



23 January 2012

Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB Post Office NSW 1230

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

Dear Chairman,

Solar Feed-in Tariffs (FiT) Draft Report – November 2011

AGL Energy welcomes the opportunity to comment on the Independent Pricing and Regulatory Tribunal (IPART) *Solar Feed-in Tariffs - Setting a fair and reasonable value for electricity generated by small-scale solar PV units in NSW Energy – Draft Report, November 2011 (Draft Report)*.

As a leading investor in renewable energy and one of the largest energy retailers in Australia, AGL Energy (AGL) is well placed to comment on the *Draft Report*. AGL operates across the supply chain and has investments in coal-fired, gas-fired, renewable and embedded electricity generation. AGL is Australia's largest private owner, operator and developer of renewable generation in Australia with 1,205 MW of renewable capacity (at 30 June 2011). AGL is also a significant retailer of energy with over 3 million electricity and gas customers. AGL is able to provide perspectives in relation to solar feed-in tariffs as both: an entity that sells and installs solar PV units; and a large retailer of electricity and gas.

Overarching Comments on the IPART Draft Report

AGL recognises that developing a 'fair and reasonable' value for a FiT for customers ineligible for the Solar Bonus Scheme (SBS) involves the consideration of a variety of complex issues and opposing stakeholder views. AGL note that IPART were limited by the Terms of Reference (ToR) set out by the NSW Government. We have attempted to limit our comments to the tasks undertaken by IPART, and where issues extend outside the scope of the ToR we have tried to identify these issues.

As per the AGL submission to the IPART Issues Paper¹, AGL remains of the view that IPART should, where possible, minimise any further regulatory intervention in the retail electricity market. Accordingly, AGL supports IPART's approach to publish a benchmark range and not establish a mandated rate. Similarly, although AGL is not a Standard Retailer, AGL does not support the requirement for Standard Retailers to offer a FiT. In light of the upcoming 2012 review of NSW retail electricity competition by the AEMC, AGL would urge IPART to consider the potential impacts of regulatory intervention on the level of competition that currently exists in the market.

AGL remains concerned that the ToR requirement for IPART to consider 'the contribution that could be made by retailers to the costs of the Solar Bonus Scheme'² could change the costs for retailers to serve customers which already participate in the SBS. Amending the

¹ AGL Energy Ltd. Solar Feed-in Tariffs (FiT) Issues Paper, 12 September 2011. Page 2.

² Premier of New South Wales, Reference to IPART under s9 of the IPART Act, 28 July 2011. Page 3.

way in which legislated schemes are funded, during their operation, and placing the funding burden on to retailers, and ultimately customers, introduces increased risk for retailers operating in these markets. While AGL acknowledge that the increase in the costs associated in the SBS is an unusual circumstance, it nonetheless highlights the need for Government's to manage schemes, such as this, closely to avoid unintended consequences.

Solar FiT - Form of regulation

AGL agrees with the proposed approach that IPART publish a benchmark range for the value of solar PV exports which customers can use as a basis to compare retailer offers in the market. As set out in Chapter 9 the *Draft Report* this approach minimises the risk of regulatory error associated with setting a mandated FiT amount.

AGL does remain concerned that if the benchmark range does not represent the value of the energy to retailers then this could confuse customers. In addition, if this benchmark is set too high, it could encourage retailers to avoid PV customers regardless of whether they are on the SBS or not.

AGL supports IPART's position that the mechanism should be simple and operationally effective for the NSW Government, IPART and other stakeholders to implement. Providing an annual update of the benchmark range would also appear appropriate while retail electricity prices continue to be regulated.

Solar FiT - Methodology for Calculating the value of solar PV exports to Retailers

Limitations of *Financial Gain* approach

AGL agree that if a retailer does not pay for the energy received from a customer's solar PV exports then that retailer in effect receives a financial gain to the value of that energy and any other avoided costs. IPART has proposed that the value of this energy for a Standard Retailer, within their relative distribution area, can be determined by using the Standard Retailer's relevant regulated electricity price. The value of the energy is equivalent to the costs that are avoided by the retailer resulting from the solar PV export i.e. electricity purchase costs, NEM fees and electricity losses³.

AGL is concerned that the range of the value of a PV customer's exported energy proposed by IPART using this approach is likely to be higher than the value which retailers attribute to this energy⁴. IPART acknowledge the limitations of this approach in determining the value of PV exports for the range of retailers operating in NSW. IPART state:

*As the financial gain to the Standard Retailers reflects their particular revenues and costs for PV customers on regulated prices, the financial gain associated with PV customers on unregulated prices might be higher or lower than the Standard Retailers' financial gain.*⁵

In establishing a benchmark based on standing offer prices, the range does not represent the relative value for this energy which would be equivalent to a non-Standard Retailer market contract. Market contracts offer prices at a discount to the regulated price, and therefore this value should be lower than the range in regulated prices. IPART has rounded down the values in the range to account for the potential impact of market contract discounts, however AGL do not agree that this adjustment adequately accounts for the level of discounting in current market contracts.

