

11 May 2007

NSW Gas Default Retail Tariffs and Charges
Independent Pricing and Regulatory Tribunal
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Attention Rachel Goodyer

Via e-mail

11 May 2007

Origin Energy submission on Draft Voluntary Transitional Pricing Arrangements (VTPAs): 2007 Gas Retail Review

Introduction

Origin Energy Limited (Origin) welcomes this opportunity to respond to the Tribunal's draft voluntary transitional pricing arrangements (VTPAs) on regulated natural gas prices for small customers to apply during the period July 2007 to June 2010.

Origin is a standard retail gas supplier to some 20,000 small customers in the Albury/Moama and NSW Murray Valley districts as well as a new entrant gas supplier in other areas of the New South Wales (NSW) gas mass market. As such, we believe we can usefully comment on the Arrangements from both a host and new entrant retailer perspective. The draft determination will for instance be one factor in influencing our decision to participate more broadly in the NSW gas market.

The Tribunal may be aware of Origin's general position regarding the continuation of price regulation of both the gas and electricity retail markets. In particular, we believe that some six years after the introduction of FRC in NSW, the focus of regulators should now be on:

- (i) identifying and addressing any institutional and market barriers to retail competition;
- (ii) unwinding cross-subsidies in order to achieve cost-reflective pricing; and
- (iii) addressing questions of energy poverty within the broader context of government social justice policy rather than energy price.

However, Origin recognises that the Tribunal has been tasked with continuing some form of retail price control for the next three years.

Given this, and on balance, Origin believes that the gas Voluntary Pricing Principles (VPPs) set by the Tribunal for the period July 2004 to June 2007 offered a relatively low cost, light-handed regulatory model that was appropriate for that stage of the development of the market. Efficient, low cost regulation was, and continues to be, particularly important given the relatively small size of three of the four standard retailer areas for natural gas.

The changes foreshadowed in the current draft VTPAs are a further step towards preparing consumers and retailers for the complete deregulation of gas prices in accordance with the national reform agenda and are therefore supported by Origin. In particular, we support:

- The removal of the rebalancing side-constraint. This will provide flexibility to Origin (and other retailers) to move quickly to cost-reflective pricing structures and to respond more effectively to changes in cost structures over the period.

The removal of the side-constraints, for instance, will provide more scope for Origin to introduce peak and off-peak period prices to better align retail prices with network costs (either in 2007/08 or 2008/09) (s.3).

- The ability to vary default tariffs in response to “special circumstances”. We are particularly pleased that the Tribunal has allowed some flexibility in the timing of this (subject to mutual agreement between Origin and the Tribunal) given, for instance, the timing of the relevant network pricing determinations (s.3).¹

A similar comment applies to the ability to vary the notification period for miscellaneous charges (s.4).

- The modification of the CPI index formula (s.5).

While we support the general approach of the Tribunal in the VTPA, there are two matters that Origin would like to make further comment on as discussed below.

Notification Period

Origin supports the principle of publishing default tariffs and miscellaneous charges on the retailer web-site. However, we request that the Tribunal amend the requirement in 3.4 and 4.3 to publish these prices within five days of the Tribunal’s approval to five business days. This will allow for the impact of weekends and public holidays.

Miscellaneous Charges

Origin notes the concerns expressed at the Roundtable with respect to the variation in miscellaneous charges between the various gas standard retail suppliers and between gas and electricity.

However, we believe that as long as the charges are reasonable, it is preferable for the Tribunal to continue with the current approach that requires Tribunal intervention only in the event of proposed new charges or increases in charges beyond CPI. This provides sufficient customer protection while minimising the regulatory cost burden to all parties.

In particular, Origin highlights that the small customer base of three of the four gas standard retailers means any changes imposed externally on the retailers will be at a very high cost on a per customer basis. Under these circumstances, we believe that it is more appropriate and effective for customers facing particular difficulties (such as late

¹ For example, the Essential Services Commission of Victoria is making a new determination for Albury network prices which is unlikely to be completed until late this year but which will come into effect on 1 January 2008. The four month notification period would not allow Origin to pass-through those changes in a timely manner.



payment due to ongoing financial challenges) to be managed on a case by case basis rather than a broad brush, one size fits all, regulatory edict.

Origin would welcome further discussion with the Tribunal on any element of this response or the draft determination. Please contact me on (03) 9652 5539 in the first instance.

Regards

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