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Mr Gary Henry,
Director
Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001

21 December 2012

By email

Dear Mr Henry,

Estimating a Fair and Reasonable Solar Feed-in Tariff for Queensland – Draft Report, November 2012

AGL welcomes the opportunity to comment on the Queensland Competition Authority (Authority)'s Draft Report on Estimating a Fair and Reasonable Solar Feed-In Tariff for Queensland released in November 2012 (Draft Report). This report follows the Issues Paper released in August 2012.

AGL agrees with the Authority's conclusion that the value paid to a customer by a retailer for solar-PV exports should reflect a fair and reasonable value of the exported PV energy. While AGL has concerns that the value to the retailer might not necessarily reflect an 'avoided cost' based on the regulated electricity tariff, in this case it is a reasonable approach on which to value these exports. AGL also strongly supports the Authority's advice that the Government should refrain from mandating a minimum, retailer-funded feed-in tariff in South East Queensland as the market appears to be sufficiently competitive.

On this basis, AGL broadly agrees with the Authority's approach of calculating the fair and reasonable value of 6.81c/kWh for South East Queensland (SEQ). AGL also notes that this value is within the current range of voluntary solar feed-in premiums offered by retailers.

The Authority has also considered that the ongoing costs of the Solar Bonus Scheme (Scheme) could potentially be reduced by requiring electricity retailers to contribute to the distributor funded feed-in tariff payments and by developing a more cost reflective network charge for PV customers. While AGL agrees that the costs of Scheme can be reduced by retailer contributions as has been recommended by IPART in NSW, this would likely reduce the existing voluntary payment received by some customers. The development of a new and more cost reflective network charge, however, is predicated on this charge being fully passed through to customers and would require the development of new retail tariffs.

If you have any further questions, please contact Meng Goh (02 9921 2221).

Yours sincerely,

Beth Griggs
Head of Energy Market Regulation

Draft Report Section 3 - Defining a fair and reasonable value for PV exports

The Authority has considered that the term ’fair and reasonable’ value should be interpreted as the value of the direct financial benefit to retailers from on-selling electricity exported by PV customers. This is consistent with the “avoided cost’ approach which AGL has referred to in AGL’s response to the Issues Paper. While AGL has concerns that the value to the retailer might not necessarily reflect an ‘avoided cost’ based on the regulated electricity tariff, in this case it is a reasonable approach on which to value these exports.

AGL supports the Authority’s position in not allowing for network costs and benefits, changes in loss factors, time of the exports and the merit order effect. This is consistent with the approach taken by IPART and ESCOSA.

Draft Report Section 4 - Estimating a fair and reasonable value for PV exports to the retailer

In the Draft Report, the Authority has concluded that network charges and green costs are unavoidable costs whilst AEMO market charges, in addition to wholesale energy costs including losses, are avoided due to PV exports. The Authority has also not included any additional operating cost allowance, retail margin or headroom. AGL supports this approach taken by the Authority. It is important that the value of PV exports should not be attributed a higher value than that of energy generated by other sources which are available at the same time.

For 2012/13, the Authority has determined the direct financial benefit to retailers of 6.81 c/kWh from solar PV exports in SEQ. The main component of this value is the weighted energy purchase cost estimate used in the 2012-13 notified price determination.

Although this is below AGL’s current voluntary solar feed-in tariff premium of 8 c/kWh, AGL notes that other retailers have offerings of 6 c/kWh.

Draft Report Section 5 – Implementing a fair and reasonable solar feed-in tariff

The Authority did not consider it necessary or desirable to impose a mandated value on the SEQ market as the market is competitive, with customers having access to a variety of markets offers that feature a voluntary feed-in tariff from different retailers. This accords with AGL’s response to the Issues Paper where AGL has submitted that regulatory intervention or guidance is not required to set a value for solar PV exports. If a mandated value is set too high, it could create an incentive for retailers to avoid customers with solar PV, thus, reducing competition.

Draft Report Section 6 – Equitably sharing the on-going costs of the solar bonus scheme

The Authority has considered two key points on equitably sharing the on-going costs of the solar bonus scheme.

The Authority has encouraged the network distributors to develop new and more cost reflective network charges for PV customers to reduce the subsidy which other customers must pay for the network costs avoided by PV customers. The main residential tariff, Tariff 11, for 2012/13 has been set under the ‘tariff freeze’ order by the Queensland Government. The current pricing structure of Tariff 11 does not reflect the corresponding network tariff structure. If separate network tariffs are developed for solar PV customers, new retail tariffs should also be developed so that changes in network costs can be fully passed through.

The Authority has also considered that a retailer contribution to the current Scheme would go some way to addressing the inequities inherent in the current Scheme. The Authority has acknowledged that if a retailer contribution is mandated, it is likely that there would be a corresponding reduction in any voluntary market offerings or "solar feed-in tariff premium". While AGL agrees that the costs of Scheme can be reduced by retailer contributions as has been recommended by IPART in NSW, this would likely reduce the existing voluntary payment received by some customers.

The Authority has also considered that the value of this contribution should be set below the fair and reasonable value to avoid any adverse impact on competition. Accordingly, the Authority has estimated the value that might be attributed to a mandatory retailer contribution based on wholesale energy purchase costs at the regional reference node or 6.149 c/kWh in SEQ for 2012/13. AGL agrees with the Authority's intent of setting this value so as not to adversely impact retail competition.