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Solar feed-in tariffs
Independent Pricing and Regulatory Tribunal
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IPART's Solar Feed-in Tariff Issues Paper: Setting a fair and reasonable value for electricity generated by small-scale solar PV units in NSW

The Energy Supply Association of Australia (esaa) welcomes the opportunity to make a submission to the Independent Pricing and Regulatory Tribunal's (IPART) Issues Paper on setting a fair and reasonable value for electricity generated by small-scale solar photovoltaic (PV) units in NSW.

esaa is the peak industry body for the stationary energy sector in Australia and represents the policy positions of the Chief Executives of over 40 electricity and downstream natural gas businesses. These businesses own and operate some \$120 billion in assets, employ over 52,000 people and contribute \$16 billion directly to the nation's Gross Domestic Product.

esaa is fuel and technology neutral and has therefore consistently argued against the introduction of feed-in tariffs (FITs) that provide a significant and arbitrary premium over the economic value of the energy supplied after accounting for any avoided costs. Many of the FITs introduced by states and territories over the past few years have been at excessive rates which has led to dramatically quick rates of uptake and also, as mentioned in the Issues Paper, put pressure on electricity networks to maintain voltage levels.

Comments on IPART's proposed approach

IPART has been asked by the NSW Government to review and recommend a 'fair and reasonable value' for the electricity generated by small scale solar PV units and exported to the grid, and how this should be implemented in NSW.

The decision to assess a fair and reasonable value for electricity generated by small-scale solar PV units is laudable, but not without its challenges, many of which have been identified in the Issues Paper. The Association notes that the Issues Paper makes reference to the first COAG principle on FITs: "Micro renewable generation (is) to receive fair and reasonable value for exported energy". It will be crucial that the results of this review produce a "fair and reasonable value" and consequently avoid the problems that have plagued premium solar FITs across Australia.

IPART proposes assessing the direct and indirect financial gains to retailers as a result of solar PV generation. The methods proposed to value electricity generated

by solar PV – by assessing the financial gain to retailers if there were no FIT and the wholesale market value of the electricity customers with PV export to the grid – appear to be sensible ways in which to assess solar PV's value to retailers and customers. IPART also intends to consider the costs of solar PV on electricity networks in determining a value for the electricity generated by solar PV and exported to the grid.

Solar PV generation is another form of electricity generation like coal or gas and therefore should be priced as such. In most cases, an up-front subsidy has been provided through the small scale scheme of the national Renewable Energy Target. When a carbon price is introduced, as the Federal Government proposes to do in 2012-13, the uplift in wholesale energy prices and projected increase in retail prices will provide yet more incentive for households to use solar PV. Accordingly, the Association supports IPART's approach of not seeking to separately capture abatement benefits in its analysis.

The Issues Paper discusses the role of peak power prices in assessing the value of electricity fed into the grid. As the Issues Paper shows, solar PV output peaks around noon while residential demand peaks at around 6-8pm. Household PV may therefore have limited impact on mitigating peak demand from a distribution network perspective. So the value is likely to come mostly from the wholesale value of electricity at the time of PV output. This may be higher than the overall average wholesale price.

However, caution should be taken in assuming that it is appropriate to value such electricity at peak rates when most customers in NSW pay flat-rate tariffs for electricity consumed from the grid. Mixing and matching a peaking profile for export with flat import tariffs may create a distorted set of incentives for customers. The reverse may also be true. By avoiding a highly prescriptive mandatory tariff for electricity generated by residential solar PV, retailers can offer a range of products that best suit customers, rather than being forced to provide a 'one size fits all' tariff.

Benefits of a light-handed approach to regulation

In addition to determining a fair and reasonable value for electricity generated by small-scale solar PV, IPART has also been tasked with determining how this value should be implemented in NSW. The Association considers that this is a necessary step in order to ensure an orderly transition for retailers, networks and consumers as they adjust to a new pricing regime for solar PV. This approach should allow for a variety of mechanisms to be considered before introducing a policy which may have wide-ranging impacts on the electricity industry. The end result should be a policy that is more sustainable for all parties in the long-term.

esaa contends that IPART should take a light-handed approach to implementing FITs for customers. Of the measures proposed by IPART, the benchmarking approach, whereby IPART would set a notional value for electricity generated by small-scale solar PV in NSW, appears to be the most appropriate. This would then serve as a guide to allow customers and retailers the opportunity to negotiate a fair and reasonable tariff. Such an approach would also serve to avoid the risks of setting a tariff too high or low. However, there would still be a risk that a high benchmark would create unrealistic expectations in customers or that a benchmark set too low would favour retailers. An appropriate way to reflect the uncertainties inherent in

valuing customers' solar output might be to present a range rather than a point estimate.

In any case, the risks under the benchmarking approach are far less than the risks of a heavy-handed approach whereby a mandatory FIT set too high could result in retailers paying far more than is necessary for solar PV-generated electricity. This could disadvantage those retailers with a higher proportion than the average of customers with solar PV. It would also discourage retailers from competing vigorously for customers who have PV installed and would thus undermine retail competition.

IPART also asks how often the price should be updated. esaa argues that another advantage of a light-handed approach is that the market may in fact update prices as regularly as it needs to, without waiting for the intervention of an external agency. Periodic reviews every few years may be all that is required if customers and retailers can freely negotiate prices themselves rather than await the outcome of a review process. Such an approach minimises the administrative costs of reviews, costs which will ultimately be borne by customers.

Conclusion

IPART's proposed approach is to assess: the financial gain to retailers if there were no FIT; the wholesale market value of the electricity customers with PV export to the grid; and the costs of solar PV on electricity networks. These appear to be reasonable factors to take into account in determining a fair and reasonable value for electricity generated from solar PV. It allows for a FIT to be determined which is reflective of COAG principles and is likely to avoid repeating the mistakes of excessive premium FITs which have been implemented by many states and territories.

While quantifying the value of solar PV is important, the manner in which this price will be implemented is crucial in order to avoid market distortions and extra burdens on participants. esaa considers that an assessment into the method of implementing a FIT for residential solar PV is a necessary approach in order to promote an orderly transition to a new pricing regime for solar PV. IPART's consideration of different tools which could be used to apply the FIT appears reasonable. However, esaa cautions against using a heavy-handed approach which may impose restrictions on an otherwise competitive market and undermine competition for customers with solar PV.

Any questions about our submission should be addressed to Kieran Donoghue, by email to kieran.donoghue@esaa.com.au or by telephone on (03) 9670 0188.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Clare Savage', with a stylized flourish at the end.

Clare Savage
Interim Chief Executive Officer