



31 October 2014

Con Corellas
Manager Market Analysis
Essential Services Commission of SA
GPO Box 2605
Adelaide SA 5001

By email: escosa@escosa.sa.gov.au

Dear Con,

2015-2016 Retailer feed-in tariff – Draft Price Determination

AGL Energy welcomes the opportunity to comment on the Essential Services Commission of South Australia (the **Commission**)'s Draft Price Determination (the **Draft Determination**) on 2015-2016 *Retailer Feed-in Tariff (R-FiT)*, October 2014. AGL has previously provided submissions to the reviews of the R-FiT during 2011 and 2013.

Background

The Commission has released a Draft Determination with the following recommendations to:

- establish a two year R-FiT price determination from 1 January 2015,
- set a minimum R-FiT value of 5.3 c/kWh from 1 January 2015 based on the lower bound of the reasonable range of estimated value,
- use a pre-determined methodology to set the R-FiT from 1 January 2016, and
- implement a formal price monitoring regime to monitor the extent of competition of PV customers

AGL's comments on the above recommendations are provided below.

Regulation of R-FiT

As in previous submissions, 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, and that the access to the R-FiT is not an essential service. The solar PV market is not a separate market – solar PV offers are part of AGL's general offers.

The Commission has considered that there is mixed evidence regarding the extent of competition among electricity retailers for PV customers after examining switching rates, incidence of market offers, incidence of minimum and higher R-FiT payments and evidence arising from other jurisdictions. In AGL's view, these areas provide sufficient evidence of competition in the PV market. A key feature of a competitive market is the diversity of strategies employed by retailers to differentiate through branding, service and other marketing approaches. For various reasons, it is also reasonable to expect different customer segments to have a higher or lower switching rate compared with the overall market.

It is unclear to AGL how continued regulation will improve competition or if there are compelling reasons to regulate the R-FiT. Previously, IPART and QCA have considered if the setting of a mandated minimum FiT was warranted in New South Wales and Queensland respectively. In 2012, IPART did not recommend a mandated FiT because "the feed-in tariff does not constitute an essential service and the market should deliver feed-in tariff offerings in the absence of a

mandated offering.”¹ In 2013, the QCA found that there was “no compelling evidence to support a regulated, mandatory minimum feed-in tariff”.²

Furthermore, AGL considers the extension of the period of regulation for two year to be excessive.

Value of R-FiT

If the R-Fit continues to be regulated, AGL supports the approach that the Commission has taken to set the value of the R-Fit. AGL agrees with the Commission that if the minimum value is too high, retailers may need to recover the additional costs from other consumers or stop marketing to PV customers. By setting the R-FiT on the basis of the low end of the reasonable range assessed by ACIL Allen Consulting, it will provide flexibility for retailers to develop solar PV offers.

The approach taken to derive a fair and reasonable value of the R-Fit based on costs avoided by retailers is consistent with previous reviews by the Commission as well as other regulators in the National Electricity Market. It should be noted that these reviews however have not accounted for the additional cost to serve PV customers.

Price monitoring

In the Draft Determination the Commission has listed the key matters which the price monitoring will focus on:

- innovation in solar offers,
- number of solar offers,
- number of retailers selling to PV customers,
- terms and conditions of solar offers,
- level and accessibility of reliable information provided by retailers, and
- customer switching rates: PV and non-PV.

AGL notes that the Commission will rely generally on publicly available data, in particular, EnergyMadeEasy and electricity retailers’ websites, to obtain the above information except for customer switching rates. Where additional information which is not publicly available is sought, it is important that material compliance costs are not incurred.

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

Yours sincerely,

Meng Goh
Manager Regulated Pricing

¹ Setting a fair and reasonable value for electricity generated by small scale solar PV units in NSW, Final Report, March 2012, Independent Pricing And Regulatory Tribunal, page 3

² Estimating a Fair and Reasonable Solar Feed-in Tariff for Queensland, Final Report, March 2013, Queensland Competition Authority, page iv