ESSENTIAL SERVICES COMMISSION OF SOUTH AUSTRALIA

Electricity

Retailer feed-in tariff - Review of regulatory arrangements

Final decision

December 2016

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Glossary of terms

AEMC	Australian Energy Market Commission – the statutory rule maker for the energy market and expert adviser for federal, state and territory governments.
AEMO	Australian Energy Market Operator – the operator of the National Energy Market and systems, as well as provider of energy market planning advice in eastern and south eastern Australia.
AER	Australian Energy Regulator – the regulator of energy markets and networks under national energy market legislation and rules.
Commission	Essential Services Commission, established under the Essential Services Commission Act 2002.
D-FiT	The mandatory FiT of either 44 cents per kWh or 16 cents per kWh for each kWh of electricity fed into the distribution network payable by SA Power Networks to solar customers (based on the date of connection or connection approval of their PV units) under Division 3AB of the Electricity Act.
Designated Retailer	Under clause 2 of the National Energy Retail Law, a 'Designated Retailer' is defined as: (a) the local area retailer, where there is no existing connection; and (b) the financially responsible retailer for the premises, where there is an existing connection.
Draft Report	R-FiT Review of Regulatory Arrangements: Draft Report
Electricity Act	Electricity Act 1996.
EME	Energy Made Easy – the AER's energy price comparison website www.energymadeeasy.gov.au.
ESC Act	Essential Services Commission Act 2002.
ESC Vic	Essential Services Commission of Victoria – the Victorian economic regulator.
EWOSA	Energy and Water Ombudsman of South Australia.
FiT	Feed-in Tariff.
FRC	Full retail contestability.
GST	Goods and Services Tax
IPART	Independent Pricing and Regulatory Tribunal of New South Wales, the New South Wales economic regulator.
Issues Paper	Issues Paper for the South Australian R-FiT review of regulatory arrangements, Essential Services Commission, March 2016.

kVA	Kilovolt-ampere – 1,000 volt-amperes, which is a measure of apparent power.
kWh	Kilowatt-hour, which is 1,000 Wh, an amount of energy approximately equivalent to running a single bar radiator for one hour.
Market Offer	Any retail electricity offer that is not a Standing Offer
MWh	Megawatt-hour —1,000 kWh.
NEM	National Electricity Market.
NERL	National Electricity Retail Law.
PV unit	A customer's solar photo-voltaic electricity generating unit which has a maximum nameplate capacity of 10 kVA (single phase) or 30 kVA (at three phases), meets the requirements of Australian Standard AS 4777, is connected to the distribution network in a manner allowing the export of electricity and has appropriate metering arrangements in place.
R-FiT	Retailer Feed-in Tariff. The payment made by a retailer for each kWh of electricity fed into the distribution network by a customer with a PV unit, under Division 3AB of the Electricity Act.
R-FiT Determination	The Commission's determination of the minimum price for the R-FiT, made in accordance with section 35A(1) of the Electricity Act 1996.
QCA	Queensland Competition Authority, the Queensland economic regulator.
QPC	Queensland Productivity Commission.
SA Power Networks	Operator of the South Australian electricity distribution network.
Solar customer	A residential or small business customer using less than 160 MWh of electricity per annum at a connection point which has a PV unit and complies with the requirements of Division 3AB of the Electricity Act.
Standing Offer	Standing Offers are those which an energy retailer must make available to customers for which it is a Designated Retailer
SEQ	South East Queensland.
Watt	A derived SI (International System of units) unit of power, defined as one joule per second.
Wh	One watt hour - a unit of energy.
2015 Determination	2015-2016 Retailer Feed-in Tariff: Final Price Determination – statement of reasons, published by the Commission in December 2014.
2015 Review	The AEMC 2015 Retail Competition Review.
2016 Review	The AEMC 2016 Retail Competition Review.

