

# Origin Energy Electricity Limited designated RoLR cost recovery applications

## Determination

20 September 2024

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# Contents

Overview .....	5
Decision .....	5
1 Introduction .....	9
1.1 The RoLR scheme .....	9
1.2 Who we are and our role in this process .....	9
2 Key elements of Origin’s applications .....	11
Summary of Origin’s approach .....	11
Quantum of Origin’s claims .....	13
3 Determination .....	15
4 Relevant regulatory requirements and assessment approach .....	17
Cost recovery application requirements .....	17
Retail Law guiding principles and AER approach to making a cost recovery determination .....	17
5 Reasons for determination .....	19
5.1 Origin’s revenue and cost recovery claims .....	19
<b>5.1.1 Revenue</b> .....	19
Origin’s approach to revenue .....	20
AER’s decision on Origin’s approach to revenue .....	21
<b>5.1.2 Wholesale costs</b> .....	22
Origin’s approach to wholesale costs claimed .....	24
AER’s analysis of Origin’s wholesale costs claimed .....	26
<i>Direct costs</i> .....	26
<i>Opportunity costs</i> .....	27
<b>5.1.3 Administrative costs</b> .....	29
Origin’s reduced administrative costs claims .....	30
AER’s analysis of Origin’s administrative costs claimed .....	30
<b>5.1.4 Other costs - Network and Environmental costs</b> .....	30
Origin’s approach to network costs claimed .....	30
AER’s analysis of Origin’s network costs claimed .....	31
Origin’s approach to environmental costs claimed .....	31
AER’s analysis of Origin’s environmental costs claimed .....	33
<b>5.1.5 Costs to be borne</b> .....	34
Why Origin has used a customer acquisition cost methodology .....	35
AER’s analysis of Origin’s approach to costs to be borne .....	36
6 RoLR cost recovery scheme distributor payment determination .....	38
6.1 Cost recovery scheme method proposed by Origin .....	38

AER’s decision on distributor payment determination method .....	39
6.2 Expected impact of our decision on electricity bills .....	40
Shortened forms.....	41
Annexure A – detailed quantitative breakdown of cost categories across each of Origin’s cost recovery claims (\$ nominal) .....	43
Annexure B – relevant provisions.....	44

# Overview

Between 24 February 2023 and 1 June 2023, Origin Energy Electricity Limited (**Origin**) submitted to the [Australian Energy Regulator \(AER\)](#) cost recovery applications for six Retailer of Last Resort (**RoLR**)<sup>1</sup> events that took place in 2022, claiming in total \$4,333,337.96 (\$ nominal) (after revisions by Origin) (**applications**). The AER has combined the consideration of the six cost claims into one process. The AER received no other cost recovery applications from other designated RoLRs for the retailer failure events of 2022, with the applications from Origin being the first seeking recovery of costs from actual RoLR events that the AER has received.<sup>2</sup>

Origin is claiming costs associated with supplying 12,749 transferred electricity customers (against an overall electricity customer base of 2,700,000<sup>3</sup> as at 30 June 2022) and is essentially seeking wholesale, environmental 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. An outline of the costs claimed, the revenue and costs to be borne, and the final net claim figure is in Table 1 on page 14. To summarise, total gross costs of \$15,346,792.54, after deductions for revenue and costs to be borne resulted in a final net claim figure of \$4,333,337.96 (\$ nominal).

## Decision

The AER has decided to make a RoLR cost recovery scheme distributor payment determination for the amount of \$4,333,337.96 (\$ nominal) to be recovered by the five relevant distributors in 2025-26, as follows:<sup>4</sup>

- Endeavour Energy: \$905,568.45
- Energex: \$1,324,300.66
- Ergon Energy: \$611,747.44
- Essential Energy: \$728,787.49
- SA Power Networks: \$762,933.92

We consider that Origin's wholesale cost claims could be established as opportunity costs, and environmental and administrative cost claims could be established as direct costs.

We estimate that the distributor payment determination amount will add a one-off amount of approximately \$0.94 (\$ nominal)<sup>5</sup> to the average residential customer's bills in 2025–26, having determined that costs are to be spread evenly per customer across the five relevant distributor customer bases.<sup>6</sup>

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<sup>1</sup> 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**).

<sup>2</sup> There was a 2013 AGL application for recovery of costs to establish processes and systems to be a Default RoLR.

<sup>3</sup> [Origin, 2022 Annual Report, PDF page 34.](#)

<sup>4</sup> The AER notes that Origin's applications and the amounts claimed are in respect of 2022/23 dollars, therefore the amount payable by each distributor to Origin, and the amount to be recovered from customers would need to be adjusted for inflation.

<sup>5</sup> See footnote 4.

<sup>6</sup> Section 167(1) of the Retail Law.

## Background to the AER's Decision

The AER is responsible for overseeing the 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 for customers to 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**).

If the AER decides to determine to grant the application, the affected distributors are required to pay their proportion of the amount granted to the RoLR, which the distributors then recover through network charges to customers.

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;
- (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.<sup>7</sup>

On 25 March 2024, as part of its [consultation paper](#), the AER published [a notice of the applications, inviting submissions](#) as required under the Retail Law.<sup>8</sup> In seeking stakeholder feedback, we drew stakeholder attention to Origin's approach, methodology and key issues within the applications. We received one submission, from Essential Energy, one of the affected distributors.<sup>9</sup> We also received further information from Origin about how it manages environmental costs.<sup>10</sup> Origin is required by Federal and State jurisdictions to meet environmental requirements which are managed by the purchase and sale of Renewable Energy Certificates (**RECs**). Origin has advised that it was required to purchase additional RECs to cover the new customers it obtained as a result of the six certain RoLR events. We have considered Essential Energy's submission and Origin's additional information in making our determination.

This determination sets out our assessment of Origin's applications and addresses the abovementioned Retail Law guiding principles we must be guided by.

The Retail Law does not give an indication as to the weight to be given to the guiding 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.<sup>11</sup>

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<sup>7</sup> Section 166(7) of the Retail Law (**Retail Law guiding principles**).

<sup>8</sup> Section 166(5) of the Retail Law.

<sup>9</sup> [Essential Energy, Submission to Origin Energy's Retailer of Last Resort Cost Recovery Applications, dated 26 April 2024](#).

<sup>10</sup> [Origin email to the AER dated 12 April 2024 re Submission on environmental costs](#).

<sup>11</sup> Section 166(8) of the Retail Law.

## The AER's consideration

With respect to Origin's claimed wholesale and environmental costs, the AER has considered whether the costs Origin incurred were direct costs or opportunity costs or a combination of both. Both of these types of costs, as outlined below, can be incurred by RoLRs when they are required to take on additional customers. Origin requested that the AER consider both types of costs in coming to its decision.

- **Opportunity costs** can be defined as the value of foregone revenue of the best alternative opportunity, whether that would have been pursued at the time of a relevant event, or at a later point in time, given limited resources, where a choice needs to be made between mutually exclusive alternatives.
- **Direct costs** can be defined as expenses that can be directly traced to the production of a product or service and includes any items or activities that an entity spent money on.

Although different frameworks, the AER has found the Australian Energy Market Commission (AEMC's) definition of opportunity costs to be a useful starting point for our purposes.<sup>12</sup>

### Costs incurred

Wholesale costs are the biggest portion of Origin's claims. Origin provided an initial figure before deductions of \$10,219,975.59, comprising 66.6% of the total estimated cost to serve the relevant RoLR customers. We do not consider that Origin has a strong claim for direct wholesale costs because it is not evident 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. The AER is therefore not satisfied that Origin has taken a reasonable approach to claiming direct wholesale costs.

However, we consider opportunity costs can be relevant costs for a retailer with respect to the RoLR scheme, where a vertically integrated RoLR such as Origin 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 backed by its generation assets.

Similarly, Origin would have foregone an opportunity to sell any third party hedges it may have acquired earlier.

We consider the opportunity cost to be due to foregone revenue as a result of this constraint. We are therefore satisfied that opportunity costs arose regarding Origin's wholesale costs claimed, and that Origin's methodology is a reasonable approach.

Environmental costs are the second biggest portion of Origin's claims. Origin provided an initial figure of \$963,553.17 which was reduced to \$668,412.09 following scrutiny by the AER, comprising 4.4% of the total estimated cost to serve the relevant RoLR customers. In considering direct environmental costs, we found it reasonable to assume that Origin was required to buy additional renewable energy certificates to off-set the acquired RoLR customers, given Origin receives only a relatively small number of certificates from its renewable energy installation activities, and it does not currently own any wind or solar

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<sup>12</sup> The AEMC defines opportunity costs in its [compensation guidelines](#) as: "the value of the best alternative opportunity for eligible participants during the application of a price limit event or at a later point in time." Currently, across the National Energy Laws, claims for opportunity costs only arise explicitly in the context of the administered pricing compensation framework in the National Electricity Rules (Clause 3.14.6 NER).

farms. However, we consider that Origin did not incur any opportunity costs. This is because Origin, as a net buyer of RECs, was unlikely to have foregone any opportunities to sell the relatively small number of RECs it held.

