

A few
words.

Licence Exemptions
Markets and Regulation Division
Public Utilities Office
Department of Finance
Locked Bag 11
Cloisters Square WA 6850

By email: licence-exemptions@finance.wa.gov.au

Dear Sir/Madam

AGL Energy Services Pty Limited – solar PPA retail exemption

AGL Energy Limited (**AGL**) is one of Australia's leading integrated energy companies. Drawing on over 175 years of experience, AGL serves its customers throughout eastern Australia with meeting their energy requirements, including gas, electricity, solar PV and related products and services. AGL has a diverse power generation portfolio including base, peaking and intermediate generation plants, spread across traditional thermal generation as well as renewable sources including hydro, wind, solar, landfill gas and biomass. AGL is an ASX 50 company with a market capitalisation of approximately \$14 billion.

AGL Energy Services Pty Limited (**AGLES**) is a wholly owned subsidiary of AGL, and operates a solar energy business which sells solar photovoltaic (**PV**) energy systems to residential, commercial and government customers across all states and territories. AGLES offers a variety of purchase options to customers, including outright purchase, third-party financing, and Power Purchase Agreements (**PPAs**).

AGLES is seeking exemption from the requirement to hold a retail licence to sell electricity under the *Electricity Industry Act (2004)* to allow the sale of electricity to customers under solar PPAs in Western Australia (**WA**), in accordance with the Solar Power Purchase Agreement Providers – Retail Licence Exemptions framework published in August 2016.

This application sets out relevant information about AGLES and the proposed business model for PPAs in WA.

Yours faithfully

Doug Landfear
Head of Commercial Solar
AGL Energy Limited





1 Corporate Information

Corporate Details

Legal name	AGL Energy Services Pty Limited
Trading name	AGLES
Registered office (if a corporation)	200 George Street, Sydney, NSW 2000.
Principal place of business	N/A

Contact Person

Name of primary contact	Doug Landfear, Head of Commercial Solar
Postal address	Locked Bag 1837, St Leonards, NSW 2065
Telephone number	0475 831 036
Email	doug.landfear@agl.com.au

Corporate Structure

ABN or ACN	ACN 074 821 720; ABN 57 074 821 720
Legal structure (corporation, partnership, or sole proprietor)	Australian Proprietary Company, Limited By Shares.
Company directors	Brett Redman – Chief Financial Officer, AGL John Fitzgerald – General Counsel, AGL Stephen Mikkelsen – EGM Energy Markets, AGL
List of associated or controlled entities, including the degree of control exercised	AGLES is a trading name of AGL Energy Services Pty Limited. AGLES is a wholly owned subsidiary of AGL Energy Limited (AGL). AGLES has no subsidiaries.

Business Requirements

Description of the company and the company's main business activities	<p>AGLES sells and installs solar PV power arrays at the customer's premise(s) to produce solar electricity. Customers include residential and commercial customers.</p> <p>AGLES intends to extend the scope of its activities to allow customers to purchase or lease solar systems or purchase the solar energy generated from systems owned by AGL installed at the customer's premises (PPA product) over extended time periods as outlined below.</p>
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Declaration

See Attachment 1.

2 AGLES Proposed Business Model

2.1 Strategic direction

The Australian rooftop solar PV market is a highly innovative emerging market that has followed a growth trend similar to markets in the United States, and has proven to be highly responsive to customer demand and to regulatory development. The market continues to evolve as new competitors with new business models enter the industry.

AGLES is a subsidiary of AGL Energy Limited (**AGL**), which is an authorised retailer in the states and territories comprising the National Electricity Market (**NEM**). AGLES has operated as an independent business providing solar PPA products to customers in these markets, whether they are retail customers of AGL or another retailer. AGLES offers solar and other energy products to residential, commercial and government customers.

Initially, AGLES primarily offered 'purchase and installation' products to customers seeking a solar PV system. Increasingly, AGLES offers 'solar PPA' products, in response to customer preferences for ongoing service arrangements and lower upfront costs.

While AGL is not a licenced retailer in WA, some of our commercial clients have expressed an interest in AGLES providing them with solar PV products at their WA premises, which has prompted this application. Subject to further market assessment, we may also offer products to residential customers in future.

Our goal is to become Australia's favoured provider of easy and trusted distributed energy solutions. AGLES sees the rooftop solar PV market as both attractive in its own right, and also as an entryway to more advanced battery storage and home energy management offerings in future.

