



21 May 2014

Ms Anna Brakey
Program Manager - Retail
2014/15 Solar Feed-in Tariff Review
Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB Post Office NSW 1230

Via online lodgement

Dear Ms Brakey

The subsidy-free value of electricity from small-scale solar PV units from 1 July 2014- Draft Report

Origin Energy (Origin) welcomes this opportunity to respond to the Tribunal's draft report on the subsidy-free value of electricity exported by small-scale solar PV systems for the 2015 financial year.

Origin is broadly supportive of the draft report's findings, including the benchmark range for unsubsidised feed-in tariffs (FITs) and the retail contribution to costs of the Solar Bonus Scheme (SBS); though we believe the basis for the retailer contribution should be a net metered profile, rather than gross metered. We discuss these matters in further detail below.

Benchmark range for unsubsidised feed-in-tariffs

Origin supports IPART's proposed benchmark range for 2014-15 on the basis that it is consistent with the terms of reference and it broadly reflects the wholesale benefits that accrue to retailers. Although the benchmark range is not binding on retailers, we note that Origin's own net FIT is currently within the proposed benchmark range contained in the draft report; indeed, as things stand, all three of the largest retailers will be within IPART's draft range for the 2015 financial year if the draft report carries through to the final determination.

Origin agrees with IPART's decision to continue using the lower bound of the range for the wholesale market value. Competition is continuing to provide a range of choices for consumers with 8 of the 12 retailers in the state offer a voluntary FIT.¹ By choosing the lower end of the range, IPART provides consumers with a reasonable benchmark price for assessing the value of the solar power they export to the grid.

To that end, Origin agrees with IPART that introducing a mandatory minimum FIT would have deleterious impact on competition and may lead to price imbalances. If a mandatory minimum was introduced there would be the risk that retailers would converge around that number in their offers to consumers or avoid making offers to solar PV customers. In contrast, a competitive market has allowed retailers to compete on the basis of broad range of tariffs that they offer to consumers (from 5 to 10 cents per kWh) and in Origin's case, voluntary FITs available with all market and

¹ Independent Pricing and Regulatory Tribunal, *Solar feed-in-tariffs: the subsidy-free value of electricity from small-scale solar PV units from 1 July 2014. Electricity—Draft Report*, April 2014, p.11.

standing retail offers. The choice available to consumers reflects the fact that retailers are competing for customers through a number of different energy products and services.²

Finally, Origin agrees with IPART's decision to not publish a benchmark range with and without the inclusion of carbon. In Origin's view it is sufficient that IPART's estimated wholesale market value for solar PV contemplates and prices in the impact of the carbon repeal without a separate tariff being published. As IPART notes, the market is already pricing in the carbon repeal as part of its current and offers to customers, and can be expected to adjust them as circumstances change.

Retailer contribution to the SBS

In our submission to IPART's issues paper (of November 2013), Origin argued that a net metered profile was the appropriate method for calculating the estimated wholesale market value because it would more accurately measure the electricity that solar PV exports to the grid and the value that retailers acquire from it.³ The retailer contribution is premised on retailers obtaining a financial benefit from the solar energy that it purchases off participants in the SBS and then sells to other customers. The fact that the overwhelming number of SBS customers have gross meters installed does not change the fact that the benefit retailers derive from the scheme comes from the net energy that PV customers export to the grid.

To support our view that the determination of the retail contribution to the SBS should be consistent with the net metered profile, Origin submits that:

- While the aggregate impact on wholesale settlement is the same for gross and net, the *incidence* of the spot price is affected by the volatility in either profile (with gross being more volatile);
- The avoided energy cost for retailers is based on the electricity exported to the grid (captured under net metering);
- Under gross measurement, in most cases, more than half of the energy generated by the customer's solar PV system is consumed on-site;
- While retailers may avoid purchasing this energy on the spot market, the fact that the customer has a gross metering configuration should not influence the calculation of the contribution; and
- This is driven by the reality that customer's consumption of their own generation is effectively on the non-grid side of the meter and therefore the equivalent of demand-side management, rather than a measure of generation impact on the grid.

As such, Origin considers that a net metered profile should be the basis of the retailer contribution, and would encourage IPART to reconsider its draft decision on this issue.

Other matters contained in the draft report

Presentation of the benchmark range

Origin notes table 1.1 in the Executive Summary that the upper and lower limits of the benchmark range are referenced, but not the "all times" price set out in table 3.2.⁴ Origin is concerned that presenting the upper and lower bounds of the range, without also referencing the average price, may lead stakeholders to infer that a subsidy-free value for non-SBS solar PV exports is the midpoint of this range rather than the average (7.3 compared to 5.8 cents per kWh). We would encourage

² Ibid, pp.10-11.

³ Origin Energy, Submission into *The subsidy-free value of electricity from small-scale PV units from 1 July 2014—Issues Paper*, 31 January 2014, p.2.

⁴ IPART (2014), op. cit., page 12.

IPART to consider the presentation of the average in the summary included in the Final Report, if a similar approach is followed to that contained in the draft, in order to assist stakeholder interpretation.

'Gentailer' feed-in tariff offers

Origin does not agree that 'gentailers' lack the incentive to offer competitive FITs. We agree with IPART's views set out on page 10 of the draft report that competitive pressure is the best mechanism to determine market-based FITs. Again, if the draft report benchmark approximated the outcome in the Final Report, each of the three largest retailers (all of whom have generation interests in the National Electricity Market) will have voluntary FITs within the benchmark range.

Conclusions

The Tribunal's draft report reflects a continuation of the policy that emphasises the role of the competitive retail market in determining FITs offered to customers. Origin strongly supports this approach. Competition among retailers will generally continue to produce voluntary FIT offers within the benchmark range. Retailers not making a FIT offer will likely lose some of their market share to those that do offer a FIT and products that appeal to customers with solar PV systems. We believe that the approach to determining the mandatory retailer contribution to the SBS may warrant further consideration with respect to the use of gross or net solar PV profiles.

Origin would be pleased to discuss any matters raised within this response further with the Tribunal. Please contact Timothy Wilson (Retail Regulatory Analyst) in the first instance on (03) 8665 7155.

Yours sincerely

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