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Minimum electricity feed-in tariff to apply from 1 July 2020: Draft Decision

AGL welcomes the opportunity to comment on the Essential Services Commission's (ESC) draft decision on *Minimum electricity feed-in tariffs to apply from 1 July 2020* (Draft Decision).

AGL generally agrees with the methodology used by the ESC to calculate the minimum feed-in-tariff (FiT) rates in its Draft Decision for both the:

- single rate feed-in tariff; and
- time-varying feed-in tariff.

AGL specifically acknowledges and supports the methodological changes made by the ESC to:

- forecast wholesale prices using a 12-month average of future wholesale electricity prices rather than the 40 days average used in 2019-20. This aligns with the futures market approach used to set the Victorian Default Offer and is therefore appropriate; and
- use a solar weighted calculation of the wholesale electricity price rather than a time weighted calculation. The solar weighting better reflects the true value of solar exports to the grid, especially given increasing solar penetration and its direct impact on Victoria's load profile.

Despite these improvements to the calculation of the minimum FiT rates to apply from 1 July 2020, AGL does not support the decision to mandate that retailers must offer a time varying FiT.

While the ESC notes in the Draft Decision that stakeholders have previously made strong representations why mandating a time-varying FiT is both unnecessary and costly they have not provided a response on how they have taken them into account in making the final decision. The Draft Decision also does not contain any rationale on the benefits to customers of mandating time varying FiT.

AGL provides the following considerations to reiterate why mandating the provision of a time varying FiT is unnecessary in a competitive market and likely to be Victorian customers' detriment in general.



Customer benefit of a time varying FiT

The individual benefit to the average solar customer of adopting a time varying FiT instead of the flat FiT is largely immaterial and often negative. This is based on:

- the relatively low variance between each component of the time varying FiT in the Draft Decision;
- solar load is predominantly generated at shoulder time periods and customers will have a significant incentive to self-consume their generation rather than export at the prevailing FiT rate which is the same situation under single rate FiT; and
- most customers do not have the technology which would allow them to take advantage of the time varying FiT.

Costs of mandating a time varying FiT

There are significant costs and implementation issues associated with introducing a time-varying FiT from 1 July 2020.

The additional administrative and billing systems costs for most retailers will include.

- Investment in billing systems
- Amendment of processes;
- New customer communications
- digital updates; and
- training of call centres in the operation of the time varying FiT.

AGL estimates that the cost for system changes and changes to its Mailhouse and Digital platform would be around \$200,000 to implement.

These costs will vary by retailer but requiring every Victorian retailer to incur similar costs to establish a time-varying FiT will equate to a considerable total cost to the industry which will then have an impact on retail prices.

AGL estimate that it will require 4 months to introduce the time-varying FiT. Retailers have been required to make significant changes to their systems and processes during 2019-20 to comply with changing regulations. As the ESC is aware, a further raft of system changes is required for 1 July 2020 so AGL does not see the sense in implementing a further incremental regulatory change at this time.

Consequently, the industry wide cost of mandating the time-varying FiT greatly exceed any benefits of such a requirement.

Is mandating a time varying FiT necessary?

The ESC process has been to set minimum rates to apply for single and time-varying FiTs every year.

However, these minimum rates have not limited the products and level of market offers being provided by individual retailers in the competitive market.

As the ESC has identified in its Draft Decision, many Victorian retailers have offered single FiT rates in excess of the minimum FiT rate that was set by the ESC. Furthermore, one energy retailer has already started making a time-varying FiT available to Victorian customers.



This demonstrates that regulating the provision of a retail product, such as the time-varying FIT, is unnecessary in a competitive market. If customers seek a product and the benefits exist, even for a subset of customers, then competitive retailers will look to make these products accessible to them.

Mandating that each retailer offer the time varying FIT will therefore not deliver better outcomes for consumers.

AGL believes the costs of mandating will significantly outweigh any possible benefits and is unnecessary in a competitive retail market.

If you wish any further information, please contact Patrick Whish-Wilson on (02) 9921 2207.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'C. Hristodoulidis'.

Con Hristodoulidis
Acting/GM of Energy Markets Regulation