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Australian Energy Regulator

Via email: aerrolr@aer.gov.au

Essential Energy submission to Origin Energy's Retailer of Last Resort Cost Recovery Application

Essential Energy welcomes the opportunity to provide feedback to the Australian Energy Regulator's ("AER's") consultation paper ("the paper") on Origin Energy's application for cost recovery as part of six Retailer of Last Resort ("RoLR") events that took place in 2022. We have set out below our high level feedback to the paper.

Use of estimated values

Essential Energy in recent years has unfortunately been in the position of needing to pass through additional costs to customers, as a result of unforeseen events such as natural disasters and licence condition changes. As a regulated network, there were no other avenues available to recover these unforeseen costs. The process of consultation with customers, stakeholders and the AER was extensive, and the costs submitted subjected to a rigour of line by line analysis, such that it was evident that any costs being included were justified, prudent and efficient.

Essential Energy suggests that the actual billing data for the additional customers should be readily available and that as a sophisticated energy market participant, Origin Energy would be expected to have a reasonable idea of the actual wholesale impact of the additional customers. Origin Energy's application does not appear to have provided the same level of evidence, and therefore it is not clear that these costs have been justified in a similar manner as other pass through costs.

Risk/reward

As a retailer in the National Electricity Market, Origin Energy has a different level of risk and reward, compared to a regulated network. It has the opportunity to earn higher rewards and is able to undertake additional activities that are not available to regulated networks to mitigate volume and price risk, such as owning generation assets (vertical integration). Although wholesale market volatility in 2022 presented retailers with higher risk, retailers with generation portfolios were provided with opportunities to balance the overall impact, and potentially benefit from that volatility.

Network costs

Essential Energy is unsure why Origin Energy has specified network costs as an additional out of pocket cost of the RoLR process. Our understanding is that any network costs from the date of RoLR transfer will be applied to retail bills and recovered via customer bills. There should not be any shortfall if the retailer is undertaking their usual billing process appropriately – if there has been some market failure during this period relating to network costs, it has not been articulated in the application.

Wholesale costs

The AER's guidance in their RoLR Statement of Approach includes 'actions of the designated RoLR in performing its obligations should be prudent and minimise the costs incurred in the circumstances'. As

a result of bringing on additional customers from the RoLR events, Origin Energy had the option of either hedging, or generating to cover any additional exposure to wholesale costs. The commentary from Origin Energy that there were no risk triggers or limit breaches flagged, implies that there were no additional wholesale costs needing to be covered as a result of the additional customers. Furthermore, it is arguable whether the application of the RoLR for cost recovery, and the inclusion of wholesale costs is being treated symmetrically, i.e. if there were wholesale profits would Origin Energy seek to pass through those unforeseen benefits to customers? Origin Energy also indicated that they were unable to provide detail of actual customer impacts and wholesale costs. In terms of opportunity cost (potential foregone revenue/profit), as a vertically integrated retailer, Origin Energy has not clearly demonstrated that they were opportunity costs as they have not provided sufficient detail of additional customer load or wholesale market exposure.

Cost recovery

Origin Energy has proposed a cost recovery calculation based on proportions of RoLR customers in a distributor's area and applied across distributors residential customers. Since Essential Energy's customer density is the lowest in the NEM, this means that its residential customers will be disproportionately impacted. In order to better address the AER's expectation that 'cost recovery should occur across the largest customer base which is appropriate to the ROLR event', Essential Energy suggest that if the AER approve these costs to pass through, that they should be borne at the same level across all impacted distributors. For example, using Origin Energy's submitted costs, rather than a cost recovery of \$2.83 being applied to Essential Energy's residential customers network charges, dividing the total \$4.33 million by all 4,589,249 residential customers would result in a much lower \$0.94 cost impact to those customers.

Essential Energy is of the view that Origin Energy has not clearly demonstrated that it has incurred additional RoLR costs - particularly from the wholesale market or from network charges - that are not able to be recovered either through standard electricity portfolio management practices, or via retail customer bills for the network cost components. The proposed methodology for cost sharing is also of concern as it will lead to a greater level of inequity for Essential Energy's customers who already bear relatively higher network charges than other distributors due to the physical characteristics of the network and its operating environment.

If there are any further queries in relation to our response, please contact our Head of Network Regulation, [REDACTED] on [REDACTED] or [REDACTED].

Yours sincerely

[REDACTED]

[REDACTED]
Chief Financial Officer