2.2 Proposed solar PV system arrangement

This exemption would facilitate the offering of solar PPA products in WA on broadly similar terms to the products and services provided by AGLES in the NEM states.

Under the solar PPA model, AGLES will design a solar PV system for a residential or commercial customer, procure the solar PV equipment, and engage a licensed third party contractor to install the system on the customer's premises, at AGLES's cost. AGLES will own, maintain and monitor the solar PV system for a specified term (typically 5, 7 or 10 years). AGLES will charge the customer for the energy produced by the system over the term, at a specified per kWh rate, which may include annual escalation for inflation.



AGLES will design the solar PPA systems to suit the customer's load requirements and available roof space, taking into account the orientation and pitch of the PV panels with respect to the sun to optimise energy production throughout the year. Solar energy which is not consumed by the customer may be exported to the electricity grid, subject to the technical requirements of the distribution network service provider.

The type of systems we will offer are:

(a) Commercial customers

5 kW to 5 MW rooftop or ground mount solar energy systems featuring Tier One solar PV panels (eg Hanwha Solar modules), high quality inverters (eg, Fronius or SMA) and mounting frame (eg, Clenergy), and other balance of plant components.

(b) For residential customers

0 kW to 10 kW rooftop solar energy systems featuring Tier One solar PV panels (eg Hanwha Solar modules), high quality inverters (eg, Fronius or SMA) and mounting frame (eg, Clenergy), and other balance of plant components.

AGLES may sell solar PPA systems to building owners or to tenants. In some cases, the customer may be a landlord or building owner on-supplying to occupants of their premises under applicable exemptions.

In order to enter into an agreement with AGLES the customer must have, and maintain throughout the term of the contract, a retail customer contract with an authorised energy retailer.

In WA, we will outsource installation and maintenance functions to carefully selected third parties. However, AGLES will always be the entity the customer interacts with, and can rely on, for the provision of services.

2.3 Sales forecast

As described in section 2.1, the initial activities of AGLES will be to provide medium-scale solar PV systems to commercial & industrial (**C&I**) customers with whom we transact in other jurisdictions.

Subject to further market assessment and research, we then propose to offer products to residential and other commercial and small business customers.



As an indicative sales forecast:

Year	Sales forecast
2017	5 x large C&I customers
2018	10 x large C&I customers 50 x small business customers 100 x residential customers
2019	20 x large C&I customers 100 x small business customers 1,000 residential customers

Of course, this forecast is very preliminary and AGLES will be pleased to keep the Public Utilities Office up to date with its planning and sales activities.

The total volume of commercial sales is not likely to be more than 2 MW in 2017.

Our experience in the NEM states suggests that the average length of the customer contracts will range from 5 to 10 years for both residential and business customers.

2.4 Proposed pricing structure

AGLES proposes to offer its customers a solar PPA with the following pricing structure:

- 1 System installation, maintenance, monitoring and repair at no upfront cost, for the term of the agreement.
- 2 An energy price per kWh for energy generated by the system, for the term of the agreement.

AGLES may also offer a solar PPA with a fixed kWh quantity, so that the customer has certainty as to monthly billing, with true-up arrangements applying in respect of ongoing surplus or deficits of actual generation against the target fixed quantity.

There are other fees which may apply on a contingency basis. In particular, AGLES may charge a fee to cover its reasonable expense in the event of premature termination, disconnection and re-activation or non-payment of bills.

AGLES customers will receive the benefit of any feed-in tariff payable by their energy retailer for electricity exported from the solar PV system into the grid.



As AGLES will own the solar PV system when it is installed at the customer's premises, AGLES will own any small-scale technology certificates (**STCs**), large-scale generation certificates (**LGCS**) or other green products created.

2.5 Third party assistance

AGLES does not currently have a corporate presence in Western Australia. It will engage third parties to assist with:

- 1 Installation – AGLES will engage one or more licensed, qualified contractors to install solar PV systems on customer premises. AGLES will retain the primary customer relationship and contractual responsibility for delivering customer services.
- 2 Maintenance – AGLES will engage one or more licensed, qualified contractors to maintain the solar PV systems on a periodic or as-needed basis to ensure continued system performance and safety.
- 3 Monitoring – AGLES will monitor solar system performance to identify performance issues or system faults, with data management provided through a third party relationship.

AGLES will also have access to AGL's customer service, billing and complaints handling capabilities.

