

Consultation Paper

and

Notice of Origin Energy Electricity Limited designated RoLR cost recovery applications

25 March 2024

© Commonwealth of Australia 2024

This work is copyright. In addition to any use permitted under the *Copyright Act 1968* all material contained within this work is provided under a Creative Commons Attributions 3.0 Australia licence with the exception of:

- the Commonwealth Coat of Arms
- the ACCC and AER logos
- any illustration diagram, photograph or graphic over which the Australian Competition and Consumer Commission does not hold copyright but which may be part of or contained within this publication.

The details of the relevant licence conditions are available on the Creative Commons website as is the full legal code for the CC BY 3.0 AU licence.

Inquiries about this publication should be addressed to:

Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601
Tel: 1300 585 165

Email: aerrolr@ aer.gov.au

AER reference: AER23006955

Amendment record

Version	Date	Pages
Final	25 March 2024	44

Contents

Invitation for submissions	1
Publishing of submissions	1
1 Executive summary	2
2 Overview of cost recovery process.....	4
Cost recovery application requirements	4
Cost recovery application assessment process	5
3 Key elements of Origin’s cost recovery applications	8
Summary of Origin’s approach	9
Quantum of Origin’s claims.....	10
4 Revenue	12
Origin’s approach to revenue.....	1
AER requests for information and Origin’s responses.....	1
Why Origin has provided estimated not actual revenue	2
How Origin characterises and mitigates RoLR scheme risks and costs	2
5 Wholesale costs claimed by Origin.....	4
Origin’s approach to wholesale costs claimed	5
AER requests for information and Origin’s responses.....	6
Why Origin has provided estimated not actual wholesale costs	6
How Origin approached its hedging activities in practice	7
Origin’s proposed time horizon	8
Opportunity costs.....	9
AER’s preliminary view of Origin’s approach to wholesale costs claimed	9
6 Administrative costs claimed by Origin.....	12
Origin’s reduced administrative costs claims	12
7 Other costs - network and environmental costs	13
Origin’s approach to network costs claimed.....	13
Origin’s approach to environmental costs claimed.....	13
Why Origin has provided estimated environmental costs.....	13
AER’s preliminary view of Origin’s approach to environmental costs claimed	14
8 Costs borne by Origin.....	15
Why Origin has used a customer acquisition cost methodology.....	16
9 RoLR cost recovery scheme distributor payment determination	17

Cost recovery scheme method proposed by Origin	17
Shortened forms.....	19
Annexure A – detailed quantitative breakdown of cost categories across each of Origin’s cost recovery claims.....	20
Annexure B – summary of questions	21
Annexure C – relevant provisions.....	23

Invitation for submissions

The AER invites interested stakeholders to make written submissions in response to the specific questions or matters raised in this consultation paper, or any other matter relevant to the consideration of Origin's six RoLR cost recovery applications, by the close of business on **26 April 2024**.

Submissions should be sent electronically to: aerrolr@aer.gov.au. Please also direct any enquiries about this paper, or about lodging submissions, to this address.

Publishing of submissions

The AER prefers that all submissions be publicly available to facilitate an informed and transparent consultative process. Submissions will be treated as public documents unless otherwise requested. Parties wishing to submit confidential information are requested to:

- clearly identify the information that is the subject of the confidentiality claim; and
- provide a non-confidential version of the submission in a form suitable for publication.

All non-confidential submissions will be published on the AER website at www.aer.gov.au. For further information regarding the use and disclosure of information provided to the AER, see the [ACCC/AER Information Policy](#).

1 Executive summary

The [Australian Energy Regulator \(AER\)](#) is responsible for overseeing the Retailer of Last Resort (**RoLR**) scheme under the National Energy Retail Law (**Retail Law**). The scheme is principally designed to ensure that in the event of retailer failure, arrangements are in place to ensure that customers continue to receive electricity and/or gas supply. The scheme provides that retailers who perform the RoLR role can seek cost recovery for doing so, subject to an AER determination.

Under the Retail Law, the AER must, on application by a registered RoLR, determine a RoLR cost recovery scheme for the RoLR, and the application must be in the form and contain the information specified in the [RoLR Guidelines \(AER RoLR Guidelines\)](#).

Between 24 February 2023 and 1 June 2023, Origin Energy Electricity Limited (**Origin**) submitted cost recovery applications for six RoLR events¹ that took place in 2022 to the AER, claiming in total \$4,333,337.82 (after revisions). The AER is combining the consideration of the six cost claims into one process. The AER has received no other cost recovery applications from other designated RoLRs for the retailer failure events of 2022.

Origin is claiming costs associated with supplying 12,749 transferred electricity customers (against an overall electricity customer base of 2,700,000² as at 30 June 2022). Origin is seeking to claim wholesale costs, network use of system costs (network costs), environmental costs and administrative costs from the period of the RoLR events to the end of the financial year 2022-2023. Wholesale costs are the biggest component of Origin's costs claim.

Origin's broad approach to the majority of its cost claim categories is to use an estimated cost methodology, although Origin has provided actual costs in relation to communications with customers (i.e., postage stamp costs), which forms part of its administrative cost claims. Origin has stated that, due to the complex nature of its overall portfolio, it is unable to provide actual costs, and that its applications are based off approximating the costs of managing risks it faced during the volatile wholesale market conditions of 2022.

The AER has sought further information from Origin in relation to its cost claim recovery applications through a number of a meetings and requests for further information. Origin further clarified its applications through these inquiries.

Three principles the AER must be guided by in making its decision on Origin's applications, in addition to the National Energy Retail Objective, are:

- (a) the registered RoLR should be provided with a reasonable opportunity to recover the reasonable costs that it incurs with respect to the RoLR scheme;

¹ The applications relate to the following six electricity RoLR events: Pooled Energy; Enova Energy, Power Club; Mojo Power East, Social Energy and Elysian Energy (**six certain RoLR events**).

² [Origin, 2022 Annual Report, PDF page 34.](#)

- (b) the recovery of costs should allow for a return commensurate with the regulatory and commercial risks with respect to the RoLR scheme; and
- (c) the registered RoLR will itself bear some of the costs, in proportion to its customer base.³

In this consultation paper we seek stakeholder feedback about how the AER should apply the Retail Law guiding principles in making its decision about Origin's cost recovery applications.

We note that, with respect to Origin's claimed wholesale costs and claimed environmental costs, the AER has considered Origin's claims through two different perspectives: a direct cost perspective and a foregone revenue, opportunity cost perspective. A key issue for stakeholders is whether they consider opportunity costs are costs incurred under the framework, and if so, appropriate in the context of Origin's application. We also ask stakeholders whether Origin's approach of a broad estimated methodology to its RoLR cost recovery claims is reasonable. This includes whether Origin has clearly and sufficiently substantiated its methodology to support its claims. The overarching issue is whether Origin has demonstrated that it incurred costs and its methodology is a reasonable approximation of those costs.

Our preliminary view on the key wholesale cost element of Origin's applications is as follows:

Wholesale costs: Origin, as a sophisticated vertically integrated retailer, has a range of options available to it to manage wholesale cost risk. Origin's methodology utilises ASX base contracts at the date of each RoLR event. We consider Origin's estimated methodology is likely to overstate any direct costs given it does not reflect other, likely lower cost, options available, including the ability for Origin to self-hedge utilising its generation portfolio.

Self-hedging to manage the increase in load from the inherited RoLR customers may have constrained Origin's ability to sell hedges to other retailers or sell uncontracted generation on the spot market, and may therefore amount to an opportunity cost in terms of foregone revenue. Our preliminary view is that it is open to the AER to consider Origin's applications through the opportunity cost perspective, subject to Origin's methodology being reasonable.

The AER has not formed concluded views on any aspect of Origin's cost recovery applications, with all issues, including our preliminary views, open to feedback from stakeholders.

The current applications from Origin are the first seeking recovery of costs from actual RoLR events that the AER has received.⁴ When making its determination, the AER is able to allow recovery of all, some or none of the claimed costs.

The AER is required to publish a notice of the applications and seek submissions on the applications within a specified period of at least 20 business days.⁵ This consultation paper gives notice of the applications and the commencement of our consultation process.

³ Section 166(7) of the Retail Law.

⁴ There was a 2011 AGL application for recovery of costs to establish processes and systems to be a Default RoLR.

⁵ Section 166(5) of the Retail Law.

2 Overview of cost recovery process

The RoLR scheme is designed to ensure that in the event of retailer failure, arrangements are in place to ensure that customers continue to receive electricity and/or gas supply.

The AER and the Australian Energy Market Commission (**AEMC**) have recognised it is important that retailers who are appointed as RoLRs have certainty that they can recover costs related to the RoLR scheme, including costs incurred on and after a RoLR event, given they are providing a broader service to the market to ensure continuity of supply for customers of failed retailers.

Clarity around cost recovery ensures retailers are incentivised to become RoLRs. The AEMC is considering options to reduce the costs of retailer failures, including by proposed enhancements to the RoLR cost recovery scheme as part of a review⁶ it is undertaking concurrent to the AER's consultation process for Origin's cost recovery applications.

Cost recovery application requirements

The Retail Law RoLR cost recovery framework is the only mechanism by which a RoLR can seek to recover costs it incurs in relation to the RoLR scheme, including costs incurred on and after a RoLR event.

Any cost recovery application submitted by a RoLR must be in the form and contain the information specified in the AER RoLR Guidelines. The Retail Law and AER RoLR Guidelines do not currently provide specific examples of the categories of costs that can be recovered. The AER has discussed its general approach to assessing certain categories of costs in the [AER RoLR Statement of Approach](#) in cost recovery examples for a number of hypothetical RoLR event scenarios.⁷

The AER RoLR Guidelines⁸ set out, among other things, that cost recovery applications must include:

- a breakdown of costs by type;
- the benefits of customers transferred from the failed retailer to the RoLR, which requires quantification of:
 - the revenue expected from the transferred customers;
 - the 'business as usual costs' relating to the transferred customers. Business as usual costs are non-RoLR scheme costs incurred relating to the supply of energy to transferred customers; and
 - supporting documentation and reasoning.

⁶ [AEMC, Review into the arrangements for failed retailers' electricity and gas contracts, 11 May 2023.](#)

⁷ [AER RoLR Statement of Approach](#), section 5.3, pages 20-23.