1 Executive summary

The Commission's Final Decision is:

- Not to make a determination of the minimum price for the South Australian Retailer Feed-in Tariff (**R-FiT**) for calendar year 2017,
- To continue to monitor the retail electricity market for solar customers in South Australia and require retailers to publish a disclosure statement of their R-FiTs (or equivalent benefit) that they must make available to solar customers, and
- To consider the re-introduction of a more direct form of regulation for the R-FiT at a future time, should evidence arise that it is in the long-term interests of consumers to do so.

Following a comprehensive public review, the Commission has determined that it will not set a minimum amount for the purposes of the R-FiT scheme from 1 January 2017.

Instead, as contemplated by the Electricity Act 1996 (**Electricity Act**), for 2017 each electricity retailer will be required to determine the R-FiT amount and structures it will pay to its solar customers for electricity fed into the distribution network. Retailers will be required to demonstrate publicly how their offers provide that benefit to solar customers.

As is clear from the terms of the Electricity Act, there is a value to each electricity retailer for electricity fed in by solar customers and this should be recognised by electricity retailers. The Commission therefore expects this to occur and for competitive forces to deliver customer benefit and value in this segment of the overall electricity market. Evidence from other jurisdictions that do not have a minimum price for the R-FiT suggests that customers will continue to be able to access that benefit albeit that the level and form may change from current arrangements.

While this decision represents a change from the Commission's past practice of setting a minimum amount, it has been made following a detailed consideration of submissions received and the underpinning legal and regulatory frameworks involved.

It takes into account the importance of facilitating consumer choice, structural changes in the electricity market, the rate of technological change and adaption and the possible risks (in those contexts) of direct regulation by the Commission foreclosing innovation in the design and delivery.

This decision means that, rather than the Commission setting a value which becomes the single focal point for the R-FiT amount and structure (most solar customers receive an R-FiT at a level at or very close to the minimum amount), each retailer will be required to develop its own offering.

When the R-FiT scheme was introduced, electricity retail prices were regulated by the Commission. In that context, setting a minimum price for R-FiT purposes formed only a small part of an overall package of regulated retail prices. Retail prices were deregulated by the South Australian Government in February 2013, and it is now appropriate to change the regulatory settings for the R-FiT.

Prior to 2012, the value of fed-in electricity was generally not recognised in the form of payments to customers. In large part that was because the number of solar customers was still relatively small.

Over the past five years, this has changed, not least because of the popularity of **PV units** in South Australia – around 25 percent of customers are now 'solar customers'. Electricity retailers now need to deal with solar customers as matter of normal business practice.

At the same time, when the R-FiT scheme was introduced there was already a pre-existing Distributor Feed-in Tariff (**D-FiT**) scheme in place. The D-FiT (which is closed to new entrants) was a straight subsidy scheme (it is entirely funded by electricity charges paid by all South Australian customers).

It provided for payments of either 44 cents or 16 cents per kilowatt hour (kWh) for fed-in electricity (depending on when a customer's solar panels were installed). The 16 cents per kWh subsidy expired on 30 September 2016, while the 44 cent scheme is due to expire in 2028.

When it was introduced, the D-FiT of 44c represented approximately double the (then) regulated electricity standing contract usage price. In that environment, it was sensible for solar customers to seek to maximise the amount of electricity that they fed into the network.

However, following the closure of the scheme to new customers, those incentives have changed. For many customers, who receive an R-FiT but no D-FiT, the incentive is now to use the solar-generated electricity within their homes or small businesses, thereby avoiding having to purchase that electricity from retailers.

In this changed world, which is also characterised by new technologies allowing time-of-use/generation export pricing and evidence that consumers continue to shop around for the best electricity deals, the idea that the Commission should continue to set a single minimum R-FiT amount presents risks for consumers.

Most significantly, the Commission-set minimum scheme provides a safety net for electricity retailers, within which they do not need to respond to competitive forces in setting R-FiT amounts – they simply set their R-FiT values at the minimum amount set by the Commission. This inertia appears to limit the extent to which electricity retailers have actively considered and developed market-based R-FiT offerings to gain or retain customers.

