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Via email: [ipart@ipart.nsw.gov.au](mailto:ipart@ipart.nsw.gov.au)  
cc: [Anna\\_Brakey@ipart.nsw.gov.au](mailto:Anna_Brakey@ipart.nsw.gov.au)

## **CEC Submission to the IPART Solar FIT Review**

The Clean Energy Council has been actively involved in the feed-in tariff review process, and we are pleased to have the opportunity to make a final contribution. Following on from our submission to the issues paper we hosted a solar industry forum with our Members and representatives from IPART, and we also participated in the public forum hosted by IPART a few weeks later. Therefore we believe that IPART is well aware of the views of the CEC on the range of issues related to this inquiry and we will try to avoid a detailed recitation of those views again in this submission.

### **IPART's Terms of Reference**

Although the Clean Energy Council acknowledges that the Terms of Reference for the review were determined by the NSW Government and not IPART, we would nevertheless like to reiterate that we believe that there were deficiencies with the scope. Essentially what has been explored is the question of what is a fair price to be paid by electricity retailers, given the current structure of the electricity market in NSW. While this is an important question, it leads to different conclusions than would be the case if the focus of the inquiry was on what the objective value is of the exported solar energy to the solar household and the energy market, and then to resolve how to amend the market rules to allow as much of that objective value to be captured as possible.

The relative lack of sophistication of the pricing structures for electricity in NSW should not be treated as a neutral feature of the policy landscape, but rather as a market barrier which inhibits competition by distributed generators. Smoothing out of prices and line losses across the network is essentially a cross subsidy, one which conceals from consumers the true cost of delivering electricity at particular times and places. While the cross subsidy has been removed for solar (through the closure of the FiT) it continues and is legitimated for fossil fuels.

IPART have recognised some of these issues through its recommendation for a review of the National Electricity Rules to identify barriers to distributed energy, and we applaud that recommendation, but clearly spelling out what some of the barriers are at present would help policy makers appreciate the importance of that recommendation.

The so called 'merit order effect' is another area where more work is needed, both to verify/quantify any lasting benefits (so that the public can see the full benefits of the subsidies that have been provided for solar) and then potentially to see if there are any fair means to capture some of that benefit for solar households. A recommendation supporting such work is warranted.

### **No mandatory export tariff**

IPART has determined that under current market settings the fair export tariff for excess solar energy is 8-10c, but that it should not be mandatory for a payment in that range to be made (or indeed any payment at all). The rationale offered is that competition between electricity retailers will ensure consumers get a fair deal through flexible pricing arrangements. While this is an elegant theory, we have had the better part of a year without any mandatory export tariff to examine how the market reacts to these opportunities in practice and the results are not promising for IPART's thesis. There is very minimal product differentiation

for solar households and almost all the offerings are at the bottom or below IPART's suggested range. This does not bode well for solar households getting access to fair and reasonable prices in the future.

The obvious answer to recommend a mandatory minimum (the 8c bottom of IPART's range would be appropriate) which retailers must offer. However, if IPART is really convinced that even if solar households are offered less than 8c for their exports, they will still be better off in aggregate by the package of import and export tariffs offered to households then why not guarantee that by recommending a 'no disadvantage test' for solar households? If the retailers are/will do it anyway then it is likely to cause little economic or administrative difficulty and it allows them to retain the flexibility that IPART is eager to protect.

The CEC is very concerned that the *laissez faire* approach currently suggested by IPART is inappropriate in this instance and will leave consumers exposed. This will act as a further disincentive for households to purchase solar systems at a time when consumers are already uncertain given the rapid-fire changes to solar policy that were proposed/implemented in NSW over the last 12 months.

### **Avoided costs for 'green schemes'**

It is a fairly minor point, but both ESCOSA and IPART's recent reports have revealed that electricity retailers are liable for RET obligations on solar energy they purchase from households. This seems to be a perverse outcome and surely an anomaly in the system. Retailers should not be subject to additional costs for purchasing solar energy, least of all as a result of a renewable energy scheme.

IPART does not have the power to change this situation, but it would clearly be in the interests of electricity retailers, solar households and consumers overall for solar exports to be excluded from RET liabilities. This should form one of the recommendations in the final report and is hopefully something that the NSW Government will take up with their federal counterparts.

### **Other renewable energy technologies**

As the peak body for all renewable energy technologies in Australia the CEC is also interested in seeing fair pricing principles established for other renewable technologies like micro wind, which obviously also deserve a fair and reasonable price for exported electricity. While again this might have fallen outside the terms of reference, it would make sense to point out to the NSW Government in the final report that to be consistent and to maximise competition, consumers and industry need clear guidance on pricing for all renewable energy sources.

### **Conclusion**

Overall the draft report is a fair approach to the question under the limitations of the terms of reference and the current nature of the electricity market, but it takes an overly optimistic view of retail competition as a mechanism for ensuring solar households are paid even the minimal export tariffs that IPART have endorsed as fair. Either regulating for a mandatory minimum tariff price or establishing a 'no disadvantage test' for electricity contracts is needed to overcome the obvious imbalance in negotiating power between individual households and electricity retailers.

Tim Sonnreich

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Policy Manager  
Clean Energy Council