



16 November 2015

Mr Kim Wood
Principal Commissioner
Queensland Productivity Commission
PO Box 12112
George St QLD 4003

Lodged online

Dear Mr Wood

Electricity Pricing in Queensland – Issues Paper

Origin Energy (Origin) welcomes the opportunity to provide a response to the Queensland Productivity Commission's Electricity Pricing in Queensland Issues Paper.

The retail electricity market in South East Queensland (SEQ) has evolved considerably since the introduction of full retail competition on 1 July 2007, and there is now clear evidence of a mature robust market. Moreover, there is evidence that customers are responding to this competition with over 70 percent of customers in SEQ having now entered into market contracts.

The introduction of electricity retail price deregulation will further enhance the South East Queensland electricity market by providing customers with more efficient prices, greater product offerings and a robust customer protection framework.

The adoption of the National Energy Customer Framework (NECF) has provided higher levels of consumer protection than previously existed for customers in Queensland. This framework will continue to provide a robust, nationally-aligned customer protection regime that has been developed with extensive input from consumer groups and Government.

We believe customer protections can be further strengthened through the introduction of an appropriate market monitoring regime and a Government initiated consumer engagement strategy. Origin has already implemented a number of key measures to enhance its customer experience and will continue its engagement with the community to assist consumers to better understand their energy options and to make educated decisions about how to use energy more efficiently.

Origin's responses to specific questions identified in the Issues Paper are attached. Origin looks forward to the opportunity to further assist the Queensland Productivity Commission by providing additional information and data as required.

If you have any questions regarding this submission please contact Sean Greenup in the first instance on (07) 3867 0620.

Yours sincerely

A handwritten signature in blue ink that reads "K. Robertson".

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1 Productivity in the Electricity Supply Chain

- What are the potential benefits and risks in the Queensland Government's renewable energy plans, including solar targets, for electricity sector productivity and electricity prices in the longer term?
- What objectives do these plans and targets best support, and are there alternative levers or methods that might be considered?

Origin supports the progressive decarbonisation of the electricity sector in Australia and views the increased deployment of solar technologies as a key part of this transition. This deployment should be underpinned by sustainable policy which encourages the commercial deployment of renewable generation sources, without excessive cost subsidisation. It is important that the higher costs of renewable energy are appropriately weighted in policy decisions. The Solar Bonus Scheme has led to a significant increase in customers' bills that will endure until 2028. The price of acquiring renewable energy certificates under the Renewable Energy Target scheme is also rising and will add to customers' bills.

Origin recognises the Queensland Government policies to capitalise upon the state's solar resources through the 50 percent renewable energy target by 2030, target of one million rooftops having solar PV by 2020 and the solar 60MW program. Origin encourages Government to be led by the market in structuring these initiatives so that Government targets the barriers faced by each proponent to deliver the lowest cost solution.

It is also important that the impact on system operations of significant shifts in generation source is carefully considered as part of the transition to a greater proportion of renewable energy supply. The Australian Energy market Operator (AEMO) has identified a number of risks from installing large amounts of renewable generation in South Australia. Some of the issues identified could be applicable to Queensland if a significant amount of conventional synchronous generation is displaced leading to technical challenges for the operation of the power system from lower levels of inertia making frequency control more difficult. The fault level on inverters for renewable generators is also lower than for conventional generators with AEMO identifying a risk where a fault on the network could trigger the disconnection inverters.

- What factors are influencing higher wholesale prices in Queensland and do these represent systemic or transient market issues?

Queensland, like the rest of the National Electricity Market (NEM), is oversupplied with generation capacity, however there are a number of interrelated factors contributing to the higher wholesale prices observed in Queensland relative to NSW and Victoria. Queensland has not experienced the same decline in demand as some of the other states and is forecast to see continued demand growth from LNG loads. The mothballing of uneconomic plant, lower development to date of large scale renewable supply, market structure and limited inter-regional transfer capability from NSW to Queensland (due to stability constraints) each contribute to higher wholesale prices in Queensland relative to NSW and Victoria. Notwithstanding the likely development of large scale solar plant, these factors are likely to be enduring in the near term.

- Are there any issues associated with the existing level of competition in Queensland's electricity generation sector, and what are the potential impacts on the wholesale electricity market?
- What are the potential benefits and risks associated with structural reform of CS Energy and Stanwell in terms of supply chain productivity and electricity pricing?
- What options are there to mitigate competition impacts associated with merging CS Energy and Stanwell, and maintain downward pressure on electricity pricing?

Origin agrees with the Australian Competition and Consumer Commission (ACCC) that the Queensland wholesale electricity market is the most concentrated in the NEM. Based on the Australian Energy Regulator's (AER) State of the Energy Market report the combined generation capacity of CS Energy and Stanwell comprises around 7,700 MW of capacity compared to total regional capacity of around 11,300 MW or over 65 percent. This compares to the largest generator comprising around 30 percent of total regional capacity in NSW and Victoria.

The level of concentration has implications for the wholesale supply of electricity and liquidity in the contract market with a lower level of competition likely to result in higher wholesale and contract prices than would otherwise be expected.

Origin considers there are significant risks from merging CS Energy and Stanwell with limited benefits accruing to either the Queensland Government or market. The merger could materially lessen competition in the wholesale supply of electricity and the level of liquidity in the wholesale contract market. This outcome may result in higher wholesale pool and contract prices to the detriment of Queensland consumers. The impact of an increase in market concentration would far outweigh any potential benefits through removal of duplication and capturing economies of scale. Given the market structure in Queensland, Origin would not expect measures intended to mitigate competition concerns to be an effective alternative to maintaining full independence of CS Energy and Stanwell's trading activity.

