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General Manager
Markets Branch
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

RETAILER OF LAST RESORT COST RECOVERY SCHEME ISSUES PAPER

Origin Energy Retail Limited (Origin) welcomes this opportunity to respond to the Australian Energy Regulator's (the AER's) consultation paper on cost recovery arrangements for retailers of last resort (RoLRs).

As a nominated RoLR under existing regulatory frameworks for electricity in Victoria and south east Queensland and for natural gas in Victoria, southern New South Wales and south east Queensland, Origin is very interested in the process that will lead to the establishment of RoLR regulation and guidelines under the National Energy Consumer Framework (NECF). Furthermore, Origin has had firsthand experience as a RoLR following the failures of Energy One Limited in 2007 and Jackgreen International Pty Ltd (Jackgreen) in 2009, with the latter of these involving the transfer of almost 20,000 small electricity customers to Origin.

Our experience with failed retailer events has made us acutely aware of the costs and risks that confront a RoLR. Origin fully supports the objectives of ensuring continuity of supply and minimising disruption to customers of the RoLR scheme governed under the NECF. At the same time, Origin strongly advocates that the RoLR scheme supports the financial viability of the RoLR and recognises the importance of its role as supplier of last resort, particularly where a retail licensee is not able to volunteer to participate in the RoLR scheme.

Cost Recovery Arrangements for RoLRs

General comments

Origin is concerned with the underlying assumptions the AER appears to be applying in its approach to the assessment of costs of default and designated RoLRs.

In the first instance, we consider that there are important distinctions between these two categories of RoLR, with the default RoLR acquiring the obligations (most likely) by virtue of historic precedence where as the designated RoLR is performing this function on the basis of a commercial decision made by that entity at the time of the RoLR event.

Considering therefore the default retailer's position, Origin maintains its view that the default RoLR provides a guarantee of the continuity of supply and overall financial stability of the energy retail market, and the cost recovery arrangements should reflect the benefit that this "stand-by" service provides.

Origin Energy Retail Ltd ABN 22 078 868 425 • Level 21, 360 Elizabeth Street Melbourne VIC 3000
GPO Box 186, Melbourne VIC 3001 • Telephone (03) 9652 5555 • Facsimile (03) 9652 5553 • www.originenergy.com.au

We would argue therefore that the presence of a default RoLR in the market is equivalent to insurance in other industries; however no ongoing premium is paid to a RoLR for this insurance provision. A particularly relevant example in the energy market is the reliability and emergency reserve trader (RERT) function. Whether reserve generation or demand side management is called on or not by the Australian Energy Market Operator, the reserve trader receives payment for the insurance function it provides to the wholesale market (as generator of last resort) by ensuring the ongoing supply continuity and financial viability of the wholesale energy market.[1]

Origin is not suggesting that (default) RoLRs receive premium payments, despite their fundamental role in the market. However, we would emphasise that in light of the RoLR framework established under the National Energy Retail Law (NERL) and the NECF, the assessment of costs submitted by a default RoLR must be informed with due consideration of the following matters:

1. The fact that a default RoLR was required at all to provide a service in particular instances (indicating insufficient interest from designated RoLRs to provide last resort services).
2. Since the supply of RoLR nominees does not meet the demand for a RoLR event when a default RoLR is required, the AER ought to recognise this is assessing the default RoLR's costs- as with any market, this shortfall in supply would indicate an insufficient risk weighted return to the supply side of the market.
3. In this case, the 'price' of RoLR services anticipated by prospective (designated/ non-default) RoLRs would not have been sufficient compensation to match the investment required, and associated risks to operate as a RoLR.
4. Therefore, the AER should consider how its determination of reasonable costs will influence the participation of voluntary RoLRs in the future following a RoLR event.

