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Ms Colette Grigg
Program Manager, Green Power
NSW Department of Energy, Utilities and Sustainability
Level 17
227 Elizabeth Street
SYDNEY NSW 2000

3 February 2006

Re: *Implementation of the 10% Green Power policy in the NSW Greenhouse Plan*

Dear Ms Grigg

AGL welcomes the opportunity to comment on the Issues Paper, *Implementation of the 10% Green Power policy announcement in the NSW Greenhouse Plan*. While AGL supports the objective of the policy, there are a number of issues which require consideration before the policy could be successfully implemented.

Please find enclosed AGL's submission on the Issues Paper. Should you require further information, please contact Tim Nelson, Manager Environment Policy and Strategy on (02) 9921 2631 or by email at tanelson@agl.com.au.

Yours sincerely

Mary Darwell
Manager
Group Environment

AGL SUBMISSION ON IMPLEMENTATION OF THE 10% GREEN POWER POLICY

1. Introduction

AGL is a leading energy company, with significant electricity and gas customer bases in South Australia, Victoria and New South Wales. AGL also owns gas and electricity distribution networks and a number of electricity generation assets including Loy Yang Power (minority investment), the Hallett peaking power station in South Australia and the Somerton peaking power station in Victoria. In addition, AGL recently acquired the zero emission assets of Southern Hydro (hydro and wind).

AGL supports the development of policy initiatives that increase customer awareness and demand for renewable energy. However, a range of issues around the proposed policy require further consideration. These are outlined in detail below.

2. NSW Greenhouse Plan Commitment

The NSW Greenhouse Plan outlined the following commitment in relation to this policy proposal:

3.3.12 – Require energy retailers to offer a 10% Green power component to all new (or moving) residential customers. Currently, electricity customers can choose a Green Power scheme in which they pay a premium to have the equivalent to all or part of their electricity usage sourced from accredited renewable energy sources. This initiative would replace the current opt-in scheme with an opt-out scheme. All customers would be offered 10% Green Power, with the option to refuse, accept, increase or decrease the Green Power component.

3. Licence Conditions

The Issues Paper states that the policy will apply to all holders of a NSW Electricity Retail Licence offering residential electricity supply contracts. Effectively, all retailers would have a new licence condition outlining the new 10% offer requirement. AGL is concerned about the inconsistency of this proposal with other policy developments in the energy industry.

The Ministerial Council on Energy is currently developing a national retail and distribution regulatory framework. One of the options put forward by the Ministerial Council is the abolition of general authorisation and licence conditions. It is unclear how creating a new State-based retail licence requirement is consistent with this process. Furthermore, the national framework process clearly identified that environment and renewable energy measures should be pursued at the national level.

Individual State-based requirements placed on retailers are not conducive towards the development of an efficient national retail market for electricity. Currently, both the Victorian and NSW Governments are pursuing different renewable energy policies which will require retailers to have different compliance and administration processes in each State. It would be more efficient if these policy initiatives were harmonised.

4. Voluntary Scheme

It should be noted that the Green Power scheme is a voluntary scheme administered by an Inter-jurisdictional Steering Group. AGL does not believe that the NSW licensing framework should be used to require retailers to comply with a voluntary program which is jointly administered by all of the jurisdictions. Effectively, NSW will be ceding policy control to an inter-jurisdictional group.

A more appropriate policy measure would be to require retailers to offer a product that has 10% Government accredited 'zero emission' energy. Retailers would then be able to choose which Government accreditation they use. In the event that NSW disagreed with a particular Green Power development, it could create its own accreditation rules. Furthermore, it would also allow cost effective abatement (e.g. Greenhouse Friendly) to be offered to residential customers.

5. Residential Customers

AGL believes that further consideration needs to be given to the definition of residential customer. The Issues Paper states that the policy should apply to all customers eligible for a regulated retail tariff (i.e. <160 MWh annual electricity consumption). This definition would capture a significant number of small business customers. To ensure that only residential customers are included (as stated in the original policy announcement), a new definition is required.

6. Price and Contract Length

The Issues Paper states that electricity retailers will maintain their current independence and autonomy in setting the price and source of eligible generation. AGL supports this position. Retailers are best placed to determine the cost of providing energy (including green energy). AGL strongly believes that the new 10% offer requirement should not be incorporated into the NSW regulated tariff.

The Issues Paper also states that the Green Power offering must meet consumer protection measures, including the allowance for customers to opt-out of a green premium at any time and revert back to a standard contract with no penalty fees applied. While AGL supports measures to protect consumers, AGL believes that retailers should be able to determine the terms and conditions associated with the 10% product offering.

In addition, the policy scope should not allow the 10% product to become the 'standard product'. Once a customer has been offered another product and accepts, retailers should not be required to offer the 10% product when the contract signed by the customer expires.

In particular, retailers should be free to determine the length of contract offered to customers. It would be prohibitively expensive to manage a Green Power purchase book if customers are continuously opting in and out of the product. This, in turn, would decrease development in the renewable energy industry as greater uncertainty would increase project costs and the price of Green Power.

Retailers generally prefer offering contracts that have fixed length terms (e.g. 1 year, 2 years, etc). The benefits associated with longer contracts (such as reduced 'churn') allow retailers to offer more competitive prices. Furthermore, the firm forward demand for renewable energy allows new renewable projects to be built.

7. Retail Regulatory Requirements

As stated in the previous section, retailers should be free to determine the length of contract offered to customers. This will require changes to electricity retailer licence and regulatory conditions. At present, retailers are unable to sign up connecting customers unless standard (default) terms and conditions are offered. Only when the customer is signed up can a market contract be provided for signing.

To facilitate the policy identified in the NSW Greenhouse Plan, the regulatory environment will need to be amended to allow customers to verbally accept a contract offer (e.g. 10% Green Power product) over the phone. Appropriate customer protection measures such as cooling off periods could be used to ensure that customers are not disadvantaged.

8. Timing

AGL currently provides customers with a choice of four Green Power accredited products. Customers can choose the proportion (10%, 25%, 50% and 100%) of Green Energy™ they wish to purchase. These products are designed to cater for the small proportion of customers who are willing to pay a premium for renewable energy. As a consequence, they are offered as 'additions' and do not involve a fixed contract term.

If required to offer a 10% Green Power product more broadly, it is likely that AGL would need to create a new contract product. Developing a new product in this context is likely to take several months. As such, AGL urges the Government to allow as much time as possible between the requirement being established and it becoming effective.

9. Communication

The Issues Paper states that every new customer who is presented with the 10% Green Power component must be made aware of:

- The environmental attributes of the Green Power option in increasing support for the renewable energy industry and reducing greenhouse gas emissions; and
- The choice to 'opt-out' of the Green Power component at any time to a standard or alternative tariff.

AGL currently has a dedicated phone number for stakeholders to call if they require information on AGL Green Energy™, AGL Green Balance™ and greenhouse issues generally. However, this resource is provided for the relatively small number of consumers who are committed to environmental issues and willing to pay a premium for a green energy product.

AGL has over 1000 staff engaged in customer service roles. While training could be provided on the requirement to offer the 10% product, it would be very difficult and prohibitively expensive to educate these people on the environmental attributes of Green Power, renewable energy and reducing greenhouse gas emissions. In this context, AGL believes that the Government should consider establishing a dedicated information line for stakeholders. A similar information line was established when full retail contestability was introduced in NSW in 2003.

As discussed in previous sections, AGL does not support providing customers with the right to 'opt-out' at any time. While the customer should obviously be able to decline the product offering in the first instance, retailers should be able to provide market contracts. Once signed, these contracts would prevent the customer from 'opting-out' at any time.