



7 November 2008

Dr John Tamblyn
Chairman
Australian Energy Market Commission
PO Box A2449
SOUTH SYDNEY NSW 1235

By email: submissions@aemc.gov.au

Dear Dr Tamblyn,

Compensation Arrangements Under Administered Pricing - Draft Determination

Origin Energy (Origin) welcomes the opportunity to comment on the Commission's Draft Rule Determination on the Compensation Arrangements Under Administered Pricing (Draft Rule).

Origin's view is reflective of the Energy Retailers Association of Australia, in that we are largely supportive of the Draft Rule as it should assist in bringing clarity and transparency to the process of calculating compensation under an administrative pricing period (APP).

The aligning of compensation with direct generating costs and opportunity costs, as opposed to a generator's offer price, is likely to strike an appropriate balance in limiting the financial exposure to retailers and large customers whilst assuring a more equitable level of compensation for claimants. This is in keeping with the APP's original intent of mitigating the risks to Market Participants during an extended period of high prices.

Origin recognises the complexities involved in calculating the level of compensation - particularly opportunity costs, and considers it important that a clear and transparent methodology is developed. We therefore welcome the Commission's decision to develop compensation guidelines and to seek stakeholder feedback in this process through the Transmission Consultation Procedures.

In regard to the scaling back of prices in adjoining regions during an APP



to limit the accrual of negative inter-regional settlement residues (IRSR), Origin considers that this practice is somewhat inefficient as it broadens the group of potential claimants to include Participants in interconnected regions, thus exposing retailers to greater financial risk and uncertainty.

It is therefore imperative that the Commission investigates the development of more efficient options to deal with negative IRSR during an APP and take a closer look at the Intelligent Energy System's proposal to amend the Rules such that the APP is only applied in the region where the cumulative price threshold has been breached.

If you wish to discuss any of these issues further please do not hesitate to contact me on (02) 8345 5132.

Yours sincerely

Steve Reid
Senior Analyst, Energy Markets Policy