



**Energy Division
Essential Services Commission
Level 37, 2 Lonsdale Street
Melbourne Victoria 3000**

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

29 January 2018

Re: Minimum electricity feed-in tariffs to apply from 1 July 2018: 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 2018* (Draft Decision).

AGL is one of Australia's leading integrated energy companies and the largest ASX listed owner, operator and developer of renewable generation. Our diverse power generation portfolio includes base, peaking and intermediate generation plants, spread across traditional thermal generation as well as renewable sources. AGL is also a significant retailer of energy and provides energy solutions to over 3.5 million customers in New South Wales, Victoria, Queensland, Western Australia and South Australia.

AGL is continually improving our suite of energy services and solutions for customers of all sizes and considers demand side participation (customers responding to pricing signals from the market) is an important way to reduce system costs and deliver customer value. However, as we submitted to the ESC during its True Value of Distributed Generation Enquiry, AGL does not believe that regulating a complex feed-in tariff (FIT) arrangement is the best way to achieve this.

Firstly, AGL does not agree that the current preferred model of time-based or critical peak FIT will meet the simplicity, materiality or customer behaviour response criteria that the ESC is seeking. As highlighted previously, AGL believes that:

- a time-based or critical peak FIT is not simple for a customer to understand or predict the impact of;
- the impact will be largely immaterial for most customers - especially without the use of further technology;
- all retailers will be required to invest in systems, processes, customer communications, updates to digital platforms and training of customer facing staff to be able to explain and respond to queries on the operation of the FIT. These costs are considerable and the impact on prices will generally outweigh the benefits that a time-based FIT may currently provide; and
- it is doubtful to create any behavioural change because Victorian residential customers have yet to show any preference for time-varying tariffs with very few taken up a flexible pricing offer since they were introduced in 2014. In addition, solar load will predominantly be at shoulder time periods and customers will still have a significant incentive to self-consume their generation rather than export at the prevailing FIT rate – this is no different to the current flat FIT.



Second, AGL believes any justification for introducing a time-of-use FiT structure remains weak at this time when you consider:

- the lack of network tariff reform to date. Improved cost reflectivity of network tariffs is needed to remove the cross-subsidies that are inherent in volumetric network charging. Any benefits that may accrue to customers through a time-based FiT are minor compared to the cross-subsidy currently provided to these customers through volumetric network tariffs.

Network tariff reform is also required to signal consumers to alter usage patterns, manage their bill, and to take-up of new technologies. AGL supports network tariff reform as it will make network use more efficient and cost effective for customers. Any changes to the FiT should be in conjunction with network tariff reform and not introduced before the structure and impact of cost reflective network are realised; and

- the impact on retail tariffs. Network tariffs and the inherent cross-subsidy for solar customers is being passed directly through in retail tariffs. This is exacerbated by the large social cost of carbon (2.5 c/kWh) that continues to be provided to these customers. This cross-subsidy is already being borne by many vulnerable customers. AGL does not support implementing a complicated FiT proposal with its subsequent cost impact when customers are already facing significant cost and price pressures.

Finally, AGL believes that deregulation would more effectively provide a true value for FiTs as retailers would target options in response to customers' preferences.

Customers are playing an important role in the energy market transformation, driving a shift away from the traditional linear electricity supply chain, to a more decentralised and bi-directional market. In addition to one in four households across Australia with installed solar PV, a proliferation of more advanced distributed energy resources (DER) (digital metering, smart inverters, energy storage, energy management systems, household appliance with smart controls, etc.) are now entering the consumer market. These distributed technologies offer new opportunities for customers to actively manage their energy use and to share in value beyond the home; whether by 'sharing' energy with peers or participating in programs which support the operation of the network or the wholesale market.

These developments are affecting grid utilisation and fundamentally changing the way in which consumers interact with the electricity grid. Thus, attention must be paid to reforms that will ensure: consumer investment in DER is efficient; ongoing network tariffs are sustainable; and that regulatory and market frameworks facilitate (rather than inhibit) the emergence of new products and service markets that build on new distributed technology capabilities in ways that respond to customer preferences.

At a national level, the optimisation of DER behind the meter is critical to ensuring the best outcomes for customers and the grid, and that customers can take advantage of all the value streams available to the clever use of DER assets (not just exporting energy to the grid). By modifying the overall volume and shape of demand, DER can be deployed and operated to avoid or delay more expensive augmentations to the network. Further, smart inverters and local sensing devices can enable the provision of voltage and frequency services back to the distribution network and is an associated benefit of DER. The need for an optimisation function is critical to efficient operation of these assets and should be carried out by a party that is independent and exposed to financial incentives.



However, a network support or grid stability service might only be required on a limited number of occasions per year, and this is similarly the case with demand response to meet a wholesale supply constraint. The remainder and majority of the time, customer-owned DER installed behind-the-meter assets are likely to be employed directly for meeting the comfort and consumption needs of the customer. Accordingly, an efficient deployment and use of DER will enable co-optimisation across these multiple uses and value streams.

AGL sees competition and innovation in technology and business models as the primary means for meeting this co-optimisation challenge and aligning the interests of energy service providers with those of the customers they serve. This will directly benefit customers investing in DER by ensuring the least cost deployment and highest value use of those assets are made, and by promoting the availability of a range of retail offers and bundled products to meet distinct customer preferences. Importantly, it will indirectly benefit all customers by ensuring investment in assets or services which support reliable network operation are efficient, thereby ensuring the efficiency of overall network costs.

In AGL's view, this optimisation of DER is best suited to a deregulated FiT model, or at least a softer approach to providing guidelines for FiT values. It may be the case that customers can obtain greater value by directly participating in the wholesale or ancillary markets, or by providing network support services in exchange for financial benefit. The setting of arbitrary FiTs distorts these markets and may have unintended consequences such as erratic DER behaviour before and after periods with different allocated FiT rates. There may very well be a perverse outcome where customers are incentivised not to reduce peak demand to obtain the benefit of very high critical peak pricing FiT periods, which would not appear to promote overall market and system efficiency.

While we have highlighted many of our issues with the introduction of a regulated time-based or critical peak FiT above, AGL acknowledges that the ESC has acted on some of the concerns of stakeholders during this process.

The amendments and transitional measures in its Draft Decision have:

- aligned the time-based FiT with the Victorian networks' proposed peak, off-peak and shoulder timing periods;
- removed any geographical variations to the FiT; and
- only required retailers to provide the flat or the time-based FiT options modelled in its draft decision.

This is a sensible approach by the ESC given the time and cost required for retailers to implement the time-based FiT.

The decision by the ESC to delay implementation of any critical peak component in its regulated FiTs is also welcome. AGL believes the critical peak element of the FiT structure requires much greater consultation before it could be introduced in Victoria.

Indeed, AGL strongly believes this component is untenable because:

- of its very high cost to implement and operate to deliver benefits for both solar and non solar customers that are largely unsubstantiated;
- the potential for an unusual pricing signal to distort the market for operating efficiency at times of peak demand and high price events, when efficient operation of DER will be critical



If you wish any further information, please contact [REDACTED]

Yours sincerely

A handwritten signature in blue ink, appearing to read 'C. Hristodoulis', written over a horizontal line.

Con Hristodoulis

A/ Head of Energy Markets Regulation