17 March 2021

Deborah Cope
Acting Chair
Independent Pricing and Regulatory Tribunal

Sent electronically

Dear Ms Cope,

Submission to Solar Feed-in Tariff benchmark 2021-22 to 2023-24 issues paper

The Public Interest Advocacy Centre (PIAC) is an independent, non-profit legal centre based in New South Wales. Established in 1982, PIAC tackles systemic issues that have a significant impact upon people who are marginalised and facing disadvantage. We ensure basic rights are enjoyed across the community through litigation, public policy development, communication and training. The Energy + Water Consumers' Advocacy Program represents the interests of low-income and other residential consumers, developing policy and advocating in energy and water markets.

PIAC welcomes the opportunity to respond to the Independent Pricing and Regulatory Tribunal's (IPART) issues paper on its approach to setting Solar Feed-in Tariff (FiT) benchmarks for 2021-22 to 2023-24.

Context and purpose of feed-in tariffs

The framework for FiTs provides one of a number of revenue streams that help determine the case for investing in and using Distributed Energy Resources (DER) such as solar PV and battery systems. A framework is required that is both fair for individuals and helps deliver an efficient energy system overall. Regulatory oversight is required to guide and monitor the market to ensure it works – this is essential to both protect consumer outcomes and to encourage a fair and functioning market for businesses to enter.

Recent experience, most notably with many households in Texas losing power, highlights the need for all resources to be available when needed to help maintain supply to consumers at times of high prices and/or generation scarcity. A strong regulatory framework is essential to ensure the true value of flexible resources such as DER is passed through to owners (in the case of DER, consumers). To this end PIAC is focussed on ensuring:

- IPART's FiT benchmarks reflect the value of exports to the grid – incorporating the wholesale costs, network losses and NEM fees that retailers avoid incurring;
- these benchmarks are reflected in the retail plans customers are on; and,
- these FiTs and plans, and the differences between them, are clearly understandable so people are able to make informed decisions on which plan to choose and whether installing solar or batteries is worthwhile for them.

There is a growing interest and financial case for households to invest in batteries and Distributed Energy Resources (DER) more generally. Households making such investments will expect a degree of certainty of the value these systems will provide and FiT levels form one part of this. PIAC considers it important to provide medium-term stability through the FiT benchmarks than reflecting year-on-year fluctuations.

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This could be achieved through limiting changes in benchmark levels from year to year, like for network tariffs. Alternatively, IPART could use a more medium-term outlook of wholesale and other price trends in determining its benchmark levels. Setting appropriate pricing signals now while battery take-up is still growing will avoid the need for significant changes or revisions in the near future.

IPART has noted that, due to lower wholesale prices, benchmark FiTs are likely to reduce in 2021-22. While trends in wholesale prices should be reflected in FiT levels (along with trends in the rest of the supply chain), IPART's methodology does not recognise the merit order impact of solar. Solar generation (regardless of whether it is self-consumed or exported) displaces high cost generation and reduces the chance of high wholesale prices occurring in the first place. While wholesale prices may be lower, we consider solar's merit order impact means the FiT benchmark range should not be reduced by the same amount. The merit order impact also means that the upper limit of the benchmark range should be considered the best reflection of socialised benefits of solar generation.

Barriers to consumers making informed decisions

Retail offers continue to be complicated and confusing for many households, regardless of whether a consumer has a solar system. This makes it difficult or impossible for customers to make an informed assessment of the trade-offs between different retail plans, such as the between the level of FiT a customer can receive and the fixed or usage charges a customer must pay.

Data from the NSW Social Programs Code suggests that many solar households may actually be worse off as, despite receiving a reasonable FiT, they receive higher than normal fixed or usage rates for consumption.[1]

The lack of smart metering infrastructure and the difficulty in obtaining a household's actual usage data makes it difficult to develop a clear and dependable case for whether or not to install solar or battery systems, and how to appropriately size such systems. Not having such data means investment and sizing decisions must rely on 'rules of thumb' or estimates of a household's consumption across the day and across the year. Such assumption can easily overlook the unique characteristics of each household and lead to actual bill outcomes differing from what was initially modelled.

Another barrier to the efficient take-up of DER such as batteries is the difficulty unlocking the multiple value streams possible from a battery. The ability to revenue stack is a core driver of the business case to install a battery system. For instance, many retailers do not allow residential customers to be fully rewarded for providing demand response. While the Wholesale Demand Response Mechanism rule change can address this issue, it will not be available to residential customers for several years.

Solar multiplier

PIAC supports IPART using data from all three NSW DNSPs in estimating the solar multiplier to apply to the FiT benchmarks. We also support calculating separate solar multipliers for each network to more accurately reflect the diversity across the different regions. However, PIAC recommends IPART also consider the effect of climatic variation on solar export such as between coastal and non-coastal regions within the same network area. The difference in

[1] NSW Department of Planning, Industry and Environment, *NSW Energy Social Programs Annual Report 2019-20*, 20-21.

general climate and weather patterns will affect both the gross solar generation from a system and the household's typical usage patterns.

PIAC supports IPART exploring a more transparent and replicable alternative to its current approach using Monte Carlo modelling. In general, PIAC encourages using methodologies that provide robust and transparent results that help deliver confidence in the regulatory framework. We note IPART's working paper comparing the results of the existing and proposed methods. On the basis of these results and the improved ability to interrogate what is driving solar multipliers, PIAC recommends IPART adopt the proposed method.

Time-varying FiTs

PIAC supports the development and use of a time-varying FiT benchmarks. Time-varying FiTs can incentivise investment decisions and behaviours that benefit all consumers (not just solar customers) by incentivising when batteries discharge to the grid or installing west- rather than north-facing solar systems. PIAC encourages time-varying FiTs to align with time-dependent network tariffs where practical and not inefficient to do so.

Continued engagement

PIAC would welcome the opportunity to meet with IPART and other stakeholders to discuss these issues in more depth.

Yours sincerely,

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