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Committee Secretary
Senate Select Committee on Electricity Prices
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Parliament House
Canberra ACT 2600
Australia

ORIGIN RESPONSE TO THE SENATE SELECT COMMITTEE ON ELECTRICITY PRICES

1. Introduction

Origin Energy (Origin) welcomes the opportunity to respond to the Senate Select Committee on Electricity Prices (the Committee). Origin is a major Australian integrated energy company focused on gas exploration, production and export, power generation and energy retailing. A member of the S&P ASX 20 Index, Origin has approximately 5,900 employees and is a significant investor in power generation including gas and renewables and is a major retailer with approximately 4.4 million gas, electricity and LPG customers.

As a fully integrated energy company in the Australian market, Origin is very aware of the complexities involved in the pricing of electricity and the associated cost of living pressures. The rises in electricity prices to consumers in recent years have raised debate within the community, and we are pleased to participate in this discussion through this forum.

2. Summary position

The past five years have seen significant increases in residential retail electricity prices, largely driven by higher network costs and to a lesser extent climate change policy imposts. However governments have now started to focus on improving the efficiency of network investments and complementary climate change policy and future electricity price increases are unlikely to be as high as those we have experienced in recent years.

There are numerous recent and ongoing reviews within various federal and state government and regulatory bodies that relate either directly or indirectly to electricity pricing issues. In this regard, we urge the Committee to formally recognise these reviews and minimise duplication and overlap in what is already a complex environment.

The chart over the page from the Australian Energy Regulator shows a break up of a typical residential electricity bill across several jurisdictions. The data is for 2010/11 so does not include the impacts of the Carbon Pricing Mechanism. As per Treasury estimates the carbon price impact is around 10% for mainland jurisdictions. The cost break-up highlights that network costs are now the largest cost component at around 50%, followed by wholesale costs with green and retail costs relatively small.

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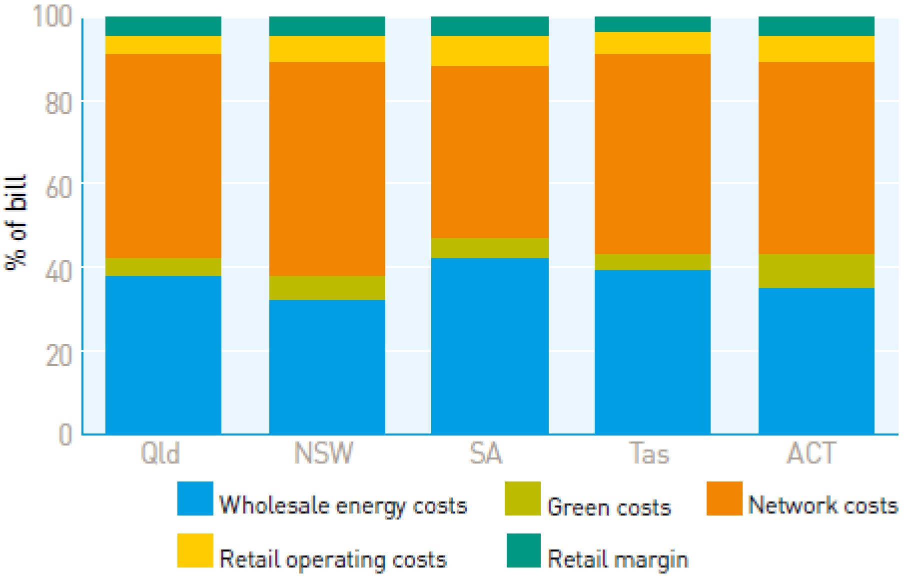
Figure 8

Indicative composition of residential electricity bills, 2011



Source: Australian Energy Regulator State of the Energy Market 2011

Origin advocates that the best way to mitigate the impacts of higher prices on consumers is through:

1. **Price Deregulation**. Consumers are best served by price deregulation; it enables cost reflective pricing and helps remove cross-subsidies and associated distortions. As proved in the deregulated Victorian market, it also drives competition, thus empowering consumers as they have a selection of retailers to choose from.

   In jurisdictions where price regulation exists, seeking to suppress prices below economic cost will just lead to price shocks when the inevitable corrections are made. Where effective competition exists, price deregulation ensures that prices are sustainable in the long term. The Committee should incentivise jurisdictions to move to price deregulation, when competition is proven to be competitive, as committed to in the Australian Energy Market Agreement.

