

# FACT SHEET

## Solar feed-in tariffs

Review of solar feed-in tariffs

15 May 2013

More than 160,000 households and small businesses in NSW have solar panels generating electricity. Some of this energy is used by customers on their premises, with the rest being exported to the grid.

Customers can earn a solar feed-in tariff for the energy that is exported to the grid. The feed-in tariff that customers receive for this energy will depend on whether they are eligible for a subsidised feed-in tariff under the Solar Bonus Scheme<sup>1</sup> and for those customers that are not eligible, whether they shop around by comparing feed-in tariffs offered by retailers in the competitive market.

The Minister for Resources and Energy has asked IPART to annually investigate and determine solar feed-in tariffs for customers in NSW, including:

- ▼ the amount that retailers should contribute towards the costs of the Solar Bonus Scheme ('retailer contribution')
- ▼ a benchmark range that reflects the fair and reasonable value of the exported electricity to retailers to assist customers in assessing feed-in tariff offers in the competitive market ('benchmark range').

Box 1 provides an overview of what IPART has been asked to do.

We are consulting on our proposed approach to the review of solar feed-in tariffs for 2013/14. This fact sheet outlines the context of our review, what we have been asked to do, our proposed approach and the timeframe for the review.

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<sup>1</sup> While this scheme is now closed to new participants, eligible customers receive the statutory 60 or 20 c/kWh with this being funded primarily by a levy on all electricity customers.

Box 1 What IPART has been asked to do

## Solar feed-in tariffs review



Households with solar units earn feed-in tariffs for energy that is exported to the grid. Some customers are eligible for a subsidised feed in tariff under the Solar Bonus Scheme. Other solar customers who are not eligible under the Solar Bonus Scheme need to assess feed-in tariff offers in the market. IPART has been asked to investigate feed-in tariffs for both groups.



### RETAILER CONTRIBUTION TO THE SOLAR BONUS SCHEME

The Solar Bonus Scheme offered subsidised feed-in tariffs of 60 or 20 c/kWh for the energy supplied to the network from solar panels, depending on date of connection. This scheme is now closed to new participants.

The scheme is paid for in two ways:

- A levy on all electricity customers that is recovered through electricity prices, and
- A contribution from retailers, that reflects the value of the exported electricity to the retailer.

IPART sets the amount that retailers must contribute towards the subsidised scheme.

This 'retailer contribution' lessens the levy that is paid by all electricity customers, and means that electricity prices do not need to be as high as they would otherwise be.

IPART's decision does not affect the statutory feed-in tariff rates that customers receive (either 60c or 20c/kWh), as that has already been set at the time of connection.

### BENCHMARK FEED-IN TARIFFS

Most consumers with solar panels first consume the energy that they produce and export only excess energy, so the bulk of the savings they make are from buying less energy from retailers.

Customers not eligible for the subsidised feed-in tariff can receive a feed-in tariff for the energy they export to the network directly from their retailer. These feed-in tariffs are set by retailers operating in the competitive market.

Customers can compare feed-in tariff offers on the [myenergyoffers.nsw.gov.au](http://myenergyoffers.nsw.gov.au) website in the same way all energy and gas consumers can compare prices and overall packages to find the best deal for them.

IPART's review will value the energy that is exported to determine a fair and reasonable feed-in tariff.

Our current benchmark rate is 7.7 – 12.9 c/kWh. However, this is a benchmark rate only to guide retailers and consumers, and is not mandatory.



## 1.1 The terms of reference and the scope of this review

The Minister for Resources and Energy has requested that we investigate and determine:

- ▼ The amount that retailers should contribute towards the costs of the Solar Bonus Scheme.
- ▼ A fair and reasonable benchmark value for exported solar energy for those customers who are not eligible for the subsidised Solar Bonus Scheme.

The terms of reference requires IPART to consider the following parameters:

- ▼ There should be no resulting increase in retail electricity prices.
- ▼ The benchmark range should operate in such a way as to support a competitive electricity market in NSW.

In setting the solar feed-in tariffs for 2013/14 the terms of reference requires us to use the same approaches that we applied in setting the tariffs for 2012/13. This approach was originally set out in our final report in March 2012.<sup>2</sup> This means that the potential benefits that we considered but did not include in those reviews will not be included in this review. This includes any benefit or cost arising from network expenditure, or any potential benefit to wholesale energy costs arising from the 'merit order effect'.

## 1.2 The retailer contribution to the costs of the Solar Bonus Scheme


The Solar Bonus Scheme is funded primarily by a levy on all electricity customers.

In 2011 IPART recommended to the NSW Government that retailers should contribute towards the costs of the Solar Bonus Scheme given that they benefit from the electricity exported by Solar Bonus Scheme customers. This would also lessen price increases for all customers.

The NSW Government implemented our recommendation and now requires that retailers contribute towards the costs of the Solar Bonus Scheme (see Box 2 for a description of the Solar Bonus Scheme). While eligible customers will continue to receive the statutory 60 or 20 c/kWh feed-in tariffs, the Government has asked IPART to annually determine the amount in c/kWh that retailers should contribute towards the cost of the scheme.