Network costs were \$4,453,315.32 or 29.02% of total costs to serve the relevant RoLR customers. However, Origin is not seeking any costs in relation to network costs above the revenue they have already recovered.

In relation to its administrative costs, Origin provided an initial figure of \$101,287.57 which was reduced to \$5089.54 or 0.3% of its total costs incurred following scrutiny by the AER. These were direct costs and we are satisfied that Origin took a reasonable approach to these administrative costs.

### **Deductions applied**

Under the third Retail Law guiding principle, a RoLR is required to bear some of the costs it has incurred in proportion to its customer base. In relation to costs to be borne, Origin has proposed applying the benchmark allowance for customer acquisition costs as determined by the Essential Services Commission of Victoria (**ESCV**) in its 2022-23 Victorian Default Offer (**VDO**) decision, being \$41.01 per customer (excluding GST).<sup>13</sup> This approach provides for a deduction of \$294,615.84.

Because Origin's proposed approach displays a logical nexus to both the number of acquired customers, and the timing of the RoLR events (in relation to the ESCV's 2022-23 VDO decision), we are satisfied that Origin has taken a reasonable approach to costs to be borne by Origin.

In relation to revenue, which is another deduction to the overall cost claim, Origin has claimed that it had revenue of \$10,718,838.74 which it could attribute to the customers transferred to it as a result of the RoLR events. With Origin's methodology to estimating revenue being logical, clear, and close in its estimated calculation when compared to the DMO, we are satisfied that Origin has taken a reasonable approach in the circumstances in arriving at that figure.

We have extensively engaged with Origin to obtain further substantiation and clarification of its applications through several meetings and requests for information. While the AER is not required to make a decision within any current prescribed time limit under the Retail Law, we have balanced the need for timeliness with the need to obtain further information from Origin to sufficiently understand its applications to make a timely, informed and robust decision.

Therefore, while the AER has decided to accept Origin's claims and appreciates that these are the first applications of their kind, we consider that Origin could have provided a clearer supporting narrative, particularly for wholesale and environmental costs, being the largest categories of net costs claimed.

While this determination may provide some useful reference points going forward, the AER will approach any future applications on a case-by-case basis, having regard to the particular circumstances around those events and the claims made.

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<sup>13</sup> The AER-determined DMO includes customer acquisition and retention costs in its methodology, but these are bundled with other retailer operating costs, unlike the VDO which separates them out.



# 1 Introduction

This section sets out background to the RoLR scheme, who we are and our role in this process.

## 1.1 The RoLR scheme

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

The AER and the 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 and remain as RoLRs. The AEMC, concurrent to the AER's process for determining Origin's applications, undertook a review<sup>14</sup> to consider options to reduce the costs of retailer failures, releasing its final report with 10 recommendations to improve the RoLR scheme. One relevant recommendation was to improve cost recovery clarity for market participants through changes to the AER Guidelines, to increase certainty for market participants regarding the types of costs RoLRs may claim and the process that they must follow, among other things.<sup>15</sup> We are currently considering our approach to a review of the AER RoLR Guidelines, including appropriate timing of the review to best align with proposed legislative amendments and rule changes.

The AER recognises the efforts of Origin, and the other appointed RoLRs, in continuing to supply energy on and around the June 2022 market events, thereby supporting the continued functioning of the energy market.

## 1.2 Who we are and our role in this process

The AER regulates energy networks and wholesale and retail energy markets in Australia to ensure they are secure, reliable and affordable for consumers.

Our role relevantly includes, among other things:

- setting the Default Market Offer (**DMO**) to protect consumers from unjustifiably high prices,
- administering the RoLR scheme, if an energy retailer fails, and
- making RoLR cost recovery determinations for costs incurred on and after a RoLR event.

The AER must decide whether to grant or refuse Origin's applications as required by the Retail Law.<sup>16</sup> The AER must, as part of its determination, and after consultation with the

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<sup>14</sup> [AEMC, Review into the arrangements for failed retailers' electricity and gas contracts, 11 May 2023.](#)

<sup>15</sup> [AEMC, Review into the arrangements for failed retailers' electricity and gas contracts, Final report, 20 June 2024, page 19.](#)

<sup>16</sup> Section 166(6) of the Retail Law.

relevant distributor(s) concerned, make a determination that one or more distributors are to make payments towards the costs of the scheme.<sup>17</sup>

In addition to 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.<sup>18</sup> While the AER is not required to publish a consultation paper or draft determination, it is open to the AER to follow such a process if it wishes. As such, the AER published a [consultation paper](#) on 25 March 2024 which set out, among other things, details of Origin's applications, an overview of the cost recovery process, cost recovery application requirements, and the assessment process.<sup>19</sup>

Our [consultation paper](#) asked stakeholders to consider a number of questions in relation to Origin's designated RoLR cost recovery applications. We received one submission,<sup>20</sup> from Essential Energy. Essential Energy's submission is available on the AER website.<sup>21</sup>

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<sup>17</sup> Section 167(1) of the Retail Law.

<sup>18</sup> Section 166(5) of the Retail Law.

<sup>19</sup> [AER, Consultation Paper and Notice of RoLR cost recovery applications | Origin Energy Electricity Limited, 25 March 2024](#), PDF pages 8-11.

<sup>20</sup> Though we also received further information from Origin about how it manages its renewable energy certificates - [Origin email to the AER dated 12 April 2024 re Submission on environmental costs](#).

<sup>21</sup> [Essential Energy, Submission to Origin Energy's Retailer of Last Resort Cost Recovery Applications, dated 26 April 2024](#)

## 2 Key elements of Origin’s applications

Origin submitted six RoLR cost recovery applications, comprising cover letters and detailed spreadsheets breaking down each category of costs claimed, which the AER published with the [consultation paper](#). Origin’s applications noted that the relevant retailer failures in 2022 occurred in a period of significant price volatility and market instability.<sup>22</sup> Origin attributed this to Russia’s invasion of Ukraine driving high international gas and coal prices, coal plant closures, and more frequent unplanned outages during the 2022 winter period.<sup>23</sup>

Origin considered that the quantum of each of the applications for cost recovery was modest but acknowledged that the impact of the cumulative cost of each of the six failures may be material.<sup>24</sup> DMO<sup>25</sup> benchmark pricing underpins Origin’s methodology for revenue and its calculations for most of its cost claim categories. Origin is essentially claiming that it faced wholesale (and to a lesser extent environmental) costs above what had been accounted for in the DMO.

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 DMO<sup>26</sup>

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)
- 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 of an estimated (approximated) costs methodology, except where it has provided actual costs for a small

<sup>22</sup> In 2022 there were seven RoLR events (6 electricity, 1 gas) involving Origin as a designated RoLR. Origin took on approximately 71% of customers transferred in the 2022 RoLR events.

<sup>23</sup> Origin, RoLR cost recovery application cover letters, various dates.

<sup>24</sup> Origin, RoLR cost recovery application cover letters, various dates.

<sup>25</sup> 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.

<sup>26</sup> Source: [AER, DMO 4, 2022-2023 Final Determination Factsheet](#).

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. However, 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.<sup>27</sup>

Origin's applications contain claims for both direct and opportunity costs. Both of these types of costs can be incurred by RoLRs when they are required to take on additional customers. With respect to Origin's claimed wholesale and environmental costs, the AER has considered whether the costs Origin incurred were direct costs or opportunity costs or a combination of both. Origin requested that the AER consider both types of costs in coming to its decision.

A high-level summary of Origin's approach to each of the categories, is set out 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. Origin's approximated revenue has been 'sculpted' as part of its methodology through the actual churn rate, among other things, as discussed further in relation to wholesale costs (below) and customer numbers (on the next page).
- **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 acquired (transferred) customers in respect of each RoLR event. Origin's wholesale cost methodology takes into account the churn rate of acquired RoLR customers on a monthly basis, which is reflected in the assumed cost of ASX futures products across the claimed period.
- **Administrative costs:** Offshore labour costs are 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 on preparing and sending customer correspondence. Origin has provided actual costs regarding communications with customers (i.e., postage stamp costs).
- **Network costs:** Origin has used the DMO average consumption profile per distribution zone to estimate variable Network Use of Service (**NUoS**) charges,<sup>28</sup> 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 which estimates the cost of complying with government environmental policies. Origin

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<sup>27</sup> AER RoLR Guidelines, November 2011, page 8.