³ AGL's submission to the IPART Issues Paper in September 2011 suggested retailers could avoid RET costs from solar PV exports. Since this submission AGL has confirmed that the settlement approach for determining liable acquisitions does take into account solar PV generation. This confirms IPART's assessment that retailers do not avoid paying a RET costs for these solar PV exports.

⁴ Table G.1 of the Draft Report shows that AGL is currently the only retailer offering a voluntary FiT premium that is within IPART's suggested benchmark range for 2011/12

⁵ IPART, Solar Feed-in Tariffs - Setting a fair and reasonable value for electricity generated by small-scale solar PV units in NSW Energy – Draft Report, November 2011. Page 49.

Wholesale market value approach is more appropriate

The proposed *wholesale market value* approach estimates the value of this energy if it was sold on the NEM. Appropriately, this approach does not assume that the energy generated by PV customers has a different value to what is settled on the NEM. PV generation should be viewed in the context of the various forms of generation which supply the NEM and not as an exception.

If the financial position of two retailers – one supplying PV customers and the other not – are compared, ignoring the reduction in customers energy usage from the grid, the difference will be due to the volume offset in the AEMO settlement process which is equivalent to the PV exports. In this case, AGL considers the wholesale market value is the appropriate approach to value the the PV exports. Consequently, AGL suggest that using a benchmark range based upon the wholesale market value represents a more appropriate guide as to the value of PV exports for NSW customers.

An alternative approach for setting the benchmark range could be to use both sets of values for solar PV exports to set the upper and lower bounds of the range e.g. IPART could expand the benchmark range by substituting the low end of the range with the lower value derived under the wholesale market value approach. This approach would help ameliorate the risk that the range doesn't represent the value for both Standard and non-Standard Retailers.

Retailer contribution to the Solar Bonus Scheme costs

AGL understands that IPART's recommendations in relation to setting a retailer contribution to the SBS are set by the ToR established by the NSW Government. AGL remains of the view that it is not appropriate for retailers to be required to contribute to the costs of government schemes, such as the SBS, when this scheme has already commenced and customers have entered contracts in good faith on the basis of legislative certainty.

AGL agrees with IPART's observation that if the mandated retailer contribution to the SBS is set too high, relative to the value of the electricity that PV customers export, then supplying these customers may impose costs on retailers, and in turn this could reduce PV customers' attractiveness to retailers.

Potential impact of retailer contribution

In our previous submission, it was noted that mandating a retailer contribution to the SBS could reduce or eliminate voluntary premiums paid by retailers for customers solar PV exports. AGL described this in terms of 'retrospectively altering contracts'. AGL acknowledge that IPART are not suggesting a change to customers contracts. However, the effect of the proposed SBS contribution will be to change regulatory framework on which a customer has made an economic decision to enter into a contract. AGL remains of the view that this type of regulatory intervention does not support the development of a competitive retail market in NSW.

IPART recognise the potential impact of setting a mandatory retailer contribution on SBS customers who already receive a voluntary FiT premium from their retailer. For example, a customer with a gross metering arrangement on a 20c/kWh SBS FiT could be better off switching to a net metering configuration if the voluntary retailer premium for exports is removed.

Mechanism for retailer contribution

The *Draft Report* does not address the mechanism by which retailers would be required to contribute to the costs of the SBS. If NSW Government does proceed with this approach AGL recommends consultation with retailers to develop a mechanism to contribute to SBS costs which is simple and operationally effective.

Potential for PV exports to provide benefits to other parties

AGL agree with IPART's assessment that it is not feasible or necessary to include the impact of any potential benefits in the FiT benchmark range, such as reduction in loss factors, change in retailer load shapes or changes to wholesale prices, which may occur from PV customers' exports. In addition, AGL is of the view that attempting to allocate any cost or benefit to a market participant based on an estimated change in the wholesale price (i.e. 'the merit order effect') is not appropriate.

Conclusion

AGL agrees with IPART's recommendation that a benchmark range is the most appropriate regulatory mechanism with which to establish a 'fair and reasonable' value for solar PV customers' exported energy. However, estimating this value based on the potential financial gain to retailers does not accurately represent the value ascribed to this energy by non-Standard Retailers. AGL proposes that the value based on the wholesale market value approach be included in the benchmark range.

AGL would highlight that setting a mandatory contribution by retailers to the SBS scheme costs, based on the financial gain approach, risks reducing the incentive for retailers to offer these customers competitive products and could have a significant impact on the economic decision to install solar PV made by some customers currently receiving a 20c/kWh SBS FiT.

Should you have any questions in relation to this submission, please contact me at adudgeon@agl.com.au or (02) 9921 2612.

Yours sincerely,



Andrew Dudgeon
Manager Regulated Pricing