The AER is concerned (as it should be) with ensuring that the approved cost recovery amounts for RoLRs are reasonable in the context of the RoLR event. Origin submits that one test of reasonable cost recovery is the willingness of designated retailers to volunteer as RoLR. The degree of voluntary response will in part be governed by expectations of cost recovery granted to a default retailer. Limited or no engagement from retailers volunteering to participate as a RoLR prior to a RoLR event would indicate that historically these expectations are not being met and the default RoLR is not recovering its reasonable, risk-weighted costs. Therefore, Origin would asked that the AER avoid including in the cost recovery framework a forensic, building blocks assessment approach to RoLR costs, noting that the AER has not suggested this in the issues paper.

Origin's response to the specific questions raised in the issues paper below should be considered in the context of the comments made above.

[1] The reserve trader regime (the predecessor to the RERT) resulted in payments of $4.4m in 2006, even though no capacity was utilised by AEMO (then NEMMCo). See http://www.aemc.gov.au/Media/docs/Public%20Forum%20-%20presentation%20-%20Introduction-0f6cfca7-c175-4844-8fd2-24091f0f9ba2-0.pdf

Specific comments

Q1. Are the factors listed [utilised in the assessment of a RoLR's cost recovery application] appropriate?

Origin generally supports the factors identified by the AER with the exception of the third and fifth factors listed. The third factor states that the "approach should not compromise the financial position of the RoLR and should aim to minimise the risks of the RoLR itself defaulting".[2] Origin considers that this statement of "minimisation" insufficiently recognises the disastrous impact on the industry, consumers and the economy in general if the default retailer – who in the proposed structure is very much the retailer of **last resort** – fails. There is no fall back mechanism, and observance of the National Electricity and Gas Objectives should require the AER to take a very conservative approach to managing this risk.

Moreover, as a matter of principle, Origin would suggest this third factor should state that the approach to cost recovery should eliminate, rather than minimise the risk of the RoLR defaulting. This would reflect the first part of the factor; that the RoLR's financial position should not be compromised. Clearly it would be compromised if the RoLR defaulted.

In relation to the fifth factor, that the cost recovery approach provides an incentive for the RoLR to minimise its cost, Origin does not agree that this factor requires significant weighting in the AER's assessment of RoLR costs. A RoLR will be already incentivised to ensure that its management of customers transferring in from the failed retailer is cost effective and minimises disruption to their energy supply arrangements.

Given the circumstances of a RoLR event requiring default retailer intervention, and the absolute priority for managing supply and services on behalf of all the affected customers quickly, Origin considers that a standard regulatory "efficiency" test is patently inappropriate. While Origin recognises the need for some oversight of costs, the regulatory test for the default RoLR costs must be focused on "reasonableness" (under the specific circumstances) rather than "efficiency".[3]

We further note that the absence of relevant benchmarks to apply an efficiency test to an assessment of RoLR costs, and the precedence already established through other cost recovery approaches (e.g. the recovery of costs for the Victorian Advanced Metering Infrastructure roll out), that reasonableness rather than efficiency guide the AER's assessment process in the case of a default RoLR.

An undue focus on cost minimisation will result in a failure to fully identify and price the risk that the RoLR is exposed to. If a default RoLR's approved cost are for any reason inefficient, future applications by designated RoLRs volunteering to provide RoLR services will mean such inefficient costs will be bid down by other suppliers of RoLR services. This will do more to reveal true costs than any artificial estimate of efficient costs.

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[2] AER (2010), *Retailer of Last Resort Cost Recovery Scheme – Issues Paper*, page 10

[3] The AER notes the emphasis in the NERL on page 8 of the issues paper on the recovery of reasonable, rather than efficient, costs in the context of RoLR.

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Q2. Are there any additional factors that the AER should consider [to be utilised in the assessment of a RoLR's cost recovery application]?

