Alinta Energy

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Mr Nathan Petrus
Director, Pricing and Access
Essential Services Commission of South Australia
GPO Box 2605
Adelaide SA 5001

By email: escosa@escosa.sa.gov.au

Dear Nathan

Determination of solar feed-in tariff premium

Alinta Energy welcomes the opportunity to make a submission in response to the Essential Services Commission of South Australia's (ESCOSA) issues paper of August 2011 on determination of solar feed-in tariffs.

Alinta Energy is an active investor in the energy retail, wholesale and generation markets across Australia. Alinta Energy has over 2500MW of generation facilities in Australia (and New Zealand), and maintains over 620,000 retail energy customers in Western Australia and South Australia with a commitment to growth in the National Electricity Market.

Alinta Energy is therefore keenly interested in energy market developments across Australia and in all regions of the National Electricity Market as it pursues its forward growth strategy.

Identifying a 'fair and reasonable' value

ESCOSA asked:

> *What is the most appropriate method to calculate the fair and reasonable value to a retailer of electricity fed into the network by solar PV systems?*

Alinta supports proportionate regulatory intervention where the market fails to provide an efficient outcome. However, intervention should be used as a last resort as regulation itself can create inefficiency and distortions to the detriment of participants and therefore customers. In this regard, while we welcome the current analysis, we express caution that the market implications of solar PV not be overstated.

As a National Energy Market participant with retail and generation interests in South Australia we are acutely aware that any additional costs placed on energy retailers, without associated benefits, can act as a strong disincentive to sign up customers with PV units. We are also aware that the costs of managing existing and future customers with PV units is often disproportionate when compared with non-PV customers and that the impost of additional retailer contributions may result in some retailers exiting the South Australian market for PV customers.

Nevertheless, we do agree with the general proposition that there is a degree of value for retailers in having PV customers as they are able to avoid some costs pursuant to the PV customers' exports.

A corollary of this conclusion is that in a competitive market retailers should be willing to pay for this financial gain. Evidence suggests this is the case; retailers have voluntarily offered a market premium of around 6 cents per kilowatt-hour. This translates to around $60 to $70 Megawatt-hour which Alinta Energy considers a reasonable to generous value for the PV generated by the customer given the load generated is unpredictable.

In our view, the market determined rate is the only sustainable method for calculating a fair and reasonable rate for solar PV customers.

ESCOSA asked:

> *Are there any potential costs or benefits to retailers from solar PV exports?*
>
> *How should the Commission quantify these costs or benefits in the derivation of a FiT premium?*

The financial benefit to retailers of the energy produced by small scale PV must be considered in light of the following:

- a retailer's wholesale contractual or other positions regarding energy cover may be impacted by PV customers to a negligible extent, given the small volume of PV generation across a number of retailers should not be expected to be substantial for any one retailer;
- to actually account for the impact of PV customers, a retailer would need a reasonable number of those customers and have an accurate understanding of future energy use and exports of those PV customers, by time and by location, to maximise the associated benefits. Given the limited scale of benefits, collating and acting on such information is not likely to be significantly compelling;
- solar generation presents a non-firm hedge to retailers, and therefore its value must be decreased in accordance with that unreliability. This is because solar output is unpredictable given it is correlated to the heat of the sun. While in theory the sun shines the most in summer, which is a peak season, peak electricity use at any point in time can occur on days when solar energy is not producing electricity (eg humid and cloudy days). Retailers can not, therefore, rely on solar generation to substitute other peak wholesale contracts without exposing themselves to the risk they will need to purchase from the market, at up to $12,500/MWh; and
- Alinta Energy notes that the operational expenditure associated with PV customers is higher than non-PV customers. PV customers are more in tune with electricity issues than non-PV customers. This results on average in greater levels of engagement with retail providers than expected from non-PV customers.

Therefore, any direct and indirect financial gains suggested in an economic analysis, while informative, may imply significant financial gains where only minor, and possibly unmeasurable benefits arise.

ESCOSA asked:

> *Should the FiT premium incorporate the benefits of any avoided loss factors?*

It will be very difficult for ESCOSA to quantify and allocate any benefits to retailers derived from avoided loss factors. Such benefits are likely to be marginal in any case and the benefit of identifying and allocating them would not be outweighed by the risk of getting the forecast wrong.

ESCOSA asked:

> *Should some of the benefits to retailers be shared with all electricity customers or just those with a solar PV system?*

Alinta Energy is of the view that if ESCOSA deems it necessary to quantify the financial benefit of solar PV to retailers, that it should limit its analysis to easily quantifiable and verifiable information. Any benefits which are at the margin should not be allocated but instead assumed they will be shared by retailers to all customers through discounted tariffs.

