ActewAGL
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ActewAGL House 221 London Circuit Canberra ACT 2600 ▪ GPO Box 366 Canberra ACT 2601
Telephone 13 14 93 **Facsimile** 02 6249 7237 *www.actewagl.com.au*

23 December 2009

Mr Paul Baxter
Senior Commissioner
Independent Competition and Regulatory Commission
GPO Box 296
Canberra City ACT 2601

Dear Mr Baxter

ACT Government's Feed-In Tariff Issues Paper, November 2009

ActewAGL welcomes the opportunity to comment on the issues paper prepared by the Independent Competition and Regulatory Commission (the Commission) on the Electricity Feed-in Renewable Energy Determination of Premium Rate for the period 1 July 2010 to 30 June 2011.

Background

The Feed-in-tariff (FiT) was introduced in February 2009 to encourage the take-up of micro-renewable generation across the ACT residential and small commercial sectors. As the Commission would be aware, ActewAGL fully supported the ACT Government in its implementation of the current scheme.

Retailers are responsible for administering the FiT, paying scheme participants the premium rate, currently set at 50.05c/kWh for 2009/10 for all electricity generated. ActewAGL Distribution is then responsible for paying retailers the difference between the premium rate and the "normal" cost of electricity (currently 50.05c/kWh – 6c/kWh). These costs are ultimately passed through to customers via network tariffs and this means all customers shoulder some of the burden of the FiT, effectively subsidising FiT scheme participants.

Setting of the premium rate

The Commission is clearly aware of the trade-off between promoting the take-up of the scheme and the costs spread among all ACT electricity consumers.[1] However, the Commission should also be aware that encouraging the uptake of the FiT will also have implications on the electricity network. Any large increase in localised renewable energy generators may put constraints on the network, requiring additional investment.

In response to the Commission's question in the issues paper as to whether or not the ACT premium rate should be set at the same level as the NSW premium rate, ActewAGL notes that the NSW scheme (which is similar to the ACT's) proposes a rate of 60c/kWh on gross output from January 2010, considerably higher that ACT's current rate of 50.05c/kWh. However, the NSW scheme pays consumers for 7 years whereas the ACT scheme pays consumers for 20 years.[2] ActewAGL believes that in considering the issue of alignment it is important for the Commission to

[1] Independent Competition and Regulatory Commission (ICRC), November 2009, *Issues Paper: Electricity Feed-in Renewable Energy Premium: Determination of Premium Rate*, p. 17
[2] Rees, N. (NSW Premier), 10 November 2009, *Media Release: Premier Delivers Better Solar Tariffs*, p. 1

reach a conclusion about the significant difference in the period over which the FiT is paid in NSW and the ACT, and the cost to be placed on the ACT community.

Whilst the Commission has correctly identified most of the costs borne by ActewAGL Distribution[3], additional administrative costs of processing customer applications for the FiT scheme are currently being borne by ActewAGL Retail and are not passed through to all customers via the Transitional Franchise Tariff (TFT) cost build up or increased distribution tariffs.

These costs may be increased following the rollout of Stage 2 of the FiT which may extend the scheme to larger generators.[4] In the 2009/10 review of the TFT, ActewAGL Retail proposed that a pass through mechanism be specified to allow ActewAGL to recover any additional FiT costs in the retail tariff to ensure the business is no worse off as a consequence of this policy, but this was not accepted by the Commission.[5]

ActewAGL believes the scheme must ensure full cost recovery for retailers and distributors and maintain competitive neutrality.

Other Considerations

ActewAGL notes the Commission's consideration of other Government subsidies and schemes available to customers when considering the cost of investing in renewable generation and the premium tariff rate.[6] For example, at the commencement of the ACT FiT scheme, photovoltaic (PV) customers were eligible for the Federal Government's solar rebate valued at $8,000. This Federal Government scheme is no longer available and instead customers receive five times the standard entitlement for Renewable Energy Certificates (RECs) for up to 1.5kW of installed capacity, valued at $5,500. This policy change means that consumers may face increased purchase and installation costs for solar units. This may mean the premium tariff needs to be adjusted to meet Government policy objectives, with a corresponding impact on all electricity customers.

In relation to the Commission's stated priorities of "the need to reduce emissions from greenhouse gases and the need to reduce the likely effects of climate change", it is important to note that REC cashback offers reduce the effectiveness of the FiT in its goal of reducing emissions in the ACT. RECs connected to PV units are typically sold off at the time of purchase of the unit and mean that the purchaser of the RECs receives the credit for reducing emissions. Following the commencement of the expanded Renewable Energy Target (RET), the REC credited to the units amounts to five times the actual emission savings that the PV units would provide over their estimated lifetime.

Normal cost of energy

Currently the normal cost of energy for the purposes of the FiT is determined to be 6c/kWh. This is the portion of the FiT that is funded by retailers. This amount is justified on the basis that it represents the savings retailers make through avoiding purchasing energy from the electricity market.

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[3] ICRC, November 2009, *Issues Paper: Electricity Feed-in Renewable Energy Premium: Determination of Premium Rate*, p. 13

[4] Options for expanded ACT electricity FiT Scheme are currently under review by the ACT Government.

[5] ICRC. June 2009, *Final Decision: Retail Prices for non-contestable electricity customers 2009 -10*, p. 55

[6] ICRC, November 2009, *Issues Paper: Electricity Feed-in Renewable Energy Premium: Determination of Premium Rate*, p. 14

ActewAGL notes the approach taken in NSW where there is no deemed normal cost of energy. Instead the full premium rate is recoverable through distribution charges.

ActewAGL alternately suggests the normal cost of energy be directly linked (excluding green costs) with the TFT outcome, whilst regulation of retail electricity prices in the ACT continues. This approach would be more efficient and minimise uncertainty and risk.

Should you require further information, please contact David Graham, Director Regulatory Affairs, on 6248 3605.

Yours sincerely

J Knox.

John Knox

Acting Chief Executive Officer