Another important factor the AER should consider is the insurance and supplier of last resort role performed by RoLRs and in particular a default RoLR; who supports security of supply for all energy users. This factor should guide the AER's approach to cost recovery (in addition to the factors set out on page 10 of the issues paper), in particular:

- That the AER consider the importance of continuity in the retail market and the RoLR's risk in undertaking this function (that is eliminate, rather than minimise the risk of the RoLR itself defaulting, particularly a default RoLR);
- That the reasonable cost test be applied in contrast to an efficient cost assessment given the requirement in the NERL and the circumstances that apply during a RoLR event (as above); and
- That excessive weighting is not applied to factors such as administrative simplicity if they conflict with the (default) RoLR's recovery of reasonable cost given the free option it provides to the market and the absolute need to ensure supply and services to customers as quickly as possible.

Q3. Should the AER place restrictions in the RoLR guidelines on the time within which a RoLR may apply for a RoLR cost recovery scheme?

Q4. If so, what is an appropriate time limit for an application for post event costs following a RoLR event?

Q5. What is an appropriate time limit for an application from a default RoLR for preparation costs?

A time limit on the recovery of costs should be applied. There are however circumstances where material costs may not be identified for some time after the failed retailer event (for example a systemic and material tampering or theft issue, resulting in unrecovered costs paid to a distributor). Should such costs be identified and appropriate evidence of them presented to the AER, Origin believes the cost recovery approach should be flexible enough to support such outcomes.

Origin agrees that for anticipated and known costs incurred by the RoLR, a time limit on application for cost recovery should apply.

In terms of a time limit, in Origin's experience 12 months would constitute a reasonable timeframe for an application for cost recovery to be made. Origin notes that practically, an application is likely to be made by a RoLR in most cases within two months of the RoLR event.

Similarly, for preparation costs, it may be appropriate to place a time limit on an application process. Again however, Origin believes the guidelines should be flexible enough to cater for material costs not identified in any origin application. For

preparation costs, 9 months would be a sufficient time frame for an application to made by a RoLR.

> Q6. What information should be included in an application for a RoLR cost recovery scheme?
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> Q7. What form should the information a RoLR cost recovery be presented in?

Origin believes that any guidelines specifying information from RoLRs (default or designated RoLRs) should not be unnecessarily prescriptive. A RoLR (particularly a default RoLR) should be granted flexibility in submitting costs to the AER.

Origin supports the example of market-based quotations as the basis for RoLR preparation costs for a default RoLR (described by the AER on page 12 of the issues paper). We consider however that extensive benchmarking of cost categories will not encourage the participation of designated RoLRs (following a RoLR event) and will create uncertainty for default RoLRs if the assessment process takes an excessive amount of time.

Broadly, information provided in an application would include (for either preparation or post failed retailer event costs) the following items:

- Operating expenditure (mail house, labour hours/FTE and rates inclusive of overheads, external legal costs and contractors costs);
- Energy purchase and risk management costs (wholesale electricity and gas supply arrangements); and
- IT capital and operating expenditure if required.[4]

The format of information should not be prescribed, however a summary for interested stakeholders is likely to be of value provided the information it contains is not of a commercial nature.

The RoLR may need to provide confidential information in its application to the AER. Origin considers that the AER should not be able to use confidential information obtained as part of the RoLR provisions in the exercise of any of its other functions and powers. The information provided by retailers as part of the RoLR provisions is likely to include highly sensitive commercial information, which when used or applied for other purposes by the AER, could be taken out of context and may be misleading.

While section 220 of the NERL excludes the use of RoLR information for a purpose connected with the performance or exercise of a function or power of the AER under the National Electricity Law and Rules or the National Gas Law or Rules, there is no requirement that information collected under the RoLR provisions be destroyed when no longer needed. Origin considers the AER guidelines should include a requirement for the AER to destroy or otherwise return all information obtained under the RoLR provisions when no longer needed for its original intended purpose.

[4] Origin's experience with previous RoLR events was that a great deal of IT related expenditure was required – this would have made up more than half of the total costs because of the need to "massage" poor quality and differently formatted data into our billing and CRM systems. The larger the number of customers involved, the more complex this becomes as processes must be automated rather than managed manually.

