



20 October 2008

Mr Gary Henry
Queensland Competition Authority
GPO Box 2257
Brisbane Qld 4001

Dear Mr Henry

Re: Consultant's Supplementary Papers

Origin Energy (Origin) is pleased to see the release of the supplementary papers by CRA with regard to the Benchmark Retail Cost Index (BRCI) for 2009-10. The additional information within the papers, in response to the issues raised in the Workshop held by the Queensland Competition Authority (QCA) on 27 August 2008, does provide further transparency on CRA's planned modelling of the cost of energy within the BRCI process.

Origin welcomes the additional opportunity to comment on these matters and specific comments are included below.

However, Origin does note that much of the CRA modelling remains largely opaque and it is not in a position to draw any conclusions until the QCA releases both the consultant's 2nd draft report and accompanying data. It is only then, when Origin has had an opportunity to review the data and specifics of the modelling, that it will be able to make any final comment.

Origin makes the following comments in regard to the material provided in the CRA supplementary papers.

Energy Purchase Costs

a) Calibration

Origin considers the proposal to move from a single year price duration curve to using prices from the past ten years as reasonable given that this should reduce the impacts of transient events such as drought. Notwithstanding this, Origin does believe that some of the impacts of drought that were apparent in 2007-08 are still present in the market.

Origin would advise that caution be applied in the averaging of past years to ensure that the price duration curve resulting from this normalisation process is reasonable. As part of this examination, consideration should be given to structural changes that have occurred in the market in the last ten years such as VoLL increasing from \$5,000 /MWh to \$10,000/ MWh in April 2002.

The consultant should consider excluding events such as the opening of the Queensland Interim Market in January 1998 when prices were very high and probably not representative of normal prices.



b) Treatment of Caps

Origin supports the proposed approach to take up caps for all periods.

c) Forecasting of Future Contract Prices

Origin acknowledges that forecasting contract prices is problematic and note that with the revised timetable, prices will now be forecast for a period of approximately 5 months i.e. February 2009 to June 2009. Any complicated modelling of future contract prices is likely to raise more issues rather than settle the debate.

Origin would prefer CRA to use actual historical data over a 24 month period prior to the final report in February 2009. However, Origin can accept limited forecasting using the most recent two month period for future contract prices if this method is to be consistently applied in the future.

In reality, for a retailer to procure its remaining load in bulk at this price and date then there would need to be an additional allowance for volume given market liquidity or for the retailer to pay an option fee to guarantee the price for the remaining forecast period. This would be of the order \$2/MWh. Given the nature of the BRCI is to only calculate the change in cost, this allowance is not significant as long as the contract price forecasts used for 2009-10 are not replaced by actual values in future BRCI determinations.

d) Foresight of Outcomes

Origin also supports the proposal to apply Monte Carlo simulation to demand forecasts.

However, Origin cannot make final comment until it has an opportunity to review this analysis to see that it adequately captures a retailer's costs of hedging load volatility and uncertainty. In order to review this method satisfactorily, Origin will require greater transparency of the results and the provision of the relevant data, including the individual pool price and demand traces for the various simulations.

Transmission System and Scaling Factors

Origin acknowledges that the issues associated with transmission are complex and subjective and understands CRA's position in wishing to avoid applying too many arbitrary assumptions about future transmission costs.

However Origin is disappointed that none of the issues that were raised at the Workshop concerning increasing transmission costs, increasing loss factors and inter-connector ratings have been addressed.

Change in Input Costs - LRM

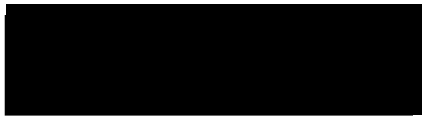
Origin understands that the QCA is undertaking an additional review of the input assumptions for the LRM modelling, as agreed at the Workshop. Origin expects that the draft findings of this review will be published for stakeholder consultation with the consultant's 2nd draft report or as a further supplementary paper.



Origin would also encourage the QCA to ensure that the relevant half hourly data used in the consultant's modelling is released with CRA's 2nd draft consultant report. This will enable preliminary analysis by stakeholders before the next workshop on 3 November 2008.

If you wish to discuss these matters further, please contact me on (07) 3867 0620.

Yours sincerely



Patrick Whish-Wilson
Energy Regulation Manager