This, in turn, means that consumers may be missing out on more beneficial arrangements: better total packages, time-of-use feed-in pricing arrangements or other innovations.

Nevertheless, while it is of the view that moving away from a set minimum amount and structure may address those, and other, impediments to solar customers getting better value overall, the Commission recognises that there are risks in transition.

It is for that reason that it will maintain an active monitoring role in this area. Moreover, and to emphasise the need for electricity retailers to be accountable to South Australians, it will require each electricity retailer to ensure that it has publicly available information that clearly discloses the R-FiTs that are available, to assist solar customers in making choices between electricity offers. It is the expectation of the Electricity Act that retailers recognise the benefit of fed-in electricity and offer an R-FiT to solar customers. While the Commission's decision may alter the absolute value or structure of R-FiTs available to solar customers, it will not stop them being offered entirely.

The Electricity Act gives the Commission the ability to re-introduce a minimum price for the R-FiT at any time, should the Commission consider it appropriate. The Commission would only exercise that discretionary power if it were in the long-term interests of consumers, and subject to a further consultation process.

The Commission will work with stakeholders to shape a suitable monitoring regime, and to establish appropriate trigger points to re-establish the R-FiT minimum price. The Commission intends to publicly consult on that monitoring and reporting arrangement, including retailer disclosure requirements, during 2017.

2 Background

2.1 Structure and purpose of this report

The Essential Services Commission's (**Commission**) primary objective in performing its regulatory functions is the protection of the long-term interests of consumers with respect to price, quality and reliability of essential services. In a constantly changing social, technological and economic landscape, regular review of the regulatory frameworks established by the Commission is necessary to ensure they remain relevant and that they continue to serve consumers' long-term interests.

One of the Commission's guiding principles is that regulation is not the default option; regulation should be used only to rectify a defined problem where it is the most beneficial solution. Consequently, the Commission regularly reviews its regulatory approach to ensure that it remains effective and is delivered at least cost.

It is with this in mind that the Commission commenced its review of the regulatory arrangements for the Retailer Feed-in Tariff (**R-FiT**), a regulated (yet in overall terms, relatively minor) component of an otherwise deregulated electricity retail market. This review, which was first foreshadowed in the Commission's 2015-16 Retailer Feed-in Tariff: Final Price Determination (**2015 Determination**), commenced in March 2016, with the release of an Issues Paper that outlined the factors that the Commission proposed to examine. The Commission received 14 submissions in response to the Issues Paper.

In August 2016 the Commission released a draft report on the review of regulatory arrangements for the R-FiT (**Draft Report**) which proposed to cease prescribing a minimum price for the R-FiT with effect from 1 January 2017, along with the analysis which helped to form that view. The Commission received 623 submissions in response to the draft report.[1] Of these, 611 formed part of a campaign organised by the Solar Citizens Group. As the content of the 611 campaign submissions is largely consistent, in this report they are referred to collectively as the Solar Citizens Representation. Of the remaining 14 submissions, (two of which were confidential), nine were in favour of the draft decision.

This Report outlines the Commission's Final Decision which is to cease setting a minimum price for the R-FiT from 1 January 2017, consistent with the Draft Report. This decision takes into account an update of the analysis which had informed the Draft Report, as well as the views expressed by stakeholders throughout the review process.

The structure of this Final Report is as follows:

- Chapter 2 outlines the background to this report, including the history of the R-FiT in South Australia, the distinction between it and the distributor-paid feed-in tariff (**D-FiT**), and the average benefit of the R-FiT to South Australian solar customers.
- Chapter 3 explains and summarises the electricity market in South Australia, and the R-FiT as a component within it.
- Chapter 4 presents the Commission's Final Decision, an assessment of the costs and benefits of having a minimum price for the R-FiT, an updated assessment of competition in the market for R-FiT customers and consideration of the main points of submissions to this review.
- Chapter 5 outlines the next steps following the release of the Final Decision, including an outline of the monitoring and reporting regime (which will be subject to further public consultation) and trigger points for re-establishing a minimum price for the R-FiT.

