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8 December 2011

Mr Nathan Petrus
Director, Pricing & Analysis
Essential Services Commission
GPO Box 2605
Adelaide SA 5001

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

Dear Mr Petrus

2011 DETERMINATION OF SOLAR FEED-IN TARIFF PREMIUM – DRAFT PRICE DETERMINATION

Alinta Energy (Alinta) appreciates the opportunity to comment upon the Essential Services Commission of South Australia's (the Commission) Draft Determination in relation to the determination of the Feed-In-Tariff (FiT) Premium applicable from 27 January 2012.

Alinta is an active investor in the energy retail, wholesale and generation markets across Australia. Alinta has over 2500MW of generation facilities in Australia (and New Zealand), and maintains over 670,000 retail energy customers in Western Australia, South Australia and Victoria with a commitment to growing its retail energy business in Australia. Alinta obtained a licence to retail electricity and gas in South Australia in August 2011, and has begun acquiring customers in this market.

Alinta has outlined its views on the Commission's Draft Price Determination below.

Mandatory Nature of FIT Potentially Stifles Competition

While Alinta accepts the Commission has been directed by the South Australian Government through legislation to undertake this review and determine a value for a retail solar feed in tariff, we are uncomfortable with the overall approach in determining a FiT price for all retailers in the SA market. Alinta also notes the tight timeframes in which the FiT decision will commence and apply for as specificed in the legislation.

Alinta would like to reiterate that it does not support the mandatory imposition on all retailers to provide a FiT premium for those customers exporting energy to the grid. Alinta believes that given the existing level of competition in South Australia, that the market is best positioned to determine the level of the FiT that retailers pay consumers for energy exported to the grid.

Further, mandating a set price path for energy exported to the grid is likely to stifle the development of competitive offerings from retailers, particularly the development of innovative retail offerings aimed specifically at customers with small-scale generation. Given the recent growth in PV customers, and the fact there are about 70,000 PV customers in South Australia, the size of this market alone is likely to prompt retailers to design products tailored towards these customers.

Should the Commission proceed with its proposed approach and price path, Alinta is concerned the following outcomes might occur:

- The decision to mandate a FiT premium will subdue competitive offerings, and interfere in the development of a competitive market that would have benefited consumers more than the mandatory obligation to provide a FiT premium
- 2nd tier retailers may terminate contracts with customers who choose to install solar PV if the retailer cannot recover its costs of servicing that customer;
- Retailers may actively avoid marketing and acquiring solar PV customers; and
- Retailers may charge solar PV customers an additional fee to recover their costs, particularly given the added complexity of this proposal which will require a retailer to administer up to 3 different FiT premiums for each solar customer.

Alinta accepts that some of these are issues are best considered by the South Australian Government rather than the Commission. However, in setting the level of the FiT tariff the Commission must have regard to the overall impact of a mandated FiT on competition in the market for solar customers.

Valuing Small Scale PV in a Retailer's Contracting Portfolio

The Commission has engaged ACIL Tasman to provide advice on the value to retailers of the energy exported from PV systems. While Alinta agrees with ACIL Tasman's conclusion that there is a benefit to retailers in that energy generated from small scale generation systems reduces the Net System Load Profile (NSLP) and therefore the cost of wholesale energy that needs to be purchased from the market, Alinta is concerned that ACIL Tasman has not given sufficient consideration to the way in which retailers contract for their expected load in forming a view as to the price a retailer should pay its solar customers for this energy.

We note ACIL Tasman seeks to quantify the benefit to a retailer of solar output being supplied by its customers, by assessing the relationship between PV output and pool prices. ACIL Tasman found "*....the fair and reasonable value of exported PV output to a retailer from avoided NSLP purchases will equal the NSLP weighted spot price, irrespective of its contractual position.*"

Alinta is not convinced that ACIL Tasman has fairly quantified this benefit. This is because:

- The output from solar PV is effectively a non-firm hedge for retailers, as the price paid by the retailer for the output does not entitle the retailer to receive that supply at a point in time. This differs from hedge contracts purchased from non-renewable generators, which will compensate the retailer if it is exposed to pool prices at times when the generator did not run but was contracted to supply the retailer. Therefore, the price paid for output from solar PV will not be the only cost incurred by a retailer for this volume of electricity produced. The retailer will also need to cover the risk of the PV system not supplying electricity to the retailer on certain days/times, and therefore the retailer being exposed to a pool price of up to $12,500/MWh. A retailer will cover this risk by either buying other 'firm' cover (eg from a gas-fired generator) or buying an insurance product (eg a weather derivative). Accordingly, the price paid for output from solar PV should be a discount from the average pool price; and
- Solar PV represents such a small component of a retailer's wholesale portfolio it is unlikely that a retailer will take this output into account when hedging its load. This is particularly the case given the non-firm nature of the hedge contract. Therefore a retailer, under this Draft Decision, is likely to have overpaid for solar PV hedge cover given it would have also contracted for this load through another generator.

In summary, Alinta agrees that the wholesale energy produced by solar PV has some value to the retailer. However, for the reasons outlined above, Alinta believes the Commission should set a value for the wholesale component of energy at a value well below the average spot price for the expected NSLP.

Increased Retail Operating Costs from PV Customers for Tier Two Retailers

The Commission has decided that "*Given any increase in retail operating costs is likely to be small and recovered from all customers, the Commission has decided to exclude this from its assessment of the fair and reasonable value of Solar PV exports to retailers*". Alinta believes that as the legislation requires *all* retailers to offer the feed-in-tariff premium, the Commission should widen its analysis of the consideration of retail operating costs to include the potential imposition that start-up costs have upon retailers that are not actively selling to PV customers. Alinta notes that the price the Commission is setting is a 'minimum' price, and those retailers that only incur incremental operating costs (they are already servicing these customers) are able to reflect this in offering a higher price for energy above the minimum price determined by the Commission.

Alinta Energy, as a new entrant and a tier two retailer in the South Australian electricity market, does not currently retail to any customers with small-scale generation facilities. Therefore, Alinta would need to upgrade its billing and IT systems in order to be able to accommodate PV customers within its systems. Further, Alinta would need to develop products that can accommodate both the sale and purchase of electricity from retail customers. Therefore, the necessary increase for an operating expenditure allowance to deal with solar feed-in-tariff is likely to be understated within the Commission's report for retailers not currently servicing customers with small scale generation systems such as PV customers.

Conclusion

Alinta does not support the mandating of a FiT tariff for all retailers in the South Australian market, although it does acknowledge that the Commission has little discretion in choosing whether or not to determine a mandatory price.

Alinta agrees with the Commission's conclusion that there are direct benefits to retailers from PV generation, however would like to the Commission to revisit their determined values for the price setting period. In particular, further consideration needs to be given to the impact of the FiT premium upon a retailers hedging and contracting strategy, and those additional sunk costs that impact upon a retailers operating cost base.

Should you wish to discuss Alinta's submission on this matter, please do not hesitate to contact Adam Lourey on 08 9486 3406.

Yours sincerely

M Shepherd

Michelle Shepherd
General Manager Regulatory Affairs