- What are the potential benefits and risks of emerging technologies for the electricity networks in terms of electricity prices and supply chain productivity?
- What is the role of economic regulation of networks in the face of increasing competition from non-network services and products?

A key potential benefit of emerging technologies is customer access to more innovative and efficient products to allow customers to better manage their electricity consumption. Emerging technologies can take a multitude of forms and can be located either within the distribution network or within a customer's premises.

When the current distribution ring-fencing arrangements were established, the degree of today's emerging technologies was not fully anticipated. As a result, Origin considers that the current arrangements are not fit for purpose.

Under the current framework, the ring-fencing rules established by each jurisdictional regulator still apply to their respective regulated distribution networks. As a result, different compliance, governance and cross-ownership obligations apply across the NEM.

This inconsistency creates uncertainty and puts at risk the development of competition in storage technologies at the residential and small business customer level.

Origin is of the view that networks should be permitted to install storage technologies within the distribution network as a direct control service to the extent that it provides the most efficient response

to a network investment need. However, where additional value from idle capacity is realised, this must be subject to strong conditions that preserve the integrity of the retail market.

We believe that storage solution beyond the distribution system also requires strong ring-fencing arrangements. We do not support distribution networks or their related parties providing storage technologies to customers beyond the distribution system until such time as there is a mature market for these services. In the interim, we believe there is a strong case for ring-fencing provisions to include a restriction on ownership and operation of these activities to apply to networks and their related parties.

For these reasons, it is essential that there is a nationally consistent set of ring-fencing guidelines that ensure necessary governance structures are in place to promote competition in storage technologies. This in turn will promote choice and innovation which will complement other key reforms such as competition in metering and network tariffs.

The Australian Energy Market Commission (AEMC) has explored ring-fencing as part of its consultation on its Integration of Energy Storage Regulatory Implications Discussion Paper. Origin has provided a detailed submission to this process and encourages the QPC to refer to that submission (available on the AEMC's website) should it require greater detail on Origin's position on ring-fencing related matters.

We also encourage the QPC and the Queensland Government to take an active interest in the work of the AEMC as well as the AER's review of ring-fencing arrangements expected to commence in late 2015 or early 2016.

- What would be a better alternative for funding the Solar Bonus Scheme?

The increased deployment of solar PV will play a key role in Australia's transition towards a low emission economy. Origin has participated in this transition by directly installing more than 80,000 solar PV systems across Australia. In designing policies to support the transition to a low emissions economy, our preference is for a market-driven policy which encourages the commercial deployment of renewable generation sources without excessive cost subsidisation.

Subsidised feed-in-tariff arrangements result in a wealth transfer from those households without solar PV to those who had installed it. It is important to recognise that subsidies provided under the Solar Bonus Scheme are still placing a burden on consumers, and that this will continue until the old scheme phases out in 2028.

Specifically, the scheme has resulted in increased network costs of \$292 million in the 2010-15 regulatory period. Coupled with under-recoveries, this is forecast to result in increased network costs of \$1,387 million in the 2015-20 regulatory period.¹ Because costs are recovered on a volumetric basis, customers without solar installations pay proportionately more of the cost than those customers who do have a solar installation. By contrast, NSW has avoided energy pricing distortions by funding most of its solar feed in tariff from general revenue.

A more efficient solar feed-in tariff that reflects the value of solar energy, as determined by a competitive retail market, is preferable to a government mandated feed-in-tariff. Despite the closure of the 44 c/kWh scheme, we expect solar PV installations to continue growing strongly, without the need for further subsidies or targets. Origin supports the current arrangements, whereby new solar entrants

¹ Energex, Regulatory Proposal July 2015 to June 2020, Table 21.2, p. 215.

to the market choose the most appropriate feed-in-tariff on offer; Origin has consistently offered a voluntary rate of 6 c/kWh to solar customers in Queensland.

Origin would be disappointed if the Government imposed a requirement on the retail sector to fund the existing but closed Solar Bonus Scheme. This would likely result in retailers no longer offering voluntary rates as these are likely to be withdrawn to fund any co-contribution requirement. This in turn is likely to result in customer confusion and disappointment at a change in policy that they believe they entered into in good will.

Furthermore, as experienced by other jurisdictional regulators, the calculation of a forecast wholesale market value of PV electricity for the purposes of deriving a retailer contribution is inherently complex.

In our view, the market is sufficiently mature not to require a mandated minimum feed-in-tariff. Rather than mandating a minimum price, we believe that publishing a pricing guide (as is the case in New South Wales) would better support market-based outcomes. With the advent of alternative energy sellers, and the increasing likelihood of new technologies (like batteries) being offered to the market, mandated minimum feed-in-tariffs also risk stifling product innovation. By mandating a minimum price it may constrain products that these new businesses offer and limit competition both among alternative energy sellers and with retailers.

- What are the potential costs and benefits to Queensland as a result of national harmonisation of energy policy and laws in terms of electricity prices or supply chain productivity?
- What are the risks and costs to customers and industry in Queensland arising from failure to harmonise regulation underpinning the NEM?
- What are the key opportunities remaining for national harmonisation in regulation and governance of the NEM, and benefits from these reforms for productivity and prices?