<sup>28</sup> NUoS are network charges consisting of 'transmission use of system' and 'distribution use of system' charges. They are usually aggregated on 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.

advised that estimating 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. Similar to our approach in the [consultation paper](#), in this determination we have grouped together network and environmental costs as “other costs”.

- **Costs to be borne by Origin:** Origin has based this on the costs it considers a retailer would incur in competing for a customer in a contestable retail market. Origin has proposed applying the benchmark allowance determined by the ESCV. The AER observes that while the AER-determined DMO includes customer acquisition and retention costs in its methodology, these costs are bundled with other retailer operating costs and are not separated out as a distinct, identifiable component as they are with the ESCV benchmark. As such, the ESCV benchmark is a helpful and appropriate way to determine costs to be borne.
- **Customer numbers:** Origin has assumed a particular starting number of inherited customers in respect of each RoLR event, as well as monthly actual churn rates<sup>29</sup> for those customers. In particular, we observe that Origin’s methodology calculates all estimated costs but for administrative costs (i.e. wholesale, network, environmental) on a monthly basis taking into account the actual churn rate of customers, by each month. In essence, Origin’s methodology uses a starting point figure for each cost claim category, which is then sculpted by way of decreased values month by month as the actual churn rate of the RoLR customers increases. This ultimately sculpts approximated revenue.

Further detail regarding Origin’s approach and methodology is set out in section [5](#) below, along with reasons for the AER’s determination.

For each category, we 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 \$4,333,337.96 (\$ nominal) in total. This equates to \$339.90 per transferred customer. The original applications claimed \$5.93M in total but in response to AER queries and feedback, Origin revised the amount down to \$4.33M.<sup>30</sup>

The costs and benefits Origin has claimed have been broken down as per Table 1 below. While costs have been categorised into four components, revenue as a proportion of costs has been spread across all four different components and appears as a single figure.

**Annexure A** provides a detailed quantitative breakdown across each of Origin’s cost recovery claims, including cost categories, revenue and the total costs Origin has proposed to bear.

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<sup>29</sup> 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.

<sup>30</sup> On 1 August 2023, Origin reduced its claim to \$4.5M after it identified inconsistencies arising from data migration and after having adjusted the churn rate. On 17 November 2023 Origin further revised its claim to \$4.4M because it could not substantiate much of its labour costs upon scrutiny. On 11 March 2024 Origin further revised its claim to \$4.33M due to a revision of customer numbers.

**Table 1 – summary of cost recovery claims by category**

Category	Amount	Percentage of total cost	Description
<b>Costs by category</b>			
<b>Wholesale</b>	\$10,219,975.59	66.6%	Costs associated with managing electricity pool price exposure, <sup>31</sup> whether be through direct costs (buying hedges) or foregone opportunity to sell hedges arising from self-hedging via generation assets.
<b>Network</b>	\$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.
<b>Environmental</b>	\$668,412.09	4.4%	Costs associated with managing environmental obligations, whether be through direct costs (buying certificates) or foregone opportunity to sell renewable energy certificates.
<b>Administrative</b>	\$5,089.54	0.3%	Costs of establishing customer accounts in Origin's customer and billing systems, preparing and sending customer correspondence.
<b>Total costs</b>	<b>\$15,346,792.54</b>		
<b>Deductions from cost claim</b>			
<b>Revenue as proportion of overall costs</b>			
<b>Revenue</b>	(\$10,718,838.74)	69.8%	The revenue Origin attributed to the customers transferred from the RoLR events.
<b>Costs to be borne by Origin as proportion of overall costs</b>			
<b>Costs to be borne</b>	(\$294,615.84)	1.9%	Costs to be borne by Origin.
<b>Net total claim</b>	<b>\$4,333,337.96 (\$ nominal)</b>		Net total claim = the total of wholesale, network, environmental, and administrative costs claimed, with revenue and costs to be borne deducted.

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

<sup>31</sup> That is, the risk faced due to fluctuations in wholesale electricity prices, which are determined in the spot market.

### 3 Determination

Having regard to the Retail Law guiding principles, the AER is satisfied that Origin's applications, as submitted between 24 February 2023 and 1 June 2023, reasonably establish claims in association with supplying 12,749 transferred electricity customers following six certain retailer failure events of 2022.

For wholesale costs, we were satisfied opportunity costs arose because it was reasonable to assume that Origin, as a vertically integrated generator and retailer, was constrained in its ability to sell hedges to other retailers or to obtain spot revenue from uncontracted generation capacity. Alternatively, Origin would have foregone an opportunity to sell any third party hedges it may have acquired earlier. We were also satisfied that Origin's methodology is a reasonable proxy for understanding the opportunity cost it faced. However, we were not satisfied direct costs arose because it is not evident 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.

For environmental costs, Origin has confirmed that direct costs arose as it was required to buy additional renewable energy certificates to off-set the acquired RoLR customers, given Origin receives only a relatively small number of certificates from renewable energy installations, as it does not currently own any wind or solar farms. We were also satisfied that Origin's methodology is a reasonable proxy for understanding the direct costs it faced. However, we consider that Origin did not incur any opportunity costs. This is because Origin, as a net buyer of RECs, was unlikely to have foregone any opportunities to sell the relatively small number of RECs it held.

We are satisfied that Origin has taken a reasonable approach to the administrative costs it has claimed, having provided:

- a reasonable estimation of off-shore labour costs, based on estimated monthly contract fees and estimated hours taken to integrate the inherited customers into Origin's customer and billing systems, and
- actual postage stamp costs.

We have particularly noted that Origin reduced its overall administrative costs claim across all six of its applications from \$101,287.57 to \$5,089.54. Origin is therefore claiming approximately \$5,000 in administrative costs to transfer 12,749 RoLR customers.

Being satisfied that Origin's RoLR cost recovery claims are reasonable, the AER has decided to make a RoLR cost recovery scheme distributor payment determination for the amount of \$4,333,337.96 (\$ nominal) payable by the five relevant distributors in 2025–26, as follows:<sup>32</sup>

- Endeavour Energy: \$905,568.45
- Energex: \$1,324,300.66
- Ergon Energy: \$611,747.44
- Essential Energy: \$728,787.49

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<sup>32</sup> The AER notes that Origin's applications and the amounts claimed are in respect of 2022/23 dollars, therefore the amount payable by each distributor to Origin, and the amount to be recovered from customers would need to be adjusted for inflation.

- SA Power Networks: \$762,933.92

These amounts are considered approved cost pass-through amounts,<sup>33</sup> and as such will be recovered by distributors through the C-factor in allowed 2025–26 revenues. We estimate that the distributor payment determination amount will add approximately a one-off amount of \$0.94 (\$ nominal)<sup>34</sup> to the average residential customer’s bills in 2025–26, having determined that costs are to be spread evenly per customer across the five relevant distributor customer bases.<sup>35</sup>

Our assessment is set out in section [5](#) below.

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<sup>33</sup> Section 167(4)(a) of the Retail Law.

<sup>34</sup> See footnote 31.

<sup>35</sup> Section 167(1) of the Retail Law.



## 4 Relevant regulatory requirements and assessment approach

### 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.<sup>36</sup>

The AER RoLR Guidelines<sup>37</sup> 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.

### 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:<sup>38</sup>

- (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:<sup>39</sup>

*“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:*

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<sup>36</sup> [AER RoLR Statement of Approach](#), section 5.3, pages 20-23.

<sup>37</sup> [AER RoLR Guidelines, November 2011](#).

<sup>38</sup> Section 166(7) of the Retail Law.

<sup>39</sup> See the note at the end of section 166(7) of the Retail Law.

- 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.*<sup>40</sup>

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.<sup>41</sup>

The AER has published some general, non-binding guidance on its approach to applying the Retail Law guiding principles, in our RoLR Statement of Approach<sup>42</sup> 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.<sup>43</sup>

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.<sup>44</sup>

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 the RoLR Statement of Approach when making a RoLR cost recovery scheme determination, we will provide reasons for doing so in the decision.<sup>45</sup>

We have worked closely through a number of issues with Origin on its approach to the applications, specifically given that Origin's approach to the majority of its cost claim categories was to estimate or approximate the costs concerned. As a result, while Origin provided information as required by the RoLR Guidelines outlined above, the AER was required to make further inquiries of Origin before it was in a position where it was able to make a decision in relation to the claims. Providing a clear, reasonable methodology and supporting narrative with supporting documents of decision-making processes relating to costs claimed assists the analysis and decision-making process.

