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Solar feed-in tariffs
Independent Pricing and Regulatory Tribunal
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Solar Feed-in Tariffs- Setting a fair and reasonable value for electricity generated by small-scale solar PV units in NSW - Draft Report

Origin Energy Limited (Origin) welcomes this opportunity to respond to the IPART's Draft Report on setting a fair reasonable value for electricity fed-into the grid from small solar PV systems.

Origin is a major retailer in New South Wales, having acquired the retail customers of Endeavour Energy and Essential Energy. A large number of these customers and Origin's existing customer base in New South Wales will be impacted the recommendations made by IPART to the NSW Government.

For some years, Origin has been emphasising the need for national consistency across jurisdictions with regard to feed-in tariffs (FITs). Today, this goal is further away than ever following additional variations to FIT schemes in South Australia, Victoria and New South Wales, leading to tariff proliferation and an absence of coordinated policy development. This has resulted in a costly compliance burden on retailers and distributors, the burden of which has fallen upon electricity consumers in those jurisdictions. Origin would also wish to make clear that it believes policies with wide coverage (such as carbon trading) are more effective and efficient mechanisms to address CO₂-e emissions compared with feed-in tariffs targeting particular technologies.

Nonetheless, we welcome IPART's comments on page 90 of the Draft Report that in meeting the Government's terms of reference, IPART has also focused on future policy changes at the national level. Origin supports the light handed approach, which IPART has recommended in part, and agrees this will facilitate any transition to a national FIT scheme.

Origin makes specific comment on issues contained within the Draft Report below.

Draft findings and recommendations

A benchmark fair and reasonable FIT

Origin supports the application of a benchmark in assigning a fair and reasonable value to the electricity exported to the electricity network by customers with small solar photovoltaic (solar PV) generators. Such an approach:

- Preserves competitively neutral outcomes among retailers;
- Provides ongoing opportunities for retailers to compete on the basis of any FIT offered;



- Provides consumers with a reference point to assess any FIT offer made to them; and
- Supports flexibility for retailers to develop offers and tariffs that best meet the needs of their customers and their own business objectives.

In terms of a benchmark range, Origin's analysis supports a price of 6 cents per kWh in contrast to the range of 8 to 10 cents set out in the Draft Report. We suggest that the benchmark level of 8 to 10 cents per kWh (on a net basis) limits operation of the competitive market. Whilst Origin understands the analysis undertaken leading to an assessment that this range reflects direct gains to retailers, we remain of the view that offers made voluntarily by retailers provided a reasonable basis against for establishing a benchmark. Furthermore, Origin maintains the view that the recommended FIT should function as a price floor in order to facilitate the competitive market for electricity.

We also query assumptions made in the report regarding the impact of time of use tariff (TOU) structures. Whilst not aware of the total number of customers on TOU structures (with solar PV installations) within the AusGrid distribution network, Origin considers that it is the case that the incentive for these customers to reduce demand during peak TOU periods is higher than for single rate customers. By reducing their consumption of electricity during these higher price periods, the avoided cost for retailers in the AusGrid network area will be lower. While Origin accepts that reduced peak consumption may be accounted for in IPART's modelling, we believe there will be continued change in demand patterns over time in the presence of TOU pricing, making the assessment of avoided retailer costs an issue for ongoing review.

Since the benchmark range is influenced by this assessment of direct gain to retailers, and this in turn influences the rate IPART will recommend as that will set the contribution retailers make to the costs of the SBS, Origin asks IPART to consider the impact of demand reductions due to TOU pricing structures. Origin believes that such analysis may impact upon the results set out on page 48 of the draft report.

Finally, we believe the additional costs of servicing solar customers should be recognised in the IPART analysis. Origin has identified that solar customers are 4.5 times more likely to raise an issue than customers generally, and on average solar queries take 20 per cent longer to resolve than a standard billing query.

Should only Standard Retailers be required to offer a feed-in tariff to customers on standard contracts?

Origin does not believe that standard retailers should be required to offer a FIT to customers on standard contracts. IPART has thoroughly assessed the options regarding oversight available to it and Origin supports the commentary set out on pages 86-90 of the Draft Report which establishes why a mandatory feed-in tariff is not the appropriate regulatory mechanism.

