



17 November 2009

Queensland Competition Authority
GPO Box 2257
Brisbane Qld 4001

electricity@qca.org.au

Attention: Gary Henry

Dear Gary

DRAFT REPORT: REVIEW OF ELECTRICITY PRICING AND TARIFF STRUCTURES - STAGE 2

Origin Energy (Origin) has been an active participant in the Queensland Competition Authority's (QCA's) review on regulated electricity pricing in Queensland and welcomes the provisional conclusions made by the QCA in its *Draft Report: Review of Electricity Pricing and Tariff Structures - Stage 2* (Draft Report).

Origin notes the QCA's draft recommendations include that:

- the existing retail tariff schedule be rationalised by removing obsolete tariffs and consolidating a number of the tariffs with similar consumption patterns and underlying cost;
- the fixed and variable components of notified prices be adjusted to reflect the structure of the costs faced by retailers such as the underlying network costs;
- minimum monthly charges be replaced by cost reflective fixed and variable charges; and
- Large customers should not have access to regulated tariffs.

Origin strongly supports these recommendations and believes they would enable a competitive electricity market to grow in south east Queensland if adopted.

However, Origin agrees with the QCA that the reform of notified retail prices need not be constrained by the current regulated tariff schedule. A new set of safety net tariffs could be built by:

- identifying the customer groups where there is a need for a safety net tariff; and
- basing new retail prices on the relevant network tariff structures for these appropriate customer classes.

Irrespective of the selected approach, Origin would like to see the Queensland Government act on many of these recommendations as soon as possible. Origin understands that the Government must consider the review in its entirety but believes that several of the recommendations are critical to the competitiveness of the Queensland energy market and can be implemented quickly.

The policy decision of removing Large customers' access to regulated tariffs in south east Queensland is one such recommendation. Origin notes the QCA's proposal for a notice period, such as 6 months, prior to any change and believes this is a necessary condition. As such, Origin would encourage the Government to act on this recommendation in the near future so that it can come into force by 1 July 2010.

Origin would also make the following specific comments with regard to the assessment of existing and alternative tariff structures presented by the QCA in its Draft Report:

- Origin note and agrees that simple tariff structures are preferred but cautions the QCA in underestimating the ability of customers to accept, understand and respond to complex price signals. Simplicity should not be a major criterion when selecting a relevant tariff structure to meet certain objectives;
- The QCA note that there is little merit in considering seasonal tariffs without a corresponding network tariff structure. Origin agrees that incorporating the network benefits of a change in seasonal usage is required if a seasonal retail price is to effectively change consumption patterns. However, as the QCA also note, regulated retail tariffs in South Australia have seasonal variations independent of network tariffs to account for higher wholesale energy costs in summer. This factor should not be readily dismissed in Queensland;
- Similarly, Origin agrees with the QCA that inclining block tariffs are a coarse pricing signal to reduce peak demand. However, the impact of an inclining block tariff on the appropriate customers can be further targeted by incorporating other pricing structures. For example, the inclining step in an inclining block tariff could be specifically limited to summer months when peak demand is an issue. Origin is not in a position to propose the most suitable structure as retail tariffs should obviously be led by the structure of network tariffs in this regard;
- As stated earlier, Origin welcomes the QCA recommendation that access to regulated tariffs for Large customers is removed. In conjunction with this, Origin would highlight the current high voltage (HV) discount that is currently accessible for regulated tariffs within the Gazette of regulated electricity prices. This almost solely applies to Large customers and therefore should also be removed. Origin would note that this HV discount is a legacy arrangement, is not cost reflective and is another factor that accentuates the attractiveness of regulated tariffs when compared with cost reflective market contracts;
- Origin agree with the QCA that time-of-use pricing is more effective than inclining block tariffs in encouraging customer behaviour with regard to peak demand and therefore, an opportunity exists for voluntary time-of-use retail tariffs to be introduced. However, as well as the developmental issues identified by the QCA, there needs to be a recognition that if access to such tariffs was voluntary then the regulatory framework must ensure that remaining notified prices are escalated sufficiently to account for any change in Net System Load Profile (NSLP). The issue, otherwise, is that customers with high peak demand (and high costs) will remain on a flat tariff and avoid paying their true cost while customers with low peak demand (and low cost) will access cheaper time-of-use tariffs. The natural consequence will be a systematic increase in the peakiness of the NSLP; and
- The QCA has highlighted the major transitional issues of timing, customer education and ensuring vulnerable customers are protected. Origin agrees that these are important customer issues that need to be addressed with the implementation of any reforms.

Finally, Origin notes the *Report to Queensland Competition Authority: Review of Queensland Notified Electricity Retail Prices* by McLennan Magasanik and Associates (MMA) and generally supports the findings of that report.

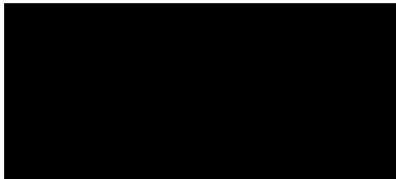
Origin believes the MMA analysis clearly demonstrates the issues of the current retail regulated tariffs not being cost-reflective, providing unattractive retail margins and restricting the development of a competitive Queensland energy market.

However, Origin would emphasise that although it agrees with the conclusions of MMA, this does not suggest that it accepts the input costs used in its analysis as Origin would question the quantum and variation of some of the energy costs that were used.

Implementing the QCA's proposals will require broad changes to be made to retail tariffs and this would necessitate significant additional consultation and up-to-date analysis on the costs of supplying electricity to Queensland consumers.

If you have any queries regarding this submission or earlier Origin submissions then please do not hesitate to call me or Patrick Whish-Wilson on (07) 3867 0620.

Yours sincerely



Duncan Permezel
Retail Executive Directions and Growth