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<sup>40</sup> Section 13 of the Retail Law.

<sup>41</sup> Section 166(8) of the Retail Law.

<sup>42</sup> [AER, Retailer of Last Resort, statement of approach, November 2011.](#)

<sup>43</sup> AER RoLR Statement of Approach, section 5.1, pages 18-20.

<sup>44</sup> AER RoLR Statement of Approach, section 5.1, page 19.

<sup>45</sup> AER RoLR Statement of Approach, section 5.1, page 18.

## 5 Reasons for determination

The sections below set out further background information on each category of Origin’s cost recovery claims, and the reasons for our determination.

### 5.1 Origin’s revenue and cost recovery claims

#### 5.1.1 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. However, a standing offer can be less than the DMO, and actual customer price outcomes can vary depending on their usage. Revenue from customers is essentially the benefit a designated RoLR has obtained from acquiring these additional customers.

The legal framework requires the AER 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.<sup>46</sup>

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).<sup>47</sup> Origin has stated that the revenue it obtained from the transferred RoLR customers was \$10,718,838.74 during the relevant period.

While there is clearly a benefit from acquiring customers from a RoLR event in terms of increased revenue, this is often offset by relatively high churn rates. Transferred customers are not required to remain with a RoLR, although if the customer has not transferred within three months, a standard retail contract is taken to have been formed between the customer and the RoLR.<sup>48</sup> 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 six relevant RoLR events transferred away from Origin to another retailer within nine months of the relevant RoLR event, as can be seen in Table 2.

**Table 2 – Proportion of customers churned**

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

<sup>46</sup> Section 166(7)(b) of the Retail Law.

<sup>47</sup> [AER RoLR Guidelines, section 5.1, pages 8 and 9.](#)

<sup>48</sup> Section 147 of the Retail Law.

RoLR event	1 month	2 months	3 months	4 months	5 months	6 months	7 months	8 months	9 months
<b>Mojo</b>	26%	26%	32%	36%	42%	45%	49%	50%	52%
<b>Average</b>	<b>38%</b>	<b>38%</b>	<b>45%</b>	<b>50%</b>	<b>54%</b>	<b>57%</b>	<b>60%</b>	<b>61%</b>	<b>63%</b>

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

This compares with Origin's broader customer base churn rate of around 13% and market churn of around 18% in the prior period (FY2021-2022).<sup>49</sup>

## 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:<sup>50</sup>

- Origin has not provided actual revenue per transferred customer but has instead applied the DMO pricing and an average consumption profile per distribution zone from its own records.
- 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 Time of Use (**TOU**) DMO charges) for each distribution network.
- Usage based on assumed SME variable usage rate consistent with the DMO for each respective network.
- Assumed Small to Medium Enterprise (**SME**) fixed daily supply charge consistent with the DMO rate for each respective distribution network.
- Origin has provided estimated figures and not actual revenue as it considers there would be difficulties compiling the actual revenues for all RoLR event customers as a whole. For example, Origin pointed out that it *does not service a bill to occupier or vacant sites*.<sup>51</sup> Origin also noted that the NUoS charges align with the relevant meter reading schedules, but the meter reading schedules do 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 mean having to proportion out the consumption and charge costs, and that as such, there is no direct link between NUoS and customer billing. A further complication was that Origin was in the process of migrating customers to a new retail platform during this time.<sup>52</sup>
- 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 acquires 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

<sup>49</sup> Origin, 2022 Annual Report, page 33.

<sup>50</sup> Origin, RoLR cost recovery application cover letters, various dates.

<sup>51</sup> Origin, response to RFI-002 dated 30 August 2023.

<sup>52</sup> Origin, response to RFI-002 dated 30 August 2023.

more pronounced the greater the difference. To mitigate this risk, Origin needs to purchase contracts to reach an optimal portfolio price for this scenario.<sup>53</sup>

- 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 be. Origin indicated that the challenge it faced was progressively optimising the cost of energy of the inherited customers and managing this optimisation as some customers transitioned onto market contracts.<sup>54</sup> Origin observed that these customers had not been “won” but had been transferred to Origin not by choice but because of the failure of their chosen retailer. As a result, these customers are less “sticky” than customers who have decided to sign up to Origin by choice. This risk is that Origin establishes an optimal price by purchasing hedges and then a higher percentage of these customers switch (compared to voluntary customers). This results in the risk that Origin has contracted more load than Origin needs for its demand.
- Origin tries to manage this risk by offering its customers competitive market offers.<sup>55</sup> However, while Origin makes these offers broadly, it did not specifically contact its inherited RoLR customers to see if they wanted to move on to a retail market contract at the third month mark.<sup>56</sup>
- Origin has advised that it continued to offer market offers [below the DMO] on the Energy Made Easy website during this time because Origin needed to maintain a market share to target its demand forecast.<sup>57</sup>

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

### **AER’s decision on Origin’s approach to revenue**

As set out above, Origin has provided estimated, not actual, revenue earned from the inherited RoLR customers. At a high-level, Origin’s methodology for estimating revenue is by using DMO benchmarks and applying an average consumption profile per distribution zone, among other things.<sup>58</sup>

Essential Energy, one of the affected distributors suggested that actual billing data for the additional customers should be readily available given Origin is a sophisticated energy market participant.<sup>59</sup> While we acknowledge Essential Energy’s concerns and agree actual values would be preferred, we observe the AER RoLR Guidelines allow for estimates

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<sup>53</sup> Origin, response to RFI-002 dated 30 August 2023. However, the AER found that Origin was more likely to have self-hedged to manage the increase in load from the 12,749 inherited RoLR customers. As such, Origin was more likely to have foregone the opportunity to earn spot market revenue from unhedged capacity or to sell hedges, or both. See pages 27-30 below.

<sup>54</sup> Origin, response to RFI-002 dated 30 August 2023.

<sup>55</sup> Origin, response to RFI-002 dated 30 August 2023.

<sup>56</sup> 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).

<sup>57</sup> Origin, response to RFI-002 dated 30 August 2023.

<sup>58</sup> Origin, RoLR cost recovery application cover letters, various dates.

<sup>59</sup> [Essential Energy, Submission to Origin Energy’s Retailer of Last Resort Cost Recovery Applications, dated 26 April 2024](#), page 1.

instead of actual figures, subject to the provision of information explaining the basis on which the estimates have been made.<sup>60</sup>

In that regard, we consider the reasoning Origin has given for not providing actual revenue figures, including that it was in the process of migrating customers to a new retail platform during this period, to be reasonable.

We also observe Origin's estimation methodology is based on energy usage and fixed charges using Origin's mass market portfolio of average DMO rates for its residential customers (i.e., flat and TOU DMO charges) for each network.

While Origin has used its own data here (and not that of the DMO), the AER has compared this data to the DMO for usage and total annual cost per customer and has found Origin's estimated approach to be reasonable.

Essential Energy's submission also raises the issue of risk and reward. In that regard, Essential Energy has stated that as a retailer in the National Electricity Market (**NEM**), Origin 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). Essential Energy has further stated that 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.<sup>61</sup>

While this may be the case, we do not consider any benefits beyond revenue directly earned from the freely acquired customers to be a relevant consideration in the circumstances. This is also noting that a key objective of RoLR cost recovery is to incentivise retailers to become and remain as RoLRs, given they are providing a broader service to the market to ensure continuity of supply for customers of failed retailers.

More broadly we observe Origin's approximated revenue has been 'sculpted' as part of its methodology through the relevant cost categories. This has been done through estimated load shape and actual churn rate of the acquired RoLR customers, as well as through network loss factor estimates.

Origin's wholesale cost methodology takes into account the churn rate of acquired RoLR customers on a monthly basis, which is reflected in the assumed cost of ASX futures products across the claimed period. Overall, with Origin's methodology to estimating revenue being logical, clear, and close in its estimated calculation when compared to the DMO, we are satisfied that Origin has taken a reasonable approach in the circumstances in arriving at the figure of \$10,718,838.74.

### 5.1.2 Wholesale costs

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. Origin's gross

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<sup>60</sup> AER RoLR Guidelines, November 2011, page 8.