The National Energy Customer Framework (NECF) was adopted in Queensland following the passing, of the *Electricity Competition and Protection Legislation Amendment Act 2014* and the *National Energy Retail Law Act 2014* (Qld).

Adoption of the NECF brings Queensland into line with all other jurisdictions with the exception of Victoria.

There are positive ongoing benefits as a result of NECF implementation including a consistent regulatory framework. Although the benefits of this consistency are difficult to quantify because any direct comparison with what was in place previously cannot be done in isolation, we consider that the NECF has enabled retailers to make operational efficiencies which have reduced the cost of service. Benefits would have been higher if jurisdiction-based derogations did not apply and all jurisdictions had adopted NECF under the Australian Energy Market Agreement (AEMA) as originally planned. Whilst jurisdictions might believe that derogations are necessary for reasons unique to their state or territory, in practice they only add to administrative complexity and additional costs to retailers with little practical customer benefit.

Origin believes that the transitional costs would be material in the event NECF was significantly amended or abandoned for another regulatory framework.

2 Deregulation in South East Queensland

- What are the potential costs and risks of maintaining retail price regulation in a competitive market?

Price regulation is usually undertaken to protect customers against excessive pricing arising from the exploitation of market power. According to the AEMC, the main rationale for price regulation is:²

- to act as a proxy for competition – the regulator aims to set an efficient price in the absence of sufficient competition in the market; and
- to prevent abuse of market power through excessive pricing – where there is insufficient competition, customers may not be able to switch away from an unfavourable offer.

Regulated prices ensure that, regardless of the level of competition, all customers can obtain prices for electricity and gas that are considered reasonable by the regulator. To do this, the regulator must estimate all the costs retailers will face in supplying electricity to their customers to determine a maximum price retailers can charge.

The AEMC considers that regulated prices will always be an imperfect substitute for prices determined by the competitive process of a market, and are likely to impose costs and distortions that would not otherwise be present. Specifically, since regulated businesses have better cost and market information than regulators, there is a risk that regulated prices will either be set:

- too low, deterring investment and innovation; or
- too high, to the detriment of customers.

In the case of monopolies such as electricity distribution and transmission, price regulation has a vital role to play in protecting customers. However, in sectors where competition is feasible, price regulation is considered to be temporary rather than permanent. As highlighted by the AEMC, as competition develops, price regulation may become unnecessary because competition should protect customers more effectively. Indeed, continuing with price regulation in markets that are considered competitive carries some risks around the misallocation of resources.³

It is important to note that retail prices faced by customers are made up of a number of different cost components, including wholesale energy costs, network charges and retailer operating costs. These costs fluctuate over time and are passed through by retailers to customers.

Whether retail price regulation remains in place or not will have limited bearing on these costs. If the underlying costs increase, retail prices will also increase. Therefore retail price regulation does not protect customers from increases in these costs.

Consequently, removing price regulation should not expose customers to any greater likelihood of rising prices than would otherwise occur. Where competition is effective and price regulation is removed, market forces should prevent retailers from charging inefficiently high prices as profit margins should approach efficient levels.

The costs and risk of retail price regulation are not isolated to the retail sector. A competitive retail market is critical to also ensuring efficient investment in the generation sector. The variability and volatility of spot prices means that investment in new generation (including renewables) is driven by

² AEMC, *2014 Retail Competition Review*, Approach Paper, 17 January 2014, p. 6.

³ AEMC 2013, *Review of Competition in the Retail Electricity and Natural Gas Markets in New South Wales*, Draft Report, 23 May 2013, p. 94.

long term electricity off-take agreements, such as Power Purchase Agreements (PPAs), rather than the spot market. Both generators and retailers have incentives to fix their future cash-flows in a volatile market through long-term supply contracting. Importantly, financial institutions will not provide the finance needed to underpin investment without the security of such long-term supply contracts.

In some cases, where it is more efficient to do so, retailers may invest in generation directly, in addition to entering into various hedging agreements.

Origin, AGL and EnergyAustralia account for 3.3GW of the 4.7GW generation built in the NEM since 2007. This has had a significant role in underpinning NEM new build investment.

Retailers can only invest in generation or commit to long term PPAs if they are confident that their revenue stream will be underpinned by rational and efficient retail prices. A competitive retail market free from regulatory intervention provides retailers with the greatest confidence in this outcome.

An effective competitive market will shield customers from the volatility of the wholesale market. As noted above, retailers are incentivised to seek longer-term supply arrangements that deliver a smooth cost path and to avoid price shocks to customers, in order to maintain market share. In contrast a regulated pricing methodology that focuses on short-term wholesale market prices will inevitably discourage retailers from entering into long term supply arrangements and encourage retailers to pass wholesale market price variations through the customers, delivering large tariff swings to customers.

- What are the potential costs of deregulation? How should they be assessed?
- What risks might consumers face in a deregulated SEQ market, and how might these risks be mitigated?

Within a deregulated market those customers who consider alternative deals are more likely to find savings and experience greater satisfaction with their retailer. Conversely those who do not investigate offers are less likely to obtain the same savings. Therefore, a key obstacle, or risk, with deregulation is ensuring customers have sufficient awareness about their ability to switch retailers to obtain a retail product that best meets their needs.

The most effective means of addressing this risk is customer awareness. This can be best achieved through a collective approach between Government, advocacy and consumer groups and retailers.