Furthermore, Origin believes that section 4 of the *Compensation Guidelines under clause 3.14.6 of the National Electricity Rules* published by the Australian Energy Market Commission provide the AER with some guidance as to the management of potentially confidential information from a RoLR in relation to its cost recovery application. Origin believes that where information provided is confidential in nature, the AER needs to take into consideration the amount and level of detail of information necessary for the market to make an informed assessment of RoLR costs, without revealing commercially valuable information to the RoLR's competitors.

Q8. What are likely sources of preparation costs for a default RoLR?

Q9. What factors do you consider will affect the magnitude of preparation costs incurred by a default RoLR?

Q10. What principles should be considered when separating costs incurred in preparing for a RoLR event from costs associated with the retailer's business as usual operations?

The preparation costs identified by the AER on page 15 of the issues paper are appropriate. In addition, Origin believes that costs incurred in the preparation of RoLR plans and terms and conditions as required, and their legal review also included as part of preparation costs. It is Origin's view that such costs are not business as usual for a default retailer and should not simply be absorbed into retail operating costs.

The AER when assessing preparation costs should take into account the number of areas that a retailer with default status is required to act as the RoLR. In the case of both Energy One and Jackgreen, Origin and other former incumbent retailers had to maintain continuity of supply for customers located in a number of National Electricity Market (NEM) jurisdictions.

While adoption of the NECF may reduce preparation costs (for RoLR plans and terms and conditions for example), to the extent jurisdictional differences remain, the AER needs to consider the costs borne by a RoLR where it is default in a number of jurisdictions and where a failed retailer is also operating across those jurisdictions.

Principles that the AER should have regard to when separating RoLR preparation costs from business as usual costs might be based on the following questions:

- Would the preparation costs claimed by the default RoLR have been incurred if it were not designated as such?
- If no, do the costs presented reflect reasonable costs given the particular circumstances and obligations on a RoLR?
- If yes, then grant RoLR preparation cost recovery.
- If no, request further information or provide reasons for basis of rejection of costs.

Q11. What are the likely sources of incremental costs for a RoLR at the time or following a RoLR event?

Q12. What factors do you consider will affect the magnitude of the incremental costs incurred by a RoLR at the time of or following a RoLR event?

Q13. In what circumstances are the incremental costs incurred after a RoLR event likely to be significant?

In relation to questions 11 to 13, Origin is concerned that the different classes of retail operating costs described on pages 18-20 of the issues paper are characterised as 'incremental' in nature. While in theory existing systems and processes can manage a number of the functions required of a RoLR at the time and following a failed retailer event, experience of actual retail failures demonstrated that significant manual intervention and diversion of resources was required, particularly in relation to IT infrastructure.

For example, poor data quality from a failed retailer requires unanticipated use of subject matter experts, who then are distracted from their business as usual activities. Origin believes that this results in uncompensated and unrecognised opportunity costs, rather than such a diversion being simply incremental in nature. This issue should not be underestimated; the burden on a RoLR depending on the scale of the event requires the inevitable re-direction of resources from other, prioritised and budgeted projects. As such, Origin does not believe that qualifying a RoLR's costs as incremental is appropriate. The functions the costs apply to may be incremental in nature, but in practice, the impact of the diversion of resources costly for a RoLR.

In general however, the cost categories identified on pages 18-20 do broadly reflect the types of post event RoLR costs that will be incurred by the RoLR.

Factors that may affect the magnitude of costs are similar to those discussed under preparation costs above; with additional factors that only impact upon the size of costs once a RoLR event occurs, including:

- The size of failed retailer;
- The load shape of the failed retailer's portfolio (electricity and gas) and the volatility and level of prices in the electricity/gas wholesale markets;
- The availability of suitable risk management costs to manage these costs;
- The weighting of customer classes (commercial & industrial, small business, residential customers) across the portfolio;
- Retention of non-NECF difference in relation to RoLR amongst jurisdictions;
- The level of compliance of the failed retailer and the quality of its compliance management - to the extent that compliance was poor, a RoLR will have to expend significant effort to correct pre-existing problems. These may not be discovered for sometime; which is why we suggest flexibility in relation to time limits for cost recovery.
- The quality of customer data and speed of its provision to the RoLR following the event. The AER highlights on page 18 of the issues paper that a RoLR is not likely

to incur costs during the transfer of data via MSATS. Origin agrees, however if the bulk change process results in inconsistent data with that provided by the failed retailer's administrator and/or the distributor significant reconciliation and administrative expense will be incurred. Origin experienced such costs following the failure of Jackgreen.