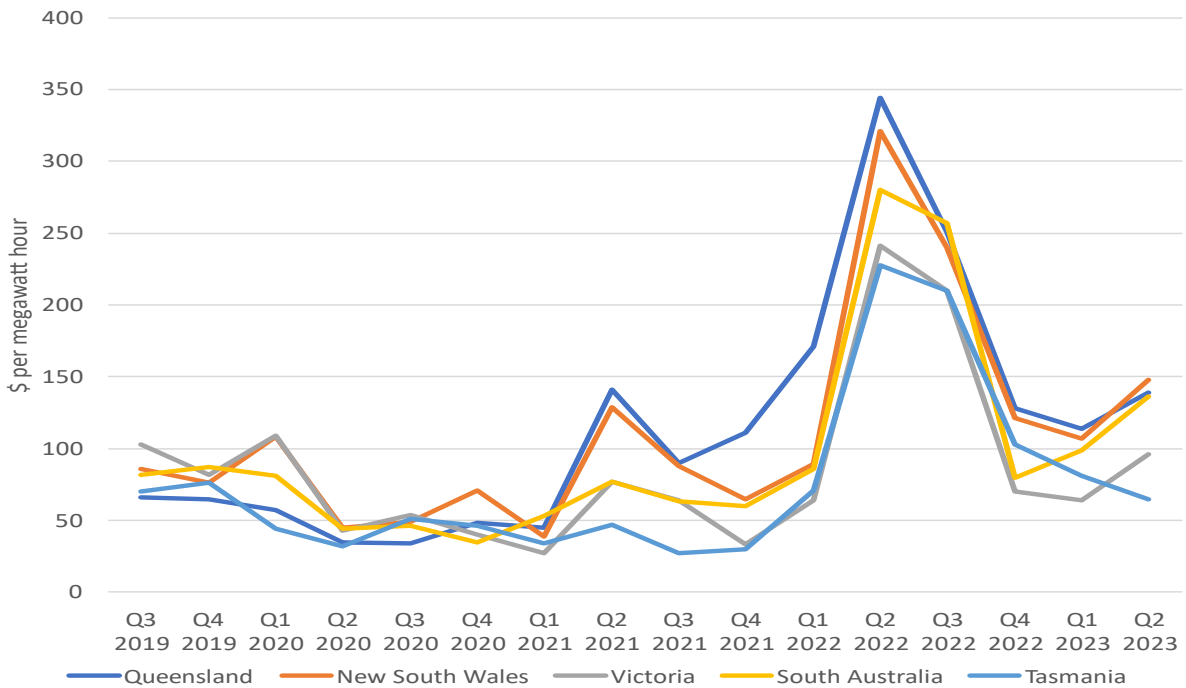
<sup>61</sup> [Essential Energy, Submission to Origin Energy's Retailer of Last Resort Cost Recovery Applications, dated 26 April 2024](#), page 1.

wholesale costs before revenue and costs to be borne deductions is \$10,219,975.59 or 66.6% of total costs to serve the relevant RoLR customers.

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). These hedge contracts allow retailers to manage price risks 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.<sup>62</sup>

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.<sup>63</sup> Relevantly, we note electricity spot prices were at record highs during the period of Origin’s cost claim applications, as per Figure 1:

**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.

This means that hedges (including ASX quarterly baseload electricity futures products) would have been significantly more expensive than at other times. 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

<sup>62</sup> [AER, Retailer of last resort cost recovery scheme Issues paper, November 2010](#), page 17.

<sup>63</sup> [AER, Retailer of last resort cost recovery scheme Issues paper, November 2010](#), page 17.

circumstances – particularly in terms of direct costs. Origin’s claim includes both direct and opportunity cost aspects.

Origin, as a 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’s approach to its claimed wholesale costs applies a number of assumptions as follows:<sup>64</sup>

- 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.
- 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.<sup>65</sup> Origin has applied this to the annual average usage by customer segment and multiplied by estimated loss factors to convert to purchased load.<sup>66</sup>
- Origin’s methodology hedges the entire anticipated forward load<sup>67</sup> until the end of FY 2022-23 as at the date of the RoLR event. Costs after the date of submission (nine 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*,<sup>68</sup> i.e. the amount of electricity sold to transferred customers, 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.
- 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 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*

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<sup>64</sup> Origin’s cost recovery cover letters, responses to AER requests for information.

<sup>65</sup> 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.

<sup>66</sup> That is, the amount of electricity purchased from the wholesale electricity market to meet consumption needs.

<sup>67</sup> That is, the forecasted electricity demand to be met.

<sup>68</sup> Average annual consumption by customer segment and distribution zone for Origin portfolio.



*reflects a pragmatic solution that captures the essence of our cost dynamics under changing conditions.*<sup>69</sup>

- 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.*<sup>70</sup>
- *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.*<sup>71</sup>
- Due to the nature of Origin's hedging activity which covers many changes in the whole portfolio, and the size of the RoLR events, it is not possible for Origin 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.<sup>72</sup>
- In terms of Origin's hedging strategy, Origin 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 positions are made based on real-time market conditions, portfolio dynamics, and risk exposure, ensuring alignment with Origin's overall business objectives.*<sup>73</sup>
- Origin, as a vertically integrated retailer, has the ability to manage risk by 'self-hedging' its own generation. Origin 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.<sup>74</sup>

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<sup>69</sup> Origin, response to RFI-002 dated 30 August 2023.

<sup>70</sup> Origin, response to RFI-002 dated 30 August 2023.

<sup>71</sup> Origin, response to RFI-003 dated 16 November 2023.

<sup>72</sup> Origin, response to RFI-002 dated 30 August 2023.

<sup>73</sup> Origin, response to RFI-002 dated 30 August 2023.

<sup>74</sup> AER, request for information (RFI-003) dated 3 November 2023; Origin, response to RFI-003 dated 16 November 2023.

- Origin has no specific documentation or evidence relating to purchasing hedges in response to RoLR or similar events.<sup>75</sup> 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.<sup>76</sup>
- Origin has also 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.*<sup>77</sup>
- 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) 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.*<sup>78</sup>

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

## **AER's analysis of Origin's wholesale costs claimed**

### *Direct costs*

Direct costs are the expenses that can be directly traced to the production of a product or service and includes any items or activities that an entity spent money on and which, in these circumstances, can be directly attributable to the RoLR event.

The AER started by assessing whether there were any direct costs that Origin incurred that were associated with managing wholesale risk for the transferred customers and whether Origin's methodology provided a reasonable approximation of those costs, noting that these costs were offset by revenue earned.

We note that Origin has relied 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 implies that Origin faced wholesale costs for its RoLR load above what has already been accounted for in the DMO. This may be a reasonable proposition, given the prevailing wholesale electricity market conditions at the time of the relevant RoLR events, and the fact that Origin had not been able to hedge against those in advance for the RoLR load.

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

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<sup>75</sup> Origin, response to RFI-002 dated 30 August 2023.

<sup>76</sup> Emails between the AER and Origin dated 13 February 2024.

<sup>77</sup> Origin, response to RFI-003 dated 16 November 2023.

<sup>78</sup> Origin, response to RFI-002 dated 30 August 2023.

spot market outcomes. It is not evident 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,<sup>79</sup> and at the same time continued to offer market offers below the DMO to maintain a market share to target its demand forecast.<sup>80</sup> 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.<sup>81</sup> We consider Origin's approach indicates that Origin did not feel constrained by taking on the inherited RoLR customers.

We do not consider any direct wholesale costs arose for Origin in these circumstances particularly where Origin's existing risk strategy already allows portfolio agility and the ability for Origin to self-hedge instead.

On a final note we observe that Essential Energy in its submission, has raised many of the same concerns discussed above about Origin's wholesale cost methodology, in terms of direct costs. In particular, Essential Energy has raised concerns that Origin had the option of either hedging or generating to cover any additional exposure to wholesale costs. Essential Energy has similarly noted the commentary from Origin that there were no risk triggers or limit breaches flagged, which implies that there were no additional wholesale costs needing to be covered as a result of the additional customers.<sup>82</sup>

The AER is therefore not satisfied that Origin has taken a reasonable approach to wholesale costs claimed, for direct costs.

#### *Opportunity costs*

Opportunity costs can be defined as the value of foregone revenue of the best alternative opportunity, whether that would have been pursued at the time of a relevant event, or at a later point in time, given limited resources, where a choice needs to be made between mutually exclusive alternatives. The assessment of opportunity costs involves comparing the actual (or estimated) revenue of the RoLR to what its revenue might have been had it made different decisions. Any effort to calculate opportunity costs must rely heavily on estimates and assumptions. By comparison, direct costs are likely to be able to be supported by more detailed accounting evidence so as to enable a more rigorous, line-by-line analysis.

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. Alternatively, opportunity costs may arise where the

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<sup>79</sup> Emails between the AER and Origin dated 13 February 2024.

<sup>80</sup> Origin, response to RFI-002 dated 30 August 2023.

<sup>81</sup> Origin, response to RFI-002 dated 30 August 2023.

<sup>82</sup> [Essential Energy, Submission to Origin Energy's Retailer of Last Resort Cost Recovery Applications, dated 26 April 2024, page 2.](#)

RoLR foregoes an opportunity to sell any third party hedges it may have acquired earlier in managing the load of the inherited RoLR customers.

