



19 August 2011

Mr Tom Leuner
General Manager, Markets
Australian Energy Regulator
GPO Box 520
MELBOURNE VIC 3001

By e-mail: AERInquiry@aer.gov.au

NATIONAL RETAILER OF LAST RESORT SCHEME

Dear Mr Leuner

Origin Energy Retail Limited (Origin) welcomes this opportunity to comment on the draft Retailer of Last Resort (RoLR) package released by the Australian Energy Regulator (AER).

Overall, Origin is very supportive of the draft package. Furthermore, we believe the consultation process undertaken to date has been comprehensive and has provided ample opportunity to provide feedback on issues identified.

We provide comments on a number of outstanding issues contained in the draft package below.

Notice of draft instruments

RoLR framework

Origin understands the need for the RoLR Plan and Guideline, but we do not believe the additional documents are necessary. Having four separate documents is cumbersome for industry and cross referencing these is an unnecessary burden. The detail contained in the four documents can be distilled into two (the Plan and the Guideline).

Suitability criteria

We note on page 7 and 8 of the Notice that the AER states it will not register additional RoLRs if they do not have contracts in place to ship gas. Origin believes this approach will undermine the participation of retailers in the RoLR scheme, particularly in small gas distribution networks. Origin believes that additional RoLRs will not contract gas based on the likelihood of a RoLR event in a network with limited shippers. It is possible that gas contracts of a failed retailer will be assigned to the RoLR in these circumstances. While Origin accepts this position for larger networks, we believe an alternative approach should be considered in smaller and isolated gas networks.



Designation framework

Origin understands the preference the AER may have to appoint a smaller, additional RoLR applicant as the designated RoLR; however we do not believe a simple assessment of customer numbers/market share will be appropriate in all circumstances. Origin would ask that the AER consider other criteria that might apply in determining designated RoLRs and whether, when an event occurs, there will be sufficient time to consider these. We believe that stakeholders need also to consider further criteria beyond a simple assessment of customer numbers.

RoLR cost recovery framework - benefits

Origin does not support a point-in-time assessment of the benefits that may accrue to the RoLR, effectively offsetting RoLR costs. While Origin agrees that long term benefits will decline where a failed retailer event is small and/or the net present financial value of transferring customers is low, we think that if long-term benefits are to be considered (and these are to offset RoLR cost recovery), then assessment of these benefits must be made after the event. Each failed retailer event is likely to have different characteristics, and certainly varying customer characteristics. As such, analysis of actual switching post-event is likely to be justified, as opposed to a measurement based on forecasts subject to assumptions.

RoLR cost recovery framework - limitations on recoverable costs

Origin would contest the AER's view that short term hedging costs are unlikely to be material; as discussed above, each failed retailer event is likely to be different and we do not believe industry or the regulator is in a position to exclude these outright. Liquidity in the market may change over time and the size of an event may mean that is difficult to hedge cost-effectively, even for larger RoLRs. We would welcome further discussion with the AER on this matter.

Draft RoLR Guidelines

RoLR cost recovery template

Origin supports the proposed template published by the AER along with the RoLR package. It reflects the flexibility designated RoLRs (default or additional) will require when preparing cost recovery applications. Origin is supportive of the template as it stands. In terms of the 'Benefits' tab, we believe further development of this may occur as experience is gained following any future RoLR event.

Information to be included in an application for a RoLR cost recovery scheme

Origin supports the information requirements set out in section 5.1 of the draft Guideline. With respect to the RoLR cost recovery mechanism (via distribution payment determination or retail tariff variation), we have a more general issue in relation to the process the AER will undertake to assess the elected choice of mechanism by the RoLR. We note that the AER sets out principles for cost recovery on page 43 of its notice of the draft instruments. While we support these principles and the reasoning behind selecting one cost recovery mechanism over another (or a combination of mechanisms), Origin would welcome the opportunity to further discuss these parameters with the AER, perhaps by considering a hypothetical event.



We would also emphasise that where approved RoLR costs are to be recovered via a distributor payment distributors should be kept financially whole, with appropriate consideration of cash flow impacts.

As discussed above, Origin supports the draft RoLR package and recognises the effort put into its development by the AER, consumer groups and industry. Should you have any questions in relation to this response, please contact me in the first instance.

Yours sincerely

[SIGNED]

David Calder
Regulatory Strategy Manager
Retail
(03) 8665 7712 - David.Calder@Originenergy.com.au