



22 March 2021

Jessica Robinson
Solar feed-in tariff benchmarks
Independent Pricing and Regulatory Tribunal
PO Box K35
Haymarket Post Shop, Sydney NSW 1240

Email: jessica_robinson@ipart.nsw.gov.au

Dear Ms Robinson,

Solar Feed-in Tariffs 2021-22 – 2023-24

Origin Energy (Origin) welcomes the opportunity to respond to the Independent Pricing and Regulatory Tribunal (IPART) issues paper on the benchmark range of solar feed-in tariffs (FiTs) to apply for the next three financial years (2021-22 to 2023-24).

We believe a fundamental aspect of the calculation of a solar FiT is that it reflects the costs retailers avoid when they purchase electricity from solar customers. The most significant avoided cost is wholesale electricity. We also consider that to the extent practicable, there ought to be consistency in the applicable of regulatory pricing decisions across state and national regulators, to do otherwise introduces the potential for regulatory inconsistency and regulatory risk.

IPART has consistently taken the view that wholesale electricity prices should be determined by current market prices rather than historical costs. However, we believe IPART's point in time estimate is not a good proxy for the benefit that retailers receive (avoided hedge costs, determined over a period) when it takes solar exports. Origin considers it would be more accurate if the benchmark tariff represents a reasonable estimate of an efficient retailers' costs rather than the latest view of forward prices.

In this regard, we consider the wholesale electricity price forecast methodology used by the Australian Energy Regulator (AER) in determining its Default Market Offer represents a reasonable approach. The AER's consultant (ACIL Allen Consulting) uses a market-based approach to estimate the future wholesale energy cost. The approach involves estimating the wholesale energy purchase costs that a prudent and efficient electricity retailer would be expected to incur in a given determination year. The methodology estimates costs from a retailing perspective, assuming a contracting strategy that a prudent retailer would use to manage its electricity market risks.

This approach includes wholesale energy market simulations to estimate expected pool costs and volatility, and the hedging of the pool price risk by entering into electricity contracts with prices represented by the observable futures market data. The approach is basically a simplification of what occurs in the actual market in that it is based on a specified hedging strategy using observable prices for base, peak and cap contracts only.

This methodology has been refined over a number of years and is generally accepted by stakeholders within the NEM. We consider that applying this methodology aligns the supply tariff for solar exports with the supply tariff from the grid and therefore provides greater consistency with the solar tariff that retailers set.

To the extent that a simplified calculation of the solar multiplier produces comparable results to the current Monte Carlo method, we agree with IPART that the simplified approach is likely to be more transparent and replicable and is therefore preferable.

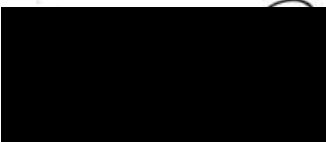
We also agree that the dynamic nature of solar uptake means that historic data may not provide an accurate picture of market conditions. However, reliance on the most recent year may also fail to provide an accurate representation, particularly if one-off events occurring during the year are not appropriately factored into the analysis. The current IPART approach allows for more judgement, utilising historic data but providing more weight to the most recent data. We consider this to be a pragmatic approach.

IPART also notes that it has access to solar export profile data from the three NSW networks (rather than only Ausgrid) and propose to utilise this data in developing benchmarks, with the potential for separate benchmarks for each network. We consider that the costs to Origin of implementing separate network benchmarks is likely to be significant and as such our preference is to maintain a single NSW benchmark, with the potential for any network variation to be incorporated within the benchmark range as appropriate.

The Terms of Reference request that IPART consider benchmarks for different times of the day. We appreciate that retailers are not obligated to apply time-dependent benchmarks. Origin does not support the application of time-dependent benchmarks at this time preferring a single all-day solar FIT on the basis that it is simple for customers to understand. In addition, we consider that time-dependent benchmarks are likely to be complex and costly for retailers to implement and would potentially require substantial changes to billing systems.

If you have any questions regarding this submission, please contact Gary Davies in the first instance at

Yours sincerely


Sean Greenup
Group Manager Regulatory Policy
