



EnergyAustralia

EnergyAustralia Pty Ltd

ABN 99 086 014 968
Level 33
385 Bourke Street
Melbourne Victoria 3000

Phone +61 3 8628 1000
Facsimile +61 3 8628 1050

enq@energyaustralia.com.au
energyaustralia.com.au

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Peter Boxall
Chairman
Independent Pricing & Regulatory Tribunal
Level 8, 1 Market St
Sydney, NSW

Submitted online at www.ipart.nsw.gov.au

Dear Dr Boxall

Submission to the review of NSW solar feed-in tariffs for 2014-15

EnergyAustralia welcomes the opportunity to provide input to IPART's approach to the NSW solar feed-in tariff review for 2014-15 outlined in the Fact Sheet released by IPART on the 15th May 2013.

1. Introduction

The NSW Minister for Resources and Energy has set a Terms of Reference for IPART that ask IPART to set solar PV (photovoltaic) feed-in tariff (FiT) values for 2014-15 for the:

- **retailer benefit component** – the benefit component payable by retailers to customers exporting electricity to the distribution network under the Solar Bonus Scheme; and the
- **benchmark range** – the indicative range of FiTs for solar generation supplied to the distribution network for customers not covered by the Solar Bonus Scheme.

In our understanding, the Terms of Reference requires IPART to use the same methodology as used in the 2012/13, and subsequent, solar FiT determinations in setting these values. This involves IPART calculating the wholesale market value of the forecast solar generation for relevant NSW customers in 2013-14, and determining the direct financial gain to retailers arising from solar electricity being supplied to the distribution network.

In conducting this investigation, IPART is to consider two key factors, namely:

- there should be no resulting increase in retail electricity prices; and
- the benchmark range should operate in such a way as to support a competitive electricity market in NSW.

EnergyAustralia agrees with IPART’s view of the issues which are outside the scope of it’s review. We consider these to be matters of policy which have been decided by the Government of the day and should not be reopened in the current investigation.

As has been the case in previous years, EnergyAustralia is once again concerned about the timing of the release of the final determination under these Terms of Reference. We understand that the final determination depends on the date that final regulated electricity prices are set and the published timeline for this investigation indicated that the solar FiT will be published in very late June and take effect from the 1st July, that is, within a week of release. The current process doesn’t provide much certainty for customers and adds unnecessarily to retailers’ costs. This issue is exacerbated in light of the Commonwealth Government’s commitment to repeal the carbon price and the uncertainty around the timing of this action.

2. Key issues

2.1. The effect of the previous benchmark range on retailers’ FiT offers

Since the introduction of the current FiT arrangements in 2012, most retailers are offering a FiT to customers who are not on an existing Solar Bonus Scheme arrangement. This suggests that retailers do derive value from FiT customers. However, overwhelmingly the value of the FiTs on offer range from 5-10c/kWh¹ and are therefore sitting at the bottom end, or below, the benchmark range set by IPART (7.7-12.9c/kWh) – see table 1. In the period since June 2013, one retailer has decreased their FiT offers from 7.7c/kWh to 6c/kWh. In addition, a number of second tier retailers who weren’t offering voluntary FiTs in February 2012 are still not offering FiTs to non-Solar Bonus Scheme customers.

The one exception to this analysis is a rate of 35c/kWh offered by Sanctuary Energy which appears to reflect that company’s focus on renewable energy. Sanctuary’s offer illustrates that the market will provide favourable outcomes for consumers where retailers are able derive value, however where the benchmark range is set too high, opportunities to do this are diminished. This is particularly true for retailers with a broader consumer base as the need to service less profitable FiT customers will bring down the amount that they are able to pay for higher value customers.

Table 1: Comparison of solar FiT offers by retailers in NSW (Jan 2014)

Retailer	Voluntary FiT (c/kWh) as at Jan 2014 ¹
AGL	8
EnergyAustralia	7.7
Lumo Energy	6
Origin Energy	6
Sanctuary Energy	35
Powerdirect	7.7
Red Energy	5
Click Energy	10

The fact most retailers are offering FiTs to non-Solar Bonus Scheme customers means that they see value in attracting and retaining solar customers and that there is competition in the solar market.

¹ AER, EnergyMadeEasy site, <http://www.myenergyoffers.nsw.gov.au/useful-information/solar-feed-in-tariffs.aspx>, accessed 9th January 2014.

To have nearly all offers located below the midpoint of the current benchmark range (10.3c/kWh), however, points to the position of the benchmark range being too high. The fact that even the offering from Click Energy (the second highest FiT offer in the market), which is an outlier at 20 per cent higher than the next highest FiT, is below this midpoint further highlights that the current range is too high.

There are several reasons why the benchmark range may have been set too high and we outline our concerns in the following sections.

3. Approaches and Methodologies

3.1. Wholesale market value of PV exports

In order to inform the determination on 2013-14 FiT benchmark range Frontier Economics analysed solar generation shapes and estimated the wholesale value for residential customers with net and gross meters in the Ausgrid area.

We note that in Frontier's final report for the last solar FiT review, the vast majority of residential customers in the Ausgrid data set had PV unit sizes of around 1kW or 1.5kW². Ideally the review would use the full range of PV unit sizes weighted by the frequency of their distribution in the market to fully capture the value of exports, however based on frontier's observation that the majority of units are 1kW or 1.5kW it is appropriate to consider both sizes.

Using net versus gross profiles for estimating the wholesale value

In our view, the market values of PV exports should be determined using both the net and gross generation profiles and the contribution to the retailer contribution and benchmark range should be appropriate for the customer groups to which they apply.