⁸ [AER RoLR Guidelines, November 2011.](#)

Cost recovery application assessment process

Following receipt of the cost recovery application(s), the AER can seek further information from the RoLR to understand the RoLR's approach and methodology to its claims, and to ensure that the application(s) meet the AER RoLR Guidelines.

The AER is required to publicly consult on the application (as discussed below), including with affected distributors. Following consideration of submissions from the consultation process, and assessment of the application(s), the AER will publish its decision including whether distributors are to make contributions.

Retail Law guiding principles and AER approach to making a cost recovery determination

The AER must be guided by the following principles when making its decision on the RoLR's application:⁹

- (a) the registered RoLR should be provided with a reasonable opportunity to recover the reasonable costs that it incurs with respect to the RoLR scheme;
- (b) the recovery of costs should allow for a return commensurate with the regulatory and commercial risks with respect to the RoLR scheme;
- (c) the registered RoLR will itself bear some of the costs, in proportion to its customer base.

The AER must also have regard to the National Energy Retail Objective:¹⁰

"to promote efficient investment in, and efficient operation and use of, energy services for the long term interests of consumers of energy with respect to:

- a. price, quality, safety, reliability and security of supply of energy; and*
- b. the achievement of targets set by a participating jurisdiction—*
 - i. for reducing Australia's greenhouse gas emissions; or*
 - ii. that are likely to contribute to reducing Australia's greenhouse gas emissions."*¹¹

The Retail Law does not give an indication as to the weight to be given to the principles. The Retail Law also provides some flexibility for the AER to limit in our determination, either generally or in particular cases or classes of cases, the costs (and the amount of those costs) that are recoverable.¹²

⁹ Section 166(7) of the Retail Law.

¹⁰ See the note at the end of section 166(7) of the Retail Law.

¹¹ Section 13 of the Retail Law.

¹² Section 166(8) of the Retail Law.

The AER has published some general, non-binding guidance on its approach to applying the Retail Law guiding principles, in our RoLR Statement of Approach¹³ as follows:

- actions of the designated RoLR in performing its obligations should be prudent and minimise the costs incurred in the circumstances;
- limits will generally not be imposed on the classes or magnitude of costs as the RoLR should be provided with reasonable opportunity to recover its reasonable costs incurred;
- cost recovery should not result in onerous price shocks for small customers, as this may present hardship issues for some customers; and
- cost recovery should occur over the largest customer base which is appropriate to the RoLR event.¹⁴

The AER RoLR Statement of Approach further states that to assist the AER in its assessment, the designated RoLR should provide supporting documents of its decision-making processes.¹⁵

Depending on the application, the AER may give greater weight to certain factors over other factors. If the AER deviates from our indicative approach in AER RoLR Guidelines when making a RoLR cost recovery scheme determination, we will provide reasons for doing so in the decision.¹⁶

Annexure C sets out the relevant provisions and excerpts from the Retail Law, RoLR Guidelines and Statement of Approach.

AER consultation and final decision

The Retail Law provides that the AER must decide whether to grant or refuse Origin's applications. The AER must, as part of its determination, and after consultation with the distributor(s) concerned, make a determination that one or more distributors are to make payments towards the costs of the scheme.

In addition to any consultation with distributors as outlined above, the AER must publish on its website a notice of the application inviting submissions on the application within a specified period of at least 20 business days.¹⁷ The AER is not required to publish a consultation paper or draft determination, but it is open to the AER to follow such a process if it wished.

We note that our final decision on Origin's cost recovery applications will not only determine the amount Origin is able to recover from applicable distribution network customers but will likely also

¹³ [AER, Retailer of Last Resort, statement of approach, November 2011](#)

¹⁴ AER RoLR Statement of Approach, section 5.1, pages 18-20.

¹⁵ AER RoLR Statement of Approach, section 5.1, page 19.

¹⁶ AER RoLR Statement of Approach, section 5.1, page 18.

¹⁷ Section 166(5) of the Retail Law.

inform how the AER approaches such decisions on future RoLR cost recovery applications. As such, we encourage stakeholder feedback to inform our approach.

Table 1 sets out the key milestones planned for this process.

Milestone	Date
AER publishes consultation paper on Origin's RoLR cost recovery applications	25 March 2024
Submissions due on Origin's RoLR cost recovery applications and consultation paper	26 April 2024
AER consultation with Distributors	March-April 2024
AER to assess stakeholder submissions	April-May 2024
AER publishes final decision	June 2024

Note: Timelines are indicative and subject to change.

Questions

1. What do stakeholders understand each of the three Retail Law guiding principles to mean, and how do you think they should be applied to Origin's cost recovery applications?
2. How do stakeholders consider each of the three Retail Law guiding principles interact?
3. How should the AER apply the National Energy Retail Objective in relation to Origin's RoLR cost recovery applications? (To assist stakeholders with this question, you may wish to consult the AER's [Guidance note on amended National Energy Objectives, September 2023](#)).

3 Key elements of Origin’s cost recovery applications

Origin has submitted six RoLR cost recovery applications, comprising cover letters and detailed spreadsheets breaking down each category of costs claimed, which are published with this consultation paper. Origin’s applications note that the relevant retailer failures in 2022 occurred in a period of significant price volatility and market instability. Origin attributes this to the war in Ukraine driving high international gas and coal prices, coal plant closures, and more frequent unplanned outages during the 2022 winter period.¹⁸

Origin considers the quantum of each of the applications for cost recovery is modest but acknowledges that the impact of the cumulative cost of each of the six failures may be material.¹⁹

The AER notes that Default Market Offer (DMO)²⁰ benchmark pricing underpins Origin’s methodology for revenue and its calculations for most of its cost claim categories. We understand from Origin’s applications that Origin is essentially claiming that it faced wholesale (and to a lesser extent environmental) costs above what had been accounted for in the DMO.

The DMO is set to produce a price cap which reflects the cost of a reasonable retailer. This sees the revenue associated with customers on standing offers capture costs based on a reasonable, risk averse retailer. In setting the wholesale element of the DMO, the AER uses a ‘market-based’ forecast approach, combining hedging and spot market costs (wholesale energy costs) and other fees related to participation in the NEM (other energy costs). This includes, amongst other things, the risk-averse retailer progressively accumulating contracts over time to develop its final portfolio and some spot price exposure. The AER considered the wholesale energy cost allowance provided “a significant margin of error against underestimating wholesale costs and ensures that in most circumstances the wholesale forecasts will continue to overstate what most retailers incur – particularly in light of the other risk-averse assumptions embodied in the forecast methodology”.²¹ Further information on the AER’s general approach to setting the DMO is in Box 1 (below). The AER has considered Origin’s applications in the context of DMO 4. This is because the DMO 4 determination applied to the FY 2022-23, which correlates with the relevant RoLR events and Origin’s approach to its methodology in which it is claiming costs to the end of FY 2022-23.

Box 1 The AER’s general approach to setting the DMO²²

In setting the DMO, the AER looks at the different costs retailers face to supply electricity to customers. These include:

- the cost to buy electricity (wholesale electricity costs)

¹⁸ Origin, RoLR cost recovery application cover letters, various dates.

¹⁹ Origin, RoLR cost recovery application cover letters, various dates.

²⁰ The DMO came into effect on 1 July 2019. The DMO is a maximum price that retailers can charge electricity customers on default contracts known as standing offer contracts. The AER determines the DMO price each year.

²¹ [AER, DMO 4, Final Determination](#) pages 25-26

²² Source: [AER, DMO 4, 2022-2023 Final Determination Factsheet](#).

- the cost to transport electricity to customers through the network (network costs)
- the cost to comply with government environment schemes (environmental costs)
- the costs associated with serving customers in the retail market, including billing costs and costs to provide hardship support (retail costs).

The DMO is also intended to allow retailers to make a reasonable profit and to enable competition and market engagement. We therefore include a 'retail allowance' in recognition of these factors. This approach means the DMO price protects standing offer customers from being charged excessive prices, while enabling retailers to recover costs and to issue competitive market offers below the DMO price to attract customers.

Summary of Origin's approach

Origin's broad approach to the majority of its cost claim categories is to use an estimated (approximated) costs methodology, except where it has provided actual costs for a small portion of its administrative costs. As a general principle, the AER does not object to RoLRs making cost claims based on an estimated methodology instead of providing actual costs incurred. If making a cost claim application based on an estimated approach, we consider that the RoLR should provide a clear, reasonable methodology, with supporting documents of its decision-making processes, which clearly evidence the nexus between the methodology and costs claimed. That is, we require supporting documents evidencing (for example) how risks are managed, and what instructions and steps were undertaken, in support of its claim that those costs are reasonable.²³

After seeking clarification from Origin on several elements of its application, we have interpreted Origin's application as including an opportunity cost element to the wholesale and environmental cost categories.

We set out a high-level summary of Origin's approach to each of the categories, as follows:

- **Revenue:** Origin's calculation of revenue is based on DMO pricing and is an approximation using the average consumption profile per distribution zone. The approximated revenue received from RoLR customers offsets some of the claimed costs in Origin's approach.
- **Wholesale costs:** Origin utilises ASX quarterly baseload electricity futures prices as at the RoLR date multiplied by an estimated mass market load weighting factor. Origin has applied this to the annual average usage by customer segment and multiplied by estimated loss factors to convert to purchased load, using a particular starting number of inherited (transferred) customers in respect of each RoLR event.
- **Administrative costs:** Offshore labour costs based on estimated monthly contract fees, and estimated hours taken to integrate the inherited customers into Origin's customer and billing systems, as well as preparing and sending customer correspondence. Origin has provided actual costs is regarding communications with customers (i.e., postage stamp costs).

²³ AER RoLR Guidelines, November 2011, page 8.

