on the product or publication of a notice using newspaper and website can be easily accomplished because the price variation refers to a single product of a retailer.

However, the price variations on 1 July of each year do not refer to a single product but apply to every product that is linked to notified prices which is why that situation is untenable.



With that alternative rendered unworkable, Origin would therefore be forced to mail out letters to all customers on energy offers to inform them that their prices would vary on 1 July in line with a very public and very transparent change in regulated prices (and in accordance with the clearly stated terms of their market contract). This would be of huge cost to Origin and other retailers and inevitably, to Queensland consumers with 100,000s of letters sent to Queensland customers every June that provide neither additional transparency nor any additional protection regarding retrospective pricing.

Origin would therefore urge the QCA to reconsider the drafting of the Code amendment so that it is limited to the issue that the QCA is trying resolve, ie. unexpected, retrospective price variations to market customers.

¹ [Redacted]

The QCA's draft Code change as it stands will ensure that customers are provided prior notice before any price variations but Origin believes that it needs to be modified so that the financial year variation to most energy offers through regulated tariff change is not captured by the requirements. One way to accomplish this is for the Code to allow any price change in line with the regulated tariff change on 1 July of each year to be notified by bill message, as is currently the case (this also having been made clear in their market contract).

Notice of a price variation on a customer's bill is still the most efficient manner for informing customers of mass price variation and has been a long standing notification mechanism, readily accepted by consumers in many jurisdictions. In Queensland, the changes to regulated retail prices are already gazetted and published so that consumers on energy offers linked to regulated tariffs will have been informed prior to the bill messages.

Therefore, although Origin still supports the current Code and believes it provides an effective and efficient approach for mass price update, Origin would request that if the QCA must amend the Code to add further requirements, it should ensure that these requirements are targeted and do not add further unworkable and costly obligations on retailers.

Origin is happy to discuss this issue further and elaborate on its issues so please contact me on (03) 9652 5702 if you have any queries.

Yours sincerely

A black rectangular redaction box covering the signature of Beverley Hughson.

Beverley Hughson
Regulation and Relationships Manager