3 Product Disclosure Statement

Schedule 1 contains AGLES proposed draft PDS in respect of the solar PPA product for commercial solar systems (addressing both fixed price and variable models).

4 Relevant Experience

AGL is one of Australia's leading integrated energy companies and largest ASX listed owner, operator and developer of renewable energy generation in the country. AGL has a diverse power generation portfolio including base, peaking and intermediate generation plants, spread across traditional thermal generation as well as renewable sources including hydro, wind, landfill gas, solar and biomass.

Drawing on more than 175 years of experience in the Australian Energy Market, AGL operates retail and merchant energy businesses, power generation assets and an upstream gas portfolio.

- AGL's Retail Energy Division sells and markets natural gas, electricity and energy related products and services to more than 3.8 million residential and small business customer accounts across New South Wales, Victoria, South Australia and Queensland.
- AGL's Merchant Energy division develops, operates and maintains AGL's power generation assets, develops its carbon strategy, and manages the risks related to buying and delivering gas and electricity



for AGL's wholesale and retail customer portfolio. It also manages relationships with AGL's large commercial and industrial customers.

- AGL's Upstream Gas division invests in and operates gas exploration, development and production tenements and develops and operates gas storage facilities.

AGL's current solar business, AGLES, has been operating under AGL ownership since July 2011, during which time it has sold over 11,300 solar systems (comprising about 11,000 residential systems and about 300 commercial systems). AGLES manages the overall customer relationship every step of the way from initial consultation to final installation and post-installation service and support. Installation and 3rd party finance are currently outsourced with AGLES managing other functions in-house.

AGLES benefits from AGL's significant resources and extensive experience in the energy industry. AGL's corporate teams provide support services to all AGL business units including AGLES. This support includes risk management, compliance, legal and regulatory services as well as finance and human resource management.

5 Other equivalent licences, exemptions or authorisations to operate

AGLES operates in the NEM states under an individual retail exemption granted by the AER on 6 February 2015 which can be viewed here:

<https://www.aer.gov.au/retail-markets/retail-exemptions/public-register-of-retail-exemptions/agl-energy-services-pty-limited-retail-exemption>

There have been no breaches of the conditions applying to this exemption and so far as we are aware there are no current or ongoing investigations about alleged breaches of the conditions applying to this exemption.

Other AGL entities hold retail licences or retail authorisations for electricity and natural gas in the Australian Capital Territory, New South Wales, Queensland, South Australia, Tasmania and Victoria.

6 Public Interest Information

The grant of a retail licence exemption to AGLES would have the following public interest benefits:

Environmental	Approval of this exemption will benefit the environment by promoting low carbon and renewable solar energy in Western Australia from an experienced provider.
Social Welfare	By structuring this business model with minimal upfront costs, approval of this exemption application will promote access to alternative energy for customers with limited readily available capital.
Regional Development	Approving this application will create business growth in Western Australia; AGLES will use local services for installation and maintenance of solar systems.
Customer Interests	AGLES' business model will provide an alternative energy option for customers, suited to their preferences. AGLES's products will also be supported by AGL's extensive experience in customer interface and support.
Licensee Interests	This arrangement will provide an additional source of income for AGLES, the chance to support its major customers with operations in WA, and the opportunity to expand its customer base. The venture will also provide an opportunity for AGLES to develop its participation in the market for more advanced battery storage and home energy management offerings in future.
Competition in the Market	Approval of this exemption application will increase Western Australian's access to solar PPAs provided by an established and experienced energy company.
Policy Objectives	Approval of this application will improve Western Australian's access to alternative energy sources and contractual arrangements.

7 Confidential Information

This application does not contain confidential information.

Schedule 1

Product Disclosure Statement

Before you sign the AGL Energy Services Solar Power Purchase Agreement, you should read this Product Disclosure Statement (**PDS**), together with the agreement, in order to understand important information about the service.

What is the agreement?

The Solar Power Purchase Agreement is a long term agreement and you should consider the financial implications of this agreement.

Under the agreement, you can either:

- purchase a rooftop solar PV system from AGL Energy Services; or
- have AGL Energy Services provide and own a solar PV Kit, to be installed at your premises and you will pay:
 - a fixed energy charge for a fixed amount of energy in a given period; or
 - a variable energy charge for all energy generated by the system.

The length of the agreement is [5 – 10] years, however it can be terminated early in circumstances described below.

