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24 April 2013

Nathan Petrus
Director, Pricing and Access
Essential Services Commission of SA
GPO Box 2605
Adelaide SA 5001

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

Dear Nathan,

2013 Determination of solar feed-in tariff premium – Draft Determination

AGL Energy welcomes the opportunity to comment on the Essential Services Commission of South Australia's (the **Commission**) Draft Determination *2013 Determination of Solar Feed-in Tariff (***FiT***) Premium* (the **Draft Determination**).

Background

The Commission has revoked the current determination which is scheduled to expire on 30 June 2014 and replaced it with a new 3 ½ year determination from 1 July 2013. In this Draft Determination, the Commission has reduced the value of the FiT premium from 11.2 c/kWh to 9.8 c/kWh for the six month period from 1 July 2013. Thereafter the FiT premium will be reset on 1 January each year using the same methodology recommended by ACIL Tasman. The Commission does not intend to undertake any further consultation during the period of the determination. Prior to the end of 2016, the Commision intends to undertake a broad review of the methodology for setting the solar FiT premium before making a new Price Determination.

General comments

AGL notes that the recommended change in the FiT premium to 9.8 c/kWh from 1 July 2013 means that there will be no change from the current value which is applicable from 1 July 2012 to 30 June 2013. Whilst AGL generally supports the intent of these changes (i.e. value of energy in the FiT premium should reflect a 'fair and reasonable' value) the need to revoke the current determination and set a new determination for 3 ½ years highlights the difficulty in regulating the amount which should be paid by retailers. Given that standing contract prices are no longer regulated, the requirement for ESCOSA to set this value under the Electricity Act is an anomaly.

The components which make up the value of the FiT Premium based on the value to a retailer of PV exported, namely:

- wholesale energy prices adjusted for distribution losses, and
- avoided market and ancillary service fees;

are now fairly well established and this approach has also been adopted by regulators in NSW and Queensland. AGL note that a process which attempts to estimate the value of energy to all retailers is inherently difficult due to the different cost structures across retailers.

Comments on ACIL methodology

AGL has previously commented on the ACIL methodololgy in AGL's submission in December 2011. For the purpose of determining the FiT premium, AGL acknowledges that the ACIL methodology applied to determine the NSLP-weighted spot price is one approach that can be employed to calculate a benchmark FiT premium value. However, as noted earlier, the forecast change in spot prices does not necessarily mean that all retailers will experience the same change in energy purchase costs due to differing cost structures.

It is clear to AGL that the understanding of the impact of solar PV installation on the supply and demand of electricity markets continues to develop as the penetration of small scale solar PV systems increases. AGL notes that there is growing recognition that solar PV tends to 'hollow' out average demand without reducing peak demand commensurately, as can be observed in Figure A.2 in the Draft Determination (page 27). As a result, load profiles are generally worsening ie becoming peakier and it will increase retailers' hedging costs.

Comments on the Commission's approach

The Commission's approach proposes shifting the timing of the change in the FiT premium by 6 months i.e. from 1 July to 1 January. This is largely driven by the Commission's preference to use the most up to date AEMO demand forecast which is expected to be released annually in June/July over the coming years. AGL agree that using the most up to date information to set the FiT premium is desirable, however this does introduce some complexities associated with the timing of price changes for market and ancillary service fees. AGL's preference is to maintain the current 1 July timing. Standing and market contract prices are usually re-set in July/August to align with changes in network charges. The notice of any changes to the solar FiT premium is usually incorporated into the price variation event letter. The change from 1 July to 1 January will require a separate letter to be mailed out solely to notify the change in solar FiT premium.

AGL understands the Commission's intention to update the value of the FiT premium annually using the ACIL methodology and not to undertake further consultation during the period of the determination. AGL recognises the there are significant resources required to conduct consultations and agrees that this approach is reasonable, given that the Commission has also indicated that it is prepared to advise and consult should any revision to the methodology be required due to any circumstances.

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

Yours sincerely,

Beth Griggs
Head of Energy Market Regulation