18 May 2014

Chairman
Queensland Competition Authority
GPO Box 2257
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Email: electricity@qca.org.au

Dear Chairman

REGULATED RETAIL ELECTRICITY PRICES FOR 2015-16 – FURTHER CONSULTATION PAPER

Origin Energy (Origin) appreciates the opportunity to comment on the Queensland Competition Authority's (QCA) Further Consultation Paper on Regulated Retail Electricity Prices for 2015-16.

We are disappointed with the Queensland Government's decision to defer price deregulation for southeast Queensland electricity customers by 12 months. Continued regulation is not in the long term interests of Queensland consumers. It also introduces regulatory uncertainty for existing and prospective retailers across Queensland. This QCA pricing decision is therefore particularly important in promoting and encouraging effective competition across Queensland over the next 12 months.

Origin understands that the QCA does not want to change fundamentally its methodology at this late stage of consultation. Consequently, our comments focus on issues previously raised in submissions to the QCA and areas where small adjustments in the QCA's data set would more accurately reflect and capture actual wholesale electricity and green market dynamics. We also note a number of transitional and implementation issues specific to the Energex distribution area.

1. Energy Costs

Review of hedging modelling

In our earlier submissions, Origin has raised some questions around the accuracy of QCA's current hedging-based approach. In our view, the QCA's hedging based method does not appropriately reflect the dynamic of the wholesale market with respect to the relationship between contract and pool prices. As previously stated, this approach results in a portfolio cost at its lowest under a scenario when pool prices are at their highest and the supply demand balance is at its tightest; conversely, portfolio costs are at their highest under a situation when pool prices and demand are at their lowest.

We also have some queries regarding ACIL Allen's pool price distribution and simulation outcomes. While ACIL describe their methodology at a high level, they do not provide sufficient detailed data for stakeholders to analyse accurately the sensibility and historical appropriateness of their modelling outcomes. To undertake these verifications, stakeholders would require details of the actual price curves generated (either hourly or half hourly data), not just an average annual summary.

In lieu of data, a further breakdown of results would be beneficial. Presently, it is difficult to make a thorough assessment of ACIL's results without an understanding of how much volatility is in the price curves. In particular, it would be good to see a breakdown of the price curve, including details around the "under-cap" area (typically between \$100/MWh and \$299.99/MWh) in both a graph or table form to help verify the validity of ACIL's chosen 95th percentile curve.

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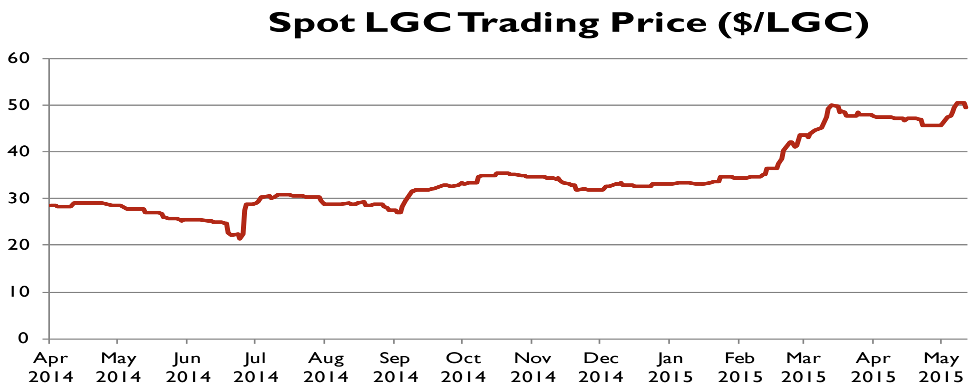
Improvements for calculating Large-scale Generation Certificate (LGC) price

As QCA noted in its Draft Determination,[1] Origin has previously advocated that the policy uncertainty around the Renewable Energy Target has led to a lack of liquidity in the LGC market over the past year, with retailers and large customers holding off purchasing forward volumes of LGCs until they have a more certain understanding of the future target. It has only been in the past few months that industry and the market has gained confidence in policy makers agreeing to a forward target. This confidence has translated into higher trading volumes and a corresponding increase in the average LGC price. With greater certainty around the likely 33,000 GWh target, the market is now actively trading to meet future compliance requirements, including those for 2015-16.