The agreement is not for your primary energy supply

This solar PPA product is an alternative service which supplements your primary source of electricity supply. The solar PPA is separate to your primary supply contract with your electricity retailer. We do not control the quality, frequency and continuity of energy supply to your premises other than the solar energy generated by the solar PV system. You should contact your primary retailer for any issues with the quality, frequency and continuity of energy supply (other than solar energy) to your premises.

AGL Energy Services is not licensed, and is not bound by the obligations under the *Electricity Industry Act 2004* or its subsidiary legislation relevant to licensees, including the obligation to be a member of the Electricity Ombudsman Scheme.

Australian Consumer Law protections apply

The supply of electricity services to you under the agreement is subject to consumer protections under the Australian Consumer Law.

Your obligations before the system is installed

We will conduct a design assessment and we will notify you if we propose that:

- (a) the solar PV system should differ materially from the solar PV system described to you;
- (b) any of the charges should differ by 5% (up or down) from the



charges set out in the agreement.

You can elect to accept or reject any revised solar PV system and/or charges we propose.

You may need your local area distribution company or retailer to activate the connection of the solar PV system to the distribution network. This process is not within our control. Under the terms of your electricity supply contract or other contract with your electricity retailer, you may be liable for any damage the solar energy system causes to the electricity grid to which you are connected.

Installation

You grant us the right to have a contractor install the solar PV system at your premises and to keep the solar PV system in that location during the term of the agreement.

We will require the contractor to take every reasonable precaution when installing the solar PV system at your premises. However, you acknowledge that the installation of the solar PV system may affect any roof manufacturer's warranty.

Ownership of the solar PV system during the term

During the term of the agreement, the solar PV system will be owned by AGL Energy Services. You will not have any rights to sell or transfer this equipment. You must not allow the solar PV system to become subject to any mortgage, encumbrance or other security.

You should ensure that any person that may potentially acquire an interest in your premises (eg. a potential tenant or buyer) is provided with prior and adequate notice that the solar PV system is the personal property of AGL Energy Services and is subject to the agreement.

On-sale to tenants

You may on-sell solar energy supplied to you under the agreement to any tenant or occupant of your premises. However, you are solely responsible for complying with and obtaining any authorisations or exemption required and for the provision of any meters required in connection with that on-sale of energy. The *Electricity Industry Exemption Order 2005* contains detailed conditions for the on-supply of electricity to residential premises, in particular regarding the fees or changes imposed by the supplier and the information to be made available to each resident of the premises.

You must ensure that any tenant or occupant of your premises accepts, and acts in accordance with, AGL Energy Services' rights under the agreement.

Charges and invoicing arrangements

Your bill will generally cover a "Billing Period" set out in the schedule to the agreement. If a bill covers a period other than a Billing Period, where necessary we will adjust any charges on a pro-rata basis. All charges are subject to annual escalation of [●] %.

We will send bills to the address nominated by you in the agreement. If you have provided us with an email address, you agree that we will send bills to that email address, unless you request otherwise. You may elect to automatically pay your solar energy bills by direct debit from an account you



nominate. You may also request a paper bill.

In addition to the energy price, other fees that may apply include:

- early termination fee;
- paper bill fee;
- late payment fee;
- dishonoured payment fee;
- payment processing fee;
- re-activation fee where we reconnect the system after a disconnection; and
- system removal costs.

These fees may change during the term of the agreement to reflect an increase or decrease in our costs of providing the service, including as a result of a change in law.

You may also be required to provide AGL Energy Services with security in the form of an unconditional bank guarantee for an amount specified in the agreement, to be returned to you at the expiration of the term. We may have recourse to the security if you are unable to pay debts as they fall due or if you are in breach of any of your obligations under the agreement.

We may also charge interest at a rate of [●]% calculated on a daily basis on amounts not paid when due until the overdue amount is paid in full.

Your meter and its accuracy

We will arrange the installation of a Type 4 meter that is compliant with the *Electricity Industry (Metering) Code 2012* to measure the output of the solar PV system.

The solar monitoring meter only records electricity generation by the solar PV system and this is separate to any meter required to measure electricity imported from the area distribution network or any meter for measuring your on-sale of solar energy to any tenant on your premises.

AGL Energy Services will bear the standard costs of your retailer or distribution service provider performing works at your premises to connect the solar PPA system to the area distribution network, including standard works to install or upgrade your grid meter. You will be responsible for the costs of any non-standard works.

