



**22 April 2016**

Angus Bruce  
Analyst  
Essential Services Commission of SA  
GPO Box 2605  
Adelaide SA 5001

**By email: [escosa@escosa.sa.gov.au](mailto:escosa@escosa.sa.gov.au)**

Dear Angus,

### **Electricity retailer feed-in tariff – review of regulatory arrangements**

AGL Energy welcomes the opportunity to comment on the Essential Services Commission of South Australia (the **Commission**)'s Issues Paper on South Australian electricity retailer feed-in tariff – Review of regulatory arrangements, March 2016 (the **Issues Paper**). The Commission has set a minimum R-FiT for the calendar years of 2012 to 2016 and has commenced this review to determine if a minimum R-FiT should continue to be set for 2017 and beyond.

AGL is one of Australia's leading integrated energy companies and is the largest ASX listed operator and developer of renewable energy generation in the country. AGL is a significant energy retailers in Australia with over 3.7 million electricity and gas customers, and is the largest energy retailer in South Australia with 417,000 electricity customers as at 31 December 2015.

AGL has provided submissions to previous reviews of the retailer feed-in tariff (**R-FiT**) in South Australia. AGL maintains that the continued regulation of the value of the R-FiT is unnecessary given the removal of price regulation of the electricity and gas retail markets. The removal of a minimum mandated R-FiT will allow retailers to tailor energy plans that suit the customer's usage profile and preference given the major changes that are transforming the energy market. In this changing environment, it is important that regulation does not inhibit innovation.

If you have any questions in relation to this submission, please contact Meng Goh, Manager Regulatory Strategy on (02) 9921 2221 or [mgoh@agl.com.au](mailto:mgoh@agl.com.au).

Yours sincerely,

Beth Griggs  
Head of Energy Market Regulation

## **AGL response to Issues Paper**

### ***Is the solar PV segment of the electricity market competitive in South Australia, in your view? Why or why not?***

Currently, retailers offer solar feed-in tariffs as a package combined with the general supply of electricity. About 194,000<sup>1</sup> customers or about 26%<sup>2</sup> of households have rooftop solar PV installations in South Australia. This is the highest penetration rate of rooftop solar in Australia by jurisdiction<sup>3</sup>.

There is no publicly available data on switching rates of solar customers compared with non-solar customers. However, the AEMC's 2015 Retail Competition Review has provided useful general information on competition for solar customers across the National Electricity Market (NEM). The AEMC's Final Report included a review of customer activity and outcomes for customers with solar panels and whether there were significant barriers to solar customers participating in retail energy markets<sup>4</sup>. Data was derived from the customer survey by Newgate Research commissioned by the AEMC. In summary:

- Solar customers appeared to be considerably more active in energy markets than non-solar customers,
- A number of factors could be contributing to the greater switching rates for solar customers, including that they are approached more often by retailers, they have greater levels of confidence to engage in the market and different motivations for switching.
- Solar customers were more active in investigating their options and were more confident than other customers in finding the right information to choose a suitable energy offer.
- Solar customers also appeared to be more satisfied with their experience in the market in relation to the level of market choice, customer service and value for money.
- Few solar customers saw solar panels as a barrier to their participation in retail energy markets.

The AEMC has also reported that, in early 2015, there were 16 retail electricity brands (13 retail electricity businesses) operating in South Australia<sup>5</sup>. Many of these retailers offer solar feed-in tariffs. Importantly, the three leading energy retailers in the NEM actively compete in this segment.

In AGL's view, the market penetration, number of retailers and the AEMC survey of the experience of solar customers indicate that the solar PV market in South Australia is competitive.

---

<sup>1</sup> Clean Energy Regulator, as at 1 March 2016

<sup>2</sup> Australian Energy Council, Solar Report, March 2016. p 4

<sup>3</sup> In comparison, the penetration rate of solar installations in New South Wales is 11%, Victoria 12% and Queensland 25%.

<sup>4</sup> AEMC, 2015 Retail Competition Review, 30 June 2015, Appendix E, p 276-281

<sup>5</sup> Ibid, p 193

***Is the methodology proposed by the Commission appropriate for assessing the level of competition in the market appropriate?***

The Commission has stated that it will examine the following factors to assess the level of competition in the market:

- switching rates,
- incidence of minimum payments,
- incidence of best priced market offers, and
- evidence from other jurisdictions particularly New South Wales and Queensland where there is no mandated feed-in rates.

In AGL's view, as well as the switching rate, the number of retailers offering solar feed-in tariffs in the South Australian market is highly relevant in assessing the level of competition. With the three largest energy retailers, as well as other smaller retailers, offering feed-in tariffs, there is strong competition.

AGL considers the AEMC retail competition reviews to be well balanced and comprehensive, covering a number of indicators to assess the level of competition including customer surveys. These reviews do not assess specifically the level of competition for solar customers in South Australia. However, as solar feed-in tariffs are not a separate market, that is, they are only available as a bundle with an energy supply offer, the overall assessment of the level of competition in the general retail electricity market is sufficient. In AGL's view, it is therefore sufficient for the Commission to have regard to the conclusions from these AEMC reviews.

