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Ms Liz Livingstone
CEO
Independent Pricing and Regulatory Tribunal
PO Box K35
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Sydney NSW 1240

Online submission

18 March 2021

Dear Ms Livingstone,

Solar feed-in tariff benchmarks – Issues Paper

AGL welcomes the opportunity to comment on the Independent Pricing and Regulatory Tribunal's (IPART) Issues Paper on the review of solar feed-in tariff benchmarks for 2021-22 to 2023-24, published in February 2021.

AGL is one of Australia's leading integrated energy companies and the largest ASX listed owner, operator, and developer of renewable generation. AGL is also a significant retailer of energy and provides energy solutions to over 4 million customers in New South Wales, Victoria, Queensland, South Australia and Western Australia.

AGL currently offers a solar feed-in tariff in excess of IPART's benchmark range for 2020-21. As of 18 March 2021, AGL's electricity plans offer a solar feed-in tariff of 9.5 c/kWh for customers in NSW. In addition to this solar feed-in tariff, under certain terms and conditions, AGL also offers a Solar Savers plan with a feed-in tariff of 17 c/kWh for solar panels under 10 kW. These solar feed-in tariffs and solar plans are reviewed and updated periodically.

It is important that the benchmark range for solar feed-in tariff in NSW is voluntary, not mandatory. The retail electricity market in NSW continues to be highly competitive and customers with solar PV are a significant part of this market. The benchmark range provides a valuable guide to customers, retailers, and other stakeholders, and at the same time, allows retailers to adjust to market conditions if the benchmark range is not cost reflective.

Wholesale value

In recent reviews, IPART has assessed the value of solar feed-in tariff by forecasting future wholesale spot electricity prices by using ASX futures contract prices and assuming a 5% contract premium. In the absence of a more transparent method, we consider this approach to be reasonable.

In relation to the use of ASX future contract prices over the most recent 40-day period, this approach tends to result in a more volatile price estimate from one year to another compared with a longer period. The 40-



day period is somewhat arbitrary but is more reflective of current market conditions when the number of solar installations, small and large scale, continue to increase.

Solar multiplier

In recent reviews, IPART has used a simulation process based on the Monte Carlo method to estimate the solar multiplier, using historical half-hourly spot prices and half-hourly solar export data.

IPART has noted that the Monte Carlo modelling is complex and costly and suggested a simpler method to calculate a weighted average wholesale price of solar based on the price of each half hour of electricity and the proportion of solar energy exported in that half hour. IPART modelling shows that the alternative method results in all-day solar multipliers which are very similar to the median values under the Monte Carlo approach. IPART has previously used this method and it is similar to the approach currently used by the Essential Services Commission in Victoria (ESC).

In the final report to the review of the 2021-22 feed-in tariff for the ESC, Frontier Economics had recommended against the use of the Monte Carlo approach. This was because the solar multiplier has fallen significantly due to increased solar PV penetration in recent years. In IPART's previous reviews of the solar feed-in tariff, the solar multiplier has declined from 1.14 for 2017-18 to 0.97 for 2020-21. According to Frontier Economics, the Monte Carlo simulation may inappropriately preserve historical correlations between prices and exports.

Accordingly, AGL supports IPART's preference to consider an alternative approach to the Monte Carlo method which is more transparent and replicable.

In relation to the number of years of data, due to the significant uptake of rooftop solar, as well as other factors, there are considerable changes in the supply and demand of electricity, so that a longer time series may not be representative. We therefore support the IPART approach of calculating the solar multiplier over the most recent one, two and three-year periods and taking the midpoint of the minimum and maximum values.

IPART is also proposing to assess the solar multiplier for each network separately. If the results are similar, one benchmark for NSW will be set, otherwise separate benchmarks will be set for each network. As the benchmark is voluntary, AGL consider this to be a useful exercise. While AGL currently sets solar feed-in tariffs on a jurisdictional basis, the change to a network basis is not expected to create material issues as retail contracts are already offered on a network basis.

Time dependent feed-in tariff

IPART is required to provide a guidance on price variation throughout the day. In our view, it is unnecessary to align IPART's time-dependent benchmark ranges with time-of-use periods used by each network. The time-of-use periods are different for each network and solar export profiles are different from consumption profiles.

The range of time windows set out by IPART can provide stakeholders with the flexibility to group the time windows into larger blocks. Although there are references to batteries in the Issues Paper, we note that the current time windows are relevant for solar export only, as there are no prices between 8 pm to 6 am.

Summary

In AGL's view, the IPART approach to modelling the feed-in tariff benchmarks continues to be reasonable but we support the change from the Monte Carlo method for determining the solar multiplier. AGL



understands that judgement is required on the range of data but since the benchmark is not mandatory, a considered approach which produces a reasonable estimate is sufficient.

When setting the level of feed-in tariff to offer customers, retailers consider their own assessment of wholesale costs and other factors. In a competitive retail electricity market, the pricing for solar feed-in tariffs is competitive and some retailers, including AGL, have offered solar feed-in tariffs in excess of the benchmark range.

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

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Elizabeth Molyneux'.

Elizabeth Molyneux
GM Policy and Market Regulation