1 Submissions are available on the Commission's website, at: http://www.escosa.sa.gov.au/projects/246/electricity-retailer-feed-in-tariff-review-of-regulatory-arrangements.aspx.

This report also contains two appendices:

- Appendix 1 outlines a comparison of the South Australian electricity market to those in other National Electricity Market jurisdictions, and
- Appendix 2 contains the detailed analysis performed by the Commission underpinning the assessment of competition summarised in Chapter 4.

2.2 Legislative framework

2.2.1 Commission's legislative authority

The Commission is a statutory authority established as an independent economic regulator and advisory body under the Essential Services Commission Act 2002 (**ESC Act**).[2] The Commission's role in the R-FiT arose from the transitional provisions in Section 4 of Schedule 1 of the Electricity Act of South Australia 1996 (**Electricity Act**).

One of the Commission's functions is to determine whether or not to make R-FiT determinations from time to time. If an R-FiT determination is made, it sets the *minimum* price which electricity retailers must, under the provisions of the Electricity Act, pay to residential and small business solar customers whose photo voltaic electricity generating units (**PV units**) feed electricity into the distribution network. Retailers are able to pay higher amounts than the minimum and, if an R-FiT is not set, are not precluded from making voluntary payments.

Section 35A (1) of the Electricity Act gives the Commission the discretionary power as to whether or not to make a price determination under the ESC Act, fixing a minimum price for the R-FiT from time to time.

If the Commission determines that it will make an R-FiT price determination, it must follow the statutory requirements of the ESC Act and the Electricity Act. This includes having regard to a range of factors set out in those Acts. In particular, section 25(4) of the ESC Act sets out the following matters, to which the Commission must have regard:

(a) the particular circumstances of the regulated industry and the goods and services for which the determination is made;

(b) the costs of making, producing or supplying the goods or services;

(c) the costs of complying with laws or regulatory requirements;

(d) the return on assets in the regulated industry;

(e) any relevant interstate and international benchmarks for prices, costs and return on assets in comparable industries;

(f) the financial implications of the determination;

(g) any factors specified by a relevant industry regulation Act or by regulation under this Act;

(h) any other factors that the Commission considers relevant.

Noting the provisions of section 25(4)(g), section 35A (1) (2a) of the Electricity Act provides that, in setting the R-FiT, the Commission must have regard to the fair and reasonable value to a retailer of electricity fed into the network.[3] Accordingly, the Commission has, historically, based its determination

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2 Further information about the Commission is available on the Commission's website at http://www.escosa.sa.gov.au/about-us.aspx.

3 Electricity Act 1996 section 35A(1)(2a).

of the minimum price for the R-FiT on the projected wholesale spot price of electricity for the forthcoming period.[4]

Should the Commission at any time consider that the long-term interests of consumers would be best served by the removal of a direct regulatory control of the R-FiT, it may decide not to set a minimum price for the R-FiT. In addition, should the Commission cease setting the minimum price for the R-FiT, the Electricity Act gives the Commission the ability to re-introduce it at any time, should the Commission consider it appropriate. In either case, the Commission would only exercise its discretionary power if it were in the long-term interests of consumers, and subject to a further consultation process.

2.2.2 Retailers' legislative R-FiT obligations

Retailers with contracts to sell electricity to a qualifying solar customer are obliged, under section 36AD of the Electricity Act, to:

> (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, and*
>
> (b) *reflect the credits under paragraph (a) and section 36AE in the charges payable by the qualifying customer for the sale and supply of electricity; and*
>
> (c) *provide to the qualifying customer information relating to –*
>
> i. *the amount of electricity fed into the distribution network by the qualifying customer; and*
>
> ii. *the amounts to be credited for the benefit of the qualifying customer for electricity fed into the distribution network.*

Importantly, the Electricity Act requires retailers to actively consider what the value of fed-in electricity might be to solar customers, and structure their offers accordingly. That requirement exists irrespective of whether or not the Commission sets a minimum price for the R-FiT.