2. **National Electricity Market** (NEM). The NEM is a good example of a market based approach delivering benefits to consumers. It has consistently delivered efficient market outcomes with respect to price, investment and system reliability. The time weighted average spot price outcome has been largely flat at around $40 per MWh from NEM start in 1998 through to today.

3. **Network Investment**. Origin supports the regulatory reviews currently underway into the efficient investment allocations for transmission and distribution networks. Sound regulation, to efficiently deliver desired network reliability standards, is an important proxy for competition for the monopoly network businesses.

4. **Green Schemes.** Origin has long supported a market based price on carbon and continues to support the Renewable Energy Target as the key complementary carbon policy measure. With these schemes in place it is imperative that the various other complementary green schemes (both state and federal) are rationalised and harmonised into a national approach. Price deregulation is a key mechanism in this regard as it allows for cost reflective pricing and pass through of price signals to customers.

5. **National Energy Customer Framework** (NECF). NECF represents the highest standard of energy consumer protections in the country, and includes provisions that support choice and clear consumer information. Origin requests the Committee to recommend clear and consistent NECF commencement dates for Victoria, South Australia, Queensland and New South Wales. It is important that any jurisdiction moving to NECF provides six months notice to industry, to allow for implementation programs to be re-opened and necessary system changes to be made.

6. **Vulnerable consumers.** Addressing financial hardship for energy consumers is a shared responsibility of governments, energy retailers, community groups and individuals. The role of the energy retailer is not to administer social welfare as this is the clear role of government. The energy retailer role is to connect customers experiencing hardship with available support services and Origin has been an industry leader in providing these services via our '*Power On*' program. Price deregulation and smart meters are key policy mechanisms to protect vulnerable customers as they help remove cross–subsidisation and ensure for example that vulnerable customers do not pay for air conditioners used by more affluent customers.

7. **Smart Meters.** Lastly, we support the view that smart meters will be a long term benefits for consumers, empowering them through access to information, enabling them to participate in demand management and delivering efficient market outcomes into the future. Following is an example of Origin using smart meters to provide products that help customers understand and manage their energy consumption.

An Example of Origin Empowering Consumers

Origin seeks to explore and deliver the means by which consumers can engage with the energy sector and manage their energy bills. For example, we recently launched an energy portal to our Victorian smart metered consumers, which shows near real-time information on usage that they can use to manage their consumption and resulting bills.

Origin Smart is an online solution that provides Origin customers with visibility of their household energy consumption and costs. It gives customers more control over their energy usage by giving them the power to:

- Predict their bill so there are no surprises*
- Set a savings goal and track their progress toward it
- See how much energy they're using every day by the hour^
- Access expert energy savings tips to help manage their usage

Origin Smart is free and exclusive to eligible Origin electricity customers in Victoria with a Smart meter. http://www.originenergy.com.au/originsmart/

3. *Terms of Reference*

The matters before the Committee are complex and there are a range of processes already underway through existing energy market institutions and the Standing Council on Energy and Resources (SCER) that relate to issues raised in the Committee's Terms of Reference. These processes recognise – as should the Senate – that many of the issues relate to matters of state and territory responsibility managed through SCER or the National Electricity Law.

Specifically, there are at least eight current or recent consultation processes that should inform the Committee's views.[1] In Origin's view, this suite of policy work should be the key reference point for the Committee, particularly as the Committee has a very limited period of time to address these complex matters relating to investments worth tens of billions of dollars. The relevant consultations have been comprehensive and informed by a number of subject matter experts from across the industry, government and consumer sectors. They have occurred over a significant period of time and have provided policymakers with the chance to explore the detail of the positions presented.

We believe that the Committee should allow the existing policy and regulatory experts to continue their decision-making processes as planned and refrain from further political intervention in the market. Interventions have had a negative effect on investment and competition and ultimately are likely to result in higher prices for customers. Investment in innovation and business certainty also suffers when the policy environment continues to change. The remainder of this submission addresses the bulk of the Terms of Reference.