ESCOSA asked:

> *Does the level of the current voluntary FiT premium on offer from some retailers in SA accurately represent the value of the energy to that retailer?*

As previously indicated, evidence demonstrates that in a competitive market retailers should be willing to pay for the net financial gain of signing PV customers. Evidence suggests this is the case as retailers have voluntarily offered a market premium. The current value of the premium is around 6 cents per kilowatt-hour, or $60 to $70 a Megawatt-hour.

Alinta Energy believes the value of the voluntary feed in tariff will only partially reflect the benefits retailers gain from buying the solar power generated by PV. In setting the feed in tariff retailers are likely to consider not only the financial gain to them, but also the branding and marketing benefits of positioning themselves as a green friendly retailer. Accordingly, Alinta Energy believes the current voluntary feed in tariff exceeds the pure economic value of the solar energy generated by PV customers.

This leads to the key point: does ESCOSA need to set a feed-in premium above zero cents?

The relevant legislation states:

> It is a condition of the licence of the electricity entity that has the relevant contract to sell electricity as a retailer to a qualifying customer who feeds electricity generated by a qualifying generator into a distribution network, other than an excluded network, that the retailer will, after taking into account any requirements prescribed by the regulations—
>
> (a) *credit against the charges payable by the qualifying customer for the sale of electricity to the qualifying customer the prescribed amount, or an amount determined*

by the retailer, being an amount greater than the prescribed amount, for electricity fed into the network in excess of the electricity used by the qualifying customer (after taking into account the operation of the following subsections);

Alinta Energy seeks clarification whether ESCOSA is able, pursuant to the relevant legislation, to establish a feed-in tariff at zero cents or a nominal amount such as one cent. The benefit of doing so would be to avoid an overly regulated solution and provide an opportunity for the market to set an appropriate rate based on the actual costs and benefits of PV customers to each retailer.

Alinta Energy is of the view that if PV customers are savvy enough to have established for themselves the benefits of installing solar PV, those same customers are going to be more than capable of ensuring they are receiving the best possible deal from their energy retailer. This is especially the case given existing contributions are now a feature of the market.

Alinta Energy also believes that regulatory solutions are only required in circumstances of market failure and in the event of market failure such interventions should be proportionate. Alinta Energy does not accept market failure exists in the solar market.

The current customer incentives for solar PV installation relate to payback, which needs to be separated into its component parts: capital costs; and avoided energy costs.

There is a view that the Renewable Energy Certificate multiplier adequately compensates PV customers for the capital costs associated with solar PV installation.

The incentives relating to avoided energy costs are already dealt with through the unregulated payments received by PV customers which on the whole present a reasonable to generous payment for the non-firm energy produced. In addition to these direct payments from retailers, PV owners also obtain savings from using their generated electricity for their own use. On this basis, Alinta Energy is not convinced ESCOSA should be calculating a feed-in tariff which will have the effect of crowding out the existing market-based offerings.

As a second best solution Alinta Energy understands that ESCOSA may wish, initially, to set a benchmark 'fair and reasonable value' for the purposes of consumer guidance in addition to a nominal rate of zero or one cent. While we understand the merits of such information we do not believe this should be a mandated floor either across the market.

We appreciate there may be interest from some stakeholders in pursuing a floor tariff for retailers. However, this is not only inconsistent with competitive pricing outcomes, it is unnecessary given the market is already competing to provide an attractive price for buying electricity generated from solar PV.

ESCOSA asked:

Should residential customers have a different FiT premium to business customers?

How should the feed in tariff be updated over time?

What are the implications of setting the FiT premium too high or too low? How would this impact on competition in the retail market, particularly competition for solar PV customer?

ESCOSA's questions highlight the complexity in attempting to regulate a matter that should be left to the market.

Alinta Energy is strongly of the view that parties external to the market will either overstate or under estimate the appropriate benefit to retailers of PV customers. On this basis, and given the market has already shown a willingness to price the value of PV customers, Alinta Energy does not support a feed-in tariff set above a nominal level.

It is our belief that mandating such contributions from all retailers undermines industry confidence, discourages new entry and potentially requires retailers to absorb an uneconomic cost for which they are not responsible.

Additionally, any mandated contributions will place pressure on voluntary payments made to customers as the economics of offering these tariffs to PV customers will become commercially unsustainable. This may also take the form of a general reluctance to offer market contracts to PV customers.

Attempting to segment an already minor component of the overall market along business and consumers lines will also add to that level of complexity and additional cost in managing and monitoring PV customers.

<u>Conclusion</u>

We appreciate the work undertaken by ESCOSA to date and look forward to supporting its ongoing work program in this area. However, we note that the legislation does not appear to prevent ESCOSA from supporting a market based solution by establishing a nominal rate below the rate the market has already signalled it values PV customers. Attempts to do otherwise, despite best endeavours, may discourage the sign-up of PV customers.

If you have any queries in relation to this submission please do not hesitate to contact Jamie Lowe on, telephone, (02) 9372 2633.

Yours sincerely

M Shepherd

Michelle Shepherd

General Manager Regulatory Affairs