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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*, March 2012.



The terms of reference specifies that in determining the retailer contribution, we should have regard to the direct financial gain to retailers, including discounts for market offers, as set out in our final report in March 2012.<sup>3</sup>

We estimated the direct financial gain to retailers (per kWh of electricity generated by their Solar Bonus Scheme customers) 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 discounted rates.

This approach ensures that we do not set the contribution higher than the retailers' actual financial gains to avoid implications for solar customers in the competitive market. For 1 July 2012, the estimate also aligned to the bottom end of the fair and reasonable feed-in tariff range.

### **1.3 The benchmark range for a fair and reasonable solar feed-in tariff**

For those customers who are not eligible for a subsidised feed-in tariff under the Solar Bonus Scheme, there is no mandated feed-in tariff available. Rather these customers can assess the feed-in tariffs that are on offer from retailers. To help customers do this, we:

- ▼ Publish a benchmark range to provide information for customers to shop around, and
- ▼ Include solar feed-in tariff information on our myenergyoffers price comparator website.<sup>4</sup> This provides an easy point of reference for customers to assess the feed-in tariffs on offer, in conjunction with market offers available from retailers.

The NSW Government has asked IPART to annually publish a benchmark range that reflects the fair and reasonable value to retailers of the electricity exported to the grid. This should assist customers in assessing feed-in tariff offers in the competitive market.


In determining this benchmark range, the terms of reference for this review require us to use the approach that we adopted in setting the benchmark range for 2012/13. It specifies that we should take into account:

- ▼ modelling of the wholesale market value, consistent with our previous decision, and
- ▼ the direct financial gain to Standard Retailers.

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<sup>3</sup> IPART, *Solar feed-in tariffs, Setting a fair and reasonable value for electricity generated by small-scale solar PV units in NSW*, March 2012.

<sup>4</sup> [www.myenergyoffers.nsw.gov.au](http://www.myenergyoffers.nsw.gov.au)



We are seeking updated information from Ausgrid on solar exports from customers in their supply area. This will assist us in valuing the electricity exported to the grid at different times of the day by solar PV customers. We intend to make the half-hourly profile data available on our website once we have received it and undertaken our analysis.

#### **1.4 Key issues for our proposed approach**

As outlined above, we will be obtaining updated information from Ausgrid in order to estimate the wholesale market value of solar PV exports. This will also allow us to consider the most appropriate profile to value the energy – the net metered profile or a profile that includes gross metered customers.<sup>5</sup>

Our initial preference is to use a net metered profile, reflecting the metering arrangement for customers that are not eligible for the Solar Bonus Scheme. However, we invite comment from stakeholders on the most appropriate profile to value the energy exported from solar customers.

More information on gross and net metering is provided in our March 2012 Fact Sheet, available at:

[http://www.ipart.nsw.gov.au/Home/Industries/Electricity/Reviews/Retail\\_Pricing/Solar\\_feed-in\\_tariffs\\_-\\_2011\\_to\\_2012](http://www.ipart.nsw.gov.au/Home/Industries/Electricity/Reviews/Retail_Pricing/Solar_feed-in_tariffs_-_2011_to_2012)

#### **1.5 Our process for 1 July 2013 and future years**

IPART is committed to undertake transparent and consultative processes, where possible. We are calling for submissions on the proposed approach as set out in this Fact Sheet by **7 June 2013**.

We would prefer to receive them electronically via our online submission form <[www.ipart.nsw.gov.au/Home/Consumer\\_Information/Lodge\\_a\\_submission](http://www.ipart.nsw.gov.au/Home/Consumer_Information/Lodge_a_submission)>, or posted to Solar feed-in tariff review, PO Box Q290, QVB Post Office NSW 1230. We will release our decision in the last week of June to apply from 1 July 2013.

In early 2014 we will undertake a consultation process to determine how we should update the solar feed-in tariffs, consistent with the terms of reference. We will consider how and how often to update the data, whether there should be separate analysis for the retailer contribution and benchmark rate and what consultation processes we will undertake annually.

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<sup>5</sup> For customers with net meters, the electricity generated by solar panels is used to power the household or small business. When the solar panels are not producing enough energy, extra electricity is imported from the network. When they produce more energy than is needed, that energy is exported to the grid for use by others.

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## **Box 2 NSW 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>6</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 Resources and Energy suspended the scheme before closing it to new participants on 1 July 2011.

All electricity customers in NSW pay for the costs of the Solar Bonus Scheme through the Climate Change Fund Levy on their electricity prices. The feed-in tariff component paid by the retailers ('retailer contribution') will lessen the levy applied to electricity customers.

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<sup>6</sup> For details of the Solar Bonus Scheme see <http://www.trade.nsw.gov.au/energy/sustainable/renewable/solar/solar-scheme/solar-bonus-scheme>