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.*<sup>83</sup>

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.*<sup>84</sup>

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

Origin's methodology of purchasing ASX quarterly baseload futures products at the time of each RoLR event may be considered a reasonable proxy for self-hedging to manage the increase in load in terms of the uncontracted generation capacity it was constrained to sell in calculating opportunity costs. This is because an opportunity for Origin to sell the ASX futures may have been foreclosed or reduced at the time of the RoLR event (that is, at the time Origin became aware that it was taking on unexpected customers).

While we observe that ASX baseload futures are 'flat' products in that they can only be purchased as 1MW blocks of contracts via the ASX, Origin effectively 'sculpts' the purchase of these futures products in a number of ways in its methodology. In particular, Origin's sculpting occurs through the potential load shape of the acquired RoLR customers (i.e., using a volume weighted average, being demand multiplied by the spot price, and also through the actual churn rate and network loss factor estimates). Origin then multiplies this by the ASX futures prices as at the date of each RoLR event.

While Origin's approach does not strictly align with how ASX baseload futures are traded, we nevertheless consider Origin's approach to be reasonable. We also consider Origin's methodology to be reasonable in terms of the proposed time horizon for hedging, which covers all of the anticipated increase in load from the RoLR customers from the date of each RoLR event up until the end of FY 2022-23. We came to this conclusion having considered three different hedging strategy scenarios using the Enova RoLR event. We used the Enova

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<sup>83</sup> Origin, response to RFI-002 dated 30 August 2023.

<sup>84</sup> Origin, response to RFI-003 dated 16 November 2023.

RoLR event as part of our analysis because it has the biggest total of the six relevant RoLR events being claimed for by Origin.<sup>85</sup> The purpose of the analysis was to compare Origin's wholesale hedging strategy with two other possible scenarios, to consider the reasonableness of Origin's approach.

The AER tested alternate scenarios that varied the time frames and circumstances and how Origin hedged against its RoLR customer load. AER analysis revealed that Origin's cost estimates produced from its wholesale methodology were reasonable.

Essential Energy has submitted that Origin, as a vertically integrated retailer, has not clearly demonstrated that there were opportunity costs as it has not provided sufficient detail of additional customer load or wholesale market exposure.<sup>86</sup> However, we consider that, while further detail may have been of assistance, Origin provided sufficient information to confirm that the costs claimed in relation to opportunity costs were reasonable.

Essential Energy also submitted that Origin, as a sophisticated energy market participant, should have a reasonable idea of the actual wholesale cost impact of additional customers and that Origin's applications do not provide evidence of this. Essential Energy has further submitted that it is therefore not clear that Origin's claimed costs can be justified in a similar manner as other cost pass-through applications.<sup>87</sup>

The AER acknowledges Essential Energy's concerns but observes that the AER RoLR Guidelines allow for estimates instead of actual figures, subject to the provision of information explaining the basis on which the estimates have been made.<sup>88</sup> For the reasons outlined above we consider that Origin has demonstrated the basis for these estimates to sufficiently support its claims. While the assessment and calculation of direct costs is likely able to be supported by detailed accounting evidence to enable a rigorous line by line analysis (as takes place for example with other cost pass-through determinations) calculation of opportunity costs must, by its nature, rely heavily on estimates and assumptions.

Overall, while Origin could have provided a clearer supporting narrative for what is effectively its biggest cost claim category, the AER is satisfied that Origin has otherwise taken a reasonable approach to wholesale costs claimed, in relation to opportunity costs.

### 5.1.3 Administrative costs

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.<sup>89</sup>

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<sup>85</sup> See Annexure A for a detailed quantitative breakdown of cost categories across each of Origin's six cost recovery claims.

<sup>86</sup> [Essential Energy, Submission to Origin Energy's Retailer of Last Resort Cost Recovery Applications, dated 26 April 2024, page 2.](#)

<sup>87</sup> [Essential Energy, Submission to Origin Energy's Retailer of Last Resort Cost Recovery Applications, dated 26 April 2024, page 1.](#)

<sup>88</sup> AER RoLR Guidelines, November 2011, page 8.

<sup>89</sup> [AER, Retailer of last resort cost recovery scheme Issues paper, November 2010, page 10.](#)

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:<sup>90</sup>

- 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 these claims due to challenges in presenting conclusive evidence regarding the specific time it had devoted to each activity. This was difficult to provide given the collaborative nature of the work, where multiple resources contributed to the tasks as part of their business-as-usual responsibilities. In addition, 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; postage stamps and estimated offshore labour costs.

### **AER's analysis of Origin's administrative costs claimed**

The AER is satisfied that Origin has taken a reasonable approach to the administrative costs that it has claimed. This is because it has provided a reasonable estimate of off-shore labour costs, based on estimated monthly contract fees and included the estimated hours to integrate inherited customers into Origin's customer and billing systems. Origin also provided actual postage stamp costs based on receipts. We have particularly noted that Origin reduced its overall administrative costs claim across all six of its applications from \$101,287.57 to \$5,089.54. Origin is therefore claiming approximately \$5,000 in administrative costs to transfer 12,749 RoLR customers.

## **5.1.4 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

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<sup>90</sup> See Origin's cost recovery application cover letters, supporting attachments.

of system (**TUoS**) charges, as well as jurisdictional charges. These charges are often collectively referred to as NUoS tariffs, though in this determination 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 with a figure of \$4,453,315.32 before deductions.

### **AER's analysis of Origin's network costs claimed**

We observe that Essential Energy in its submission has indicated it is unsure why Origin has specified network costs as an additional out of pocket cost of the RoLR process. 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, Essential Energy points out that if there has been some market failure during this period relating to network costs, Origin has not articulated it in its applications.<sup>91</sup>

The AER observes that Origin has not claimed that its network costs exceeded the revenue it recovered. It is therefore not claiming networks costs beyond revenue recoverable such that the amount Origin received from the acquired RoLR customers matches the amount Origin paid to the relevant distribution businesses. Although network costs are passed through to the customer, we consider it is appropriate for Origin to claim network costs as part of its costs claim because the revenue component in Table 1 (which the total costs in Table 1 are compared to) includes, among other things, the equivalent revenue Origin recovered from customers for these network costs.

While Origin has used the DMO average consumption profile per distribution zone to estimate variable NUoS charges rather than providing actual charges, we consider Origin's methodology to be clear and logical. This, combined with the fact that Origin is not seeking network costs beyond what the DMO provided for, means that the AER is satisfied that Origin has taken a reasonable approach to network costs claimed.

### **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 Federal Government's Renewable Energy Target (**RET**). Some state jurisdictions have their own schemes, such as NSW's Peak Demand Reduction Scheme (**PDRS**) and Energy Savings Scheme (**ESS**). As a general principle such government environmental schemes work by creating markets for different classes of certificates requiring scheme participants (mainly electricity retailers) to purchase a certain percentage of electricity from renewable sources each year. The retailers comply with the schemes by buying the appropriate percentage of various classes of certificates

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<sup>91</sup> [Essential Energy, Submission to Origin Energy's Retailer of Last Resort Cost Recovery Applications, dated 26 April 2024, page 1.](#)

then surrendering them to the relevant regulator. More broadly, certificates are created, registered, traded and surrendered through the regulator registry clearing houses, or on the open market.

We observe that Origin has used the NSW environmental schemes (in conjunction with the mandatory Federal RET scheme), because more than 50% of the acquired RoLR customers are with distributors in the NSW jurisdiction. The balance of the relevant acquired RoLR customers are from Queensland and South Australia. Neither of these two jurisdictions currently have environmental schemes involving the trading of renewable energy certificates, therefore they are not featured in Origin's methodology.

Origin's methodology for calculating the cost of the additional renewable certificates 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 to reflect the cost in managing the increased liability of the inherited customers. We consider this approach reasonable, because renewable environmental certificates are less commonly traded when compared to OTC energy hedge trades.

We have analysed the accuracy of Origin's pricing used in its environmental cost claim methodology for each class of renewable energy certificate (LGCs, STCs, ESCs and PRCs). For each class of renewable energy certificate, (LGCs, STCs, ESCs and PRCs), we consider Origin's pricing methodology to be reasonable, because Origin's estimated price for each certificate type is either exactly the same, or close to, the relevant yardsticks.

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. As such, it has adopted a similar approach to its claim for network costs.

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.

Origin is claiming environmental costs as a result of its obligation to purchase and surrender certificates for the acquired customers. Further, environmental certificate costs were elevated compared to what was included in the DMO around the period of the June 2022 market events.