Q14. Should the AER consider the benefits that may accrue to a RoLR following a retailer failure? If so, what methods can the RoLR and the AER adopt to quantify these benefits?

Origin is aware of long-standing arguments contending that the acquisition of customers of a failed retailer is a benefit to the RoLR. Origin does not believe that such benefits can be quantified in any meaningful way and are generally overstated. Attempting to quantify these perceived benefits to a RoLR following retailer failure will;

- Create uncertainty for the RoLR and
- Will divert further resources within the RoLR's business from the task of integrating customers of the failed retailer into its systems.

Furthermore, the AER notes the consideration by the Essential Services Commission (Victoria) that RoLR acquisition of customers may be more cost effective than a trade sale.[5] We believe that a comparison of RoLR customer acquisition with a trade sale is not relevant as a benchmark of benefits because the acquisition of one retailer by another:

- Takes place after extensive analysis, negotiation and due diligence;
- Is a function of the business strategies of the buyer and the seller;
- Is conducted in an environment where information is available in advance; Generally does not take place under timelines as constrained as those experienced during a RoLR event; and
- Is clearly the outcome of mutual agreement - none of the conditions described here met under a RoLR event.

Origin would again emphasise that any assessment of the costs facing a default retailer in particular, must focus on the purpose of the RoLR scheme and the lack of choice that a default RoLR faces in providing that service for a particular event. Moreover, while the default retailer has an ongoing obligation to maintain a RoLR plan and associated processes and system capability, it receives no ongoing recompense for maintaining this capability (other than, perhaps, the preparation costs). If the value of any alleged benefits is to be incorporated into the assessment of RoLR costs then Origin would claim the ongoing costs maintaining the RoLR's availability must be an offset to such benefits.

Finally, offsetting RoLR cost recovery with benefits that are difficult to determine and consistently estimate may discourage non-default retailers from registering with the AER to become a designated RoLR. Origin considers that the potential for designated (non-default) RoLR's to participate (and essentially compete to be RoLR) is an effective and adequate approach to assessing the benefits of RoLR customer acquisition, revealed via the competitiveness of the cost proposals put by prospective designated RoLRs.

[5] The *loss* of customers through a RoLR event may be cost effective for the *exiting* retailer and preferable to a trade sale (as it may remain solvent and retain its wholesale hedging contracts as assets), but is unlikely to benefit the RoLR itself.

Q15. What limits should the AER consider placing on the RoLR costs that can be recovered?

Q16. Should the AER consider placing a limit on the magnitude of the costs that a RoLR may recover (beyond the limit in the Retail Law that the costs must be 'reasonable')? If yes, what methods should the AER employ to set this limit?

Q17. Should the period over which a RoLR can incur retail operating or wholesales costs be limited? If so, what is an appropriate limit?

Timing of assessments of costs and benefits

Origin does not support *ex ante* assessment of default RoLR costs, particularly in relation to wholesale market costs incurred by a RoLR. The Victorian approach, while providing certainty through a fixed fee, is not reviewed with enough frequency to reflect an accurate assessment of wholesale market costs and risks faced by RoLRs. Even if it were, the *ex ante* assessment approach is not able to anticipate the circumstances that may be present in the market at the time of each unique RoLR event.

To this extent, Origin supports NERA and AAR's view that costs be recovered by adjustment following the RoLR event.[6] Origin would extend this to apply to administrative costs, which may be impacted by the size and scope of the RoLR event and therefore reasonable cost estimates may not hold following the event.

