

Clean Energy Council submission to the IPART Issues Paper: Review of regulated retail prices and charges for electricity 2013 to 2016

Executive Summary

The Clean Energy Council (CEC) welcomes the opportunity to provide input to the Independent Pricing and Regulatory Tribunal (IPART) Issues Paper, *Review of regulated retail prices and charges for electricity 2013 to 2016*. Our submission is focused primarily on the cost of complying with the Small-scale Renewable Energy Scheme (SRES).

The NSW Government has an opportunity to reduce electricity prices in NSW by ending the practice of allowing electricity retailers a regulated risk-free profit margin by assuming that the cost of compliance with SRES is determined by a \$40 price for small-scale technology certificates (STCs).

IPART should consider the approach that has been adopted in the ACT by the Independent Competition and Regulatory Commission (ICRC), which calculates the cost of SRES compliance based on the STC forward price and a holding cost of 10% per annum. This would reduce the costs to NSW electricity consumers of SRES compliance by around 10%, compared with the approach that IPART used in its 2010 Determination and its 2011 and 2012 annual reviews.

Costs of complying with the SRES

The SRES places a legal liability on wholesale purchasers of electricity to proportionately contribute towards the costs of creating STCs. The overwhelming majority of STCs are sold through the open market with a price determined by supply and demand. Theoretically, STCs can also be sold through the STC Clearing House with a fixed price of \$40 per STC. The Clearing House works on a surplus / deficit system so that sellers of STCs will have their trade cleared (and receive their fixed price of \$40 per STC) on a first-come first-served basis. However, with certificates traded on the open market at a price consistently below \$40, the Clearing House has become more like a parking lot than an auction house.

We note that in its 2010 Determination and its 2011 and 2012 annual reviews IPART estimated the cost of STCs on the basis of a fixed price of \$40 per STC. The Issues Paper explains this by noting that, "this price values the opportunity cost of a certificate, recognising that a household has an option to sell certificates at \$40 through a Clearing House". Since the commencement of the scheme STCs have traded on the open market at prices well below \$40 per STC. Certificate prices averaged below \$30 for the first half of 2012 and are currently at around \$32. The opportunity cost is not \$40; it is closer to \$30.

For the 2013 to 2016 Determination it would not be appropriate to assume a \$40 STC price for the purposes of estimating the cost of complying with SRES.

By allowing pass through at an assumed \$40 certificate price, IPART is, in effect, giving electricity retailers a regulated risk-free profit at the expense of NSW consumers. IPART should allow for cost pass through at a realistic price determined by the market. This is the approach already taken in the ACT by the ICRC. The ICRC's most recent report on retail electricity prices notes that,

"... the Commission considers that it is reasonable to base the cost of STCs on a forward price (reflecting an imputed holding cost) over a 12-month period. Under such an approach, it is appropriate to apply a holding cost at a funding rate of 10% per annum."

If IPART wishes to calculate the financial windfall provided by assuming a \$40 STC price, weekly STC trading volumes by liable entities can be provided upon request.