2.3 The history of feed-in tariffs in South Australia

2.3.1 The R-FiT as distinct from the D-FiT

Two distinct schemes exist in South Australia that result in a payment to customers, for each kWh of solar PV electricity fed into the distribution network (not each kWh generated):

- the distributor-paid feed-in tariff (D-FiT)
- the retailer-paid feed-in tariff (R-FiT).

Each of these schemes is discussed briefly below. It should be noted from the outset that the Commission plays no role in setting the D-FiT. This review relates to R-FiT regulatory arrangements only.

4 The R-FiT also accounts for the reduced losses of electricity in transmission and reduced market and ancillary service fees. See ACIL Tasman, The fair and reasonable value of exported PV output, available at http://www.escosa.sa.gov.au/library/120103-SolarFeedinTariff-SupplementaryReport-ACILTasman.pdf.

2.3.2 The D-FiT scheme

The D-FiT scheme was introduced in 2008 and was designed to fill the gap left by declining Federal Government support for residential PV units and to allow the South Australian Government to pursue its objective of leadership in solar power.[5]

Any qualifying PV unit connected prior to 1 October 2011, will continue to attract a D-FiT credit from SA Power Networks (SAPN) of 44c/kWh of electricity fed into the network[6] until 30 June 2028. Any qualifying PV unit that was connected between 1 October 2011 and 30 September 2013 attracted a D-FiT credit from SAPN of 16c/kWh of electricity fed into the network until 30 September 2016. PV units that were connected from 1 October 2013 do not attract any feed-in credit from SAPN. These arrangements are summarised in Table 2-1.

Table 2-1: D-FiT credits payable by SAPN (nominal cents per kWh and GST exclusive)

Solar PV installation/approval date	Credit amount	Period payable
Before 1 October 2011	44c/kWh	Until 30 June 2028
1 October 2011 to 30 September 2013	16c/kWh	Until 30 September 2016
From 1 October 2013	Nil	N/A

Although the D-FiT is paid by SAPN to solar customers, the costs are borne by all South Australian electricity customers through their electricity network charges.

2.3.3 The R-FiT scheme

On 27 January 2012, residential and small business customers with a qualifying PV unit became entitled to receive an additional payment for electricity fed into the network – the R-FiT. The introduction of the R-FiT scheme was designed as a transition to address a market failure, where retailers might avoid passing on a payment to reflect the value of electricity fed into the grid. Under the scheme, all retailers receiving fed-in energy from eligible small solar customers were required to credit solar customers an amount equal to, or above, the minimum R-FiT for fed-in electricity. Prior to the introduction of the scheme, R-FiT payments were not compulsory.[7]

Unlike the D-FiT scheme, which represents a subsidy to customers who own a qualifying PV unit, the R-FiT scheme was designed to avoid the possibility of retailers capturing the benefits from electricity that solar customers exported to the distribution network.

The Commission has set the minimum price for the R-FiT since the inception of the R-FiT scheme in January 2012. The most recent determination (6.8 cents per kWh) applies for electricity exported to the distribution network up to, and including, 31 December 2016.

[5] South Australian Government, South Australia's Feed-in Mechanism for Residential Small-Scale Solar Photovoltaic Installations, Discussion Paper, February 2007, available http://www.climatechange.sa.gov.au/uploads/pdf/Feed-in_Discussion_Paper_submissions_closed.pdf.

[6] The D-FiT is paid for by SA Power Networks and distributed via the bill that customers receive from the retailer. The amount to which a customer is entitled is dependent upon the date on which the customer connected, or had approval to connect, their PV unit to SA Power Networks' distribution network.

[7] Essential Services Commission, Determination of solar feed-in tariff premium – Issues Paper, August 2011, p. 10, available at http://www.escosa.sa.gov.au/ArticleDocuments/767/110826-2011SolarFeedinTariff-IssuesPaper.pdf.aspx?Embed=Y.

