

Independent Pricing & Regulatory Tribunal (IPART)
Level 15, 2-24 Rawson Place
Sydney NSW 2000

Submitted by email to <https://www.ipart.nsw.gov.au/Home/Contact-Us/Make-a-Submission>

29 May 2017

Solar feed-in tariffs in 2017-18 Draft Recommendation

The Australian Energy Council (the Energy Council) welcomes the opportunity to make a submission to the Independent Pricing and Regulatory Tribunal (IPART) Solar feed-in tariffs in 2017-18 Draft Recommendation (Draft Recommendation).

The Energy Council is the industry body representing 21 electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. These businesses collectively generate the overwhelming majority of electricity in Australia and sell gas and electricity to over 10 million homes and businesses.

Deregulated markets are best placed to determine the most appropriate, sustainable and economic value for the electricity that is produced and exported by small-scale renewable technologies, including photovoltaic (PV) units. Just as the deregulated New South Wales electricity market provides customers with choice in energy offers, a deregulated market for Feed-in Tariffs (FiTs) allows energy retailers to compete to purchase the electricity exported from PV units.

The market for electricity exported by PV units in NSW has matured over recent years, with retailers competing to provide customers the offer that best suits them. NSW currently has 22 retailers and with that competition comes a variety of offers. The purpose of the benchmark value is to inform customers seeking the best deals available to them. To be genuinely informative, the benchmark has to be a good proxy for the actual value of solar PV output. In today's volatile energy markets, this becomes increasingly difficult in practice.

Wholesale Price Impact

The Energy Council acknowledges that higher forecast wholesale electricity prices in 2017-18 have resulted in an increase to IPART's benchmark range for voluntary solar feed-in tariffs. Where firm generation is scarce relative to demand, forward wholesale contract prices rise. This is evidenced by the significant increase in forward contract prices across the National Electricity Market (NEM) resulting from the recent removal of more than 2,000 megawatts (MW) of supply (the closure of Northern and Hazelwood power stations) without firm generation replacement or changes in demand. We therefore agree with IPART that *"the forecast average wholesale electricity price in NSW has increased substantially as the market is predicting a tightening demand/supply balance"*ⁱ.

Methodology

The Energy Council is concerned with the Draft Recommendation methodology for estimating the financial benefit that retailers receive when solar electricity is exported to the grid. The methodology is predicated on being able to estimate the value that retailers will receive from their customers' solar exports due to avoided wholesale electricity costs. For simplicity, the benchmark represents an annual average figure. Where the methodology is not a good proxy for these avoided costs, then it runs the risk of being an inaccurate estimate and fails to provide a useful source of information to customers.

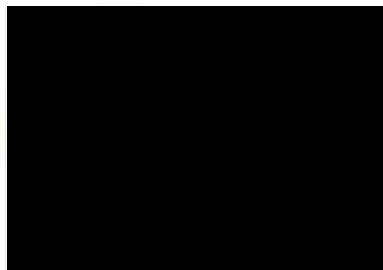
The methodology set out in the draft recommendation calculates a forecast of average wholesale electricity prices using a 40-day trading average of the Australian Securities Exchange (ASX) contract price for the coming financial year (2017-18) as at 11 April 2017. Using a short period to calculate an annual average can result in a material mis-estimate, especially during periods of price volatility. In practice, energy retailers contract for their load in increments over a longer period of time – potentially up to three years and make adjustments as their expected customer load they need to serve changes. Solar energy exports from customer installations are not a reliable source of energy – customers are not asked to make a physical or financial commitment as to how much energy they will supply to the grid or at what time. The Energy Council submits that it is likely to overestimate the price over a small period rather than using a yearly sample. The Queensland Competition Authority (QCA) determine a feed-in tariff (FiT) for regional Queensland for 2016–17. The QCA determine a FiT over a 3-year period base although it does not apply to price deregulated customers in the Energex area, only regional customers.

The Energy Council submits that the Draft Recommendation methodology for estimating solar premiums is not comprehensive enough. The methodology uses half-hourly PV exports from solar customers in the Ausgrid network area and does not use the data on PV exports in the Endeavour Energy and Essential Energy network areas. The Energy Council believes that Essential Energy and Endeavour Energy have very different characteristics and should be included in the data collection to estimate solar premiums.

The Draft Recommendation highlights that the data is not collected for Endeavour Energy and Essential Energy as *“most solar customers in these areas have accumulation meters or time-of-use meters that do not record data half-hourly”*ⁱⁱ. The Energy Council notes retailers' electricity purchases for small retail customers are settled against the relevant Net System Load Profile (NLSP), regardless of whether or not they have interval meters installed. Data should therefore be collected across all NSW networks so it can provide a proper estimate for solar premiums.

Any questions about our submission should be addressed to Panos Priftakis, Policy Adviser by email to [REDACTED] or by telephone on [REDACTED]

Yours sincerely,



Sarah McNamara
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ⁱ Independent Pricing and Regulatory Tribunal New South Wales, 2017, "Solar feed-in tariffs in 2017-18 Draft recommendation"
ⁱⁱ Independent Pricing and Regulatory Tribunal New South Wales, 2017, "Solar feed-in tariffs in 2017-18 Draft recommendation"