The existence of a benchmark rate is information of which standard and market contract customers will be made aware. Obliging standard retailers to offer a FIT distorts the obligations between standard and market contract customers and hence competition for customers on standard contracts. As IPART states on page 86 of the Draft Report, access to FITs is not an essential service. In addition, should an obligation be placed on standard retailers to offer a FIT to standard contract customers only (even in the case where the standard retailer sets the FIT), this will have the effect of creating further challenges to the development of a national FIT scheme and complicates authorisation



processes under the existing national framework, adding to the cost of its implementation.

Retailer contribution to the costs of the Solar Bonus Scheme

The recommended contribution of 7.5 cents per kWh toward the cost of the Solar Bonus Scheme is considered too high by Origin. This view is based on:

- The exclusion of the higher cost to serve associated with solar PV customers relative to conventional electricity customers, as discussed above, reducing any benefits associated with the avoided direct costs that derive from the customer's generation.
- The likelihood that the avoided cost to retailers associated with TOU customers with solar PV systems is lower than identified in the Draft Report (due to the reduction in the avoided cost over time due to elasticity effects), increasing the benchmark and the relativity between the benchmark range and the level of the contribution to be made by retailers toward the cost of the SBS.
- Analysis undertaken by Origin indicates that a floor of 6 cents per kWh more closely reflects a benchmark value to retailers of energy exported to the grid from small solar PV systems, as demonstrated by the voluntary premium currently offered.

Customers assigned to the 20 cent per kWh Solar Bonus

Origin notes the discussion on the impact of retailer contributions to the cost of the SBS for gross meters customers assigned to the 20 cent per kWh prescribed FIT. Origin agrees that most of these customers will be better off under net metering if their retail tariff exceeds their FIT paid on a gross basis, which will be the case if retailers withdraw an existing voluntary payment to compensate for the mandatory contribution.

The cost of replacing a customer's meter, and the cost of potential calls and complaints to industry driven by confusion or the need to replace an existing (and often quite recently installed) meter, will likely exceed any reduction in cost to the SBS due to the retail contribution associated with this particular subset of SBS customers. Meter replacement may be expensive for many customers as the conversion from gross to net metering will involve the wiring of the customers inverter supply from their solar PV system back into the customer's mains supply. This will require customers to engage an electrical contractor and each customer site will vary in terms complexity and cost to the customer.

We therefore strongly support the option on page 102 of the Draft Report that:

The Government consider not requiring retailers to make the contribution in respect of these [customers currently assigned to the 20 cent per kWh Solar Bonus] customers.

Origin recommends that these customers be excluded from the obligation to contribute to the cost of the SBS, particularly given that the benefits accruing to them (and the cost to the New South Wales community) as a result of the scheme is two-thirds smaller than those SBS customers assigned to the 60 cent per kWh FIT.



Implementation issues

The Draft Report suggests that retail contributions will begin before the end of the 2012 financial year. Origin believes that the start date for implementing the retail contribution component should not begin until 1 July 2012. This approach:

- Allows more time for retailers to prepare for implementation and aligns with changes to regulated retail prices;
- Provides the Government, distribution businesses and retailers more time to develop an appropriate mechanism to allow the retailer contribution to be passed to the Government.

Origin believes the system changes required to accommodate any final recommendations would lend support to a start date that aligns with the update to retail tariffs as a practical outcome.

Conclusions

Origin is supportive of the light-handed approach adopted by IPART. Most of the recommendations made by IPART follow this principle and should preserve competitive neutrality among retailers. The clearest exception is the consideration of a mandatory obligation applying to standard retailers.

However, while light-handed, the level of the benchmark and the retail contribution exceeds the current *voluntary* level established by the competitive market, reflecting a likely overestimation of benefits and underestimation of costs. While acknowledging the complexity of IPART's task and the effort expended analysing the data available, Origin believes that the lower band for the benchmark range, and by association the contribution level, could be reduced to by 1.5 to 2 cents per kWh to accommodate:

- A price floor above which standard and non-standard retailers could compete for all eligible customers;
- The additional costs of servicing FIT customers (particularly as jurisdictional inconsistencies are exacerbated); and
- The uncertain impact of major policy changes on the wholesale energy market, notably the introduction of the carbon tax in 2012.

Origin would welcome further discussion on the matters raised in this response. Please contact me in the first instance.

Yours sincerely

[SIGNED]

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