2.3.3.1 Retailers' R-FiT obligations in South Australia

If the Commission sets an R-FiT, energy retailers holding an authorisation issued by the Australian Energy Regulator (**AER**) under the National Electricity Retail Law (**NERL**) are obliged to pay the R-FiT (or equivalent). The circumstances under which an R-FiT must be paid in South Australia are detailed in section 36AD(1) of the Electricity Act.[8]

The amount determined by the Commission as the prescribed R-FiT amount for the purposes of section 36AD of the Electricity Act is only a **minimum** amount to be credited to solar customers by retailers for electricity fed back into the distribution network. The current regulatory environment does not prevent retailers from paying a higher amount to solar customers, should they choose to do so. It is payable to all customers with qualifying PV units, irrespective of the date of connection or the terms of the contract they may have entered into with an electricity retailer for the sale of electricity through their connection point.

The effect of section 36AD(1)(a) is that an electricity retailer is obliged to pay at least the R-FiT amount immediately upon:

- entering into a contract with a qualifying customer[9] who feeds electricity generated by a qualifying generator[10] into a distribution network[11], or
- an existing customer starting to feed-in electricity generated by a qualifying generator into the distribution network (this will be the case even if the sale contract between the retailer and the existing customer does not deal with the issue of fed-in electricity).

2.3.3.2 Previous minimum R-FiT settings

The minimum R-FiT amounts, as prescribed by the Commission, from 2012 to 2016, are summarised in Table 2-2.

Table 2-2: Minimum R-FiT from 2012 to 2016 (nominal cents per kWh and GST exclusive)

27 Jan 2012 to 30 June 2012	1 July 2012 to 31 Dec 2013	1 Jan 2014 to 30 June 2014	1 July 2014 to 31 Dec 2014	Calendar year 2015	Calendar year 2016
7.1c/kWh	9.8c/kWh	7.6c/kWh	6.0c/kWh	5.3c/kWh	6.8c/kWh

Changes to the minimum price for the R-FiT over time have reflected changes in the projected wholesale cost of electricity, weighted for the half-hourly profile of customer demand.[12] The 2014 R-FiT also incorporated an adjustment in the methodology, where the minimum price for the R-FiT was set at the lower 90th percentile of a likely range, rather than the best estimate (50th percentile). The approach

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[8] Section 36AD of the Electricity Act 1996 refers to the obligation to pay the minimum R-FiT as a 'condition of licence'. Since the commencement of the National Energy Retail Law in South Australia from 1 February 2013 there is no longer an obligation for electricity retailers (other than those retailing in 'off-grid' areas of the State) to hold a licence; electricity retailers now hold 'authorisations' issued by the Australian Energy Regulator and are termed 'NERL retailers'. Section 36AD still applies to NERL retailers however, pursuant to section 14E(2) of that Act, which provides that section 36AD '… applies to a NERL retailer (despite the fact that it does not hold a licence under this Act)'.

[9] A qualifying customer is a customer who consumes less than 160MWh of electricity per annum.

[10] A qualifying generator is a small photovoltaic generator that is operated by a qualifying customer, complies with Australian Standard AS 4777, is connected to an electricity distribution network which supplies electricity to more than 10,000 customers, allows generated electricity to be fed into the distribution network and have installed appropriate metering so as to allow the separate recording of electricity imports and exports at the person's connection point.

[11] Means a distribution network that supplies electricity to more than 10,000 domestic customers.

[12] ACIL Allen Consulting, The fair and reasonable value of exported PV – a report to the Essential Services Commission of South Australia – Describing ACIL Allen's methodology for estimating the fair and reasonable value of exported PV output in South Australia, 1 October 2014, available at http://www.escosa.sa.gov.au/ArticleDocuments/502/20141002-Electricity-SolarRetailerFiT-FairReasonableValueExportedPVRe.pdf.aspx?Embed=Y.

based on the 50th percentile was justified on the basis that competition in the market for solar customers was not yet considered effective, and that retailers would therefore not voluntarily pass on any additional amounts above the minimum benchmark, resulting in customers not receiving the full value of exports.[13] The shift in methodology in 2014 reflected the development of the competitive electricity retail market and recognised that there is a risk of setting the minimum price for the R-FiT at an amount above the true value to retailers which could distort competition and lead to energy customers subsidising solar customers. The risk of such costs to non-solar customers has been raised as a concern by stakeholders.[14]

The change in the prescribed amount that occurred in mid-2014 (from 7.6 to 6.0 cents per kWh) reflected the removal of the carbon tax and its impact on the projected wholesale cost of electricity at that time.

