

Senate Economics Legislation Committee Public Hearing 5 February 2019

Questions on Notices Origin Energy

1. Traders remuneration structure

CHAIR: Right. I might ask you some questions similar to those I asked Mr Redman about the culture of the trading floor. Can I ask you specifically how you remunerate your traders?

Mr Calabria: Traders would be on a fixed remuneration plus a short-term incentive. The short term incentive would be driven across a balanced scorecard of measures across the organisation that extend to financial, people, safety and customer. So they'll have a series of measures that sit underneath all of those, and they'll have a proportion of their discretionary bonus allocated to each of those.

CHAIR: What proportion is fixed and what proportion is dependent on those variables?

Mr Calabria: It would depend on their level—and I certainly could come back to you with greater detail. But the large majority of their remuneration is on a fixed basis, so the STI percentage would vary, depending on their level in the organisation. I'm happy to take that on notice and give you the range of those percentages, because they do vary.

CHAIR: Thank you. I'd like it if you could take it on notice to give us a little bit more detail as to how your traders are remunerated.

Mr Calabria: Yes. But it certainly is across all of that.

Energy traders are remunerated on the same basis as all professional roles in the organisation. All roles are assessed according to job size (problem-solving, know-how and accountability) on the internationally recognised "Hay Group" (now Korn Ferry) methodology and assigned to standard "Hay grades" according to job size. The proportion of pay which is Fixed Remuneration (which includes both cash salary and superannuation) and Variable Remuneration (bonuses and short term incentives) is standard at each Hay grade level, as summarised in the table below.

The remuneration parameters are determined with reference to Korn Ferry's "all organisations" and "all roles" benchmarks derived from approximately 400 Australian organisations. Analysis is undertaken annually to determine whether any specific roles are at significant variation (premium or discount) to the general market. For example, from time to time petroleum engineers and specialist geoscience roles have commanded a market premium, and scales have been adjusted from time to time for those specific roles. Energy traders have always been remunerated against the standard market, no premium has ever been applied.

In addition to Fixed Remuneration, some roles work shifts for which they are paid a separate shift allowance, up to around \$20,000 pa. Where paid the proportion of Fixed Remuneration will increase slightly above the tabulated level below.

Typical Roles	Bonus Plan	When bonus paid at target level		When bonus paid at capped maximum level		STI Deferral
		% Fixed	% Variable	% Fixed	% Variable	
Group Manager and Head roles (Operations & Pricing, Wholesale Gas Portfolio, Electricity Portfolio, LPG Trading & Shipping)	STI	72	28	61	39	One-third
Operations Execution Mgr, Compliance Mgr	STI	75	25	65	35	One-third
Managers - Domestic LPG Trading, Gas Portfolio, Origination, Qld Gas Ops, Pricing	STI	79	21	69	31	One-third
Portfolio Integration Mgr, Portfolio Mgr	STI	85	15	77	23	-
Portfolio Trader, Shift Supervisor, Gas Compliance Mgr, Senior Energy Trader	STI	87	13	80	20	-
Energy Trader, Business Analyst Trading Models, Team Leader Pricing Services, Team Leader Pricing Methodologies	STI	89	11	83	17	-
Energy Trading Analysts, Senior Pricing Analysts	DBP	94	6	91	9	-

There are two main bonus plans, STI is a formal plan which comprises Group, Division and Individual key performance indicators (KPIs) using a balanced scorecard. DBP (discretionary bonus pool) applies at lower roles in the organisation with bonuses allocated on a more discretionary basis according to the individual's performance against a range of KPIs that include more personal activity targets than in the formal STI plan. The more senior roles in the table above have one-third of the STI award delivered in Restricted Shares (column "STI Deferral") which are forfeited if the recipient resigns within 2 years of the award or if the Board considers that there has been any misconduct.

For the balanced scorecard, in addition to shared Group and Division Metrics (which are common across divisions and make up to 75% of the total scorecard), each employee has a range of KPIs ("Individual Business Objectives, IBOs") that focus on their specific business unit and activities. The IBOs applicable to traders are in the form:

Scorecard Category	KPI metric	Typical IBO weighting
Shareholder	Trading & Operations Business Unit EBITDA vs budget	40%
Customer	Pricing to support BE/Retail/Trading Ops	15%
Customer	Operational gas/electricity portfolio performance	15%
Customer	Compliance - effectively manage activities within market rules and regulatory obligations and develop relationships with regulators	10%
People	People/engagement/cross team collaboration	10%
People	Recruit & develop talent. Management of roster	10%
		100% in total

2. Consultation process

Senator KETTER: Take us through the details of the consultation process involving your company and the preparation of this bill.

Mr Calabria: I will also take on notice the specific dates. Following a high-level consultation paper, the first draft legislation came out. That was the first thing that came out, and we made a submission to that high-level paper. My recollection is that there were a couple of weeks; it was about a two-week process followed by the first draft of the legislation, which we were given three days to respond to. Then the second draft of the legislation was released into parliament on the same day we would have received it or, if not, we would have got it immediately prior. That second draft was accompanied by a 100-plus page explanatory memorandum, and it had substantially changed at that point. So it was a very short and inadequate process of consultation.

Consultation Paper - Electricity price monitoring and response legislative framework

The Treasury consultation paper was released on 23 October 2018. Origin's submission was made on the closing date for submissions, 7 November 2018. The Government did not publish stakeholder submissions.

Confidential Draft Legislation

Origin received a confidential copy of the draft legislation at 3:53pm Friday 16 November 2018. Origin made a submission to Treasury in line with Treasury's deadline for comment at the close of business Wednesday, 21 November 2018. Treasury has not made stakeholders' submissions public.

Legislation tabled in Parliament.

We received the Government's revised legislation, when tabled in parliament, on 5 December 2018. This legislation contained substantial changes including the introduction of regulated retail pricing provisions, not contemplated in the draft legislation. The Senate Economics Legislation Committee sought comment on the legislation on 10 December; with comments to be provided by 11 February. On 20 December 2018 the Senate Committee brought forward its closing date for submissions to Friday, 25 January 2019. Our submission to the Senate Economics Legislation Committee inquiry into the Treasury Laws Amendment (Prohibiting Energy Market Misconduct) Bill 2018 was lodged on 25 January 2019.

3. Constitutionality of the bill

Senator KETTER: I have two further questions. What's your view about the constitutionality of the bill?

Mr Calabria: I'm not a lawyer. I know that we had some concerns around the first draft. I have to say a lot of changes were made. Could I take on notice the finer points of that? I think a large portion was addressed on that but whether there remains any outstanding aspects, I'll take that on notice and come back.

While a number of Origin's major concerns about the constitutionality of parts of the draft legislation have been addressed, Origin agrees with other parties (including the Australian Energy Council) that constitutionality questions remain, including with respect to the contracting order provisions.