Significant events related to confirming future Renewable Energy Target

Date	Event
Feb 2014	RET review announced. Review to be lead by Dick Warburton
Aug 2014	RET Review Released - Recommends substantial scaling back of scheme
Oct 2014	Federal Cabinet rejected the Warbuton recommendation opening doors for negotiations Government reveals their position is for a reduction to 27,000 GWh (the "real" 20%)
Nov 2014	Labor walks away from negotiations citing lack of Government flexibility
Dec 2014	Government invites labor to reopen negotiation on the RET Labor and CEC offers to exempt trade exposed industry which is supported by the Government
Feb 2015	Negotiations continue Coalition indicates the would accept a target in the low 30,000's GWhs Labor indicates the would accept a target in the mid to high 30,000's GWhs
Mar 2015	Government first offers a target 32,000 GWh Labor rejects the offer and is unmoved from the mid to high 30,000's GWh
Mar 2015	CEC indicates they would accept 33,500 GWh
Apr 2015	Labor supports 33,500 GWh proposal put forward by CEC
May 2015	Government and Labor agree to a 33,000 GWh target



Source: Price provided by ICAP.

[1] QCA, *Regulated Retail Electricity Prices for 2015-16*, Draft Determination, December 2014, p.21.

If the QCA is committed to using a market-based methodology for determining the costs of the RET, we strongly recommend placing a greater weighting on market prices since February-March 2015, where there was clearly a step change in market confidence around policy agreement to a revised target. This adjustment in approach would result in RET costs that more closely reflect that actual costs retailers are incurring to meet their liability for 2015-16.

2. Retail costs

Origin supports the continued inclusion of headroom in the QCA's determination. This component of the price determination is even more important given the Government's last minute decision to continue price regulation in southeast Queensland for another year. QCA's determination needs to promote competition in the Queensland retail market over the next 12 months and offset waning retailer confidence in the market post the deregulation policy reversal.

3. Treatment of metering costs in QCA final price determination report

In its draft determination, the QCA noted that the Australian Energy Regulator (AER) had proposed reclassifying type 6 metering services from standard control to alternative control from 1 July 2015. Under the *Queensland Electricity Act 1994* (the Act), this reclassification means that "they now meet the definition of 'distribution non-network charges' in the Electricity Act. Distribution non-network charges cannot be included in notified prices (s. 90(3)(d) of the Electricity Act)."[2]

The QCA's interpretation is this changes means "that customers would see separate charges on their bills for metering when previously metering costs were included in the fixed charges of regulated retail tariffs and shared between all customers".[3]

While Origin notes the QCA's view that under the Act, metering charges would no longer be incorporated into notified prices, we consider how those charges would manifest themselves through to customers' bills is a matter for retailers to determine through competitive market dynamics. As such, it would be beneficial for QCA to clarify in its final determination that:

- Notified prices will no longer include metering charges;
- Metering charges may vary by customer depending on their network tariff and how many meters they have; and
- Retailers will be responsible for incorporating metering charges into both non-market and market customer charges, the form of which will be determined through competitive market dynamics.

A consequence of this may be a difference between the standing offer charges published by retailers and the notified price. To avoid customer confusion, we strongly recommend that in addition to the required notified prices, the QCA's final report includes an estimate of customer impacts and retail prices <u>inclusive</u> of metering charges.

4. Transition and implementation issues

There are a few Energex specific issues that the QCA will need to consider in light of the Government's revised delegation.

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[2] QCA, *Regulated Retail Electricity Prices for 2015-16*, Draft Determination, December 2014, p.10 (footnote 20).
[3] Ibid, p.10.

Transition of obsolete tariffs

Origin supports the continued transition of obsolete tariffs to cost reflective levels. We would encourage the QCA to consider transitioning not only the quantum of the tariff transition path but also the structure of the tariffs themselves. In particular, we encourage the QCA to consider rebalancing the weightings of tariff components like the fixed and variable terms as well as the peak and off-peak charges. In the context of network tariff reform and cost reflective pricing, the structure of the tariffs can be just as important as the total quantum.

Energex Tariff 41

We understand that Energex will be moving some tariff 41 customers who have interval meters from a kW based tariff structure to a kVa based tariff structure. It is important for the QCA publishes a notified price that covers both the kW and kVa tariff combinations.

Closing

Origin would be pleased to discuss any matters raised within this response further with the QCA. Please contact Sean Greenup in the first instance on (07) 3867 0620.

Yours sincerely

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