- **Network costs:** Origin has used the DMO average consumption profile per distribution zone to estimate variable Network Use of Service (**NUoS**) charges,²⁴ rather than providing actual charges. Origin has advised that network costs did not exceed revenue recoverable, therefore Origin is not seeking networks costs beyond what the DMO provided for.
- **Environmental costs:** Origin has used approximations based on the DMO benchmark. Origin advised the cost of the additional renewable energy target certificates for the inherited customers required estimations using averaged trade weighted market prices of the certificates for the month of the RoLR event multiplied by the additional certificates required. In this consultation paper we have grouped together network and environmental costs as “other costs”.
- **Costs borne by Origin:** Origin has based this on the costs a retailer would incur in competing for a customer in a contestable retail market. Origin has proposed applying the benchmark allowance determined by the Essential Services Commission of Victoria (**ESCV**).
- **Customer numbers:** Origin has assumed a particular starting number of inherited customers in respect of each RoLR event, as well as monthly actual churn rates²⁵ for those customers.

Further detail regarding Origin’s proposed approach and methodology is set out in chapters [4](#) to [8](#) below. For each category, we have asked Origin a series of questions to better understand its approach to its applications. Origin’s responses have been quoted verbatim in italics in some places.

Quantum of Origin’s claims

Origin’s applications seek recovery of \$4,333,337.82 in total. The costs and benefits Origin has claimed have been broken down as per Table 2 on the next page. **Annexure A** provides a detailed quantitative breakdown across each of Origin’s cost recovery claims, including cost categories, revenue and the total costs Origin is proposing to bear.

²⁴ NUoS are network charges consisting of ‘transmission use of system’ and ‘distribution use of system’ charges. They are usually aggregated on your energy bills as ‘network use of system charges’. Other specific network service charges may apply to some customers, such as one-off connection charges upon joining a network.

²⁵ The churn rate, also known as the rate of attrition or customer churn, is the rate at which customers discontinue doing business with an entity within a given period.

Table 2 – summary of cost recovery claims by category

Category	Amount	Percentage of total cost	Description
Costs by category			
Wholesale	\$10,219,975.59	66.6%	Costs associated with managing electricity pool price exposure, whether be through direct costs (buying hedges) or foregone opportunity to sell hedges arising from self-hedging via generation assets.
Network	\$4,453,315.32	29.02%	The total network charge that Origin passes through to customers from each customer's relevant distributor. Includes fixed and variable components.
Environmental	\$668,412.09	4.4%	Costs associated with managing environmental obligations, whether be through direct costs (buying certificates) or foregone opportunity to sell certificates.
Administrative	\$5,089.54	0.3%	Costs of establishing customer accounts in Origin's customer and billing systems, preparing and sending customer correspondence.
Total costs	\$15,346,792.95		
Deductions from cost claim			
Revenue as proportion of overall costs			
Revenue	(\$10,718,838.74)	69.8%	The revenue Origin attributes to the customers transferred from the RoLR events.
Costs borne by Origin as proportion of overall costs			
Costs borne	(\$294,615.84)	1.9%	Costs borne by Origin.
Net total claim	\$4,333,337.82		Net total claim = the total of wholesale, network, environmental, and administrative costs claimed, with revenue and costs borne deducted.

Source: AER analysis derived from Origin's cost recovery applications

The AER has not formed concluded views on any aspect of Origin's cost recovery applications, with all issues, including our preliminary views, being open to feedback from stakeholder consultation.

Questions

4. What are your views on the reasonableness of Origin taking an estimated (approximated) costs approach to the majority of its cost claim categories?
5. What are your broader views of Origin's approach to its RoLR cost recovery applications?

4 Revenue

Under the framework, transferred customers of a failed retailer are automatically placed on the designated RoLR's standing offer price. The standing offer can be no more than the DMO. A standing offer can be less, and actual customer price outcomes can vary depending on their usage. Revenue from customers is essentially the benefit a designated RoLR has obtained from inheriting these additional customers.

The AER observes that the legal framework requires us to be guided by the principle that the recovery of costs should allow for a return commensurate with the regulatory and commercial risks with respect to the RoLR scheme.²⁶

The AER RoLR Guidelines provide that any cost recovery application must set out the benefits of the customers transferred from the failed retailer to the RoLR. This essentially requires quantification of the revenue expected from the transferred customers. A RoLR must provide information explaining on what basis revenue has been quantified (including the basis on which any estimates have been made).²⁷

While there is clearly a benefit from inheriting customers from a RoLR event in terms of revenue, this is offset by relatively high churn rates. Transferred customers are not required to remain with a RoLR, although if the customer has not transferred within 3 months, a standard retail contract is taken to have been formed between the customer and the RoLR.²⁸ As Origin has explained (below), transferred customers of a failed retailer are less likely to be "sticky" than customers Origin has "won" because they have not willingly chosen Origin as their retailer.

Approximately 63% of inherited (transferred) RoLR customers across all 6 relevant RoLR events transferred away from Origin to another retailer within 9 months of the relevant RoLR event, as can be seen in Table 3 on the next page.

²⁶ Section 166(7)(b) of the Retail Law.

²⁷ [AER RoLR Guidelines, section 5.1, pages 8 and 9.](#)

²⁸ Section 147 of the Retail Law.

Table 3 – Proportion of customers churned

RoLR event	1 month	2 months	3 months	4 months	5 months	6 months	7 months	8 months	9 months
Pooled	36%	36%	43%	49%	53%	57%	60%	61%	61%
Power club	41%	41%	45%	46%	50%	52%	53%	55%	56%
Social	37%	37%	50%	56%	61%	66%	68%	69%	70%
Elysian	40%	40%	45%	51%	56%	59%	62%	64%	66%
Enova	45%	45%	56%	60%	63%	65%	67%	69%	70%
Mojo	26%	26%	32%	36%	42%	45%	49%	50%	52%
Average	38%	38%	45%	50%	54%	57%	60%	61%	63%

Source: AER analysis derived from Origin’s cost recovery applications

Origin’s approach to revenue

Origin has used DMO benchmarks to estimate revenue in its RoLR cost recovery applications and has applied the following assumptions:²⁹

- Origin has not provided actual revenue per transferred customer but has instead applied the DMO pricing and an average consumption profile per distribution.
- Energy usage and fixed charges for each residential customer have been calculated based on Origin’s mass market portfolio of average DMO rates (i.e., flat and TOU DMO charges) for each network.
- Usage based on assumed SME variable usage rate consistent with the DMO for each respective network.
- Assumed SME fixed daily supply charge consistent with the DMO rate for each respective network.

Origin’s estimated revenue from the transferred customers offsets 69.8% of Origin’s estimation of the equivalent cost to serve these customers.

AER requests for information and Origin’s responses

The AER requested clarification from Origin as to:

- why it was unable to provide actual revenue per transferred customer and had instead applied the DMO pricing and an average consumption profile per distribution zone

²⁹ Origin, RoLR cost recovery application cover letters, various dates.

- whether Origin was offering market contracts below the DMO during the relevant time period, and
- how it would characterise the regulatory and commercial risks it faces through the RoLR scheme, and how it sought to mitigate any such risks.

Why Origin has provided estimated not actual revenue

Origin has provided estimated figures as it considers there would be difficulties compiling the actual revenues for all RoLR event customers as a whole. Origin provided the example that *Origin does not service a bill to occupier or vacant sites*.³⁰ Origin also notes that the NUoS charges align with the reading schedules of the NMI [meter], but this meter reading schedule does not align with customer contract changes. Origin has further explained that a customer contract change from standing to market midway through a read cycle would then mean having to proportion out the consumption and charge costs, and that as such, there is no direct link between NUoS and customer billing. In addition to this, Origin was in the process of migrating customers to a new retail platform during this time.³¹

How Origin characterises and mitigates RoLR scheme risks and costs

- Origin considers there are several commercial risks associated with a RoLR event. Origin's main commercial risk relates to wholesale cost exposure from the inherited customers, and the fact that the load Origin inherits is an unhedged load. To the extent that the wholesale energy cost (**WEC**) allowance within the DMO is equal to or higher than the prevailing spot price at the RoLR event this risk is low/minimal. To the extent that the spot is higher than the WEC there is a risk of revenue shortfall which becomes more pronounced the greater the difference. To mitigate this risk, Origin needs to purchase contracts to reach an optimal portfolio price for this scenario.³²
- Origin noted that each RoLR event results in the RoLR inheriting an unanticipated cluster of customers at a single point in time, and that this results in costs that are not able to be managed as efficiently as they otherwise would have. Origin indicated the challenge Origin faced is progressively optimising the cost of energy of the inherited customers and managing this optimisation as some customers transition onto market contracts.³³ Origin observed that these customers have not been “won” but have been transferred to Origin not by their choice but because of the failure of their chosen retailer. As a result, these customers are less “sticky” than customers who have signed up to Origin by choice. This risk is that Origin establishes an optimal price by purchasing hedges and then a higher percent of these customers switch (compared to voluntary customers). This results in the risk that Origin has contracted more load than what Origin has demand for.

³⁰ Origin, response to RFI-002 dated 30 August 2023.

³¹ Origin, response to RFI-002 dated 30 August 2023.

³² Origin, response to RFI-002 dated 30 August 2023.

³³ Origin, response to RFI-002 dated 30 August 2023.

- Origin tries to manage this risk by offering these customers competitive market offers.³⁴ We asked Origin whether it contacted remaining RoLR customers after three months about moving on to a retail market offer.³⁵ Origin has advised that this was not the case, such that inherited RoLR customers were not proactively contacted to discuss moving on to a retail market offer after three months.
- Origin has advised that it continued to offer market offers [below the DMO] during this time because Origin needed to maintain a market share to target its demand forecast.³⁶

Questions

6. What are your views on the reasonableness of Origin's estimated approach and methodology for quantifying revenue?
7. Are there any other aspects to revenue that the AER should consider?
8. How do you think prudent RoLRs should mitigate risks associated with being a RoLR?

³⁴ Origin, response to RFI-002 dated 30 August 2023.

³⁵ After three months, or earlier upon the agreement of the RoLR, a transferred customer can negotiate a market retail contract with the RoLR (section 147 of the Retail Law).

³⁶ Origin, response to RFI-002 dated 30 August 2023.

5 Wholesale costs claimed by Origin

Wholesale costs are paid by energy retailers for the electricity they provide their customers. These are effectively costs the retailers incurred in the purchase of electricity from the wholesale spot market, and costs associated from hedging against volatility.