*Switching rates*

Switching rates have been used as a measure of competitive activity by regulators, AEMC and research firms such as VaasaETT. AEMO's latest Monthly Retail Transfer Statistics<sup>6</sup> show that the annualised switching rate for electricity customers in South Australia is similar to the switching rates for New South Wales and South East Queensland<sup>7</sup>.

There is no publicly available data on switching rates between solar customers and non-solar customers. As solar feed-in offers are bundled with energy supply offers, in AGL's view, the AEMO switching rates provide a useful indicator of the level of competition in the market.

In the Final Price Determination of the 2015-16 Retailer Feed-in Tariff, the Commission had obtained data from SA Power Networks which showed a high correlation between switching rates of solar and non-solar customers. However, the Commission had also found the switching rate for solar customers to be substantially lower than non-solar customers. In AGL's view, it is not the fact that switching rate for solar customers is lower than non-solar customers that is important but that the switching rate shows that competition is effective and that customers have the choice to switch.

---

<sup>6</sup> For the period ending March 2016

<sup>7</sup> By adjusting the Queensland switching rate for the 600,000 National Metering Identifiers in regional Queensland where there is little or no retail competition.

### *Incidence of minimum payments*

Currently, AGL offers a general R-FiT in South Australia which is equal to the minimum mandated value although in the past, AGL had offered a solar R-FiT which was in excess of the minimum value.

In early 2016, for new solar PV installations by existing customers, AGL is offering a solar R-FiT of 12 cents per kWh for four years which is well in excess of the minimum mandated rate of 6.8 cents in South Australia.

In AGL's view, this factor is not a strong indicator for competition. A high incidence of minimum payments is likely to be due to the minimum value being set too high or of market competition being primarily driven through lower energy prices (rather than higher R-FiT).

### *Incidence of best priced market offers*

AGL offers a suite of market offers with different levels of discounts based on guaranteed discount, pay on time, direct debit, and dual fuel. In addition, there are upfront rebates for signing up and for online applications. AGL has also introduced Fixed Price market offers. Whilst pricing is important, AGL believes that customers also value services such as 24/7 customer service, digital billing, mobile apps which allow customers to view energy consumption and billing information, online bill payment options and energy monitoring tools such as My AGL IQ™.

Hence, defining the best priced market offer is not a straight forward exercise. It will depend on customers' ability to commit to certain payment options, availability of gas, online capability and preference for non-price services provided by the retailer.

The fact that price is not the only reason for switching is supported in the AEMC's review which found that just over half of solar customers cited price related reasons for switching electricity retailers compared with 75 per cent of non-solar customers<sup>8</sup>.

### *Evidence from other jurisdictions*

While the churn rates in South Australia are similar to New South Wales and South East Queensland, the cost of supply and other factors are different so it is unlikely that electricity offers will be similar across jurisdictions.

AGL notes that the 2015 AEMC review had found that electricity offers available to solar customers in NSW did not appear to be significantly less competitive than offers available to non-solar customers.<sup>9</sup>

### ***Do electricity retailers differentiate electricity prices charged to solar and non-solar customers? Does the setting of a minimum R-FiT incentivise such behaviour?***

AGL provides solar customers in South Australia, New South Wales and South-East Queensland with a different range of energy plans compared with non-solar customers which take into account different energy consumption patterns and different combinations of energy discounts, R-FiT and services (such as the AGL Solar Command tool that monitors solar performance). In AGL's view, a minimum mandated R-FiT will force retailers to differentiate solar and non-solar customers if the R-FiT value is perceived to be higher than the wholesale energy cost, particularly where there is strong retail competition as in most jurisdictions in the NEM.

---

<sup>8</sup> Ibid, p 276

<sup>9</sup> Ibid, p 277

The removal of a minimum mandated R-FiT will provide greater flexibility for retailers to develop energy plans suit the customer's usage profile better, such as whether customers can benefit from a higher R-FiT or a higher discount, and to package offers. For example, for new solar installations by existing customers, AGL currently offers a Solar Savers Bundle Plan with an R-FiT of 12 cents per kWh, compared with the current R-FiT in SA of 6.8 cents per kWh.

***Are there any other matters the Commission should consider?***

Major changes are transforming the energy industry. In the future, the adoption of battery storage and interconnected home energy management systems will enable greater self-consumption of energy generated from solar PV installations, which will be further encouraged by the introduction of more cost-reflective network tariffs. In this new environment, retailers will introduce products and services which allow customers to optimise their energy use, with solar feed-in tariffs being only one of many factors that will be relevant to a customer's choice of product.

As retailers seek to gain a better understanding of customers' needs, more tailored products are developed. For instance, in 2015 AGL launched a Solar Smart Plan where eligible customers do not have to pay any upfront system or installation costs and instead receive a discounted energy offer over a fixed contract period for the energy the solar PV installation generates. It is therefore important, in this changing environment, that regulation does not inhibit innovation.

The regulation of retail electricity prices was removed from 1 February 2013. In AGL's view, the Commission will need to have a strong rationale for continuing to regulate the solar feed-in tariff which is arguably a less essential service than general energy supply particularly when it is only available as a package with an energy supply offer.