

A FAIR AND REASONABLE SOLAR FEED-IN TARIFF FOR NSW

Wednesday 27 June 2012

IPART has today released a determination on a 'fair and reasonable' feed-in tariff from 1 July 2012. This feed-in tariff is for NSW consumers who have, or are thinking about installing solar electricity sources such as solar photovoltaic units (PV units) that feed electricity back into the electricity grid. The feed-in tariff is for those customers who are not eligible for the NSW Government's subsidised Solar Bonus Scheme.

We have determined that a subsidy free feed-in tariff for 2012/13 is in the range from 7.7 to 12.9 cents per kilowatt hour (c/kWh) for electricity exported to the grid from PV customers.

This benchmark range is intended to provide a guide for customers as to the value of the electricity that their PV units export to the grid in 2012/13. However, retailers are not required to offer feed-in tariffs within this range. They are able to set their own feed-in tariffs. Retailers will publish their feed-in tariffs on the myenergyoffers.nsw.gov.au website so customers can shop around for the best offers.

The most important source of ongoing financial benefit for customers who install new PV units is savings on their retail electricity bills. A typical customer installing an average size (1.5 kW) PV unit would save around \$330 per annum on their electricity bill. They would earn around \$60 per annum from a subsidy free feed-in tariff.

The CEO of IPART, Jim Cox, said "This benchmark range represents the fair and reasonable value of electricity exported to the grid by PV customers during 2012/13. The value of this electricity is higher than previously estimated by IPART for 2011/12 due to the introduction of a carbon price which increases the cost of wholesale electricity." The range for 2011/12 was from 5.2 to 10.3 c/kWh.

The benchmark range of 7.7 to 12.9 c/kWh for 2012/13 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. This is because electricity retailers still incur certain costs on the electricity exported to the grid by PV customers. For example, retailers are still required to pay network costs on that energy.

Mr Cox said "As part of our Final Report which was released in March 2012 we 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. This includes charges for transportation across the networks and costs associated with meeting green scheme obligations. That is why our decision on the benchmark range for the feed-in tariff is less than the retail price".

Mr Cox noted that "setting a higher feed-in tariff than 7.7 to 12.9 c/kWh for 2012/13 would involve a subsidy, incurring costs that need to be recovered from higher electricity prices or the NSW budget."

We have also determined that retailers must contribute 7.7 c/kWh in 2012/13 for each eligible kWh under the Solar Bonus Scheme. This contribution will commence on 1 July 2012. Consistent with the Terms of Reference we have determined this contribution using the same approach as that set out in our Final Report in March 2012.

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. However, it may affect the voluntary premiums that some retailers have been offering to Solar Bonus Scheme customers. We expect that retailers will reduce or eliminate these voluntary payments upon the introduction of the retailer contribution. We consider it reasonable that retailers should contribute towards the costs of the Solar Bonus Scheme in order to lessen price increases for all customers.

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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 60 c to 20 c/kWh 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.

On 26 June 2012, we received a Terms of Reference¹ from the Minister for Resources and Energy requiring us IPART to determine:

- ▼ a benchmark range for feed-in tariffs payable by retailers to solar PV customers that are not eligible for the Solar Bonus Scheme
- ▼ a contribution made by retailers towards the costs of the Solar Bonus Scheme. Retailers will be required to pay this component of the statutory feed-in tariff paid to eligible customers under the Solar Bonus Scheme.

The Terms of Reference specify that IPART is to determine these amounts using the same approach as that set out in its Final Report in March 2012.²

¹ Under Section 43ECA, *Electricity Supply Act 1995* (NSW).

² 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.