4. Causes of electricity price increases and regulation to manage these

Electricity price increases over the past four years have created an unprecedented interest in electricity prices, and the further increases associated with the introduction of the carbon price have amplified the issue. There is no doubt that consumers were previously unaccustomed to seeing significant increases in the price of electricity, and this has made the past few years particularly noticeable.

The causes of electricity price increases have been correctly identified in more recent press and by some commentators as network price increases, as well as the costs of various government green and renewables schemes, including the carbon price. It has not been easy to communicate this to consumers, who reasonably see their retail bill (comprised of costs from the whole supply chain) and believe it is the responsibility of their energy retailer. Origin is sensitive to the issue of high bills and has developed specific training for our staff and programs to provide our customers with advice and support.

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[1]The current national consultations include the AEMC's *Power of Choice* review and separate consultation on network rule changes for the economic regulation of network service providers, Review of Merits Review, Productivity Commission Review of Network Regulation, the Department of Resources, Energy and Tourism's consultation on consumer protections for consumers with smart meters and a separate consultation on an information hub for smart metered consumers, and the Department of Climate Change and Energy Efficiency's consultation on a national Energy Savings Initiative. Completed consultations include the work on developing the extensive consumer protection regime under the National Energy Customer Framework, and the consultations undertaken by the Australian Energy Regulator for the new framework related to price disclosure and industry performance reporting on hardship obligations. There have also been state-based consultations on the same or similar issues, with the Victorian smart meter programme representing a particularly strong programme of consultation over recent years.

Network costs

Networks have a legitimate need to refurbish ageing assets, and to upgrade their assets to provide for higher peak demand. There is also a heavy expectation of networks held by communities and regulators to deliver a high level of system reliability. Network cost rises are an inevitable result of this, particularly after years of little to no increase.

Having said that, Origin recognises debate in the community regarding the efficiency of network expenditure and proposed rule changes are appropriately being assessed by the Australian Energy Markets Commission (AEMC).

Green schemes

As noted above, price rises are also caused by a range of government schemes from different levels of government. Solar feed-in schemes, the renewable energy target, state energy efficiency schemes and the carbon pricing mechanism have all added to consumer bills, and distorted the operation of the energy only market. The carbon price has received the most public attention, but the cumulative impact of other schemes on consumer bills is also material. Many of these schemes also reflect significant risk to the energy supply industry (and ultimately consumers), as they can change at short notice.

Price regulation

Political influence on prices is also felt by governments' own programmes of price regulation. Artificially holding prices below economic cost may be politically desirable in the short term, but is unsustainable and in the longer term prices must reflect costs to ensure viability of the industry and investment in necessary capacity, innovation and products to provide required reliability. Artificially holding prices below economic cost just leads to 'price shock' down the track when prices necessarily increase to reflect actual input costs – as has occurred in Western Australia in recent years.

Where effective competition exists, price deregulation is the best way to ensure that prices can be sustainable in the long term. Competition between energy retailers is already vigorous in several jurisdictions, with Australian states among the most competitive in the world. The Committee should be incentivising jurisdictions to move to price deregulation (as they committed to in the Australian Energy Market Agreement) where competition is shown to be effective.

5. *Demand side participation*

Community concern about the impact of electricity prices on household budgets has highlighted the need for improved consumer understanding of the choices available in the market, including options to better manage energy consumption. Consumer education with respect to energy efficiency has thus taken on a new importance, as has the possibility of consumer-led energy management where consumers can respond to near real-time feedback on their consumption and associated costs.

Smart meters

The ability for more immediate feedback regarding energy use and cost is one benefit derived from the deployment of smart meters.

Smart meters can also enable more cost-reflective prices to consumers - such as tariffs that vary by time of use and value consumption during higher rate peak hours. Consumers who can shift consumption to off-peak and shoulder periods can make savings on their electricity bills.

The deployment of smart meters is currently a decision for state governments, and Origin does not suggest changing this responsibility. Origin believes smart meters can be beneficial to the consumer experience, and we remain committed to working with state governments to progress the deployment of smart meters alongside products and functionality that can provide benefits to consumers.

Network benefits (in the form of reduced network investment) from demand side participation may have some impact at the margin, however they will take time to be delivered and the benefits are not likely to have the material impact (in terms of reducing required network investment) that some market participants suggest.

