



31 January 2014

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

By electronic lodgement

Dear Ms Brakey

The subsidy-free value of electricity from small-scale PV units from 1 July 2014 - Issues Paper

Origin Energy welcomes this opportunity to respond to the Independent Pricing and Regulatory Tribunal's (IPART's) issues paper on the value of feed-in electricity from small-scale photovoltaic units from 1 July 2014.

We have previously responded to a number of consultations that IPART has undertaken on this and related matters and generally supports the approach that has been applied to the previous determination of the retailer contribution and the benchmark range of feed-in tariffs (FITs) for non Solar Bonus (SBS) customers.

Origin supports the balance struck in New South Wales with respect to regulation of FITs and the determination of the fair and reasonable value by allowing competition among retailers to determine non-SBS feed-in tariffs, while at the same time, providing customers and retailers a reference point through the benchmark range.

We agree with the list of issues that are outside of the scope of the review described in section 2.2 of the issues paper. These matters have been previously assessed and Origin supports IPART's focus on improving the existing approach to determine the benchmark range and retailer contribution.

In this response, Origin has focused on the questions IPART sets out in its issues paper, particularly in relation to the determination of wholesale market value. Origin would welcome further discussion with the Commission prior to the release of the options paper. Please contact David Calder on (03) 8665 7712 in the first instance should you have any queries in relation to this response.

Yours sincerely

A handwritten signature in blue ink, appearing to read "K. Robertson".

Keith Robertson
Manager - Retail Regulatory Policy
Origin Energy
(02) 9503 5674 Keith.Robertson@Originenergy.com.au

1 How could IPART improve its methodology for estimating the wholesale market value of solar PV exports?

Origin notes that one important contributor to wholesale market value not mentioned in the issues paper is the likely potential for repeal of the price on carbon sometime in 2014. The repeal of the price on carbon is likely to materially impact on the wholesale market value of solar PV exports to the grid. The Essential Services Commission of South Australia in its recent review of retail feed-in tariffs modelled a fair and reasonable retail FIT taking into account the repeal of the carbon price.¹ The retail FIT in absence of the price on carbon is 20 per cent lower than with the price on carbon included. Origin would highlight that the repeal of the price on carbon will materially impact upon on any estimated wholesale market value and should be considered in the review for 2014/15.

2 In estimating this wholesale market value:

- Should IPART continue to use a single historical base year or take account of more historical data?
- Should IPART continue to use data on 1.5kW PV units only, or take account of different PV unit sizes?
- Should IPART use a gross or net metered profile for setting the retailer contribution?

Origin understands IPART considers the current use of a one year baseline for estimating wholesale market value as less than ideal. As such, Origin would support the use of simulated wholesale market outcomes in order to determine the wholesale market value, factoring in the impact of other variables (such as the repeal of the carbon price mentioned above).

Origin does not have a view on whether IPART should use a range of PV system sizes but considers that the basis for unit size should approximate the average (i.e. if a range is used, output from larger or smaller systems is weighted to reflect their representation in the market).

On the third matter relating to the choice of gross or net metered systems, Origin agrees with Frontier's assessment that the choice would make little difference to the outcome of wholesale market value estimates.

In our view however, IPART should continue to apply a net metered profile in the calculation of estimated wholesale market value, since this is an accurate measure of electricity exported to the grid. Origin agrees with IPART that "Gross metered customers export all the electricity their PV unit generates".² However, the profile of gross metered installation shows the system output, not the flow to the grid as net metered configurations do. Some (typically a majority) of the "exported" electricity under gross metered configurations immediately flows back into the customer's consumption meter and is not used by other grid consumers. The net metered profile reflects the pattern of in house consumption and exports across a range of customers. For these reasons, Origin supports the ongoing use of meter data from net metered customer sites to determine the retailer contribution.

¹ ESCOSA (2013), *Retailer Feed-In Tariff Final Price Determination - Statement of Reasons*, page 34.

² IPART (2013), *Solar feed-in tariffs - The subsidy-free value of electricity from small scale solar PV units from 1 July 2014 - Issues paper*, page 12.

3 Is the direct financial gain methodology a useful approach for estimating the value of solar PV exports?

Origin supports the current approach to estimate the direct financial gain accruing to retailers from energy exported to the grid and on sold by their customers. Comments on the likely repeal on the price on carbon above are pertinent to the direct financial gain; to the extent such changes are recognised in the estimated wholesale market value.

4 Should IPART's method for estimating the direct financial gain be amended so that there is more time for stakeholders to implement the decision? If so, how?

Origin agrees that the current timing of implementation for the retailer contribution and the benchmark range presents difficulties for retailers. IPART's suggestion that information from the draft decision on regulated retail prices could be used as the basis for the mandatory retailer contribution and the benchmark range for 2014/15 is a proposal worth pursuing in our view.

5 What factors should IPART have regard to in setting the retailer contribution?

Origin supports the continuation of an approach to determining the retailer contribution that favours the lower bound of estimated direct financial gains to retailers. Such a conservative approach goes some way to reduce distortions in the competitive market (including the avoidance of marketing to customers receiving the SBS feed-in tariff identified by IPART). Notwithstanding improvements that could be made to the existing approach, consistency and certainty in the methodology applied will limit the impact the mandatory retailer contribution has on the competitive retail electricity market.

6 How effective is the benchmark range in guiding customers and retailers on the value of solar PV exports?

Origin believes the benchmark range is a valuable reference point for consumers seeking better deals and retailers considering the FIT they should offer non-SBS customers. That some retailers do not offer a feed-in tariff within the benchmark range may be due to a range of reasons, not the least of which may relate to a view by retailers that the FIT rates are best determined in the competitive market. There is also the possibility that retailers consider the higher cost to serve associated with feed-in tariff customers a basis to offer a tariff that may not fall within the benchmark range.

For those retailers who offer FITs (in contrast to those that do not), they are engaging in a strategy to attract customers with solar PV systems and thus gain market share at the expense of retailers who do not make such offers. Information on offers that include voluntary feed-in tariffs for non-SBS customers is readily available from retailers and independent comparators such as the Australian Energy Regulator's *Energy Made Easy* website.

7 How could IPART's approach for setting the benchmark range be improved?

Origin considers that IPART's current approach to setting the benchmark range is appropriate.