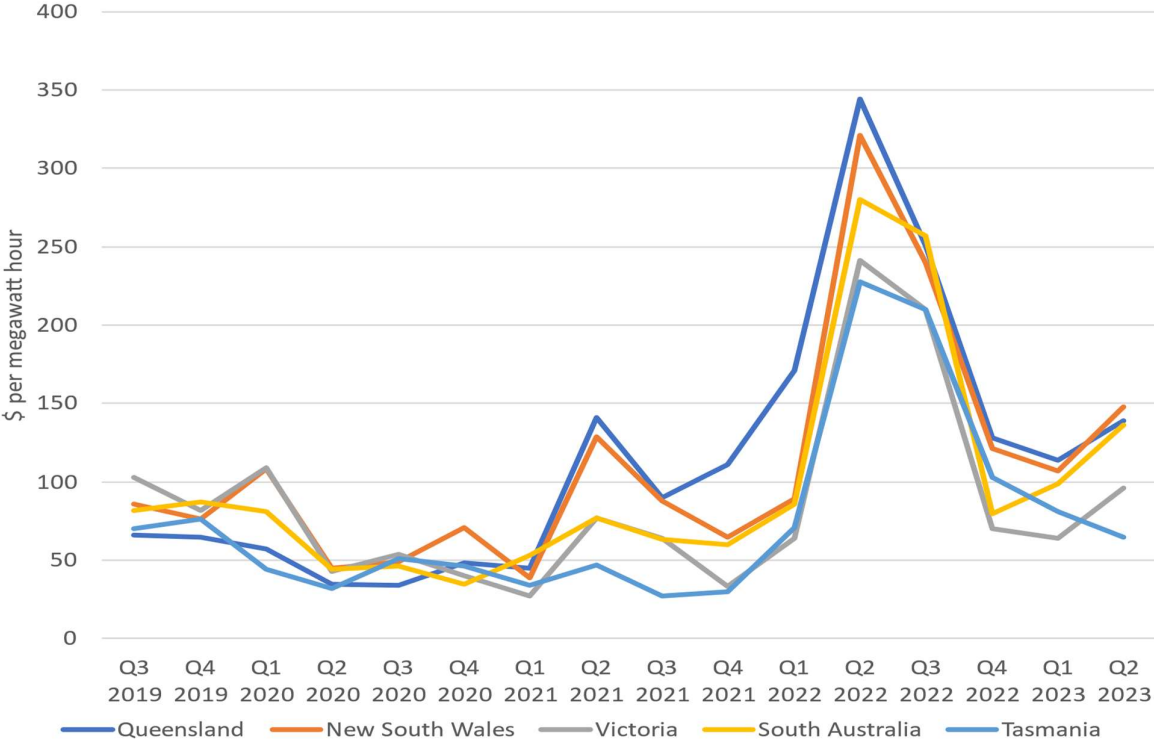
For electricity purchase costs, retailers purchase electricity from the wholesale market at a spot price that is determined by supply and demand conditions. To manage the risk that spot prices may fluctuate, retailers enter into financial contracts (known as hedging contracts or derivatives) that lock in firm prices for the energy they intend to buy in the future. These hedge contracts allow the retailers to manage risk and provide retail contracts to customers at relatively stable prices. A retailer's hedging strategy will depend on its expectations of future spot price outcomes and the load profile of its customers as well as the retailer's willingness to take risks regarding the under or over contracting of its load.³⁷

If a retailer failure occurs at a time of high electricity spot prices, this may increase the cost of hedging the load of the transferred customers beyond the amount that can be recovered from the RoLR's standing offer prices. Where a RoLR faces difficulty in obtaining hedging arrangements at reasonable prices, the RoLR is exposed to wholesale market purchasing risks for its unhedged load.³⁸ Relevantly, we note electricity spot prices were at record highs during the period of Origin's cost claim applications, as per Figure 1 on the next page:

³⁷ [AER, Retailer of last resort cost recovery scheme Issues paper, November 2010](#), page 17.

³⁸ Ibid.

Figure 1 Quarterly volume weighted average electricity spot prices for each region for FY 2019-20 to FY 2022-23



Source: AER analysis using NEM data.

Wholesale costs are the most substantial component of Origin’s RoLR cost claims. When assessing whether wholesale costs are reasonable, including costs associated from hedging against volatility on or after a RoLR event, the AER will assess whether the actions of the designated RoLR in performing its obligations have been prudent and minimised the costs incurred in the circumstances.

Origin, as a highly sophisticated vertically integrated business, has a range of assets including its own generation fleet to provide the ability to “self-hedge” to manage exposure to any volatile wholesale market costs.

Origin’s approach to wholesale costs claimed

Origin has applied the following assumptions approach to claimed wholesale costs:³⁹

- Origin has used a particular starting number of inherited (transferred) customers in respect of each RoLR event (see the ‘Monthly Revenue and Cost’ tab in each of the supporting spreadsheet attachments), as well as monthly actual churn rates.

³⁹ Origin’s cost recovery cover letters, responses to AER requests for information.

- The wholesale cost estimate is calculated using the ASX quarterly baseload electricity futures price as at the RoLR date multiplied by an estimated mass market load weighting factor.⁴⁰ Origin has applied this to the annual average usage by customer segment and multiplied by estimated loss factors to convert to purchased load.
- Origin's methodology hedges the entire anticipated forward load until the end of FY 2022-23 as at the date of the RoLR event. Costs after the date of submission (9 months from the RoLR date) are included since hedging activity would cover anticipated changes in forecast load beyond the period to the date of submission.
- When forecasting *sold electricity retail load*,⁴¹ the estimated shape of demand and pool price capture of mass market customers is incorporated into the position, therefore the load weighting factor should also be considered when estimating the change to the position from inheriting RoLR customers.
- When forecasting mass market [small customer] electricity demand for wholesale hedging purposes, the volumes include the impact of loss factors (purchased volume) and therefore should be applied to the estimated average consumption (which does not include loss factors). In principle, Origin hedges any changes in the forecast load immediately at market rates to manage the portfolio to a target risk position and minimise the exposure to the spot price. Origin considers that using the market price of ASX quarterly futures on the RoLR date is a reasonable estimate for this cost.

Wholesale costs make up 66.6% of Origin's total estimated cost to serve the relevant RoLR customers.

AER requests for information and Origin's responses

The AER requested clarification on why Origin had estimated wholesale costs it had already incurred at the time of the applications rather than quantifying actual costs with greater accuracy. We also sought information around Origin's actual hedging activities in response to the RoLR events, Origin's approach to managing portfolio risk and how each RoLR event affected Origin's target portfolio risk position. We sought information around the extent of Origin 'self-hedging' via its own generation assets, including whether opportunity costs form part of Origin's claims.

We requested Origin explain how and why Origin chose to claim wholesale costs until 30 June 2023, and how the proposed methodology will allow Origin to recover its reasonable wholesale costs more broadly.

Why Origin has provided estimated not actual wholesale costs

Origin has advised that its decision to estimate wholesale costs rather than quantifying actual costs with greater accuracy is based on the nature of managing its portfolio as a whole. Origin

⁴⁰ The load-weighting factor is a ratio comparing the average pool price cost per MWh of supplying a mass market customer using their time-of-day load profile to a flat time weighted average price.

⁴¹ Average annual consumption by customer segment and distribution zone for Origin portfolio.

has stated that: *The complex interplay of various asset types and the relatively small magnitude of change in load make it challenging to attribute actual hedge trades for every movement in load. Consequently, our estimation approach reflects a pragmatic solution that captures the essence of our cost dynamics under changing conditions.*⁴²

Origin considers that its proposed methodology is a reasonable estimation of wholesale costs because it uses a *market-based approach* that represents *the way that a portfolio is actively managed as prudent retailer in response to increasing exposures, consistent with the Default Market Offer and Victorian Default Offer methodologies.*⁴³ The AER notes that Origin's proposed methodology is different to that set out in the DMO.

Origin has further stated:

- *In practice, hedging is done on an ongoing basis and Origin is unable to identify specific hedges relating to the increased customer load for each RoLR event. Any increases in customer load would in principle be hedged as it comes into the portfolio, however in practice this may not be the case. The proposed methodology captures the essence of our cost dynamics under changing conditions by using available market data available at the time of the RoLR events.*⁴⁴

How Origin approached its hedging activities in practice

In response to our queries as to what steps it undertook following each RoLR event to manage its wholesale exposure Origin indicated:

- Due to the nature of Origin's hedging activity which covers many changes in the whole portfolio, and the size of the RoLR events, Origin has stated it is not possible for it to precisely identify the specific hedge contracts purchased and quantify costs incurred for each RoLR event. A key component of Origin's wholesale costs and hedging strategy is forecast customer numbers and forecast demand. Where Origin has campaigns to increase customer numbers or there are exogenous events that Origin observes will have an impact on demand, Origin is able to manage its portfolio accordingly because these often occur over a time period.⁴⁵
- In terms of Origin's hedging strategy, Origin has advised it did not explicitly instruct its trading team to buy hedges to mitigate against the influx of the inherited customers. The decision to refrain from these specific instructions was a result of what Origin describes as its *comprehensive risk management strategy* which allows for *agile decision-making within predetermined risk stress test limits*. This approach ensures that *any adjustments to hedge*

⁴² Origin, response to RFI-002 dated 30 August 2023.

⁴³ Origin, response to RFI-002 dated 30 August 2023.

⁴⁴ Origin, response to RFI-003 dated 16 November 2023.

⁴⁵ Origin, response to RFI-002 dated 30 August 2023.