The AEMC's *Power of Choice* consultation on demand side participation addresses the detail underpinning these concepts. Energy efficiency is also addressed in this consultation, as well as being comprehensively examined by the Department of Climate Change and Energy Efficiency with its current consultation on a national Energy Savings Initiative. The many consultations at a national and state level on smart meter and flexible tariffs have also investigated the detail of how to prepare and enable consumers to engage with the service offerings enabled by smart meters. As noted above, we strongly recommend that the Committee allow for these processes to run their course. To do otherwise is to introduce yet more uncertainty and political risk into an already uncertain environment, which will not serve consumer interests in the longer-term.

Origin's launch of the Smart portal

Origin is keen to explore the means by which consumers can engage with the market to reduce their peak demand, and thus manage their energy bills. We recently launched an energy portal to our Victorian smart metered consumers, which shows near real-time information on usage. The portal allows consumers to see their consumption per hour or per day, and to compare their consumption patterns with others and their own historical use. The important aspect of the portal (and other devices that make use of smart metered data for consumer information purposes) is that it takes the surprise out of quarterly bills, giving consumers greater control of their bills by informing them about the cost of consumption and how they are tracking against budget and savings goals.

Consumer education is paramount

The changes to the industry and to consumer options that have been enabled by smart meter technology signify a paradigm shift for a consumer population used to viewing energy as an inevitable cost of living component with no opportunity for real involvement. It is clear that any large scale rollout should be considered from the consumer perspective from the start and that smart meter rollouts require sustained, phased education campaigns. These education campaigns should take consumers from an initial point of awareness of smart meters and their benefits, through to providing consumers with useful tools to understand and compare time-of-use energy contracts. If smart meter rollouts are seen purely as technology projects and consumer needs are not accounted for, the risk is that consumers will not engage and the benefits will not be realised.

6. *Energy efficiency opportunities to assist low income earners reduce their electricity costs*

Retailers support energy efficiency opportunities for low income earners

Energy retailers provide energy efficiency advice over the telephone, and several retailers also provide free in-home audits. Origin partners with community agencies to deliver an audit model developed by Victoria's Kildonan UnitingCare, where financial counsellors attend the customer's home and provide holistic financial and energy advice to consumers participating in our financial hardship programme, *Power On*.

Most energy retailers, including Origin, also provide energy efficiency advice on their websites, as do a number of existing government websites, such as the AER's price comparator website www.energymadeeasy.gov.au. This information is important to educate consumers about the ways they can manage their own consumption and potentially reduce their bills.

It is also worth reiterating the energy efficiency benefits of smart meter enabled services to consumers, as these will have a far greater impact on consumers' lives than once-off audits or appliance retrofits. Direct load control services can provide for appliances such as air-conditioners to be cycled on and off, which can mean a reduction in peak demand for the system at the margin, with consequent impact on costs for the consumer. Home energy management services such as in home displays and the free Origin portal described above provide consumers with near-real time advice on their energy consumption, which means that consumers can readily see the cost effects of appliance use.

Government energy efficiency schemes

Government programmes complement the existing industry approach to energy efficiency. For example, the Federal Government's Home Energy Saver Scheme (HESS) is intended to provide 100,000 low income households with energy efficiency services over a four year period, including around 50,000 home visits. The programme is delivered by 19 community agencies, and co-ordinated by Kildonan UnitingCare, the provider of Origin's in home-audit services in Victoria. HESS commenced 1 July 2012.

Victoria, South Australia and New South Wales also have energy efficiency schemes which require retailers to deliver or procure energy efficiency credits for appliance retrofits and audits, and the Australian Capital Territory is to commence its scheme in 2013. These schemes are currently the topic of policy deliberations by the federal Department of Climate Change and Energy Efficiency, which is considering replacing the schemes with a national Energy Savings Initiative.

It must be recognised that while these schemes can reduce costs for some participants, they impose net costs across the whole system that are borne by consumers as a whole.

The objectives of energy efficiency schemes must also be clearly spelled out. For instance, it is often suggested that there are environmental reasons to support energy efficiency schemes. In an environment without a carbon price it is true that energy efficiency can reduce emissions, however it must be recognised in a post 2015 carbon price environment (with a floating price and set emissions targets) that energy efficiency schemes will not reduce net emissions.

