

A FAIR AND REASONABLE SOLAR FEED-IN TARIFF FOR NSW

IPART has today released a Final Report on a 'fair and reasonable' feed-in tariff for NSW consumers who have solar electricity sources such as solar photovoltaic units (PV units) that feed electricity back into the electricity grid. We have recommended a subsidy free feed-in tariff for customers who are not eligible for the NSW Government's subsidised Solar Bonus Scheme.

The most important source of ongoing financial benefit for customers who install new PV units is savings on their retail electricity bills. This is because most PV customers consume around two-thirds of the electricity that they produce, avoiding the need to purchase this electricity from their retailer.

The financial benefit from reduced retail electricity bills is likely to be significantly larger than the financial benefit from a subsidy free feed-in tariff. A typical customer installing an average size (1.5 kW) PV unit (with net metering) would save around \$300 per annum on their electricity bill. They would earn around \$50 per annum from a subsidy free feed-in tariff.

We have recommended a subsidy free feed-in tariff for 2011/12 in the range of 5.2 to 10.3 cents per kilowatt hour (c/kWh) for electricity exported to the grid from PV customers. This benchmark range is wider than our draft recommendation, to better account for variability in the value of the electricity that is fed into the grid from different customers.

The CEO of IPART, Jim Cox, said "This benchmark range represents the fair and reasonable value of electricity expected to be exported to the grid by PV customers during 2011/12". The value of this electricity is likely to be higher next year following the introduction of a carbon price.

The benchmark range of 5.2 to 10.3 c/kWh is lower than the '1-for-1' tariff that some of the solar industry has previously called for, where the customer would receive a payment equal to the full retail price.

Mr Cox said "We have considered the solar industry's proposal carefully. While retailers are able to supply electricity generated by solar PV units to other customers, they incur costs in doing so; namely charges for transportation across the networks and costs associated with meeting green scheme obligations. That is why our recommended feed-in tariff is less than the retail price".

Mr Cox noted that "setting a higher feed-in tariff than 5.2 to 10.3 c/kWh for 2011/12 would involve a subsidy, incurring costs that need to be recovered from higher electricity prices or the NSW budget."

We are recommending that the NSW Government should **not** mandate the feed-in tariff, but publish a benchmark range which is determined by IPART and applies for the coming financial year. The benchmark range will help customers understand the value of their energy so that they can shop around for the best offers. Retailers will set their own feed-in tariffs and these are published on the *myenergyoffers.nsw.gov.au* website.

We are also making specific recommendations aimed at ensuring that customers understand the characteristics and benefits of installing solar PV units.

“Improving customer understanding and creating more effective retail competition is likely to enable solar PV customers to identify fair and reasonable feed-in tariff offers and empower them to seek out offers from retailers. This will increase the competitive pressure on retailers, which should deliver fair and reasonable feed-in tariffs to customers” Mr Cox said.

We will update the benchmark range in June 2012 to reflect the higher value of the electricity from 1 July 2012 resulting from the introduction of the carbon pricing mechanism.

We recommend that from 1 July 2012 retailers make a contribution to cover some of the costs of the NSW Government’s Solar Bonus Scheme. We will publish a recommended contribution for 2012/13 in June 2012. For illustrative purposes we have calculated that a contribution of 6.5 c/kWh would have applied in 2011/12.

Our recommendations do not affect the Government’s 60 c/kWh or 20 c/kWh feed-in tariffs for those customers who are eligible for the NSW Government’s Solar Bonus Scheme, which is now closed to new participants.

The Final Report on Solar feed-in tariffs is available on IPART’s website <http://www.ipart.nsw.gov.au/Home/Industries/Electricity/Reviews/Retail_Pricing/Solar_feed-in_tariffs>.

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Background

Solar Bonus Scheme

In November 2009, the NSW Government announced that it would provide a subsidised feed-in tariff that applied to the output from eligible small-scale solar PV units and wind turbines from 1 January 2010 to 31 December 2016 under the Solar Bonus Scheme.

The Solar Bonus Scheme was open to small retail electricity customers who were connected to the grid, and who produced electricity through solar PV and wind turbines with up to 10 kW capacity. PV customers who are participants in the scheme are paid a specified feed-in tariff by their electricity distributor (normally through their electricity retailer) for the electricity produced by their PV unit until the scheme ceases on 31 December 2016.

Initially, the feed-in tariff was set at 60 c/kWh. However, the legislation that established the scheme provided for the former Minister for Energy to review the scheme when the generation capacity of participating customers reached 50 MW or after 1 July 2012, whichever came first. The Minister reviewed the scheme in mid-2010 when the generation capacity reached 50 MW, approximately 6 months after the scheme opened.

As a result of the Minister's review, the Government announced changes to the scheme on 27 October 2010, including a reduced feed-in tariff of 20 c/kWh for new participants. However, transitional arrangements applied so that new participants were still eligible for the original 60 c/kWh tariff provided that:

- ▼ they had purchased or leased an eligible system on or before 27 October 2010, and
- ▼ they (or their representative) had lodged an application to apply to connect this system to the grid on or before 18 November 2010.

After the announced reduction from 60c to 20c on 27 October 2010, some 37,000 customers met these conditions, making them eligible for the 60 c/kWh feed-in tariff.

The Minister for Energy announced a 2-month hold on applications to the Solar Bonus Scheme on 29 April 2011, and closed the scheme to new participants on 1 July 2011.