*positions are made based on real-time market conditions, portfolio dynamics, and risk exposure, ensuring alignment with Origin's overall business objectives.*⁴⁶

- Origin, as a vertically integrated retailer, has the ability to manage risk by 'self-hedging' its own generation. Origin has advised that it manages its wholesale electricity exposures on a portfolio basis, across its retail load, generation assets, and financial positions and that its risk management strategy allows its Portfolio Trading team to maintain open electricity positions within risk stress test limits. Therefore, while the RoLR events led to increased customer load, Origin considers that its existing strategy incorporates flexibility to adapt to changing variables and that any changes made to the hedge positions during RoLR events were consistent with their risk management strategy and risk testing constraints.⁴⁷
- Origin has no specific documentation or evidence relating to purchasing hedges in response to RoLR or similar events.⁴⁸ Origin has said that the influx of RoLR customers did not alter Origin's portfolio position enough to impact risk levels, and therefore did not trigger any action to mitigate.
- Origin uses an internal transfer price between its retail and wholesale generation arms, and advised that RoLR customers were put on the same transfer price as Origin's mass market customers.⁴⁹

On a final note regarding management of risk Origin has stated:

- *Origin's risk management function provides a control framework with risk limits to monitor Portfolio Trading's position. The increased forecast customer load resulting from RoLR events would contribute to the position used by risk management, however, did not lead to any limit breaches resulting in directives to perform specific actions.*⁵⁰

Origin's proposed time horizon

Origin has proposed cost recoveries to extend to the end of 30 June 2023. Origin considers this time horizon for cost recovery is reasonable as it corresponds with the DMO 4 tariff, and that beyond this point, the DMO 5 tariff (for the FY 2023-24) the was not fully fixed at the time of the RoLR events. Origin considers that its approach *seeks to balance cost recovery with market volatility and regulatory frameworks to arrive at a prudent projection.*⁵¹

⁴⁶ Origin, response to RFI-002 dated 30 August 2023.

⁴⁷ AER, request for information (RFI-003) dated 3 November 2023; Origin, response to RFI-003 dated 16 November 2023.

⁴⁸ Origin, response to RFI-002 dated 30 August 2023.

⁴⁹ Emails between the AER and Origin dated 13 February 2024.

⁵⁰ Origin, response to RFI-003 dated 16 November 2023.

⁵¹ Origin, response to RFI-002 dated 30 August 2023.

Opportunity costs

Opportunity cost can be described as the potential foregone revenue from a missed opportunity - the result of choosing one alternative over another. Opportunity costs can be relevant costs for a retailer with respect to the RoLR scheme, such as where a vertically integrated RoLR self-hedges using its internal generation to manage the risk of taking on a load of customers from a RoLR event, but is then constrained in its ability to sell hedges to other retailers or decreases its ability to utilise its uncontracted generation in the wholesale spot market, which results in a lost opportunity in terms of foregone revenue and potentially profit. We consider it would be open to the AER under the RoLR cost recovery framework to consider applications that include claims for opportunity costs.

We therefore asked Origin whether there were any other costs associated with Origin self-hedging, including foregone wholesale spot market or contract revenue. This is because, as discussed above, such foregone revenue may be considered an opportunity cost.

Origin responded as follows

- *The market based methodology of applying the RoLR customer volume estimates to the forward ASX Electricity futures prices should theoretically cover foregone wholesale spot or sold hedge revenue as it takes into account the portfolio as a whole.*⁵²

Upon further enquiry from the AER about whether *foregone wholesale spot or sold hedge revenue* is a claim for opportunity costs, Origin's response was that it was not intended to imply that a more valuable outcome was being included in the claim, rather that: *any changes to the portfolio were considered simply at the prevailing ASX market price at the time and that the Mass Market Load and hedges were being priced at the same rate.*⁵³

We set out below our preliminary views when considering Origin's cost recovery applications through both a direct cost and opportunity cost perspectives. We also pose questions for stakeholders about their views around the circumstances (if any) in which the AER could consider opportunity costs as 'costs that a RoLR incurs', and whether it is appropriate to do so in the circumstances of Origin's applications. Other questions for stakeholders relate to Origin's wholesale costs claimed, more broadly.

AER's preliminary view of Origin's approach to wholesale costs claimed

Direct cost perspective

Our initial starting point for assessing Origin's applications is whether Origin incurred direct costs associated with managing wholesale risk for the transferred customers and whether Origin's methodology is reasonable approximation of those costs, noting that these costs are offset by revenue earned.

⁵² Origin, response to RFI-002 dated 30 August 2023.

⁵³ Origin, response to RFI-003 dated 16 November 2023.

When considering Origin's applications from this perspective, we note that Origin has chosen to base estimated revenue on DMO inputs while at the same time relying solely on ASX quarterly baseload futures products purchased at the time of the RoLR events (rather than wholesale costs used in the DMO) to cover all of the anticipated increase in load from the RoLR customers up until the end of FY 2022-23. This might be thought to imply that Origin faced wholesale costs above what has already been accounted for in the DMO. This may be a reasonable proposition, given the prevailing wholesale electricity spot market conditions at the time of the relevant RoLR events as indicated in Figure 1 above.

However, Origin's methodology of relying solely on ASX quarterly baseload futures products does not appear to align with how it actually manages its load and exposure to wholesale spot market outcomes. There appears to be a lack of evidence that Origin needed to acquire additional hedging contracts in response to the influx of RoLR customers. Origin has stated that the increase in load did not result in any breaches in its risk management functions and no specific hedging occurred due to the increase in load.

Furthermore, Origin placed RoLR customers on the same transfer price as Origin's mass market customers,⁵⁴ and at the same time continued to offer market offers below the DMO to maintain a market share to target its demand forecast.⁵⁵ We understand Origin did so despite the influx of RoLR customers, because the churn rate of RoLR customers could lead to its market share being eroded if it actively stopped marketing for new customers as RoLR customers are less "sticky" than competitively acquired customers.⁵⁶ We consider Origin's approach indicates that Origin did not feel constrained by taking on the inherited RoLR customers.

While Origin has approximated the risk of taking on the additional RoLR customers in terms of load profile, with Origin basing its methodology solely on the purchase of ASX quarterly baseload futures products, our preliminary view is that Origin's approach is likely to be seen as unreasonable. We consider Origin is at risk of overstating any wholesale costs incurred, particularly where it is more likely that Origin used self-hedging to manage the increase in customer load. While we acknowledge that Origin has stated it is not possible for it to precisely identify the specific hedge contracts purchased to quantify costs incurred for each RoLR event,⁵⁷ we consider that it would be more reasonable for Origin, as a sophisticated vertically integrated retailer, to choose the least cost option in response to the influx of RoLR customers. We note that Origin's existing risk strategy already allows portfolio agility and the ability for Origin to self-hedge instead.

Opportunity cost perspective

The AER's preliminary view is that, in the current circumstances, it is open to the AER to consider Origin's application to include opportunity costs as 'costs that Origin incurs', noting this would be offset by revenue earned. This is because (as discussed above), Origin is likely to have self-

⁵⁴ Emails between the AER and Origin dated 13 February 2024.

⁵⁵ Origin, response to RFI-002 dated 30 August 2023.

⁵⁶ Origin, response to RFI-002 dated 30 August 2023.

⁵⁷ Origin, response to RFI-002 dated 30 August 2023, Origin, response to RFI-003 dated 16 November 2023.

hedged to manage the increase in load from the 12,749 inherited RoLR customers. This self-hedging may have constrained its ability to sell hedges to other retailers or obtain spot revenue from uncontracted generation capacity, and may therefore amount to a lost opportunity in terms of foregone revenue. Alternatively, Origin may have foregone an opportunity to sell third party hedges it had acquired earlier.

We note, however, that Origin has not pointed to a specific intent or foregone opportunity, other than noting that its methodology theoretically covers foregone wholesale spot or sold hedge revenue as it takes into account the portfolio as a whole. Further, Origin continuing to actively seek customers via offering market offers below DMO may point against Origin having an intention to maximise revenue from wholesale opportunities.

Origin's methodology of ASX quarterly baseload futures products at the time of each RoLR event may be considered a reasonable approach from an opportunity cost perspective. This is because an opportunity for Origin to sell ASX futures may have been foreclosed or reduced at the point of the RoLR event (that is, when Origin became aware it was taking on unexpected customers). However, this would depend upon whether Origin had uncontracted generation it was willing to sell hedges against. Further, in practice, Origin may not have sold such hedges until a later time (when the ASX futures price may have been lower).

Questions

9. In what circumstances (if any) could the AER consider opportunity costs as 'costs that a RoLR incurs' (and therefore include them as a RoLR cost claim category)? Do you think it is appropriate to consider opportunity costs in the circumstances of Origin's applications?
10. What are your views on the reasonableness of Origin's claimed estimated wholesale costs and methodology in the context of a: 1) direct cost perspective and 2) foregone revenue, opportunity cost perspective?
11. What are your views on the reasonableness of Origin relying solely on ASX quarterly baseload futures products being purchased, at the time of the RoLR event, to cover all of the anticipated increase in load resulting from the RoLR customers up until the end of FY 2022-23 in the context of a: 1) direct cost perspective and 2) foregone revenue, opportunity cost perspective?
12. What steps do you expect a prudent RoLR to take to minimise wholesale cost exposure? What evidence do you consider is required to underpin estimated wholesale costs in any context?

6 Administrative costs claimed by Origin

Determining whether Origin's administrative costs are reasonable will depend on whether they were reasonably incurred in connection with the RoLR events. RoLRs are likely to incur a range of administrative costs that are above normal business expenditure. Administrative costs should be minimised ideally by being implemented using existing systems, and the approach should be as simple as possible and practical to implement.⁵⁸

Origin has stated that each of the RoLR events has led to additional costs of integrating the inherited customers into Origin's customer and billing systems. Origin's administrative costs claims are regarding customer establishment costs:

- Communications with customers (i.e., actual postage stamp costs), and
- Offshore full-time equivalent (**FTE**) labour costs (estimated) in respect of manually entering customer details into Origin's SAP (customer relationship) system.

Origin applied the following assumptions:⁵⁹

- Where a customer has churned between the RoLR event and when all customer information had been received and loaded into Origin's billing system, Origin has not sought to recover these costs from the customer but has included these as part of [each] application.
- Variable offshore daily labour rates based on estimated monthly contract fees, and estimated hours taken to integrate the inherited customers into Origin's customer and billing systems.

Administrative costs are 0.3% of Origin's total estimated cost to serve the relevant RoLR customers.

Origin's reduced administrative costs claims

Origin had originally included claims for labour costs for data analysts, business analysts and leadership costs, but Origin subsequently removed those cost claims following AER enquiries. Origin removed claims for labour costs for data analysts, business analysts and leadership costs due to challenges in presenting conclusive evidence regarding specific time devoted to each activity – given the collaborative nature of the work, where multiple resources contribute to the tasks as part of their business-as-usual responsibilities. Origin further stated that comprehensive recording of time spent on each task was not consistently maintained, making it difficult to precisely quantify the specific time dedicated to each activity. The administrative cost claims remaining are for customer establishment costs, being for actual postage stamps and estimated offshore labour costs.