Much of what consumers want for decision making purposes already exists, such as the AER's comparison website *Energy Made Easy*. However, levels of awareness of this information could be higher. We believe that in the lead up to the introduction of retail price deregulation, customer awareness can be broadened through campaigns to target specific consumer segments as well as the broader community. In addition, it is necessary that the AER's existing comparator tools remain user friendly, easy to understand and easy to make direct comparisons across retailers.

Furthermore, the active participation of community organisations to communicate the key campaign messages is a critical facet of any customer awareness campaign.

- Is the AEMC's approach to assessing retail competition in the NEM appropriate, or are there other factors that should be considered?

We consider that the AEMC's approach to assessing retail competition provides an effective and robust indicator of whether the necessary conditions for efficient pricing and service outcomes exist.

In making its assessment, we consider that the AEMC could enhance its assessments by considering non-price competition. For example, when Origin extended its call centre contact hours to improve

customer experience, retailers such as AGL took similar actions, highlighting the benefits of rivalry and competitive tension between retailers. It is therefore valuable for the AEMC to consider developments in customer service that are aimed at improving the customer's experience, and earning their loyalty, when examining rivalry between retailers.

Furthermore, when the AEMC examines retail price movements, greater attention should be given to cost drivers that are outside of the retailer's control. As the QPC is aware, recent increases in prices can largely be attributed to the network component of the bill; retailers play a role in recovering these costs from consumers on the network's behalf. Further, retailers are responsible for managing risk in the market place; yet risk is not historically constant, as we have seen with respect to regulatory interventions in the energy market that have suppressed wholesale prices and distorted price signals. Thus the underlying reasons for shifts in prices are not constant over time and, accordingly, comparisons cannot be made without reference to these shifts.

In order to carry out an assessment of competition, it is necessary to define the market or markets to be considered. In previous assessments, the AEMC has undertaken this in relation to two general areas: the product market; and the geographic market. The AEMC has also recognised that boundaries of the market may change over time as jurisdictions harmonise their retail energy frameworks and markets continue to develop.

For the purpose of its 2015 Review, the AEMC considered each jurisdiction as a single geographic market (except for Queensland) with two product markets: an electricity retail market and a gas retail market. Origin considers that a broader definition of the product market is appropriate to take into account functional and temporal aspects of the increased penetration of rooftop solar PV on retail electricity markets.

Specifically, installed rooftop solar PV now accounts for more than 700 MW of installed capacity in NSW and over one thousand MW of installed capacity in Queensland. More than 10 percent of households in Victoria and NSW have solar PV installed; in Queensland and South Australia, the numbers are higher with approximately 25 percent or more household having rooftop solar.

As a result, solar PV provides consumers with an alternative choice in terms of where and how they source retail electricity supply. This, in effect, is another dimension of retail competition as there is a degree of substitution between sourcing electricity from a retailer and sourcing it through a self generated rooftop solar.

- What are the lessons to be learned from deregulation in other jurisdictions that could be applied to the SEQ market?

FRC was introduced in Victoria in 2002, in both New South Wales and South Australia in 2003 and Queensland in July 2007.

In 2004, all jurisdictions signed the AEMA and committed to remove retail energy price regulation where effective competition can be demonstrated. Under the AEMA, the AEMC is responsible for assessing the state of competition in electricity and gas retail markets.

Following a series of reviews, the AEMC concluded that effective competition existed in the electricity retail markets of Victoria, South Australia and New South Wales.⁴

⁴ See AEMC Effectiveness of Competition Reviews for Victoria (Second Final Report, February 2008); South Australia (Final Report, September 2008); and 2013 New South Wales (Final Report, October 2013).

Subsequently, Victoria removed regulation of retail prices in January 2009, South Australian in February 2013 and New South Wales from 1 July 2014.

In its latest assessment, the AEMC concluded that competition was effective in retail electricity markets in Victoria, South Australia, New South Wales and SEQ.

Victoria Experience under Deregulation

Given that regulatory price controls in the Victorian market were removed over five years ago, this market provides a useful indicator of how markets can respond to the removal of price regulation.

In 2003, shortly after the commencement of FRC, there were three host retailers (Origin, AGL and TRUenergy) holding 100 per cent of the Victorian market. By 2012, the largest market share held by any one retailer was approximately 25 per cent with the total market shared between 17 retailers.⁵

As part of its analysis in 2013 of the progress of electricity retail competition in Victoria, the ESC concluded that since the removal of price regulation, the level of concentration in the Victorian retail market has displayed a downward trend with the levels in the last two years of its analysis (2011 and 2012) achieving the lowest market concentration since the introduction of FRC in 2003.⁶

The ESC also undertook analysis of churn rates and customers switching between retailers. The ESC analysis revealed that in each of 2011 and 2012, 17 per cent of customers switched retailers. In addition, the ESC found that churn rates in both of these years was 27 per cent.⁷ These switching and churn rates place Victoria's customer switching activity as some of the highest in the world.⁸

In 2013, the ESC commissioned Wallis Consulting Group to undertake a survey of residential customers consuming less than 160 MWh per annum of electricity and 5 TJ per annum of gas to understand consumers' experience of the Victorian electricity and gas markets.

Some of the key findings from this study included:⁹

- while the majority of Victorians had switched retailer since the introduction of full retail contestability in 2002, most do not switch often. When they do switch, it is more likely to be due to a retailer contacting them, rather than being proactive in seeking a new retailer;
- while the slight majority of Victorians continue to purchase electricity from first tier retailers, the proportion dealing with second tier retailers has increased since 2007;
- around a third of those who have not changed retailer since 2002 have nonetheless negotiated new purchasing arrangements with their current retailer;
- price is the principal motivator (by quite some margin) to switch retailer or enter a new agreement with the existing retailer; and
- Victorians were generally satisfied with the arrangements they had entered into, and provide reasonable ratings of the process of entering agreements. Only one in ten who had entered a market contract had encountered issues when entering these agreements.

