



17 February 2012

Mr John Pierce
Panel Chairman
Electricity Industry Expert Panel
GPO Box 123
Hobart TAS 7001

Dear Mr Pierce

Electricity Supply Industry Expert Panel - Draft Report

Origin Energy Limited (Origin) welcomes the opportunity to contribute to the Electricity Supply Industry Expert Panel's (Expert Panel) review of the Tasmanian electricity market.

Origin is a major Australasian integrated energy company focused on gas exploration, production and export, power generation and energy retailing. Listed in the ASX top 20 Origin has over 5,000 employees. Origin is Australia's largest energy retailer servicing 4.5 million electricity, natural gas and LPG customer accounts and has one of the country's largest and most flexible generation portfolios with over 5,500 MW of capacity, through either owned generation or contracted rights. We are a significant investor in low emissions and renewable energy technologies, including gas, geothermal, wind, hydro and solar and are by far the largest retailer of green energy products such as GreenPower.

With essentially a single wholesale supplier of electricity and one dominant retailer, the competitiveness of the Tasmanian market lags behind the rest of the NEM. To improve efficiency and ensure that the long term interests of consumers are met it is important that the market settings encourage new entry.

This review represents an important step in bringing about a material improvement in the efficiency of the Tasmanian market which is also likely to have a positive impact on the National Electricity Market (NEM) as a whole. Our comments on the Expert Panel's Draft report and the proposed options for reform are outlined below.

The proposed options

Generally Origin is supportive of market based approaches and considers that regulatory 'fixes' should only be contemplated where there is a clear case of market failure and there is no appropriate market based solution available. With this in mind we do not consider that Option 1 represents the best approach. For this Option to be successful the Expert Panel would need to determine what proportion of Hydro Tasmania's contracts would need to be auctioned. This is important in providing prospective new entrants assurance that they would be able to secure sufficient hedge cover to support a viable retail business. An issue such as this is best determined by market forces and it is suboptimal for regulators to seek to estimate efficient market outcomes.

Option 3 represents a fundamental change to the current market settings and is a disproportionate response to the issue at hand. A change in the regional boundary is likely to be a lengthy and rigorous process which if implemented would have lasting impacts on the entire market. At this point it is not evident that the issues in Tasmania warrant such drastic action.

Option 2 - the establishment of three independent trading entities is a more suitable approach to Options 1 and 3 in that it provides for a market driven solution. However, whether it would be

successful in encouraging new entry in the retail sector is not entirely clear. An outstanding issue is that the three entities though separate would still be government owned, drawing from the same hydro resource. This could result in all three having essentially the same cost drivers and a similar approach in formulating prices. If this is the case, new entrants would not necessarily be guaranteed a truly competitive market for which to source contracts. Even if these concerns reflect perception more so than reality, a full sale of the trading rights could help allay any apprehension, and thus is worth exploring by the Expert Panel. Greater thought and analysis should also be given as to whether the creation of three trading entities is in fact the right number to achieve optimal outcomes.

For any of the proposed reforms of the wholesale market to have the intended effect they should be accompanied by complementary changes in the retail sector. A fundamental and necessary reform is the introduction of full retail contestability (FRC) in the Tasmanian market. Origin is supportive of introducing FRC but does not consider this sufficient to achieve effective competition in the retail market, as allowing competition to develop organically over time is likely to be a slow process. We therefore consider that a reasonable means of achieving a competitive retail market is through the packaging and sale of Aurora Energy's retail book in appropriately sized parcels.

Origin looks forward to further participation in this review process. If you wish to discuss any of these issues further please do not hesitate to contact me on (02) 8345 5250 or Steve Reid on (02) 8345 5132.

Yours Sincerely,

A handwritten signature in black ink, appearing to read 'Tim O'Grady', written in a cursive style.

Tim O'Grady
Head of Public Policy