Question

13. What are your views on the reasonableness of Origin's claimed administrative costs?

⁵⁸ [AER, Retailer of last resort cost recovery scheme Issues paper, November 2010](#), page 10.

⁵⁹ See Origin's cost recovery application cover letters, supporting attachments.

7 Other costs - network and environmental costs

Origin's approach to network costs claimed

Distributors charge network tariffs to retailers for their customers' use of transmission and distribution systems, comprised of distribution use of system (**DUoS**) and transmission use of system (**TUoS**) charges, as well as jurisdictional charges. These charges are often collectively referred to as NUoS tariffs, though in this consultation paper we will simply refer to them as network costs.

The fixed NUoS component for a standing offer does not change but the variable NUoS component depends upon a given customer's consumption. Origin has used the DMO average consumption profile per distribution zone to estimate variable NUoS charges, rather than providing actual charges. Origin has advised that network costs did not exceed revenue recoverable therefore Origin is not seeking network costs beyond what the DMO provided for.

Origin's network costs make up 29.02% of its total estimated cost to serve the relevant RoLR customers.

Origin's approach to environmental costs claimed

Environmental costs typically constitute 5-15% of electricity bills and are derived from the direct costs of government schemes like the renewable energy target.

While environmental costs depend upon the actual consumption of the transferred customers, Origin has instead used the DMO average consumption profile, by customer segment and distribution zone, instead of providing actual environmental costs of the transferred customers.

Origin has also stated that the cost of the additional renewable energy target certificates required estimations using averaged trade weighted market prices of the certificates for the month of the RoLR event multiplied by the additional certificates required.

The AER notes that Origin appears to be claiming a proportion of environmental costs beyond that which are recoverable from the DMO. However, similar to wholesale costs, we also note that Origin's claimed environmental costs could be viewed as either a direct cost or opportunity cost claim.

Origin's environmental costs make up 4.4% of its total estimated cost to serve the relevant RoLR customers.

Why Origin has provided estimated environmental costs

The AER requested clarification from Origin, its approach to environmental costs, as well as why Origin cannot provide actual environmental costs. Origin indicated it would have difficulties compiling actual environmental costs, similar to the difficulties it faced that meant it was unable to provide actual revenues of all RoLR event customers. In particular, Origin stated that the reading

schedule of customer meters does not align with customer contract changes. In addition, Origin was in the process of migrating customers to a new retail platform during this period.⁶⁰

As to why Origin considers its methodology and estimate to be reasonable in respect of the environmental costs claimed, Origin stated:

- *The RoLR events have resulted in an increase in Origin's obligation to purchase and surrender renewable energy certificates. By using a market price at the time of the RoLR event, it reflects the cost of managing the increased liability resulting from the RoLR events.*⁶¹

AER's preliminary view of Origin's approach to environmental costs claimed

Similar to our approach to wholesale costs, our initial starting point in assessing Origin's environmental costs claimed is whether Origin required any additional renewable energy certificates for the transferred customers and, if so, whether Origin's methodology is a reasonable approximation of the cost of doing so, noting that environmental costs are offset by an allowance in the DMO.

Origin's methodology utilises, for each relevant certificate class, a single price derived from averaged trade weighted prices for that certificate class during the month of the RoLR event. Origin has a range of off-take agreements with renewable energy providers, and is Australia's leading installer of small scale solar energy systems.⁶² Whether Origin's methodology is reasonable involves an assessment of:

- the other options available to Origin, and
- whether the month of the relevant RoLR event is a reasonable time horizon to utilise to derive an average certificate price when compared to the DMO allowance.

As with wholesale costs, we consider Origin's applications could be viewed as an opportunity cost claim. In particular, Origin may have foregone revenue where Origin was constrained in its ability to sell renewable energy certificates, as Origin may have utilised certificates generated through its renewable energy (wind and solar) activities to self-manage the influx of the inherited RoLR customers.

Questions

14. What are your views on the reasonableness of Origin's claimed estimated network costs?
15. What are your views on the reasonableness of Origin's claimed estimated environmental costs in the context of a: 1) direct cost perspective and 2) foregone revenue, opportunity cost perspective?

⁶⁰ Origin, response to RFI-002 dated 30 August 2023.

⁶¹ Origin, response to RFI-002 dated 30 August 2023.

⁶² Origin website, <https://www.originenergy.com.au/about/who-we-are/what-we-do/renewable-energy/>

8 Costs borne by Origin

One of the guiding principles of the legal framework⁶³ states that the registered RoLR will itself bear some of the costs, in proportion to its customer base. The AER RoLR Guidelines requires cost recovery applications to specify any RoLR scheme costs the RoLR is bearing and why it considers these costs are proportionate to its customer base.⁶⁴

Origin considers that a regulatory regime that regulates costs ought to apply the principle of the recovery of efficient costs, and has claimed that arguments around the benefits of allocative efficiency⁶⁵ are well understood.⁶⁶ Origin noted notwithstanding this, the Retail Law requires the RoLR to bear some of the costs when making an application for cost recovery, but does not provide guidance on how this proportion of costs is to be calculated.⁶⁷

In the absence of this guidance, Origin considers the guiding principle ought to be the cost a retailer incurs in competing for a customer in a contestable retail market - customer acquisition costs. In calculating costs borne per customer, Origin proposed applying the benchmark allowance for customer acquisition and retention costs (**CARC**) determined by the ESCV in its 2022-23 Victorian Default Offer decision, being \$41.01 per customer (excluding GST).⁶⁸ The AER observes that while the AER-determined DMO includes customer acquisition and retention costs in its methodology, it is bundled with other retailer costs.

The ESCV's CARC allowance accounts for around 3 per cent of costs for the average residential bill (averaged across the five distribution zones). The ESCV stated CARC includes the costs of acquisition channels (such as third-party comparison websites and service providers), retention teams, and marketing costs targeted at driving customer acquisition or retention.⁶⁹ The benchmark was initially established based on cost levels from an Australian Competition and Consumer Commission retail electricity pricing inquiry final report.⁷⁰

Origin has stated in the covering letters of its cost recovery applications that it believes applying the ESCV benchmark figure of \$41.01 to Origin's inherited customers provides a transparent objective calculation.

We note that the legal framework does not specify what costs the RoLR should bear or their quantum. While Origin's proposed approach reflects a relevant independent benchmark, we note

⁶³ Section 166(7)(c) of the Retail Law.

⁶⁴ [AER RoLR Guidelines, section 5.1, page 9.](#)

⁶⁵ Allocative efficiency refers to the optimal distribution of goods in an economy to meet the needs and wants of society. Allocative efficiency is reached when no one can be made better off without making someone else worse off. This is known as Pareto efficiency / optimality.

⁶⁶ Origin, RoLR cost recovery application cover letters, various dates.

⁶⁷ Ibid.

⁶⁸ [Essential Services Commission, Victorian Default Offer, Final Decision 2022-23](#), page 27. Origin, RoLR cost recovery application cover letters, various dates.

⁶⁹ Ibid.

⁷⁰ [Australian Competition and Consumer Commission, Retail Electricity Pricing Inquiry: Final report, July 2018.](#)

that, under this approach, a RoLR with a small customer base would bear the same amount of costs as a RoLR with a large customer base for the same amount of transferred customers. In other words, the approach does not appear to factor in the size of Origin's customer base. As such, it is necessary to consider whether Origin's approach reflects the principle that Origin bear some of the costs in proportion to its customer base.

Origin's proposed costs to be borne by Origin make up 1.9% of its total estimated cost to serve the relevant RoLR customers.

Why Origin has used a customer acquisition cost methodology

The AER requested Origin further substantiate its approach, particularly requesting details as to how Origin considers that the costs borne by Origin are proportionate to its size when it appears that a similar approach by a smaller RoLR would bear the same costs per customer transferred.

Origin pointed to the Retail Law guiding principle that costs to be borne by the retailer has no counterfactual or point of reference. For any value Origin used, if a smaller retailer used the same approach, they would bear the same costs as Origin. It follows that because there is no available information showing Origin what a smaller RoLR has actually done in the circumstances, Origin does not have a reference point to objectively compare to Origin's proposal.⁷¹

Origin also stated that while the default retailer has an ongoing obligation to maintain a RoLR plan and associated processes and system capability, it receives no ongoing recompense for maintaining this capability. In effect, a RoLR offers an insurance role for customers of failed retailers, however, there is no ongoing premium paid to a RoLR for this insurance provision. In making the trade-off between costs and benefits striking the right balance, it is important the AER support a consistent and transparent approach so as not to discourage non-default retailers from registering with the AER to become a designated RoLR in future.⁷²

Origin believes its approach to cost sharing:

- takes account of reasonable risks and costs associated with the provision of RoLR services.
- is simple, understandable and ensures that Origin absorbs a fair cost but also recovers the reasonable costs Origin incurred to provide the RoLR service.⁷³

Question

16. How does Origin's approach aligns with the principle⁷⁴ that the registered RoLR will itself bear some of the costs, in proportion to its customer base?

⁷¹ Origin, response to RFI-002 dated 30 August 2023.

⁷² Origin, response to RFI-002 dated 30 August 2023.

⁷³ Origin, response to RFI-002 dated 30 August 2023.

⁷⁴ Section 166(7)(c) of the Retail Law.