You will be responsible for arranging any on-sale meter and the costs of any on-sale meter. AGL Energy Services will not have any role in your on-sale or on-supply of solar energy to any tenant or occupant of your premises and have no obligation to assist you in any such arrangement.

Rates

Energy Price per kWh – [●] c/kWh excl. GST (escalated annually by [●]%).

Estimated generation output and cost of the solar PPA

Estimated annual solar energy generation: [●] kWh

Estimated first year payments: \$[●]



Termination rights

Your termination rights

You may terminate the agreement at any time before the scheduled end date by providing written notice to us, however, you must pay the applicable early termination fee. The early termination fee is calculated to cover the value of the solar PV system which will not be paid in energy charges due to the early termination and incorporates an administration fee covering our reasonable costs in administering the termination.

You may elect to terminate the agreement on or after the scheduled end date by providing us with prior written notice. Until you terminate the agreement, it will continue to apply.

You may also terminate the agreement early if you do not accept the design assessment, if supply from the solar PV system has not commenced by the date indicated in the Schedule to the agreement or because of our failure to meet certain obligations.

AGL Energy Services' termination rights

We may elect to terminate the agreement after the scheduled end date by providing you with prior written notice of our election to terminate the agreement.

We may terminate if you are no longer the legal owner of the premises or if the premises is not connected to the area distribution network.

We may also terminate the agreement where you commit a breach of any material provision of the agreement. An early termination fee will apply in those circumstances.

Your options when the agreement ends

On termination of the agreement for any reason, we may either:

- (a) remove the solar PPA system from your premises; or
- (b) transfer ownership of the solar PPA system to you.

If you do not want to take ownership of the system, you can provide notice to us and we will arrange for the removal of the system from your premises at your cost.

What happens if you move out or sell your premises?

If you enter into a contract for the sale or transfer of your premises, you must, within 5 business days of execution of that contract, notify AGL Energy Services.

You must not enter into any contract for the sale or transfer of your premises unless the purchaser or transferee acknowledges and agrees in writing that the solar PV system is the personal property of AGL Energy Services.

If a purchaser or transferee of the premises does not pass AGL's credit check or does not accept the transfer of all your rights and obligations under the agreement, you will be deemed to have elected to terminate the agreement and an early termination fee may apply.

Dispute resolution procedures

We will address any complaints in accordance with our complaints handling and dispute resolution procedure, which can be found at agl.com.au, or is



available on request.

If you have any enquiries or complaints in relation to our services, please contact us on 1300 361 391.

Performance of the system

We do not guarantee a particular level of generation, reliability or quality of electricity from the solar PV system.

The supply of solar energy from the solar PV system may be interrupted or reduced for maintenance or repair, in an emergency, for health and safety reasons, due to any circumstances beyond our reasonable control or where otherwise permitted by applicable law.

Maintenance and repair

We will maintain the solar PV system and conduct any repairs at our cost, unless they result from damage caused by your breach of the agreement. We may at any time during the term arrange for the replacement of any or all of the components of the solar PV system, at our cost.

The person responsible for the maintenance and repair of the solar PV system (**Service Provider**) is:

[Name: [•]]

[Telephone: [•]]

You must ensure that any tenant, occupant or visitor at your premises does not damage or interfere with the solar PV system.

You must ensure the Service Provider and our authorised personnel can access your premises for the purposes of designing, installing, connecting, testing, maintaining, repairing, upgrading, disconnecting and removing the solar PV system.

Except in an emergency, we will only access your premises at reasonable times and following reasonable notice to you.

Attachment 1

Directors' Declaration

We refer to the application by AGL Energy Services Pty Limited ACN 074 821 720 (**applicant**) for exemption from the requirement to hold a retail licence in Western Australia to sell electricity to consumers under solar PPAs.

We confirm in relation to the applicant that, as at the date of this declaration:

- 1 no administrator, receiver or insolvency official has been appointed to control any part of its business or its property;
- 2 no application or resolution has been passed or steps taken to wind it up; and
- 3 it is not aware of any other factors that may impede its ability to finance and service solar PPA customers under the proposed business model set out in the application.

Signed by:

sign here ▶



Director

sign here ▶



Director

print name

STEPHEN MIKKELSEN

print name

JOHN FITZGERALD

Date:

3 Feb 2017

Date:

15/2/17.