Origin believes that a combined approach may have some merit (as suggested by NERA and AAR to the MCE), with the flexibility to weight toward *ex post* determination of reasonable costs as the circumstances of a RoLR event require.

Limits on RoLR costs

<u>Cost classes</u>

On page 23 of the issues paper, by way of example the AER suggests that it "…may not be appropriate for a RoLR to recover costs associated with senior management time…" While overheads such as office space rental may not be appropriate (although in some circumstance may be legitimate if the RoLR has to bring in additional contractors to manage a significant RoLR event), it is unclear to Origin why senior management costs would not be included by a RoLR in its application for cost recovery if these resources were required during the event. As discussed above, the diversion of such resources from business as usual tasks carries with it the opportunity cost of their use in absence of the RoLR event.

<u>Limits on magnitude of costs</u>

The reasonable cost limitation set out in the NERL is a sufficient basis for determining a limit on costs incurred by a RoLR. Origin agrees that further limits will increase the risk to a RoLR and would violate the principle that the RoLR cost recovery scheme should not amplify financial risks (including the risk of default) faced by the RoLR.

[6] AER (2010), op. cit., page 21

Time based limits

Origin does not believe a prescriptive limit (of three months) on the time where the RoLR is considered exposed to additional wholesale energy costs (as suggested by NERA and AAR) should apply. The impact of the RoLR event on the wholesale market, the availability of settlement data and other sources of uncertainty suggests to us that any time based limit should be no less than six months. As discussed earlier, the RoLR cost recovery assessment process should feature sufficient flexibility to allow a RoLR to submit further reasonable costs (if incurred) should they be material and arise some time after the RoLR event.

Origin would note too, that should the wholesale costs be limited to three months (as suggested by NERA and AAR), then the additional costs that may be associated with a short term hedging arrangement must also be recognised for consistency; in the case of the Jackgreen event for instance, the cost of the hedge allocated across three months of demand was significantly higher than the cost of an annualised hedge.

Agreed limits

A designated RoLR should have the flexibility to agree to limit any RoLR costs submitted for assessment to the AER.

Cost recovery mechanisms

Q18. Are there any particular problems or difficulties with the cost recovery mechanisms discussed [on page 25-26 of the issues paper] above?

Origin is supportive of a distribution network tariff variation to recover RoLR costs. This mechanism has the following advantages:

- It reflects the insurer of last resort role undertaken by the RoLR, which benefits the entire market;
- It provides maximum certainty of cost recovery, significantly more than an up-front fee or a retail tariff variation. This is particularly so given the rates of attrition of RoLR customers experienced in the past;
- It reduces the financial risk for default RoLRs, who have no choice but to stand as provider of last resort in the retail market; and
- It ensures competitive neutrality in the retail market after the RoLR event.

We would question the materiality of the problems associated with this approach set out by the AER on page 26 of the issues paper:

- It is not clear why cost recovery would take any longer than a retail tariff variation, since both involve RoLR costs being recovered through variable charges. Furthermore, recent changes to RoLR arrangements in Queensland provide for payment of costs to the RoLR (by a distribution business or businesses) within 30 days of the RoLR invoicing the distributor.
- The administrative cost of the scheme is not likely to be material. Once the increase in network costs is determined (based on the RoLR's approved costs as assessed by the AER), this amount (for example in $/kWh) would be used to

adjust the respective distributor's network use of system charges (NUOS) as required. The approach shares the administrative burden of the insurance role undertaken (particularly by the default RoLR) and meets the objective of minimising financial risk to the RoLR.

- Origin agrees that cost recovery should occur across all affected networks, subject to a materiality test. For example, if the failed retailer had numerous customers in a particular distribution network, but very few (less than 20 for example) in another, practically, cost recovery through NUOS charges would only take place in the first distribution network area.

