

## FACT SHEET

# IPART determines retailer contribution to the costs of the Solar Bonus Scheme

Based on *Retailer contribution and benchmark range for 1 July 2012 to 30 June 2013, Determination*.  
27 June 2012

From 1 July 2012 the NSW Government will require all retailers to pay some of the costs of the statutory feed-in tariff which is paid to eligible customers under the Solar Bonus Scheme (the retailer contribution).<sup>1</sup> This Fact Sheet sets out our determination of the retailer contribution for 2012/13.

### **What rate will retailers contribute to the Solar Bonus Scheme?**

IPART has determined that retailers must contribute 7.7 cents in 2012/13 for each eligible kWh under the Solar Bonus Scheme. This contribution will commence on 1 July 2012.

The rate of retailer contributions in 2012/13 is higher than our previous estimate of 6.5 c/kWh for 2011/12. This reflects higher estimated wholesale energy prices following the introduction of the carbon pricing mechanism and the way that Standard Retailers have structured their regulated prices for 2012/13.

### **What does the retailer contribution mean for me?**

Solar Bonus Scheme customers will continue to receive the applicable statutory rate (60 or 20 c/kWh, depending on the customer).

Some retailers currently pay to customers a voluntary premium of 6 to 8 c/kWh on top of these statutory rates. We expect that these retailers will reduce or eliminate these voluntary payments upon the introduction of the retailer contribution.

The retailer contribution will not affect the feed-in tariffs that solar customers who are not eligible for payments under the Solar Bonus Scheme may be able to access from retailers.

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<sup>1</sup> Section 43ECA, *Electricity Supply Act 1995* (NSW).



This retailer contribution will save around \$33 million in 2012/13 that would otherwise have been recovered from electricity prices. This will place downward pressure on future increases in electricity prices.

### **How did we determine the retailer contribution to the Solar Bonus Scheme?**

On 26 June 2012, we received a terms of reference from the Minister for Resources and Energy requiring us to set the retailer contribution for 2012/13 using the same methodology and approach as our March 2012 report on solar feed-in tariffs.<sup>2</sup>

To recommend the retailer contribution in the March 2012 report, we estimated the direct financial gain to retailers per kWh of electricity generated by their Solar Bonus Scheme customers. We did this by taking the final retail price for electricity usage and deducting the unavoidable costs to retailers such as network and green scheme obligation costs. We undertook this analysis for retailers supplying regulated retail customers and customers on market contracts that pay rates that are discounted against the regulated price. We did this to ensure that we did not set the contribution higher than the retailers' actual financial gains as this would have had implications for the competitive market for PV customers. Our analysis and reasoning are set out in that report.

We have set the retailer contribution for 2012/13 in a consistent manner to the methodology set out in our March 2012 report. We again deducted the unavoidable costs from the approved regulated retail prices for 2012/13 as well as from estimates of discounted market prices for 2012/13.

For 2012/13, we have set the retailer contribution at 7.7c/kWh based on the financial gains to retailers. It is consistent with competitive market offers and the bottom of our range of the fair and reasonable benchmark range.<sup>3</sup> Further, we think that it is appropriate to set the rate conservatively because the retailer contribution is mandatory and we are concerned not to disadvantage PV customers in the competitive market.

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<sup>2</sup> IPART, *Solar feed-in tariffs, Setting a fair and reasonable value for electricity generated by small-scale solar PV units in NSW, Final Report*, March 2012.

<sup>3</sup> IPART has determined a benchmark feed-in tariff range of 7.7 to 12.9 c/kWh for 2012/13, see IPART's Fact sheet, *Benchmark feed-in tariff range for 2012/13*, June 2012.

## Background

### The Solar Bonus Scheme

The NSW Government established the Solar Bonus Scheme to provide a subsidised feed-in tariff for output from eligible small-scale solar PV units and wind turbines from 1 January 2010 until 31 December 2016.<sup>4</sup>

Initially the feed-in tariff was set at 60 c/kWh. However, the Government announced changes to the scheme on 27 October 2010, including a reduced feed-in tariff of 20 c/kWh for new participants. In April 2011, the Minister for Energy suspended the scheme before closing it to new participants on 1 July 2011.

Customers who are not eligible for payments under the Solar Bonus Scheme can seek unsubsidised feed-in tariffs in the competitive market. We have determined a benchmark range of 7.7 to 12.9 c/kWh for 2012/13 for solar customers who are not eligible under the Solar Bonus Scheme.

### Who pays for the Solar Bonus Scheme?

All electricity customers pay for the costs of the Solar Bonus Scheme through a levy on their electricity prices.

From the commencement of the scheme until 30 June 2012, NSW Government paid the full applicable statutory rate (60 or 20 c/kWh, depending on the customer) to the retailer, who passed that amount through to eligible customers.

From 1 July 2012 NSW Government will pay the statutory feed-in tariff rate *minus* the retailer contribution determined by IPART to the retailers. The retailers, in passing on this feed-in tariff, will now also need to add at least the amount determined by IPART to ensure that the customers receive the full statutory rate (they can continue to pay voluntary feed-in tariffs above the statutory rate at their discretion).

Government recovers the costs of the Solar Bonus Scheme through the Climate Change Fund Levy on electricity prices. The feed-in tariff component paid by the retailers under section 43ECA of the Electricity Supply Act will not be recovered through the Climate Change Fund. Instead, it is funded through the benefits that retailers make from their Solar Bonus Scheme customers.

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<sup>4</sup> For details of the Solar Bonus Scheme see <http://www.trade.nsw.gov.au/energy/sustainable/renewable/solar/solar-scheme/solar-bonus-scheme>



## **Why should retailers contribute to the costs of the Solar Bonus Scheme?**

IPART considers that the retailers should contribute towards the costs of the Solar Bonus Scheme to lessen price increases for all customers. The scheme costs are recovered through the Climate Change Fund levy, which is paid by all NSW electricity customers.

Given that the Solar Bonus Scheme represented a generous subsidy to participating customers at a cost to all electricity customers and that the retailers made a financial gain from participants (although a number of retailers shared that gain with customers), we consider that it is appropriate that the financial gain to retailers be offset against scheme costs. Further, customers installing solar PV panels have access to subsidies under the Commonwealth Government's Renewable Energy Target scheme.