



8 December 2011

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,

2011 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 *2011 Determination of Solar Feed-in Tariff (FiT) Premium* (the **Draft Determination**).

General comments

As AGL has previously advised the Commission, AGL currently offers solar customers an additional feed-in tariff of 8c/KWh which includes a 'competitive premium'. As such, AGL considers ESCOSA's findings in respect of the FiT Premium to be within a reasonable range.

In AGL's response to the Issues Paper, AGL had considered that it is appropriate for the Commission to assess specific direct benefits but not indirect benefits. AGL notes that this is consistent with the Draft Determination where the Commission has proposed a FiT Premium which is comprised of:

- reduced wholesale energy cost (see comments below);
- avoided transmission and network losses, and
- avoided market and ancillary service fees.

In addition, AGL agrees with the Commission's approach to set a single FiT premium which will apply uniformly to all small customers and avoid annual reviews.

Comments on ACIL methodology

AGL notes that the ACIL approach is based on estimating the NSLP-weighted pool price given the prevalence of basic meters in SA. AGL considers the impact of solar PV generation on a retailer to be a complicated matter. However, for the purpose of determining the FiT premium, AGL acknowledges that the ACIL methodology provides an approach which produces outcomes which AGL consider to be reasonable in this instance. AGL notes that this approach does not consider a retailer's overall energy purchase cost which will depend on its hedge portfolio. This would require a significantly more complex analysis.

That being said, AGL does have some concerns with the manner in which the methodology has been applied in the Draft Determination:

- AGL has not been provided with the assumptions underpinning the modelling of the pool price and the assumptions made in relation to carbon pricing, and so is not able to provide any substantive comment on the robustness of the pool price modelling. The implied carbon pass-through rate of 60% to 70% is too low in AGL's view. The impact of carbon on the pool price has been the subject of much modelling and debate, and there are many diverging views. AGL notes that the electricity industry has formed a consensus view that the impact on the pool price would be at the national carbon intensity (ACI) for the purpose of agreeing an industry standard 'pass through clause' (ie the AFMA pass through clause);
- The ACIL methodology used a 'stylised' estimate of solar output in each half-hour i.e. the same solar profile is used for each day of every month. AGL considers that a profile based on actual solar generation should be used instead so that the non-firm or intermittent nature of solar generation can be better reflected; and
- The ACIL methodology has not allowed for any reduction in the efficiency of PV generation as the ambient temperature increases.

AGL encourages the Commission to review the methodology in the future to take account of the penetration of solar PV installations and more accurate profiling of solar generation.

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

Yours sincerely,



Beth Griggs
Head of Energy Market Regulation