



13 July 2015

Dr Peter Boxall, AO
Chairman
Independent Pricing and Regulatory Tribunal
Level 15, 2-24 Rawson Place
SYDNEY NSW 2000

By email to ipart@ipart.nsw.gov.au

Dear Dr Boxall,

Solar Feed-in Tariffs (FiT) Issues Paper – June 2015

AGL Energy welcomes the opportunity to comment on the Independent Pricing and Regulatory Tribunal (IPART) *Solar feed-in tariffs – The subsidy-free value of electricity from small-scale solar PV units from 1 July 2015 – Issues Paper, June 2015 (Issues Paper)*. AGL has provided submissions to previous IPART reviews of the solar feed-in tariff (FiT).

In AGL's view, the current methodology using a simulation process is reasonable. The use of gross metering data for setting the retailer contribution for customers in the Solar Bonus Scheme ('SBS') and net metering data for the benchmark range for non-SBS customers is also appropriate. The setting of the retailer contribution should take account of the risk of setting the mandatory price too high. However, setting the benchmark range by reference to the 2-hour period when the solar premium is the highest is somewhat arbitrary. As this determination will apply until 31 December 2016 (unless replaced), it is also appropriate that relevant data over this period is used.

AGL's comments on the issues raised in this Issues Paper is presented below.

Estimating the wholesale market value

In the 2014 review, the wholesale market value of PV exports was estimated by calculating the forecast average spot price and adjusting by a solar premium (ratio of solar PV output-weighted to time-weighted price), loss factor and NEM fees and charges. AGL considers this methodology using ASX contract prices and a simulation process to be appropriate and is a significant improvement on previous reviews.

The change proposed in this review is that the loss factor will be the weighted average loss factor across all three network areas in NSW (Ausgrid, Endeavour Energy and Essential Energy). Last year, the loss factor for Ausgrid only was used as the solar profile was based on metering data from the Ausgrid distribution region. As noted by IPART, all things being equal, this proposal will increase the value of PV exports.

AGL considers that this is reasonable provided that the forecast average spot prices and solar premium appropriately reflect state-wide averages, not just the Ausgrid distribution region. The solar profile is expected to be different by distribution regions for a number of reasons including climate and penetration of natural gas.

Setting the retailer contribution

IPART has proposed to set the mandatory retailer contribution on the basis on gross metering. This is supported by the fact that a majority of customers in the SBS have installed gross meters.



In 2014, the retailer contribution was based on the estimated value of exports by customers with gross meters during all other times of the day excluding the 2-hour period when the solar premium was the highest (3 to 5pm). This was to avoid the risk of setting a mandatory price which was too high which could lead to less competition and/or higher retail prices for PV customers.

The terms of reference now require the retailer contribution to be set to reflect the estimated total value to retailers of the energy generated due to concerns that the lower range estimate of the wholesale market value does not fulfil the intent of the introduction of the retailer contribution. IPART has considered this to mean that the retailer contribution will be based on the value of PV exports at all times of day, rather than at all other times of day excluding 3-5pm. IPART has suggested options to set the retailer contribution including the 25th percentile, median or mean of the wholesale market value.

Given that the distribution of values is likely to be skewed, normally, the measure to use is the median or 50th percentile of the range of values. In the 2014 review, the retailer contribution was set at 5.1 c/kWh compared with a median value of 5.6 c/kWh. This is not an insignificant difference - 10% higher. The retailer contribution can only provide a relatively small offset to the costs of the SBS but there is the risk of setting a mandatory price which is too high. The terms of reference requires that there should be no resulting increase in retail electricity prices due to this determination. It is reasonable, therefore, to consider if a lower percentile (e.g. 25th percentile) will provide a more balanced outcome.

The terms of reference also requires that this determination will apply until 31 December 2016 (or until replaced) when the SBS will also expire. IPART is proposing to set the wholesale market value on the basis of the 2015-16 financial year as it aligns with certain data inputs such as loss factors and NEM fees. In effect, IPART proposes to use 2015-16 as a proxy for the 18-month period. In AGL's view, the most relevant data should be used where possible. If the determination sets the value of PV exports over an 18-month period from 1 July 2015, the forecast spot prices based on ASX contract prices should span the same period. Similarly, the solar profile over an 18-month period from July should be used to reflect any seasonality.

Setting the benchmark range

To set the benchmark range for non-SBS customer, similar to last year, IPART proposes to estimate the value of PV exports based on net metering and by setting the upper end of the range based on the value of PV exports during a 2-hour period when the solar premium is the highest (3-5pm) and the lower end of the range based on the value during all other periods excluding the 2-hour period.

While the use of net metering data is appropriate in representing nearly all non-SBS customers, the setting of the upper and lower values based on the inclusion and exclusion of the 2-hour period is somewhat arbitrary. In AGL's view, a more suitable approach is to adopt a range of percentiles e.g. 10th to 90th percentile.

The benchmark range for 2014-15 is 4.9 to 9.3 c/kWh. In the consultant's report for the 2014 review, some possible ranges based on percentiles were:

<u>Percentile</u>	<u>c/kWh</u>
25 th – 75 th	5.1 – 6.21
5 th – 95 th	4.5 – 7.03

Hence, it should be expected that setting the benchmark range using percentiles will result in a range which is narrower than the approach used in 2014.

Should you have any questions in relation to this submission, please contact Meng Goh at mgoh@agl.com.au or (02) 9921 2221.

Yours sincerely,

Nicole Wallis
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