⁵ ESC, *Progress of Electricity Retail Competition in Victoria*, Research Paper, May 2013, p. 16 and 19.

⁶ ESC, *Progress of Electricity Retail Competition in Victoria*, Research Paper, May 2013, p. 20.

⁷ ESC, *Progress of Electricity Retail Competition in Victoria*, Research Paper, May 2013, pp. 22-23.

⁸ Refer Figure 5.4 of this submission for reference.

⁹ Wallis Consulting Group, *Victorians' Experience of the Electricity Market*, ESC Commissioned Report, August 2013, Reference Number: WG4092, p. 1.

The ESC concluded that competitive activity had picked up rapidly after the introduction of FRC and the pace of competitive entry had increased further following the removal of price regulation.

There was evidence that customers were 'shopping around' to obtain the best deal and by doing so were imposing competitive pressures on retailers.

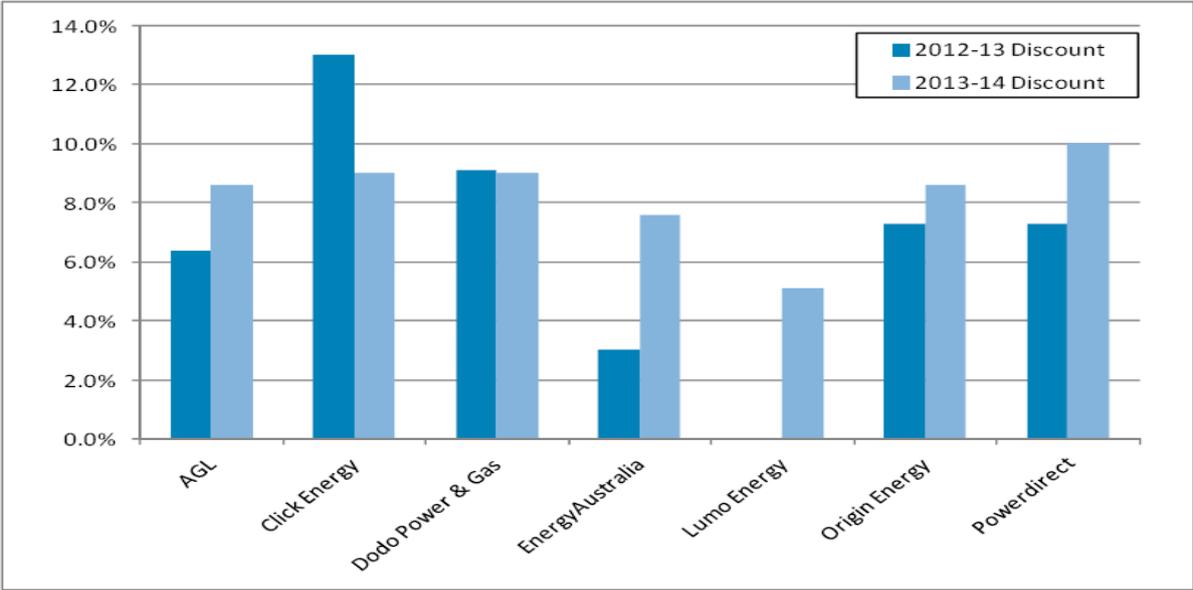
SEQ Experience under FRC

FRC was introduced in Queensland energy markets on 1 July 2007. Since that time, the market has matured considerably, with increased retail competition and customer activity.

The key objective of having regulated prices at the commencement of FRC was to facilitate the development of competition in the SEQ retail electricity market and to provide a transition to price deregulation.¹⁰

As part of its 2014-15 retail price determination, the Queensland Competition Authority (QCA) identified that as at May 2014, there were 66 supply offers available to residential customers offering a range of contractual terms, conditions and incentives. A comparison of the best generally available discounts offered by retailers to residential customers in 2012-13 and 2013-14 respectively is presented in Figure 1.

Figure 1: Discounts offered to residential customers in SEQ (percentage off total bill)



Source: Queensland Competition Authority, Final Determination Regulated Retail Electricity Prices 2014-15.

The QCA data highlights that retailers' discounts were generally larger in 2013-14 than 2012-13, notwithstanding that the largest single discount was offered in 2012-13.

Discounts are driven by retail activity which in turn promotes customer switching. Customer switching rates provide a useful indicator of the level of competition in a market as it demonstrates that customers are responding to competitive offers being tabled by retailers.

¹⁰ QCA, Regulated Retail Electricity Prices 2014-15, Final Determination, May 2014, p. 30.

Since the introduction of FRC in 2007, the SEQ retail electricity market has matured significantly. There is now considerable third party retailer entry into the market which is generating increased competition. As a result, customers are responding to the sizable discounts brought about by this competition with over 70 percent of SEQ customers having now entered into market contracts.

This demonstrates that not only is competition in the SEQ market driving favourable price offerings relative to the current regulated price, but customers are increasingly responding to secure better deals.

