



30 September 2016

Mr Stephen Pearce – Principal Advisor
Essential Services Commission
GPO Box 2605
Adelaide SA 5001

By e-mail: escosa@escosa.sa.gov.au

Dear Mr Pearce

Inquiry into regulatory arrangements for small-scale water, sewerage and energy services

Origin welcomes this opportunity to respond to the Essential Services Commission's (ESCOSA) inquiry into regulatory arrangements covering small-scale water, sewerage and energy services. Origin supports ESCOSA's work in this area and looks forward to participating in the inquiry.

In relation to energy, Origin reticulates liquefied petroleum gas (LPG) to over 2,000 customers across 6 reticulation networks in South Australia covered by the Reticulated LPG Industry Code (the Code). The focus of our responses in this submission is on this segment of the small-scale energy supply market.

Origin acknowledges that reticulated LPG networks remain subject to separate oversight by ESCOSA and is committed to meeting its obligations under the Code. Information provided to customers on contractual arrangements and pricing for the supply of LPG are maintained by LPG reticulation licence holders. This information provides customers with the ability to compare their supply arrangements with available substitutes (electricity, LPG other fuels).

We believe the existing regulatory arrangements are more than sufficient to protect consumers supplied through reticulated LPG networks in South Australia. Given the small size of this market, Origin believes the Inquiry should look at opportunities to reduce the regulatory burden on suppliers, given the cost of compliance they face and the availability of alternative sources of supply.

We note that oversight of Queensland LPG reticulation networks focuses on safety performance and compliance with technical standards, with the Australian Consumer Law providing customer protections as it would for other similar product and service markets. Origin would encourage ESCOSA to consider a move to similar light-handed regulation that may better serve the interests of reticulated LPG customers, given the free availability of a number of substitutes to existing supply arrangements.

We respond to specific questions set out in the issues paper below. Should you wish to discuss any part of this response further, please contact David Calder (Regulatory Strategy Manager) on (03) 8665 7712 in the first instance.

Yours sincerely

A handwritten signature in blue ink, appearing to read "K. Robertson".

Keith Robertson
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Specific comments on the issues paper

Question 1:

1(a) What issues are current customers of small-scale utility services concerned about? How do you know customers are concerned about these issues?

1(b) Does our current regulatory framework allow suppliers the flexibility to respond to the issues raised by customers? What improvements to our framework are required?

1(c) Where customers are not provided with a choice of supply arrangements, what information do they need to understand the service they receive?

1(d) What are the appropriate indicators to allow us to monitor customer confidence, engagement and satisfaction in these markets?

Origin believes the current framework is more than adequate to support reticulated LPG customers. Origin is not aware of any systemic complaints from its customers served by these reticulation networks.

We believe the current regulatory framework does not add to Origin's ability to respond to concerns raised by consumers. The reporting framework is a compliance exercise that is generally unrelated to our day to day dealings with customers. As such the continued application of the framework does not contribute to our capacity to manage customer concerns. Customers within reticulated LPG networks have access to substitutes (bottled LPG, electricity) and it is in the interests of a reticulated LPG network supplier to maintain customer satisfaction with the services provided. On this basis, Origin believes customers do have choice of their supply arrangements.

Origin maintains records of customer's accessing pricing information on its website. The number of unique site visits is extremely low. We would be pleased to share this information with ESCOSA. Pricing is a key issue for customers in relation to their reticulated LPG supply and customers understand their access to alternatives.

Question 2:

2(a) Are there any difficulties for small-scale utility suppliers in setting prices to recover the long-term efficient costs of running their business? If so, how could our regulatory framework assist to address this issue?

2(b) Are there any concerns that suppliers are over-recovering their long-term efficient costs? If so, how could our regulatory framework assist to address this issue?

Reticulated LPG supply is not price regulated and Origin strongly believes this should remain the case as there is no evidence of market failure. There are no material barriers to recovering long-term efficient costs of reticulated LPG networks in our experience; however the current regulatory regime contributes to the cost of supplying our customers in South Australia.

Origin does not believe in the case of reticulated LPG that over recovery is a factor. Given the availability of close substitutes to reticulated LPG supply, customers have the ability to signal their dissatisfaction by selecting alternative sources of energy.

Question 3:

3(a) Does our current regulatory framework present any issues or challenges for new entrants offering new small-scale utility services? If so, how?

3(b) Are there any new emerging business models that will create a different relationship between suppliers and customers? If so, will this relationship create new financial, service reliability or other risks that customers need to be aware of when making their decisions?

3(c) Where customers are provided with a choice of supply arrangements, what information will they need to make informed decisions about new supply options? Who should provide this information?

The licensing regime for reticulated LPG is onerous and is unlikely to encourage new entrant investment. Relative to the regulatory oversight applied to reticulated LPG in other jurisdictions (e.g. Queensland), the South Australian framework is burdensome (reporting, licensing and so on) and given the availability of substitute supplies, unlikely to contribute to efficient new entry.

Origin has been engaged with the Council of Australian Governments Energy Council (the COAG EC) on the implications of emerging business models and the requirements for information provision to customers and the appropriate regulation that should apply. Origin would encourage ESCOSA to align its work in this area with the COAG EC. Origin's general position is that limited, if any regulation is necessary at this stage as the Australian Consumer Law provides adequate consumer protections for customers choosing to enter into (optional) alternative supply models.

With respect to alternative supply arrangements, Origin believes customers already understand alternatives to reticulated LPG supply and their right to access (for example) the electricity grid as opposed to choosing to receive supply largely from off grid sources. Emerging businesses will be incentivised to furnish customers with appropriate information and their rights and obligations as such business models are likely to rely on long-term and transparent relationships with their customers.

Question 4:

4(a) How much does it cost for suppliers to comply with their obligations under our current regulatory framework?

4(b) Are you aware of any areas where more than one regulator is seeking to deal with the same matter (regulatory overlap)?

4(c) Are there any areas where you believe that no regulator is dealing with a matter but should be (regulatory gap)?

4(d) Are you aware of any emerging risks that we need to take into account?

Origin is unable to provide precise data in this response in relation to compliance costs under the current regulatory framework (particularly in relation to reticulated LPG). We would note however that the South Australian requirements come at significantly higher compliance costs relative to comparable jurisdictions (for example Queensland, where Origin supplies a much larger customer base via reticulated LPG). Queensland LPG reticulations were previously subject to a high level of regulatory oversight, akin to what might apply to covered natural gas distribution networks. It is not

considered necessary to regulate through reporting and other compliance measures in that jurisdiction and it is recognised that alternative supply arrangements are available.

While Origin strongly supports regulation in relation to the safe delivery of LPG and other sources of energy, in the case of reticulated LPG supply, given the clear availability of substitutes, there is little justification to continue regulating suppliers so comprehensively.

Origin is unaware of regulatory overlap or gaps that apply to reticulated LPG. With respect to emerging energy supply models, Origin strongly supports national oversight (where necessary) and harmonisation of arrangements across jurisdictions.

Question 5:

Are there any other issues you think we should consider as part of this Inquiry?

Origin would ask ESCOSA to use the Inquiry as an opportunity to assess the continued need to regulate reticulated LPG supply, given the incentives for suppliers to provide a superior service to readily available substitutes. Origin would be pleased to discuss customer experiences and outcomes in its reticulated LPG systems in Queensland to assist ESCOSA in this regard.