The prescribed amount for calendar year 2016 was based on the weighted average wholesale cost of electricity as forecast in late 2015. That amount included the anticipated impact of the closure of the coal-fired Northern Power Station.

13 The Commission's variation to 2012 Determination of Solar Feed-in Tariff premium – Price Determination, December 2012, p. 26.

14 See APA submission to the Issues Paper, available at http://www.escosa.sa.gov.au/library/20160426-2016-R-FiTReviewIssuesPaperSubmission-APAGroup.pdf.

3 The retail market

A general principle of economic regulation is that, in a competitive market, there is no need for direct regulation of prices as, through competition, markets are more likely to deliver the efficient price than through regulation. In this environment, regulation is not only unnecessary, but it may impede the functioning of an efficient market, leaving consumers as a whole worse off. To assess the value of continuing to set a minimum price for the R-FiT, the Commission has assessed the development of competition in the South Australian retail electricity market and the role of the R-FiT within that market.

3.1 The market for solar customers

With the availability of Federal Government incentives, followed by the D-FiT scheme in South Australia, and in an environment of declining costs of PV units, the take up of PV units has grown substantially over the last decade, to the point where approximately a quarter of all residential electricity customers in South Australia have PV units operating.[15] In addition, customers have responded to the declining cost of PV installations by installing larger systems.

The market for solar customers receiving an R-FiT is defined under section 36AC of the Electricity Act, as those small electricity customers (be they residential or small businesses) who consume less than 160MWh of electricity per annum, and who feed electricity into a distribution network with more than 10,000 customers, via a qualifying PV unit. In practice, there are few households or small businesses with PV units that are off-grid, or within a distribution network of fewer than 10,000 connections and who therefore do not qualify for R-FiT payments.

3.2 Electricity retailing in South Australia

The retailers participating in South Australia, and the other jurisdictions in the National Electricity Market (**NEM**), offer customers **Market Offers** in addition to the **Standing Offers** that they are required to as part of the National Electricity Customer Framework (**NECF**), arising under the NERL. Under the NERL regime, each electricity retailer must have a Standing Offer available to small customers on request. The price of Standing and Market Offers are set by the retailers.

This Review focuses only on competitive Market Offers as an indicator of competition in the electricity market. Standing Offers are not included in the analysis for this report, as they are not competitive offers.

At 1 October 2016, the electricity market in South Australia was served by 17 retailers. Of those retailers, 13 offered an R-FIT as part of their Market Offers to residential solar customers and 12 offered an R-FiT with Market Offers to small business customers. The R-FiTs offered ranged between the minimum amount of 6.8 cents per kWh (offered by six residential and seven small business retailers) and 12 cents per kWh (offered by one residential retailer). An additional four retailers participated in the South Australian retail electricity market, but three did not have solar customers, and therefore did not offer an R-FiT, while one retailer offered only a Standing Offer (and no Market Offer), which included an R-FiT of 6.8 cents per kWh. This information is almost unchanged since the analysis undertaken for the Draft Report. During that period one retailer, Energy Australia, increased its R-FiT from 6.8 to 8.2 cents per kWh, while another retailer, Powerdirect, reduced its R-FiT from 8.0 to 6.8 cents per kWh.

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15 SAPN, Annual Pricing Proposal 2015/16, Revised Version 2.0. 26 June 2015, p. 13, available at https://www.aer.gov.au/system/files/SA%20Power%20Networks%20Pricing%20Proposal%202015-16%20v2.0.pdf.