9 RoLR cost recovery scheme distributor payment determination

As part of its determination on the RoLR cost recovery scheme, the AER must include a determination that one or more distributors make payments to the RoLR towards the costs of the scheme (the distributor payment determination).⁷⁵

The distribution determination or access arrangement (as applicable) of each distributor is then taken to be amended so that any payments the distributor makes to the RoLR are taken to be, in the case of electricity, positive pass through amounts approved under rule 6.6 of the National Electricity Rules. These arrangements allow the distributor to recover its payments to the RoLR from all retailers through its network charges.⁷⁶

Cost recovery scheme method proposed by Origin

Origin has proposed a distributor payment determination method which involves costs being socialised across the entire relevant distribution network customer bases. Origin has stated that this would result in low costs to individual customers as the costs are shared across a larger number of customers.⁷⁷

In proposing this cost recovery method, Origin has referred to various parts of the AER RoLR Statement of Approach, particularly that:

- Cost recovery should not result in onerous price shocks for small customers, as this may present hardship issues for some customers, therefore a distributor payment determination is generally considered more appropriate than upfront fees.⁷⁸
- The AER considers the RoLR scheme benefits all energy market participants by providing market integrity and security following a RoLR event. Thus, the AER considers it appropriate that cost recovery extends beyond just the customers of the failed retailer.⁷⁹
- Consistent with the need to prevent significant price shocks for small customers, cost recovery should occur over the largest customer base which is appropriate to the RoLR event.⁸⁰ Section 167(1) of the Retail Law provides for the spreading of the RoLR scheme costs of a RoLR event through the distributor payment determination.⁸¹

⁷⁵ Section 167 of the Retail Law.

⁷⁶ [AER, Retailer of last resort cost recovery scheme Issues paper, November 2010](#), page 13.

⁷⁷ Origin, RoLR cost recovery application cover letters, various dates.

⁷⁸ AER RoLR Statement of Approach, page 19.

⁷⁹ AER RoLR Statement of Approach, page 19.

⁸⁰ AER RoLR Statement of Approach, page 20.

⁸¹ AER RoLR Statement of Approach, page 18.

Table 4 sets out the indicative costs estimated per distributor

Distributor	Customers transferred in network	Estimated cost	Total residential customers in network	Estimated cost per residential customer (\$)
Endeavour	700	\$303,850.19	959,048	\$0.32
Energex	1,078	\$467,929.30	1,402,509	\$0.33
Ergon	2,044	\$887,242.56	647,875	\$1.37
Essential ⁸²	5,028	\$2,182,512.53	771,827	\$2.83
SAPN	1,133	\$491,803.24	807,990	\$0.61
Grand Total	9,983⁸³	\$4,333,337.82	4,589,249	

Source: AER analysis derived from Origin's cost recovery applications

The proposed approach by Origin is of a distributor payment determination method which involves costs being socialised across the entirety of the five relevant distribution network customer bases, in proportion to the number of RoLR customers transferred into each network (as indicated in the table above).

While the AER Statement of Approach indicates that an upfront fee may be imposed on the transferred small customers of a failed retailer in certain circumstances,⁸⁴ our view is that costs the subject of Origin's claims should be recovered by spreading the cost across the entire relevant distribution network customer bases. Only in exceptional circumstances would we determine that costs would not be recovered in this manner. A question for stakeholders is whether it would be reasonable to socialise costs based on the number of customers in those networks, or whether it should be equally recovered from each distribution area.

Question

17. What are your views on the proposed approach by Origin of a distributor payment determination method which involves costs being socialised across the entirety of the five relevant distribution network customer bases, based on the number of customers in those networks?

⁸² The AER notes that the most impacted customers are in the Essential Energy distribution zone, which is located in East New South Wales. Parts of this area have been subject to major flooding in parts of the region across 2022 and 2023, thus those customers may be experiencing vulnerability.

⁸³ This number has been reduced from the 12,749 RoLR customers that were initially transferred, to allow for customers who churned away from Origin to a different retailer within the first month.

⁸⁴ AER RoLR Statement of Approach, page 19.

Shortened forms

Terms	Definition
AEMC	Australian Energy Market Commission
AER	Australian Energy Regulator
AER RoLR Guidelines	guidelines published and maintained by the AER, as required under the Retail Law
AER RoLR Statement of Approach	general non-binding guidance published by the AER on its approach to applying the principles set out in the Retail Law that the AER must be guided by when making its decision on RoLR applications
ASX	Australian Securities Exchange
CARC	customer acquisition and retention costs
Distributor	the relevant Distribution Network Service Provider
DUoS	Distribution Use of System tariffs
EoI	Expression of Interest
ESCV	Essential Services Commission (Victoria)
FTE	full-time equivalent
GST	good and services tax
MWh	megawatt-hour
NEL	National Electricity Law
NER	National Electricity Rules
NGL	National Gas Law
NGR	National Gas Rules
NMI	National Meter Identifier
NuoS	Network Use of System tariffs
Origin	means Origin Energy Electricity Limited (ACN 071 052 287)
OTC	over-the-counter
Retail Law	National Energy Retail Law
RoLR	Retailer of Last Resort
Six certain RoLR events	the six RoLR events from 2022 the subject of Origin's cost recovery claims, being: Pooled Energy; Enova Energy, Power Club; Mojo Power East, Social Energy and Elysian Energy
SME	small-to-medium enterprise
ToU	Time of Use
TUoS	Transmission Use of System tariffs
WEC	Wholesale energy costs, being the costs retailers incur to purchase electricity

Annexure A – detailed quantitative breakdown of cost categories across each of Origin’s cost recovery claims

RoLR events / Cost categories	Pooled	Power Club	Social	Elysian	Enova	Mojo East	Amount claimed across all six RoLR events
Revenue*	\$128,222.12	\$447,614.68	\$147,099.23	\$1,118,668.27	\$8,641,435.16	\$235,799.28	\$10,718,838.74
Wholesale costs	\$117,745.31	\$459,430.64	\$124,297.05	\$995,826.77	\$8,278,995.70	\$243,680.12	\$10,219,975.59
Network costs	\$43,169.06	\$181,149.02	\$60,556.01	\$445,690.24	\$3,627,848.05	\$94,902.94	\$4,453,315.32
Environmental costs	\$9,391.12	\$25,769.98	\$8,773.29	\$78,817.36	\$530,352.66	\$15,307.68	\$668,412.09
Admin costs	\$1,311.78	\$1,699.85	\$0	\$182.85	\$1,564.22	\$330.84	\$5,089.54
Total costs	\$171,617.27	\$668,049.90	\$193,626.35	\$1,520,517.22	\$12,438,760.63	\$354,221.58	\$15,346,792.95
RoLR costs quantified**	\$43,395.15	\$220,434.22	\$46,527.115	\$401,848.95	\$3,797,325.38	\$118,421.85	\$4,627,952.67
Costs borne by Origin	\$3,731.91	\$7,586.85	\$6,151.50	\$38,098.29	\$232,280.64	\$6,766.65	\$294,615.84
Net claim	\$39,663.24	\$212,848.37	\$40,375.61	\$363,750.66	\$3,565,044.74	\$111,655.20	\$4,333,337.82

Source: AER analysis derived from Origin’s cost recovery applications.

* The revenue Origin attributes to the customers transferred from the RoLR events

** 'RoLR costs quantified' is 'Total costs' less 'Revenue'.

Annexure B – summary of questions

Throughout this consultation paper we set out 17 questions in relation to Origin’s proposed approach and methodology in its six cost recovery applications. We have also included questions asking stakeholders how they consider the three Retail Law principles⁸⁵ the AER must be guided by when making its decision on the RoLR’s application should be applied.

Questions we are particularly interested to hear stakeholder views on are listed together in Table 5 and provided as relevant throughout this paper. In responding to these questions, please provide reasoning to support your position. We also invite general feedback from stakeholders more broadly, regarding any other matters stakeholders would like the AER to consider in making the determination.

If the AER receives submissions that articulate consumer preferences and provide evidence and analysis, our decision-making process is strengthened.

Table 5: Questions for feedback and consultation

Question 1: What do stakeholders understand each of the three Retail Law guiding principles to mean, and how do you think they should be applied to Origin’s cost recovery applications?
Question 2: How do stakeholders consider each of the three Retail Law guiding principles interact?
Question 3: How should the AER apply the National Energy Retail Objective in relation to Origin’s RoLR cost recovery applications? (To assist stakeholders with this question, you may wish to consult the AER’s Guidance note on amended National Energy Objectives, September 2023).
Question 4: What are your views on the reasonableness of Origin taking an estimated (approximated) costs approach to the majority of its cost claim categories?
Question 5: What are your broader views of Origin’s approach to its RoLR cost recovery applications?
Question 6: What are your views on the reasonableness of Origin’s estimated approach and methodology for quantifying revenue?
Question 7: Are there any other aspects to revenue that the AER should consider?
Question 8: How do you think prudent RoLRs should mitigate risks associated with being a RoLR?
Question 9: In what circumstances (if any) could the AER consider opportunity costs as ‘costs that a RoLR incurs’ (and therefore include them as a RoLR cost recovery category)? Do you think it is appropriate to consider opportunity costs in the circumstances of Origin’s applications?

⁸⁵ Section 166(7) of the Retail Law.

<p>Question 10: What are your views on the reasonableness of Origin’s claimed estimated wholesale costs and methodology in the context of a: 1) direct cost perspective and 2) foregone revenue, opportunity cost perspective?</p>
<p>Question 11: What are your views on the reasonableness of Origin relying solely on ASX quarterly baseload futures products being purchased, at the time of the RoLR event, to cover all of the anticipated increase in load resulting from the RoLR customers up until the end of FY 2022-23 in the context of a: 1) direct cost perspective and 2) foregone revenue, opportunity cost perspective?</p>
<p>Question 12: What steps do you expect a prudent RoLR to take to minimise wholesale cost exposure? What evidence do you consider is required to underpin estimated wholesale costs in any context?</p>
<p>Question 13: What are your views on the reasonableness of Origin’s claimed administrative costs?</p>
<p>Question 14: What are your views on the reasonableness of Origin’s claimed estimated network costs?</p>
<p>Question 15: What are your views on the reasonableness of Origin’s claimed estimated environmental costs in the context of a: 1) direct cost perspective and 2) foregone revenue, opportunity cost perspective?</p>
<p>Question 16: How does Origin’s approach aligns with the principle⁸⁶ that the registered RoLR will itself bear some of the costs, in proportion to its customer base?</p>
<p>Question 17: What are your views on the proposed approach by Origin of a distributor payment determination method which involves costs being socialised across the entirety of the five relevant distribution network customer bases, based on the number of customers in those networks?</p>

⁸⁶ Section 166(7)(c) of the Retail Law.

Annexure C – relevant provisions

Annexure A sets out the relevant provisions and excerpts from the Retail Law, AER RoLR Guidelines and AER Statement of Approach:

Retail Law Division 9⁸⁷

164—Operation of this Division, schemes and determinations

This Division and a RoLR cost recovery scheme under this Division have effect despite anything in the following:

- (a) the NEL and NER;
- (b) the NGL and NGR;
- (c) any distribution determination;
- (d) any applicable access arrangement.