The AEMC noted in its 2015 Retail Competition Review that competition in the retail electricity market continues to be effective in South East Queensland. In summary the AEMC found:

- the majority of SEQ customers are aware of their ability to take supply from the retailer of their choice;
- most customers were satisfied with their retailer (although satisfaction levels were slightly lower than the NEM average);
- retailer entry had remained stable with some retailers noting that electricity wholesale purchase costs and associated price volatility as the Queensland reference node was a significant barrier to entry;
- there is evidence of independent rivalry; and
- market concentration levels had improved.

With obstacles such as non cost reflective retail tariffs and obsolete tariffs now in the process of being removed, Origin expects that in the event of price deregulation, the retail market is likely to expand, providing customers with a greater choice of products and services at the lowest efficient cost. Based on the experience in other jurisdictions, we believe that creating greater customer awareness that customers can save by shopping around is fundamental. It must also be recognised that this does not always translate into customers switching retailers or market contracts, but what is important is that customers have the confidence to make those decisions if they choose.

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| <ul style="list-style-type: none">• In the event retail prices in SEQ were deregulated, are the market monitoring and reporting arrangements adequate, or are there changes or improvements that could be made? |
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The *Electricity Competition and Protection Legislation Amendment Act 2014* provides the relevant Minister with the power to direct the QCA to monitor and report on the operation of the SEQ retail market.

This includes but is not limited to:

- retailers' prices, charges and fees;
- a comparison and assessment of standing offer prices and market offer prices;
- variations to retailers' standing offer prices and market offer prices; and
- information about any trends in relation to variations to retailers' standing offer prices and market offer prices.

The legislation also provides that the Minister may direct an appropriate entity to conduct a review of the SEQ retail market and provide advice as to whether the Minister should keep, remove or reintroduce price controls.

Origin considers that these arrangements sufficiently empower the Government to obtain information that is independent, relevant and accurate and will allow it to make an informed judgment regarding the effectiveness of competition. The proposed regime also provides Government with the powers to make appropriate policy decisions to remedy any deficiencies in the operation and conduct of the market.

The most suitable agency to undertake a review should operate at arm's length to provide independent advice to Government. We consider that the QCA or QPC are best place to undertake this role.

By way of comparison, we note that IPART has recently been tasked with a similar market monitoring role of NSW deregulated prices. In this regard, we find the NSW model, especially with respect to the certainty and process around the provision of information, workable and effective and represents a useful test case on the effectiveness of different monitoring arrangements.¹¹

In addition to the proposed market monitoring arrangements, we note that under the National Energy Retail Law (Retail Law), the AER is responsible for reporting on retailer performance.

The AER reporting consolidates quarterly data reported on such indicators as customer service and complaints, energy bill debt, and disconnections and reconnections. It also reports on the number of customers receiving energy concessions, payment of security deposits (and the value of those deposits) and energy affordability.

The aim of the AER report is to highlight examples of good practice, as well as areas of concern. As it develops nationally consistent data, the AER will establish national benchmarks for performance levels. Through adoption of the Retail Law, the AER report will offer an additional source of information to allow Government to draw a meaningful conclusion about the effectiveness of the SEQ retail electricity market.

¹¹ *National Energy Retail Law (NSW)*, s 234A.

3 Regional Queensland

- What objective(s) should the UTP be designed to achieve and how effective is the current UTP at achieving the objective(s)?
- Could the UTP be targeted more effectively to better achieve these objectives?

Intervention to distort efficient price signals can result in inefficiency, misallocation of resources or unintended consequences. The adverse economic consequences of the uniform tariff policy (UTP) in the Queensland electricity sector has been investment in high cost electricity infrastructure which consumers may not demand to the same extent should they face the full cost of provision. Inefficient network investment must either drive up electricity prices for other users (who collectively face the cost of network provision) or increase the requirement for taxpayer subsidisation of non-market electricity prices.

Origin supports the development of a robust and transparent market framework where all customers can have access to energy supply on the most cost effective and efficient terms. We believe that the key principles for market development in regional Queensland are to deliver the most efficient, sustainable and competitive electricity industry.

Competition in regional Queensland will only be attractive to the extent that prices are increased to cost reflective levels or the subsidy supporting prices is directed in a competitively neutral manner. As identified by the QCA in its regional electricity price review, network tariffs as well as energy losses are key impediments to retailer activity in regional Queensland.

For these reasons, Origin considers that amendments to the subsidy arrangements under the UTP are required so that regional Queensland customers can access the benefits of competition.

However not being a party to the community service obligation (CSO) make it difficult to comment on the arrangements in any detail.

- What should retail electricity competition in regional Queensland be designed to achieve, and how can this be delivered in an environment of subsidised electricity prices?
- What are the material barriers to competition in regional Queensland, and how should these barriers be addressed?

The necessary conditions for retail competition is the separation of Ergon Energy Queensland (EEQ) from Ergon networks, the establishment of a network based subsidy and regulated retail allowances that reflect the actual cost of a notional retailer

This will support network tariffs based on the least cost Ergon network zone, with subsidies aligned across all tariffs to bridge the gap between the network tariffs approved under the AER and the least cost (cost-reflective) Ergon network tariffs.

With respect to the retail function, the continuation of an integrated EEQ with Government brokered hedge contracts with Government owned generators maintains an unfair advantage, precluding effective competition. Therefore, a critical component of the CSO arrangement that needs to be reviewed is the calculation of the Long Term Energy Procurement (LEP) arrangement between EEQ and the Government owned generators CS Energy and Stanwell.

