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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 2013-14

EnergyAustralia welcomes the opportunity to provide input to IPART's approach to the NSW solar feed-in tariff review for 2013-14 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 2013-14 for the:

- **retailer contribution** – 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 solar FiT determination 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 arising from solar electricity being supplied to the distribution network.

The timing of the release of the final determination under these Terms of Reference depends on the date that final regulated electricity prices are set. This year, 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. We are pleased the Fact Sheet outlines a further consultation process to take place in early 2014 that will consider the process of assessing and updating the NSW solar FiT in future years.

2. Key issues

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

Since IPART published a benchmark range for solar FiTs in NSW in 2012, most retailers are offering a FiT to customers who are not on an existing Solar Bonus Scheme arrangement. However, the value of the FiTs on offer range from 5-8c/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. Three retailers have increased their FiT offers from 6c/kWh to 7.7c/kWh. This means that these offers are set at the low end of the benchmark range. The only other retailer to change their offer over this 16-month period decreased their FiT by 0.5c/kWh. In addition, the second tier retailers who weren't offering voluntary FiTs in February 2012 are still not offering FiTs to non-Solar Bonus Scheme customers.

Table 1: Comparison of solar FiT offers by retailers in NSW (Feb 2012 and June 2013)

Retailer	Voluntary FiT (c/kWh) as at Feb 2012 ²	Voluntary FiT (c/kWh) as at Jun 2013 ¹	Change
AGL	8	8	-
EnergyAustralia	6	7.7	Increased to low end of benchmark range
Lumo Energy	6	7.7	Increased to low end of benchmark range
Origin Energy	6	6	-
Powerdirect	6	7.7	Increased to low end of benchmark range
Red Energy	5.5	5	Decreased by 0.5c/kWh

The upwards movement in the FiT offers of three retailers indicates that retailers see value in attracting and retaining solar customers and that there is competition in the solar market. To have all offers located well below the midpoint of the current benchmark range (10.3c/kWh), however, points to the position of the benchmark range being 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.

2.2. The calculation of retailers' direct financial gain

Accounting for variability of PV export value when setting the benchmark range

In the last review, TRUenergy submitted that the revenue in the financial gain was difficult to determine,³ and AGL raised a concern over the revenue in the calculation of direct financial gains being based on the regulated rate not discounted rates.⁴ AGL noted that IPART had rounded down the values in the range to account for the impact of customers being on discounted market prices. In the final report, 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

¹ IPART, myenergyoffers site, <http://www.myenergyoffers.nsw.gov.au/useful-information/solar-feed-in-tariffs.aspx>, accessed 6th June 2013.

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 (Final Report), March 2012, page 141

³ IPART, Final Report, page 49

⁴ AGL, Submission to the IPART Solar Feed-in Tariffs (FiT) Draft Report, 23rd Jan 2012, page 2

benchmark range for the voluntary retailer FiT. However, we are concerned the range is set at too high a level.

Most retailers appear to have built only one or two FiT structures in their systems. That is, they offer the retailer contribution of 7.7c/kWh for Solar Bonus Scheme customers and the same amount or an alternative amount for other PV customers (not eligible for the Solar Bonus Scheme). So while it may be true that there is variability in the value of PV exports to retailers, this variability is usually reflected in different offers from different retailers rather than a retailer having several different FiT offers. System constraints and the difficulty in predicting PV export values for any particular customer group are likely to limit the number of different FiT offers available from any one retailer.

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. Currently, the calculation of retailers' direct financial gain from PV exports is based on regulated revenue only. 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).⁵
- assuming that the proportion of solar customers on regulated prices is 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.

IPART may have other means to reduce the number of assumptions made, but we feel that an approach of this type will help to set more accurate values for the benchmark range. This approach will still reflect the direct financial gain to Standard Retailers (required by the Terms of Reference) as Standard Retailers also have a large and increasing number of customers on market prices.

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.

Retail operating costs

Retailers submitted to the last review that costs to serve solar customers are higher than for other customers and that the direct financial gains should be reduced accordingly.⁶ IPART decided against taking up this approach in March 2012:

*"We expect the cost to serve PV customers would fall over time as customers become more familiar with their PV systems. Additionally, there could be some cost savings. For example, reduced bad debt risk as the bills of PV customers would be lower than for non-PV customers."*⁶

In contrast to IPART's views, we believe that the costs to serve PV customers have not fallen, and will not fall materially over the 2013-14 period. We reiterate our comments put forward in the regulated retail electricity price determination:

⁵ IPART, Review of NSW regulated retail electricity prices and charges for electricity 2013-16, Apr 2013, page 101

⁶ IPART, Final Report, page 51

*"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."*⁷

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 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 2013-14.

2.3. The calculation of the wholesale value of solar generation

Estimation of wholesale value

Frontier Economics analysed solar generation shapes and estimated the wholesale value for residential customers with gross meters in the Ausgrid area for the last review. These values were used in setting the lower end of the benchmark range and the retailer contribution of 7.7c/kWh.

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 1.5kW and business the popular unit sizes were around 1kW, 1.5kW and 10kW.⁸ This brings into question how valid the results for the market values are for the other unit size ranges when it is based on data for fewer customers.

The generation shapes presented by Frontier in their final report appear to be quite skewed for the higher unit sizes compared to what might be expected for a gross metered generation profile from a relatively small region (Ausgrid area).⁹ This has presumably led to the differing market values

⁷ EnergyAustralia, Submission to the IPART review of NSW regulated retail electricity prices and charges for electricity 2013-16, 2nd Jan 2013, page 53

⁸ Frontier Economics, Market value of solar PV exports, A final report prepared for IPART (Frontier final report), March 2012, pages 13-14

⁹ Frontier final report, figure 6, page 16

presented later.¹⁰ Notably the popular 1kW and 1.5kW unit sizes produced lower market values, but some other unit sizes have market values around \$20/MWh. In all, it is not clear whether these higher market values are based on valid generation profiles and accurately reflect the wholesale value that retailers receive from customers' PV exports.

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.

3. 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.

If you would like to contact me about this submission, please call (03) 8628 1242.

Yours sincerely

Melinda Green

Regulatory Manager - Pricing

¹⁰ Frontier final report, figure 13, page 32