Carbon

We note that the issues paper makes no mention of the impact of Carbon on the wholesale value of energy. In light of the Commonwealth Government's commitment to remove the carbon price, ESCOSA made provision for a revised FiT rate to take effect in South Australia when the carbon price is removed.³ IPART faces a significant challenge in relation to the timing of the determination in relation to the proposed removal of the carbon price. EnergyAustralia urges IPART to include a carbon inclusive and exclusive benchmark rate to enable retailers to respond appropriately to carbon price removal.

3.2. Direct financial gain to retailers

EnergyAustralia has previously submitted that the revenue in the financial gain was difficult to determine. In the final report for the 2013-14 FIT Determination, IPART broadened the range to adequately account for the variability in the value of PV exports. We commend IPART for considering the risk of regulatory error and choosing to set a benchmark range for the voluntary retailer FiT. However, we remain convinced that the range was set at too high a level.

In our view, the methods used by IPART to round down and broaden the benchmark range do address the variability in value for FiTs that different retailers may offer, but do not address the apparent over-valuing of the benefit that retailers receive from PV exports.

² Frontier Economics, Market Value of Solar PV Exports – A final report prepared for IPART June 2013, page 4

³ ESCOSA Retailer Feed In Tariff Price Determination, December 2013, page 2

The issues paper correctly identifies that the use of regulated tariffs is a shortcoming of the analysis. Not only does this approach overstate the benefit to retailers, it also leads to a diminished timeframe to complete the review. We agree with the use of regulated pricing as a reference point but suggest that in the environment of strong competition between retailers it is not an appropriate measure for the value of the benefit derived by retailers. EnergyAustralia's experience suggests that PV customers are among the more engaged consumers in the market and consequently the number proportion of these customers remaining on regulated tariffs is significantly lower than for the market as a whole. IPART could determine discounted revenue by:

- assuming that an average discount for a market based tariff is 8% (as used in the calculation of customer acquisition and retention costs in the regulated electricity price review).⁴
- assuming that the proportion of solar customers on regulated prices is at least the same as the proportion of solar customers on market prices (in the absence of a full analysis);
- taking a weighted average of the regulated and discounted market rates and using these values in the direct financial gain calculation instead of relying solely on the regulated rates.

While taking discounted revenue into account could be seen as limiting the top end of the range (for regulated, solar customers with high value PV exports), we argue that retailers tend to set only one or two FiT offers and so are likely to price to an average FiT value. Retailers are therefore not likely to make use of the top or bottom end of a benchmark range that is appropriately set.

Any approach which reduces the emphasis on regulated retail prices also provides the opportunity for IPART to rely on the draft decision on Regulated Retail Prices on the basis that the impact of a change from the draft to the final determination is lessened.

Retail operating costs

The previous decisions on the benchmark range have also overstated the benefit to retailers by ignoring the higher cost to serve of PV.

In contrast to IPART's views⁵, we believe that the costs to serve PV customers have not fallen, and will not fall materially over the 2014-15 period. We reiterate our comments put forward in the regulated retail electricity price determination:

"In supporting services that customers demand, such as solar, we can face much higher fixed costs through that customer's lifecycle. ... Although the industry and individual businesses do make changes over time to move to a more efficient level in servicing these customers, it cannot be said that the retail operating costs will ever be as low for solar customers as they are for customers without solar panels. There will always be more tasks to complete at installation and quoting stages, more to explain to the customer, a wider variety of industry data to manage for solar customers and these components are unlikely to diminish to negligible levels over this regulatory period."⁶

We also disagree with IPART's assertion that retailers will be subject to lower bad-debt costs are customers with PV are likely to face lower and bills and will consequently face fewer payment difficulties. While customers may become more familiar with their PV systems, we don't see that bad debt levels would be affected. Customers who contribute to bad debt are much less likely to

⁴ IPART, Review of NSW regulated retail electricity prices and charges for electricity 2013-16, Apr 2013, page 101

⁵ Ibid, page 51

⁶ EnergyAustralia, Submission to the IPART review of NSW regulated retail electricity prices and charges for electricity 2013-16, 2nd Jan 2013, page 53

have the means to install or rent a property with solar panels. The reasons why we feel that PV customers' cost-to-serve will not reduce significantly are that:

- we need to receive and process more data for solar customers for every bill;
- the retail and network pricing structures and application of regulatory obligations are always more complex to handle and update than customers with solar;
- solar installation and fault handling processes are inherently more complex than services required by most other customers;
- solar requirements differ by state and are still regularly being reviewed and altered; and
- mandatory changes to solar FiTs are often finalised very close to the time they are due to take effect (for example, we expect the Essential Services Commission of South Australia and IPART to both make final FiT announcements in the last week of June this year leading to uncertainty and increased costs as a result of system changes and testing under tight timeframes).

Understandably, these costs are difficult to quantify, however we ask IPART to consider the impact that these costs have had on the range of FiT offers currently available from retailers in NSW when setting the benchmark range for 2014-15.

4. Summary

We acknowledge that this FiT review is being conducted under tight timeframes and have restricted our comments to matters that relate to the Terms of Reference. In this review, we believe it's important for IPART to consider:

- if the position of the benchmark range is too high – to address this we recommend:
 - applying a discount to the revenue assumptions used in the calculation of direct financial gains; and
 - assessing the impact that higher retail operating costs for PV customers have on the FiT offers that retailers make;
- if the wide range of wholesale market values resulting from the PV generation profiles are relevant to the majority of customers.
- An appropriate mechanism to adjust the benchmark range if the price on Carbon is repealed.

If you would like to contact me about this submission, please call (03) 8628 1731.

Yours sincerely



Joe Kremzer
Regulatory Manager