Origin believes that how the CSO, and in particular LEP arrangements, is calculated is imperative to decisions around EEQ's ability to compete and how the network subsidy should be developed.

Equally, with a gross margin allowance EEQ would have a guaranteed return not enjoyed by other retailers.

For further detail we direct the QPC to our submission to the QCA's Retail Electricity Price Regulation in Regional Queensland Issues Paper.

4 Customer Participation

- What are the barriers to improving consumer participation in the electricity market?

Retail activity is a key driver to improving consumer participation through choice. With greater choice customers are more likely to secure a better deal that is relevant to them from either their existing retailer or an alternative provider.

Our experience is that once retail activity increases, retailers must be proactive to ensure that they maintain their market share. This is largely attained through increased consumer participation, which is achieved when customer are more knowledgeable about their service and have the confidence to enter the market.

As we have discussed, the removal of price regulation is a key enabler of increased retail activity.

By way of example, as electricity retail markets have become progressively more competitive, Origin has undertaken numerous initiatives to promote engagement and participation. For customers from a non-English speaking background, or those who may have a disability which makes direct contact with Origin more difficult, we employ a number of multilingual staff and ensure customer on hardship programs have access to multilingual financial counselling and energy auditors. We also print interpreter service contact details on bills in seven languages and provide large print and online versions of bills to assist low vision customers.

As competition has evolved in SEQ we have increased our engagement to better understand what services are relevant to our customers. In response to feedback we:

- removed exit fees from all residential plans;
- extended call centre hours from 7am to 9pm, Monday – Friday;
- opened a series of Customer Service Hubs and a dedicated webpage to listen to customer feedback – www.originenergy.com.au/change;
- ended all door knocking and cold calling to households; and
- provided more flexible payment options which allow customers to pay their bills in weekly, fortnightly or monthly instalments.

In addition, we have implemented a number of other key initiatives aimed at improving customer engagement across all retail markets we operate in including:

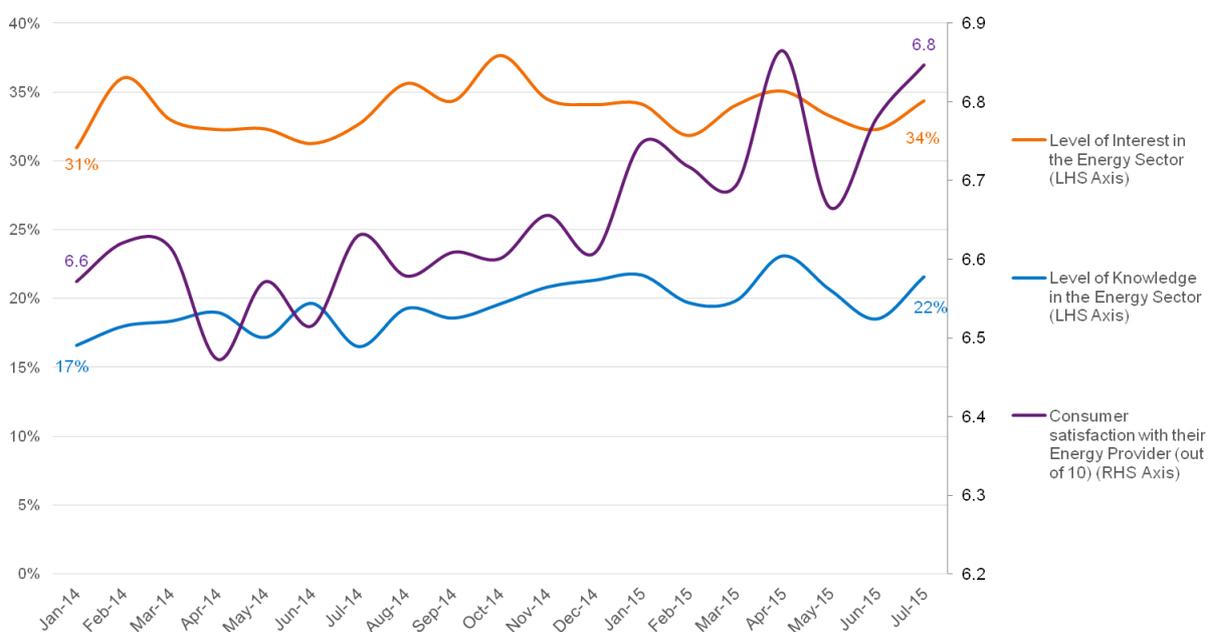
- delivered improved electronic billing with web links to allow for easy bill payment;
- improved bill management by promoting our bill smoothing solution (Easipay) and providing SMS bill arrival and payment reminders;
- made it easy for customers to move home and establish their new connection arrangements;
- improved our “customer transfer” process by better explaining the process upfront and keeping customers up to date with progress by email or SMS;
- greatly improved the quality of customer correspondence through more use of tailored letters to address the customers’ issue and adopting a straightforward tone; and
- built on our contract renewal improvements, for example email supported by simplified online sign up and a trial of automated renewals for some customers.

Furthermore, we improved how we explain what we do as a company to provide customers better context around the electricity industry. We did this through actively engaging in social media, our Origin Energy blog (<https://www.originenergy.com.au/blog.html>) and campaigns such as Knowledge is Power (<http://reports.originenergy.com.au/2013/sustainability/our-performance/delivering-energy/knowledge-is-power/>).

The benefits of improved service spill over to all customers, not just those who have entered market contracts. Furthermore, these activities are not exclusive to Origin and similar initiatives can be seen across all retailers where retail activity has increased.

