



19 May 2010

Review of regulated retail tariffs and charges for gas 2010-2013
Independent Pricing and Regulatory Tribunal
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Review of regulated retail tariffs and charges for gas 2010-2013: Draft Report

Origin Energy Retail (Origin), as the standard retail gas supplier to over 20,000 small customers in the Albury and Murray Valley districts, appreciates the opportunity provided by the Independent Pricing and Regulatory Tribunal (IPART) to amend its draft voluntary transitional pricing arrangement (VTPA) that will apply to standing gas customers from 1 July 2010 to 30 June 2013.

Origin has reviewed IPART's *Review of regulated retail tariffs and charges for gas 2010-2013: Draft Report* (Draft Report) and is pleased to see that IPART has largely accepted Origin's draft VTPA proposal.

Specifically Origin acknowledges that IPART's VTPA methodology is relatively light-handed and is satisfied with the regulatory model in the Draft Report that:

- only regulates the retail component of the gas tariffs using a weighted average price cap (WAPC);
- does not impose a side constraint on retail prices;
- allows the pass-through of the distribution network costs;
- provides a pass-through mechanism for any introduction of a Carbon Pollution Reduction Scheme (CPRS); and
- can cover off any additional risks and costs outside of a retailer's control through the special circumstance review provision.

Furthermore, Origin is pleased that the IPART Draft Report has accepted its separate retail price paths for the Albury and Murray Valley regions including:

- an average increase in the retail component for the Albury district of CPI+10 per cent on 1 July 2010, and CPI+1 per cent for following years until the end of the VTPA; and
- an average increase in the retail component for the Murray Valley district of CPI+1 per cent for each year from 1 July 2010 until the end of the VTPA.

In doing so, IPART has recognised that Origin's actual and forecast cost information fully supports these tariff pricing proposals.

This approval was critical for the future of the gas market in Albury as Origin's analysis of its gas retail tariffs had highlighted that significant changes in transmission and distribution network costs over the period of the last VTPA had caused these retail tariffs to be significantly below cost reflectivity. The new VTPA will correct this issue.

Origin also recognises that IPART has proposed a generic VTPA and is happy to amend its draft VTPA to comply with the wording in this template.

Finally, Origin notes that IPART has requested Origin review its proposals for non-tariff fees and charges in its VTPA and this issue is discussed in the following section.

Non tariff fees and charges

As highlighted previously, a retailer incurs significant costs when a customer fails to pay by the due date. These costs relate to the labour required to respond to late payment, the cost of sending reminder letters, any third party debt collection costs and the additional call centre costs associated with handling late payment related calls.

Origin's VTPA proposal therefore included a Late Payment Fee of \$12.00 for 2010-11 that has been set at a level commensurate with the costs Origin incurs that relate to late payment. This fee is aligned with the late payment fee applied by Origin for both electricity and gas in other jurisdictions.

The IPART Draft Report has requested that, as Origin does not currently charge a late payment fee, it only introduce its late payment fee at a lower level from 1 July 2010 and transition it over 3 years to reach the proposed \$12 level in real terms.

Origin would seek further consideration of this matter by IPART as there are many reasons why Origin feels that a transition of the late payment fee is neither necessary nor appropriate.

Our principal reason is that Origin is currently permitted to levy a late payment fee of \$10.63 where a standing gas customer in NSW fails to pay on time. The fact that we have not done so has been a benefit to customers over this period and in practice represents an existing transition period of three years. Therefore, a more accurate representation of the proposed fee change is that Origin is increasing its fee from \$10.63 (level of current fee) to \$12.00 rather than implementing a new \$12 fee. This is well within the glide path proposed.

In addition, Origin would note the following:

- that the fee is set to recover the costs associated with the carriage of bad debt and additional administrative requirements such as reminder notices, warnings and debt collection. Origin would highlight that it has proposed a retail operating cost for the Albury and Murray Valley regions well below that of other NSW standing retailers and part of this reduction is based on the implementation of the \$12 fee. If this fee was to be removed or reduced then Origin would require compensation for these costs through the retail tariff price path; and
- that the fee is avoidable as it is only levied on customers that do not pay their bill and even on these occasions, it is not levied on customers in various circumstances so that it is not applied unfairly or inequitably.

In fact, IPART has requested that the late payment fee not be levied:

- where payment or part payment is made by an EAPA voucher;
- where the customer has contacted the supplier before the due date in relation to a billing complaint and this complaint is unresolved;

- during the period of an instalment arrangement entered into between the customer and the supplier to pay the gas retail bill; and
- where a customer is a Hardship Customer.

Origin can accept these conditions within its VTPA and would note that in the Public Forum held by IPART on the 30 April 2010, it was indicated that the exemptions from levying the late payment fee for electricity included an additional exemption:

- *where considered appropriate by the Energy and Water Ombudsman.*

Origin is also prepared to action this exemption within its VTPA.

However, as a final matter, Origin would like to highlight to IPART that it does not currently have the capability to charge a late payment fee that is different to the standard \$12 fee it applies in all other jurisdictions. Furthermore, as a matter of policy we much prefer to have a consistent fee scale reflecting the similarity of the fundamental costs of delayed payment across all jurisdictions. This obviously precludes Origin adopting the transition as proposed by IPART and puts Origin in a position where it must apply a late payment fee of \$12 or not apply any such fee at this point in time.

Therefore, Origin would request that IPART allow Origin to apply the \$12 late payment fee within its VTPA from 1 July 2010 and not require the transition as indicated in the Draft Report. If you have any further questions in relation to this submission, please contact Patrick Whish Wilson on (07) 3867 0620 in the first instance.

Yours sincerely



Bev Hughson
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