165—RoLR cost recovery

A registered RoLR (including but not limited to a designated RoLR) cannot recover costs incurred in relation to the RoLR scheme except in accordance with a RoLR cost recovery scheme determined under this Division.

166—RoLR cost recovery schemes

- (1) The AER must, on application by a registered RoLR, determine a RoLR cost recovery scheme for the RoLR.
- (2) The application must be in the form and contain the information specified in the AER RoLR Guidelines.
- (3) A RoLR cost recovery scheme is a scheme designed for the recovery by the RoLR of costs incurred by the RoLR in relation to the RoLR scheme, including—
 - (a) in the case of a default RoLR only—costs incurred in preparing for RoLR events; and
 - (b) in the case of a designated RoLR only—costs incurred on and after a RoLR event, including—
 - (i) costs paid to an insolvency official of a failed retailer in respect of anything done under this Part; and
 - (ii) costs paid to a distributor by the RoLR for service orders and not recoverable from the customers concerned or from the failed retailer

Notes—

⁸⁷ [National Energy Retail Law](#).

1 Regarding subparagraph (i) above, see section 171.

2 Regarding subparagraph (ii) above, section 141(7) deals with the case where a customer has paid the failed retailer for a service order and the order has not been completed as at the transfer date.

- (4) The AER may, after receipt of an application made under subsection (1), request from the retailer such additional information as the AER considers reasonably necessary for it to determine the application. The retailer must comply with any such request.
- (5) The AER must publish on its website a notice of the application. A notice published pursuant to this subsection must invite submissions on the application within a specified period of at least 20 business days.
- (6) The AER must decide whether to grant or refuse the application.
- (7) The AER must, when making its decision on the application, be guided by the following principles:
 - (a) the registered RoLR should be provided with a reasonable opportunity to recover the reasonable costs that it incurs with respect to the RoLR scheme;
 - (b) the recovery of costs should allow for a return commensurate with the regulatory and commercial risks with respect to the RoLR scheme;
 - (c) the registered RoLR will itself bear some of the costs, in proportion to its customer base.

Note— The AER must also have regard to the national energy retail objective.

- (8) The AER may, in determining a RoLR cost recovery scheme, limit either generally or in particular cases or classes of cases the costs (and the amount of those costs) that are recoverable.
- (9) Without limitation, the AER's determination of a RoLR cost recovery scheme may, so far as it relates to or affects tariffs payable by customers, differ between customers and classes of customers.
- (10) The AER must publish a copy of its decision on its website.

167—RoLR cost recovery scheme distributor payment determination

- (1) The AER must, as part of its determination with respect to a RoLR cost recovery scheme under this Division and after consultation with the distributor or distributors concerned, make a determination (a RoLR cost recovery scheme distributor payment determination) that one or more distributors are to make payments towards the costs of the scheme.
- (2) A RoLR cost recovery scheme distributor payment determination is taken to be both a regulatory change event and a positive change event for the purposes of the NER.
- (3) Distributors are required to make payments to a RoLR in accordance with their liability under a RoLR cost recovery scheme distributor payment determination.
- (4) The distribution determination or applicable access arrangement (as the case may be) of each distributor who is to make payments under a RoLR cost recovery scheme distributor payment determination is taken to be amended so that any payments the distributor so makes are taken to be—
 - (a) in the case of electricity—positive pass through amounts approved under the NER; or

(b) in the case of gas—approved cost pass throughs allowing variation of the distributor's reference tariffs.

- (5) Notwithstanding any other provision of this Division, if a designated RoLR (other than a default RoLR) agrees with the AER that it will seek to recover no costs or only a particular figure or percentage of its costs, the designated RoLR may not afterwards seek to recover any more than as agreed.

Note— See also section 133(2).

- (6) Section 23(5) does not apply to a retailer in respect of a variation of its standing offer prices as a result of a RoLR cost recovery scheme.

168—Amendment of schemes and determinations

A RoLR cost recovery scheme or a RoLR cost recovery scheme distributor payment determination may be amended by determination of the AER—

- (a) on application by, or after consultation with, the registered RoLR and after consultation with the distributors who are or will be affected; or
- (b) on application by a distributor who is or will be affected and after consultation with the registered RoLR and other distributors who are or will be affected.

National energy retail objective⁸⁸

“To promote efficient investment in, and efficient operation and use of, energy services for the long term interests of consumers of energy with respect to:

- a. price, quality, safety, reliability and security of supply of energy; and
- b. the achievement of targets set by a participating jurisdiction—
- i. for reducing Australia's greenhouse gas emissions; or
- ii. that are likely to contribute to reducing Australia's greenhouse gas emissions.”

AER RoLR Guidelines⁸⁹

1 Introduction

1.1 Purpose of RoLR guidelines

...

1.1.4 The guidelines may (without limitation):⁹⁰

- specify the form of and information to be included in a RoLR register expression of interest (Eoi);

⁸⁸ Section 13 of the Retail Law.

⁸⁹ [AER RoLR Guidelines, November 2011.](#)

⁹⁰ Section 135(5) of the Retail Law.

- specify the form and information to be included in an application for a RoLR cost recovery scheme; and
- provide for any other matter the AER considers necessary with respect to the RoLR scheme.

1.1.5 The AER may amend the guidelines in accordance with the retail consultation procedure.⁹¹

...

5 The form of information to be included in an application for a RoLR cost recovery scheme

5.1 Information to be included in an application for a RoLR cost recovery scheme

A RoLR cost recovery scheme application must contain the following information:

- The quantum of costs incurred by the RoLR in relation to the RoLR scheme:
 - for default RoLRs, in preparing for a RoLR event; or
 - for designated RoLRs, costs incurred on and after a RoLR event, which the RoLR is seeking to recover.

For RoLR scheme costs incurred on and following a RoLR event, a RoLR may include costs which have not been incurred but have already been identified and quantified. For default RoLR scheme preparation costs, a RoLR may include estimates of the quantum of costs it will incur.
- A breakdown of the quantum of costs by type.
- For each cost type, supporting documentation which verifies the incurred cost.
- For each cost type, reasons or supporting documentation as to why the costs incurred can be considered reasonable in accordance with s. 166(7) of the Retail Law. For RoLR scheme costs incurred in preparing for a RoLR event, a RoLR must provide supporting documentation showing how such costs have been incurred due to the retailer's responsibilities as a default RoLR. Further, if the preparation costs provided are estimates, a RoLR must provide information explaining on what basis the cost estimates have been made.

The benefits of the customers transferred from the failed retailer to the RoLR. This requires quantification of:

- the revenue expected from the transferred customers; and
- the 'business as usual costs' relating to the transferred customers. Business as usual costs are non-RoLR scheme costs incurred relating to the supply of energy to transferred customers.
- A RoLR must provide information explaining on what basis the revenue and 'business as usual costs' have been quantified (including the basis on which any estimates have been made).

⁹¹ Section 135(6) of the Retail Law.

- The number of customers who have been transferred from the failed retailer to the designated RoLR that have transferred away since the RoLR event.
- Any other information which the RoLR considers may assist the AER in assessing benefits.
- The return proposed by the RoLR and reasons why such a return is consistent with s. 166(7)(b) of the Retail Law.
- The proposed cost recovery mechanism, or combination of cost recovery mechanisms, to recover the RoLR's costs.
- If a combination of cost recovery mechanisms is proposed, details of what proportion of costs and/or types of the RoLR costs which each cost recovery mechanism will recover.
- If the RoLR cost recovery scheme application proposes to recover costs or a proportion of the costs through the distributor payment determination, the proposed quantum of the distributor payment, the timing of the payments and the distributors from which the RoLR proposes to recover its costs and if applicable, the proposed apportionment of the distributor payment among the proposed distributors (including the methodology used to allocate costs between distributors).
- If the RoLR cost recovery scheme application proposes to recover costs or a proportion of the costs through a retail tariff variation, the details of the proposed retail tariff variation, including the classes of customers which the tariff variation will affect.
- If the RoLR cost recovery scheme application proposes to recover the costs or a proportion of the costs through an upfront fee, the proposed quantum of the upfront fee, the classes of customers to which the fee is applied and when the fee will be charged.
- If the RoLR cost recovery scheme proposes any other cost recovery mechanism, the details of the cost recovery mechanism, including the classes of customers affected by the cost recovery mechanism and the timing of recovery under the mechanism.
- Any RoLR scheme costs the RoLR is bearing and why it considers these costs are proportionate to its customer base in accordance with s. 166(7)(c) of the Retail Law.

5.2 Form of application for a RoLR cost recovery scheme

The form of the RoLR scheme costs information in a RoLR cost recovery scheme application must conform to the pro-forma template attached at Appendix D of the guidelines.⁹²

6 Matters which the AER considers necessary with respect to the RoLR scheme

6.1 Time limits on RoLR cost recovery scheme applications

6.1.1 An application for the recovery of costs incurred in relation to the RoLR scheme in preparing for RoLR events must be submitted within nine months of being appointed a default RoLR under the Retail Law. For default RoLRs appointed before the commencement of the Retail Law (i.e. as part of transitional jurisdictional arrangements) the nine month time limit is taken to start on the commencement date of the Retail Law in the relevant jurisdiction.

⁹² [RoLR cost recovery guidelines pro forma template.](#)

6.1.2 An application for the recovery of RoLR scheme costs in relation to costs incurred on and after a specific RoLR event must be submitted within nine months of being appointed a designated RoLR for the specific RoLR event.

6.2 Ex-post recovery of costs incurred on and after a RoLR event

Recovery of RoLR scheme costs incurred on and after a RoLR event is only to occur on an ex-post basis. That is, such RoLR scheme costs can only be recovered after the specific RoLR event occurs and the RoLR scheme costs have been quantified.

6.3 Non-assessment of RoLR cost recovery scheme applications which do not conform to the requirements in RoLR guidelines

An application for a RoLR cost recovery scheme which does not conform to the information and form requirements in the guidelines, may not be assessed by the AER until it is submitted in the form prescribed in s. 5 of the guidelines.