It is Origin's view that cost recovery payments to a RoLR based on distribution network pass through need not depend on approval of additional NUOS amounts; distributors could make up front payments to the RoLR to reflect the increased wholesale cost burden (and network cost burden) in the short term (as has been proposed in Queensland). This approach would ensure that the significant gap between the RoLR incurring costs (spot market on a weekly basis and network costs monthly) and payments (up to three months or longer depending on when changes to NUOS occur) does not create unreasonable financial risks for the RoLR. Distributors should receive their working capital for provision of such funds (for example 80% of the approved RoLR costs) and recover this through the change in NUOS.

This approach would be preferable to the RoLR itself applying working capital costs, since retailers will generally have higher discount rates than distributors due to the competitive nature of their segment of the supply chain. Alternatively, distributors could ease credit terms for the payment of network bills or delay the payment terms themselves for customers of the failed retailer now serviced by the RoLR.

Finally, Origin would challenge the view that the administrative burden of an up-front fee would be low. Failure to recover the up-front fee from customers of the failed retailer and the existence of the fee itself increases the likelihood of those customers transferring out before paying anything to the RoLR. Origin has witnessed material churn of customers or failed retailers (away from the RoLR) with or without a RoLR fee. Recovery of the fee, along with conventional supply costs is significantly more challenging than is the case under normal conditions.

Origin supports the AER's assessment of the potentially negative outcomes in the competitive retail market associated with a retail tariff variation, and considers it to be the least preferred – indeed entirely inappropriate - option for a RoLR. Even if the customers of the failed retailer accept the higher charges, the cash flow timeframes between costs and revenue are pronounced – probably in excess of 4 months (i.e. 1.5 billing periods) under normal meter reading cycles.

Q19. Are there any other appropriate cost recovery mechanisms?

Origin believes the AER has identified the key cost recovery mechanisms, at least in the case of a RoLR event for a relatively small retailer.

The collapse of a substantial sized retailer, however, will create an even greater urgency on the cash flow and funding arrangements of the RoLR even if all costs are recovered in the long run. Origin considers that at some stage, further thought will be needed regarding an approach to priority funding in such circumstances.

> Q20. What is the most appropriate cost recovery mechanism for each class of cost that a RoLR may recover?

Origin believes that a distribution network tariff variation approach allows for the recovery of preparation costs and the RoLR event costs themselves (additional administrative costs and increased wholesale energy costs). It is also likely to be the most equitable if the AER incorporates into its assessment the social benefit provided by a RoLR (again, particularly in the case of a default RoLR).

> Q21. For a distribution network tariff variation, what are the relevant considerations when determining which distributor should make payments to the retailer?
>
> Q22. If more than one distributor is required to make payments towards the costs of the scheme, how should the costs be divided between each of the distributors?

In Origin's view, the following considerations would apply to the determination of distributor contributions to approved RoLR costs:

- Only distributors whose network served customers of the failed retailer would be called upon;
- To fully reflect the proportional impact of the RoLR event and the benefits provided by the RoLR(s), the allocation of cost should be weighted toward the total number of customers in a network area in the first instance;
- A secondary consideration would be to allocate costs (paid by distributors and recovered via NUOS) based on the number of customers of the failed retailer located within the relevant distribution network area(s); and
- A materiality test would apply (for example, if RoLR costs are less than $10,000 within a network area, these would be redistributed to other areas). This would be required to reflect the transaction costs for the market generally (assuming the affected distributor would receive cost recovery automatically through an increase to NUOS).

Reliance on a single distributor, while administratively simple, detracts from the principle that the cost recovery scheme supporting the RoLR's incurred cost should be distributed as widely as possible to reflect the insurance role performed by the RoLR.

Origin would welcome further detailed discussion with the AER on matters raised in the issues paper and in this response. In the first instance, please contact David Calder (Regulatory Strategy Manager) on (03) 8665 7712.

Regards

[SIGNED]

Bev Hughson
Regulation Policy & Strategy Manager
Retail
(03) 9652 5880 – Bev.Hughson@Originenergy.com.au