These schemes, together with retailers' own service provision, cover consumers' needs; we suggest that the work to be done in this space is more about ensuring the existing schemes are working effectively and efficiently than in creating more schemes. This should include a comprehensive analysis of existing schemes and whether there are more efficient and cost effective ways of delivering energy efficiency outcomes.

7. The implementation of the National Energy Customer Framework

The National Energy Customer Framework (NECF) has had a long gestation, with work commencing on the project in 2004. After five years of public consultation on the content of NECF, governments, regulators and industry moved their attention to implementation. Many millions of dollars were spent over a two year period to prepare for the agreed 1 July 2012 start date, including the extensive preparatory work carried out by the AER, which was to take over retail regulatory enforcement from the state regulators. Origin itself had a multi-million dollar implementation project in place to ensure compliance, where a team worked for over a year to enable relevant systems and process changes and to implement training for relevant staff.

On 1 June 2012 – a month before NECF commencement - the implementation of the NECF was cast into doubt, with Queensland advising that a delay was unavoidable and New South Wales announcing a new start date for eighteen months later. A week later Victoria followed suit and South Australia was also delayed. It was only the ACT and Tasmania that moved to the new regime on 1 July 2012.

NECF commencement dates must be clarified

The weeks since June this year have not seen any significant progress in clarifying NECF start dates in any of the affected states. At this point in time we are working on the assumption that some states might commence on 1 January 2013 and at least one state will not, but this has not been formally communicated by the state governments involved.

The outcomes of the NECF implementation process have been extremely disappointing. Industry acted in good faith to implement government policy, as did the regulators involved, and now these are the parties carrying risk, with no clear end in sight. Businesses that shifted to NECF compliance now face being 'non-compliant' with some existing state regulations, and others that were able to revert back to the state regulations face having to redo their programme of work for when NECF is adopted by the remaining states. The now staggered implementation programme across jurisdictions brings new costs as well. The public interest has clearly not been served.

Origin therefore requests the Committee to recommend clear and consistent NECF commencement dates for Victoria, South Australia, Queensland and New South Wales. It is also important that any jurisdiction moving to NECF provides six months' notice to industry, to allow for NECF implementation programs to be re-opened and necessary system changes to be made.

NECF represents the highest consumer protection standard

As a last point, we note that the Committee's terms of reference under d(iv) require an assessment of the adequacy of current consumer information, choice and protection measures. In fact, NECF represents the highest standard of energy consumer protections in the country, and includes provisions that support choice and clear consumer information. All stakeholders, including consumer advocates, had strong input into the development of NECF and it represents a clear improvement in consumer protections from most existing regulatory regimes.

Since 2010 the AER has also consulted about the detail of several NECF guidelines, including comprehensive price disclosure requirements and performance reporting. This latter point is also related to the Committee's terms of reference d(vii) on performance reporting for customers in hardship, and Origin recommends that the Committee refers to the already extensive work carried out by the AER during 2010 and 2011 on performance reporting. As a result of this process NECF requires retailers to report regularly across a range of hardship programme performance metrics.

As a stand-alone consumer energy protection regime, NECF is the appropriate regulatory instrument to protect energy consumers. NECF provisions are strong and there is no identified need for further consumer protections or performance reporting obligations. The real issue is the implementation of the comprehensive regulatory programme that is already present in NECF and we hope that the Committee can support our request for government commitments within reasonable timeframes.

8. Supporting and assisting low income and vulnerable consumers

As noted above, retailers already have hardship policies, which will be formalised with the eventual adoption of NECF. Origin led the way for hardship programme provision, with its own programme, *Power On* commencing in 2003 in Victoria and later rolled out to all jurisdictions Origin operates in. Our scheme has assisted tens of thousands of consumers who required short term support, and we continue to do so, whether this is through payment extensions, payment plans, in-home audits, debt waiver or links to community assistance and government grants.

While we welcome the suggestion that low income and vulnerable consumers could receive greater support, the implementation of a scheme that is funded or part funded by networks requires further careful consideration. The form of a network-funded scheme might conflict or confuse provision of existing services, such as the HESS described above and retailers' own hardship programmes. The easiest answer might be a fund for financial counsellors that networks pay into, or additional direct funding for HESS.

Yours sincerely

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