Origin has advised that it has provided estimated environmental costs, because it was unable to provide actual environmental costs. Origin indicated it would have difficulties compiling actual environmental costs, similar to the difficulties it faced providing 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, and that, in addition, it was in the process of migrating customers to a new retail platform during this period.<sup>92</sup> Essentially, Origin was unable to provide actual environmental costs linked to the acquired RoLR customers.

Origin considers its methodology and estimate for claimed environmental costs to be reasonable, having stated:

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<sup>92</sup> Origin, response to RFI-002 dated 30 August 2023.



- *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.*<sup>93</sup>

Origin has advised that it is limited in its ability to self-hedge in relation to environmental costs, as it does not own any renewable generation assets and only receives a relatively small number of certificates from renewable energy installations. Origin manages its increased renewable energy certificate surrender obligations arising from the inherited RoLR customers as part of its overall portfolio of environmental scheme liabilities. This is done through a combination of purchased certificates from the "over the counter" (OTC) market (including spot, forward and option trades), certificates purchased under renewable energy Power Purchase Agreements which are variable/non-firm and small-scale technology [renewable energy] certificates earned through installation of renewable energy systems.<sup>94</sup>

Origin has confirmed that it is a net purchaser of renewable certificates overall and that it was a net purchaser during the RoLR events and the relevant claim periods.<sup>95</sup>

During the course of enquiries by the AER, Origin revised its overall environmental costs claimed from \$963,553.17 to \$668,412.09 due to a revision in customer numbers.

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

### **AER's analysis of Origin's environmental costs claimed**

The AER started by assessing whether there were any direct costs incurred, particularly 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.

In analysing Origin's methodology for calculating environmental costs claimed, we observe it has used the following formula:

Step 1: Enviro MWh = Avg sales volume<sup>96</sup> x customer no. x \$/MWh x Purchase Loss Factor

Step 2: Enviro cost = Enviro MWh x Renewable % x \$ per certificate

For Step 1, we observe Origin has used the DMO average consumption profile, by customer segment and distribution zone, being an estimated approach, instead of actual costs. This is then multiplied by the number of RoLR customers (per month, accounting for actual churn rates), then multiplied by the time weighted electricity market spot prices (by relevant distributor NEM region), multiplied by the purchase loss factor.

This estimated approach (for Step 1), is similar to Origin's approach to its wholesale costs methodology.

For Step 2, we observe Origin multiplies the Enviro MWh figure (as derived in Step 1) by the Renewable % (as discussed below), by the cost per relevant class of certificate.

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<sup>93</sup> Origin, response to RFI-002 dated 30 August 2023.

<sup>94</sup> [Origin email to the AER dated 12 April 2024 re Submission on environmental costs.](#)

<sup>95</sup> Origin email to the AER dated 7 June 2024.

<sup>96</sup> Origin has used the DMO average consumption profile, by customer segment and distribution zone.

Each jurisdiction sets annual percentage liability targets for each class of renewable energy certificate relevant to each jurisdictions’ environmental scheme.

Origin’s methodology uses the correct liability target percentages as set by the various jurisdictions for their various environmental schemes as outlined in Table 3 below:

**Table 3 Analysis of accuracy of Origin’s liability target percentages**

Jurisdiction / scheme	Certificate type	Liability targets
<b>Federal government RET scheme (Clean Energy Regulator)</b> <sup>97</sup>	Large scale generation certificates ( <b>LGCs</b> )	18.64% in 2022 18.96% in 2023 <sup>98</sup>
	Small scale technology certificates ( <b>STCs</b> )	27.26% in 2022 16.29% in 2023 <sup>99</sup>
<b>NSW government PDRS and ESS schemes (Independent Pricing and Regulatory Tribunal)</b> <sup>100</sup>	Peak reduction certificates ( <b>PRCs</b> )	0.5% in 2022-23 <sup>101</sup>
	Energy savings certificates ( <b>ESCs</b> )	9% in 2022 9.5% in 2023 <sup>102</sup>

Source: AER analysis based on information from the Clean Energy Regulator, IPART, and Origin’s cost recovery applications

More broadly, regarding Origin’s claims for environmental costs, we consider that it is reasonable to assume that Origin incurred direct costs as it was required to buy additional renewable energy certificates to off-set the acquired RoLR customers. This is reasonable because Origin only receives a relatively small number of certificates from renewable energy installations and was required to purchase additional certificates. However, we consider that Origin did not incur any opportunity costs. This is because Origin, as a net buyer of RECs, was unlikely to have foregone any opportunities to sell the relatively small number of RECs it held.

While the AER considers that Origin could have provided a clearer supporting narrative for what is effectively its second biggest cost claim category, the AER is otherwise satisfied that Origin has taken a reasonable approach in its methodology for environmental costs claimed, in relation to direct costs incurred.

### 5.1.5 Costs to be borne

One of the guiding principles of the legal framework<sup>103</sup> states that the registered RoLR will itself bear some of the costs, in proportion to its customer base. The AER RoLR Guidelines

<sup>97</sup> The Clean Energy Regulator is the relevant Federal Government agency which administers the RET scheme.

<sup>98</sup> [Clean Energy Regulator, Renewable Power Percentage, 2 May 2024.](#)

<sup>99</sup> [Clean Energy Regulator, Small-scale Technology Percentage, 28 March 2024.](#)

<sup>100</sup> The Independent Pricing and Regulatory Tribunal (**IPART**) is the relevant NSW Government agency which administers the PDRS and ESS schemes.

<sup>101</sup> [IPART, PDRS Scheme Certificate Target.](#)

<sup>102</sup> [IPART, ESS Individual Energy Savings Targets.](#)

<sup>103</sup> Section 166(7)(c) of the Retail Law.

require 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.<sup>104</sup> Origin has given a figure of \$294,615.84 which it considers reasonable for costs to be borne.

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 efficiency<sup>105</sup> are well understood.<sup>106</sup> 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.<sup>107</sup>

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 to be borne per customer, Origin proposed applying the benchmark allowance for customer acquisition and retention costs (**CARC**) determined by the ESCV in its 2022-23 VDO decision, being \$41.01 per customer (excluding GST).<sup>108</sup> The AER observes that while the AER-determined DMO includes customer acquisition and retention costs in its methodology, it is bundled with other retailer operating 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). 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.<sup>109</sup> The benchmark was initially established based on cost levels from an Australian Competition and Consumer Commission retail electricity pricing inquiry final report.<sup>110</sup>

Origin has informed the AER that it believes that applying the ESCV benchmark figure of \$41.01 to Origin's inherited customers provides a transparent objective calculation.

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 considered that the costs to be borne by Origin were proportionate to its size when it appeared that a similar approach by a smaller RoLR would bear the same costs per customer transferred.

Origin pointed out that 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

<sup>104</sup> [AER RoLR Guidelines, section 5.1, page 9.](#)

<sup>105</sup> 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.

<sup>106</sup> Origin, RoLR cost recovery application cover letters, various dates.

<sup>107</sup> Ibid.

<sup>108</sup> [Essential Services Commission, Victorian Default Offer, Final Decision 2022-23](#), page 27. Origin, RoLR cost recovery application cover letters, various dates.

<sup>109</sup> Ibid.

<sup>110</sup> [Australian Competition and Consumer Commission, Retail Electricity Pricing Inquiry: Final report, July 2018.](#)

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.<sup>111</sup>

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, 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.<sup>112</sup> While the AER agrees with these points raised by Origin, it also considers that large retailers such as Origin have a social licence obligation to provide this essential role in the market. Such retailers are likely to have the ability to fulfill this role where smaller retailers are not capable.

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.<sup>113</sup>

### **AER's analysis of Origin's approach to costs to be borne**

We note Origin's observation of a lack of specific guidance in relation to the application of the Retail Law principle of costs to be borne by the RoLR in proportion to the size of its customer base.

We also note that the legal framework does not specify what costs the RoLR should bear or their quantum.

In the absence of guidance or a precedent, Origin has therefore proposed the guiding principle ought to be the cost a retailer incurs in competing for a customer in a contestable retail market, being customer acquisition and retention costs.

As set out above, Origin has proposed applying the benchmark allowance for customer acquisition costs as determined by the ESCV in its 2022-23 VDO decision, being \$41.01 per customer (excluding GST).

In terms of customer acquisition costs, it is reasonable that those costs should be deducted from any costs recoverable under the RoLR scheme. This is because Origin has, as a result of the scheme, obtained additional customers without having to incur those particular costs.

The AER has considered whether Origin's approach has satisfied the obligation under the Retail Law for Origin to bear some of the cost in proportion to its customer base. While it would appear that under this approach small retailers would bear the same amount of costs as a RoLR with a large customer base, the AER concluded that ultimately this was not the case. This is because, under this determination, the costs that the AER allows, will be passed on to distributors who will then pass them on to retailers, including Origin, as

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<sup>111</sup> Origin, response to RFI-002 dated 30 August 2023.

