7 January 2013

Mr John Hall
Chief Executive
Queensland Competition Authority
Level 19, 12 Creek Street
Brisbane Queensland 4001

[by email:electricity@qld.org.au]

Dear Mr Hall

RE: Regulated Retail Electricity Prices 2013-14, Transitional Issues

Origin Energy (Origin) welcomes the opportunity to comment on the Queensland Competition Authority's (QCA) Consultation paper on transitional issues associated with regulated retail electricity prices in 2013-14.

Should there be a transition to cost reflective charges for Tariff 11 or should Tariff 11 prices be made cost reflective from 2013-14?

Origin agrees with the QCA that electricity consumers in Queensland would benefit from a deregulated electricity market where prices are set through competitive activity. Competition is the best guarantee of cost-reflective pricing, which in turn serves the long term interests of consumers, encouraging efficient investment in the provision of generation and retail services. When prices are set below cost-reflective levels this sends inefficient signals to customers about their consumption and stifles incentives for investment.

Our support for a timely move to cost reflective pricing notwithstanding, we acknowledge that there may be benefit to smaller customers on Tariff 11 from a three year transition to cost-reflective pricing. A staged return to cost reflective pricing will reduce the risk of a price shock for a portion of small customers. However, our support for a staged transition depends on the QCA adopting an approach that minimises distortion in the competitive retail component of the overall price. Specifically, our support for a staged return to cost reflective levels is conditional upon:

- retailers' revenues being maintained at the levels they would have been in the absence of the freeze, with the stage return to cost reflective levels made effective via a discount on the network component; and

- a timely redressing of the current imbalance between the fixed and variable components in the retail component of the tariff.

In relation to the second point above, we note that the freeze on Tariff 11 implied a significant rebalancing in the retail component from the fixed daily charge towards the variable kWh component. This bias in the retail component towards recovery from variable charges is not cost reflective and creates greater risk that retailers will not recover their fixed costs. This imbalance in the retail component should be redressed in the short term, preferably at the next change in prices.

If some form of transitioning is preferred, how might this best be achieved and why should this particular approach be adopted?

What other issues should the Authority consider regarding the transition to cost reflective charges for Tariff 11?

As outlined above, if a multi-period transition is to be adopted, Origin would recommend that the shortfall continue to be funded via network subsidy, thereby avoiding distortions to the competitive sections of the electricity market.

Under a multi-period transition the Government might also wish to consider measures to compensate the state-owned corporations (SOCs) for the resulting shortfall in their revenues. The SOCs' revenues are based on bottom up assessments of required operational and capital expenditure. Diverting these funds towards social welfare objectives in an on-going fashion is likely to lead to an under-allocation of funds to network activities.

How should the Authority determine whether transitional arrangements are necessary for each obsolete tariff? What would be considered a "significant" price impact?

As outlined in Origin's submission to the QCA's Draft Determination on Retail Prices for 2012-13, we believe that in the absence of practical constraints (such as network system complications) a period of 12 months is adequate to allow for a transition from obsolete tariffs (that is, to transition over two price increases instead of one). Origin notes that the QCA increased obsolete tariffs by between 10 and 20 percent in July 2012. Moving customers across to the new tariffs will allow for a simplified and less costly approach.

If you have any questions regarding this submission please contact Keith Robertson in the first instance on (02) 9503 5674.

Yours sincerely

[redacted]

Anthony Lucas
General Manager
Energy Risk Management

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