

30 January 2014

Dr Peter Boxall, AO
Chairman
Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB Post Office NSW 1230

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

Dear Dr Boxall,

Solar Feed-in Tariffs (FiT) Issues Paper – November 2013

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 2014 – Issues Paper, November 2013 (Issues Paper)*. AGL has provided submissions to previous reviews by IPART of the solar feed-in tariff (FiT).

In recent years, IPART and other regulators have conducted reviews on the value of the feed-in tariffs for small-scale solar PV units and there has been clear agreement on the appropriate approach based on the costs avoided by retailers. However, alternative methods can also be employed to estimate this value.

AGL considers that the current approach used by IPART to determine the range after taking account of the two methods based on wholesale market value and direct financial gain to retailers continues to be appropriate.

Below are AGL's comments on the key issues which were raised in this Issues Paper.

Estimating the wholesale market value

The method of estimating the wholesale market value for 2013/14 was based on one historical year of data. AGL supports IPART's preference to use more historical data and a simulation process to generate a distribution of possible outcomes. This is a less 'random' approach compared with the 2013/14 approach.

For the 2013/14 solar review, IPART had estimated the wholesale market value based on data for a 1.5 kW units. AGL supports the current approach of using the most common PV unit size. However, it is useful to review if the 1.5 kW unit is still the most common PV unit size as, anecdotally, larger units are being installed.

The 2013/14 solar review was also based on a net metered profile. For customers who are not on the Solar Bonus Scheme, it is more financially rewarding to be on a net metered basis as long as the feed-in tariff is less than the full retail electricity price. As Frontier has found no significant difference between gross and net metered profile, for the purpose of setting the value of the solar FiT, AGL does not propose any change to the current approach on the metered profile.

Estimating the direct financial gain to retailers

IPART has noted that an issue with the direct financial gain method is that it is based on the approved regulated prices which are finalised in June each year. Due to this timing, it is difficult for retailers to implement the change by 1 July. IPART has suggested the direct financial gain method be based on the draft decision instead.

From AGL's perspective, typically, if the draft decision is completed in April, it will provide sufficient time to implement any changes by 1 July.

AGL supports IPART's consideration of using the draft decision on regulated electricity prices to assess the direct financial gain to retailers. Given that the benchmark range is voluntary, the use of the draft decision will be sufficient. As the mandatory retailer contribution is based on the lower bound of the range of values from the financial gain method (i.e. based on a discount to the regulated price) the risk of creating a cost to retailers is reduced appropriately.

Setting the retailer contribution and benchmark range

In the 2013/14 review, the retailer contribution which represents the mandatory amount which retailers contribute towards the Solar Bonus Scheme was based on the lower bound of the range of the financial gain to retailers. The benchmark range for non-SBS customers is based on a range which considers the wholesale market value and the range of the financial gain to retailers. AGL supports the continuation of these approaches for setting the retailer contribution and benchmark range.

AGL currently offers non-SBS customers, a FIT of 8c/kWh. This is close to the mid-point of the range which IPART has determined. IPART has noted that retailers' offers are generally well below the upper bound of the benchmark range for 2013/14. AGL considers that the benchmark range provides a useful point of reference for consumers and retailers alike.

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

Yours sincerely,

Meng Goh
Manager Regulated Pricing