<sup>112</sup> Ibid.

<sup>113</sup> Ibid.

discussed in section [6](#) below. Larger retailers (with more customers) will have a larger proportion of the costs passed on to them. In this way, Origin will bear some of the costs in proportion to its customer base.

Because Origin's proposed approach displays a logical nexus to both the number of acquired customers, and the timing of the RoLR events (in relation to the ESCV's 2022-23 Victorian Default Offer decision), we are satisfied that Origin has taken a reasonable approach to costs to be borne by Origin.

## 6 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).<sup>114</sup>

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 NER. These arrangements allow the distributor to recover its payments to the RoLR from all retailers through its network charges.<sup>115</sup>

### 6.1 Cost recovery scheme method proposed by Origin

Origin has proposed 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 Table 4 below).

**Table 4 sets out the costs payable per distributor as proposed by Origin**

Distributor	Customers transferred in network	Amount payable per distributor (\$ nominal)	Total residential customers in network	Estimated cost per residential customer (\$ nominal)
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 <sup>116</sup>	5,028	\$2,182,512.53	771,827	\$2.83
SAPN	1,133	\$491,803.24	807,990	\$0.61
<b>Grand Total</b>	9,983 <sup>117</sup>	\$4,333,337.96	4,589,249	

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

Origin has stated that this would result in low costs to individual customers as the costs are shared across a larger number of customers.<sup>118</sup>

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

<sup>114</sup> Section 167 of the Retail Law.

<sup>115</sup> [AER, Retailer of last resort cost recovery scheme Issues paper, November 2010](#), page 13.

<sup>116</sup> 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.

<sup>117</sup> 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.

<sup>118</sup> Origin, RoLR cost recovery application cover letters, various dates.

- 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.<sup>119</sup>
- 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.<sup>120</sup>
- 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.<sup>121</sup> 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.<sup>122</sup>

### **AER's decision on distributor payment determination method**

The AER considers that generally, RoLR cost recovery claims should be recovered by spreading the cost across the entire relevant distribution network customer bases.

While Origin has proposed 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 Table 4 above), we note Essential Energy's submission seeking costs to instead be spread evenly per customer across the entirety of the five relevant distribution network customer bases.<sup>123</sup>

In particular, Essential Energy's submission sets out that as its customer density is the lowest in the NEM, its residential customers would be disproportionately impacted, if costs were to be socialised by reference to the number of RoLR customers transferred into each network, as proposed by Origin.

Essential Energy has therefore suggested that if the AER grants Origin's RoLR cost recovery claims, that the costs be shared evenly per customer, at the same level across the impacted distributors.

The AER has weighed up the relative merits of each approach and has decided that costs be shared evenly per customer across the entirety of the five relevant distributor network customer bases (rather than in proportion to the number of RoLR customers transferred into each network as proposed by Origin). We consider, in line with Essential Energy's argument, that this is the most equitable approach, as it does not unduly impact on any one distributor's network. We have consulted with the relevant distributors throughout this process and consider that this approach will not cause undue concern. While we acknowledge that this does lead to increases for customers in the Endeavour, Energex and SAPN regions, we note that the impact is that, at most, some customers will be paying a one-off amount of up to 62 cents (\$ nominal) more than what Origin has proposed due to the cost being spread evenly per customer.

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<sup>119</sup> AER RoLR Statement of Approach, page 19.

<sup>120</sup> AER RoLR Statement of Approach, page 19.

<sup>121</sup> AER RoLR Statement of Approach, page 20.

<sup>122</sup> AER RoLR Statement of Approach, page 18.

<sup>123</sup> [Essential Energy, Submission to Origin Energy's Retailer of Last Resort Cost Recovery Applications, dated 26 April 2024, page 2.](#)

## 6.2 Expected impact of our decision on electricity bills

Table 5 (below) sets out the indicative one-off cost per distributor, and per residential customer, as determined by the AER. The AER has determined that costs should be socialised across the entirety of the five relevant distribution network customer bases evenly per customer.

**Table 5 sets out the amount payable per distributor as determined by the AER**

Distributor	Customers transferred in network	Amount payable per distributor (\$ nominal) <sup>124</sup>	Total residential customers in network	Cost per residential customer (\$ nominal) <sup>125</sup>
Endeavour	700	\$905,568.45	959,048	\$0.94
Energex	1,078	\$1,324,300.66	1,402,509	\$0.94
Ergon	2,044	\$611,747.44	647,875	\$0.94
Essential	5,028	\$728,787.48	771,827	\$0.94
SAPN	1,133	\$762,933.92	807,990	\$0.94
<b>Grand Total</b>	9,983 <sup>126</sup>	\$4,333,337.96	4,589,249	

<sup>124</sup> The AER notes that Origin's applications and the amounts claimed are in respect of 2022/23 dollars, therefore the amount payable by each distributor to Origin, and the amount to be recovered from customers would need to be adjusted for inflation.

<sup>125</sup> This is a rounded figure – the actual cost per customer is \$0.944236837 (\$ nominal, in 2022-23 dollars, and will need to be adjusted for inflation).

<sup>126</sup> 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.



## 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
ESC	Energy Savings Certificate
ESCV	Essential Services Commission (Victoria)
ESS	Energy Savings Scheme
FTE	full-time equivalent
GST	good and services tax
IPART	Independent Pricing and Regulatory Tribunal
LGC	Large-scale Generation Certificate
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
PDRS	Peak Demand Reduction Scheme
PRC	Peak Reduction Certificate
PTRM	post-tax revenue model
RET	Renewable Energy Target
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

Terms	Definition
SME	small-to-medium enterprise
STC	Small-scale Technology Certificate
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 (\$ nominal)

RoLR events / Cost categories	Pooled	Power Club	Social	Elysian	Enova	Mojo East	Amount claimed across all six RoLR events (\$ nominal)
<b>Revenue*</b>	\$128,222.12	\$447,614.68	\$147,099.23	\$1,118,668.27	\$8,641,435.16	\$235,799.28	<b>\$10,718,838.74</b>
<b>Wholesale costs</b>	\$117,745.31	\$459,430.64	\$124,297.05	\$995,826.77	\$8,278,995.70	\$243,680.12	<b>\$10,219,975.59</b>
<b>Network costs</b>	\$43,169.06	\$181,149.02	\$60,556.01	\$445,690.24	\$3,627,848.05	\$94,902.94	<b>\$4,453,315.32</b>
<b>Environmental costs</b>	\$9,391.12	\$25,769.98	\$8,773.29	\$78,817.36	\$530,352.66	\$15,307.68	<b>\$668,412.09</b>
<b>Admin costs</b>	\$1,311.78	\$1,699.85	\$0	\$182.85	\$1,564.22	\$330.84	<b>\$5,089.54</b>
<b>Total costs</b>	\$171,617.27	\$668,049.90	\$193,626.35	\$1,520,517.22	\$12,438,760.63	\$354,221.58	<b>\$15,346,792.54</b>
<b>RoLR costs quantified**</b>	\$43,395.15	\$220,434.81	\$46,527.12	\$401,848.95	\$3,797,325.47	\$118,422.30	<b>\$4,627,953.80</b>
<b>Costs to be borne by Origin</b>	\$3,731.91	\$7,586.85	\$6,151.50	\$38,098.29	\$232,280.64	\$6,766.65	<b>\$294,615.84</b>
<b>Net claim</b>	\$39,663.24	\$212,847.96	\$40,375.62	\$363,750.66	\$3,565,044.83	\$111,655.65	<b>\$4,333,337.96</b>

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 – relevant provisions

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

### **Retail Law Division 9**<sup>127</sup>

#### **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—

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.

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<sup>127</sup> [National Energy Retail Law](#).

- (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 objective**<sup>128</sup>

“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 Guidelines**<sup>129</sup>

## **1 Introduction**

### **1.1 Purpose of RoLR guidelines**

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1.1.4 The guidelines may (without limitation):<sup>130</sup>

- specify the form of and information to be included in a RoLR register expression of interest (EoI);
- 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.<sup>131</sup>

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<sup>128</sup> Section 13 of the Retail Law.

<sup>129</sup> [AER RoLR Guidelines, November 2011.](#)

<sup>130</sup> Section 135(5) of the Retail Law.

<sup>131</sup> Section 135(6) of the Retail Law.

## 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).
- 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.<sup>132</sup>

## **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.

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.

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<sup>132</sup> [RoLR cost recovery guidelines pro forma template.](#)