To test the effectiveness of Origin’s engagement and service enhancements, we continually undertake extensive surveys across the industry. Our recent customer engagement results are provided in Figure 2. These results (represented as an index measure of responsiveness to customer questionnaires) demonstrate that the movement in the levels of interest, knowledge and satisfaction of residential and small business customers has increased over the period 2014-15. This survey captures outcomes across all jurisdictions that Origin operates within and therefore captures survey outcomes from NSW where price deregulation was introduced on 1 July 2014.

Figure 2: Customer Engagement in the Retailer Energy Sector



Source: Origin Brand Tracking Study Jan 14 – Jul 15

We believe this data supports the proposition of key agencies such as the AEMC and industry that the most effective way to improve consumer participation in the electricity market is to increase retail activity and that this is best achieved by removing price controls on residential retail tariffs.

- What is the existing level of consumer knowledge and understanding of new electricity sector business models, products and services, and technologies?
- How will future developments, including changes in technology and the growth of new markets and business models, influence consumers' participation in electricity markets?

Customers are aware of innovative new products (such as solar PV systems), but are unlikely to have much understanding of more recent innovations like electric vehicles (EVs), battery storage and advanced meters. As business models become viable, and the regulatory environment that governs them becomes more certain, participating businesses will promote and market their products and services widely. This will increase consumer knowledge of such products and services and the market should be able to evolve accordingly.

Origin believes that new business models, particularly in the electricity sector will lead to increased consumer engagement and interest in their consumption and, in many cases, generation of energy. Energy consumers are as diverse as the businesses that serve them. Some customers will be closely engaged in the technology and outputs they provide, while others will prefer others to manage products and services on their behalf. New markets and business models will certainly result in greater customer choice and often act as a substitute for traditional grid-connected supply of electricity from distributors and retailers. The effect of substitution further reduces the need for retail price regulation of electricity.

- What are the potential benefits and risks in the transition to cost-reflective pricing, in terms of electricity prices and supply chain productivity?
- In what ways could customers be better supported and equipped to understand and accept more cost-reflective tariff structures?

The National Electricity Rules (NER) requires that network tariffs must be based on long run marginal cost. Our experience is that the majority of networks are attracted to demand based tariffs as they consider these best signal the costs of operating the network at times of greatest utilisation. However, we believe demand based tariffs are just one approach that fall within a spectrum of acceptable methods.

Origin believes the success of network tariff reform will be dependent upon achieving a balance between ensuring that future tariffs are not only cost-reflective but that they are also sufficiently simple so that they can be easily communicated to and understood by residential customers. This involves greater consideration about how a customer's understanding of a tariff translates into its effectiveness. We believe the most economically efficient tariff may not always deliver an optimal outcome simply because the customer does not understand the signal and therefore how to respond. Conversely, tariff solutions that are perceived as second best may actually deliver better network outcomes because they are simpler and easier to understand and therefore they generate the intended customer response.

Therefore, we believe greater analysis of customer responsiveness to various tariff models is a pre-condition for determining the optimal network tariff structure. However, this analysis is dependent on sufficient relevant customer interval billing data to not only allow networks to develop the most effective tariffs but to also ensure customers have the best opportunity of understanding and being able to respond to price signals. This requires interval meters.

In this regard we consider that Energex has adopted a pragmatic and sensible approach to implementing tariff reform through its opt-in model. We believe that this will allow Energex to accumulate customer data through a market led rollout of interval meters before finalising its future tariff structures and parameter values.

- What barriers and costs does a voluntary uptake of advanced metering present for the rate at which cost-reflective tariffs are able to be adopted?

A market-led (commercial) deployment of advanced metering may impact the rate of uptake of cost-reflective network and retail tariffs. However to the extent there are delays in the take up of cost-reflective tariffs, this must be considered against the counterfactual of no take up where basic metering remains in place. Under the AEMC's draft Expanding Competition in Metering and Related rule change to the National Electricity Rules, advanced meters will be deployed on a mandated basis in situations of new connections and replacement, with the remainder (and likely majority) of advanced meters installed through a commercial deployment process. A mandated deployment of advanced metering to all small customers is not currently contemplated by any jurisdictional government outside of Victoria. Origin would emphasise that the meter itself is an enabling device for products and services that customers will value, which may include cost-reflective retail tariffs. Even where advanced metering has been installed, cost-reflective network tariffs may not be passed through.

It is critical that governments provide information and educate customers with respect to any voluntary or mandatory assignment of new tariff structures. The deployment of advanced meters may also be influenced by the ability of retailers to pass on any cost-reflective network tariffs and the method by which new network tariffs are assigned. For example, assignment of a new network tariff at the time or shortly following the deployment of an advanced meter on a commercial basis may create confusion for the customer and impact upon future deployments if reassignment of network tariffs results in an increase in the cost of electricity for customers.

Origin encourages the Queensland government to consider the issues associated with advanced meter deployments and the impact on community acceptance of them in the context of cost-reflective network and retail tariffs.

- Are the principles outlined above useful for assessing the Queensland energy concession framework and identifying improvements?
- What other key criteria or principles should be used to assess the energy concessions framework?

Origin supports the application of the QCOSS design principles for assessing the Queensland energy concessions framework.

We also believe that concessions framework must be underpinned by a clear objective. This is ultimately the responsibility of Government which, in doing so, should consider the long-term interests of consumers, and assess alternative approaches on sound regulatory principles.