



25 July 2013

Essential Services Commission
Level 37, Casselden Place
2 Lonsdale Street
Melbourne VIC 3000

By email: fitreview@esc.vic.gov.au

Dear Commissioners,

Minimum electricity feed-in tariffs – Draft Decision – July 2013

AGL Energy welcomes the opportunity to comment on the Essential Services Commission (ESC)'s Draft Decision on *Minimum electricity feed-in tariffs for application from 1 January 2014 to 31 December 2014*, July 2013 (the **Draft Decision**)

Draft Decision

The ESC is required to determine the minimum electricity feed-in tariff (FiT) for small renewable generation facilities by 31 August in the year before it will take effect.

The Draft Decision proposed a single value FiT, deferring consideration of a time-of-use FiT value until after all Victorian have access to time-of-use retail electricity prices. The ESC has assessed the value of the FiT to be the marginal energy purchase cost avoided by a retailer when its embedded generating customers export electricity into the grid including line losses. The value of the energy exported by an embedded generator has been calculated as the weighted average of the forecast spot market prices for Victoria in 2014 prepared by ACIL-Allen Consulting using the *Powermark* model.

The Draft Decision is to adopt a minimum FiT of 8.0 c/kWh for 2014 which is unchanged from 2013.

General Comments

AGL support the conclusion of the Victorian Competition and Efficiency Commission (VCEC) that in the long-term, competition between retailers can be expected to ensure that market-determined FiTs will be the most efficient. In order to ensure the successful transition to market-determined FiTs the ESC should ensure that the minimum FiT amount does not act as a disincentive for retailers to acquire solar PV customers. If the mandated minimum FiT amount is set at a level higher than the value of the PV exports to retailers, this could act as a disincentive for retailers to acquire these customers.

Comment on form of the FiT

The ESC has considered the structure of the FiT – single value or time-of-use. This purpose of this review is to establish a FiT value for embedded generation in Victoria generally, not just for rooftop solar photo-voltaic (PV) systems. A single fixed value will presume a certain generation profile. Hence, a more accurate assessment of value should on a time-of-use basis to reflect the type of embedded generation.

The Victorian Government has mandated that all residential and small business electricity customers in the state must have a smart meter installed by the end of 2013. The installation of smart meters will enable retailers to offer flexible or time-of-use electricity retail prices. AGL agrees with the ESC's proposal to defer any consideration of time-of-use FiT until after the introduction of time-of-use electricity retail prices so that any issues are not compounded. Therefore, AGL supports the use of a single value FiT for 2014.

Comment on the calculation of the FiT

The wholesale cost approach is consistent with the approach adopted by regulators in other jurisdictions, namely, IPART, QCA and ESCOSA. The value of the FiT is based on the energy purchase costs avoided by a retailer as a result of the electricity exported to the grid by embedded generating customers. This value includes line losses but excludes transmission and distribution network charges. AGL notes that the ESC has not considered the inclusion of additional retail cost to serve embedded generating customers.

There is clear evidence that the peak of embedded generation, predominantly residential rooftop solar PV panels, does not coincide with peak system demand. Solar PV tends to 'hollow' out average demand without reducing peak demand commensurately. As a result, load profiles are generally worsening ie becoming peakier and it will increase retailers' hedging costs. Until further analysis is undertaken, AGL accepts that it will be difficult to assess this additional costs for 2014.

The great majority of small renewable embedded generation is rooftop solar PV systems. AGL agrees that a solar profile will be a reasonable basis to assess the FiT value for 2014. However, AGL is concerned that the use of a solar production profile to approximate the aggregate solar net export profile may introduce significant inaccuracies as a customer's consumption is not taken into consideration. AGL proposes that the ESC undertake further analysis of the net solar export profile in the future.

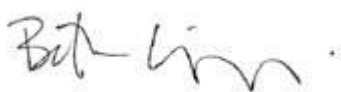
The ESC has calculated the FiT value by weighting forecast spot prices (produced by *Powermark*) by an average weather-normalised solar production profile. AGL is concerned that the Draft Decision does not provide any details of the spot prices used to calculate the minimum FiT value for 2014. AGL acknowledges the short timeframe within which the ESC is required to publish the final FiT value. In future reviews, it will be useful for stakeholders to provide feedback on inputs, such as forecast spot prices, during the consultation process.

The ESC has assessed the value of embedded generation output for 2014, including line losses, to be 7.6 c/kWh. As this is broadly consistent with the 2013 FiT and given the sensitivity of forecast spot prices and demand, the ESC has decided to maintain the value of the FiT for 2014 at 8.0 c/kWh.

In AGL's view, given that the ESC's role is to establish the minimum value of the FiT, the ESC should adopt the value determined by the methodology used as the highest price at which the mandated minimum FiT should be set. All forecasts have an element of risk and overriding the results of a methodology could create further uncertainty. On this basis, AGL's preference is that the minimum value should be 7.6 c/kWh for 2014 as determined by the methodology the ESC has adopted.

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,



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