3.3 Components of a solar customer's bill

There are three main elements of a solar customer's electricity bill:

- the cost of each kWh of electricity sold to the customer
- the supply (or 'fixed') charge, and
- the R-FiT (and D-FiT if applicable) – this amount is subtracted from the sum of the first two.

Electricity retailers may offer various discounts, which differ from retailer to retailer. As all of these elements vary between offers, the offer with the highest R-FiT may not necessarily be the best offer for all solar customers, as the best value for each customer depends upon that customer's usage and power export patterns.

3.4 Regulation of the R-FiT

The regulation of the R-FiT in South Australia differs in some ways from the other major jurisdictions in the NEM, as detailed in Appendix 1, which may be summarised as follows:

New South Wales

- In New South Wales, the equivalent of the R-FiT is a non-binding range, which is set by the Independent Pricing and Regulatory Tribunal (IPART) and is currently 5.5 to 7.2 cents per kWh.
- In the broader electricity market, full retail contestability was introduced in New South Wales in 2002, but it was not until 1 July 2014 that price regulation for electricity was removed.[16]
- With both a deregulated retail electricity market and unregulated R-FiTs, the Commission considers that the New South Wales market is a useful guide as to potential market outcomes in South Australia, should the Commission cease to prescribe a minimum price for the R-FiT.

Victoria

- A minimum FiT is determined by the Essential Services Commission of Victoria (ESC Vic). For 2016, the minimum FiT is 5.0 cents per kWh.
- Full retail contestability was introduced for small customers in Victoria in January 2002, with the removal of electricity price regulation in January 2009.[17]
- Given the similarities between the regulation of electricity markets and FiTs between Victoria and South Australia, the Commission has included Victorian market information in its comparisons between regulated and unregulated solar PV markets.

South East Queensland

- A minimum feed-in tariff has not been mandated since 1 July 2014.
- The electricity market in South East Queensland (SEQ) is open to full retail contestability and retail prices were deregulated from 1 July 2016.
- Consequently, SEQ provides the Commission with another indication of the possible outcomes in South Australia, should it allow a competitive market to set the R-FiT in South Australia.

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16 AEMC, *Final Report: 2015 Retail Competition Review: Final Report*, 30 June 2015, p. 90.

17 AEMC, 2015, p. 153.

3.5 R-FiT in the context of the broader electricity market

Retail electricity prices in the broader electricity market in South Australia were deregulated on 1 February 2013, and each AEMC review of competition conducted since then has found that the market continues to be competitive. In the context of that market, the R-FiT is unusual, as it represents the only component of the electricity market in South Australia that remains subject to a form of price regulation. Unlike other components of competitive retail electricity offers to solar customers, the retailer does not have full flexibility to determine the R-FiT value, nor the flexibility to deliver customer benefits through innovative ways to recognise the benefit of fed-in electricity – they must use a tariff to do so.

This highlights a potential weakness of the prescription of a minimum R-FiT value as a regulatory tool. In the context of an otherwise deregulated electricity price, retailers can modify other pricing parameters (that are not subject to price regulation) to offset the impact of offering at least the minimum price for the R-FiT to its solar customers.

Additionally, a minimum price for the R-FiT might not reflect the true value of a solar customer to every retailer. There may be different costs and benefits to retailers from serving solar customers which are not reflected in a single minimum price for the R-FiT.

Similarly, the benefits to solar customers is also not homogenous and must be considered in the context of the total electricity offer, and not considered only in isolation. For example, it is important to note that the greatest benefit to solar customers of a PV unit is avoided electricity purchases. Solar customers save the full retail price of any energy consumed from their PV unit, whereas the benefit of exporting that energy (received through the R-FiT) reflects the wholesale cost of electricity only. The incentive created by the 44 cents per kWh D-FiT is different, as the benefit to customers from exporting energy is greater than the value to customers of consuming it.

4 Analysis and conclusion

The Commission's Final Decision is:

- Not to make a determination of the minimum price for the R-FiT for calendar year 2017,
- To continue to monitor the retail electricity market for solar customers in South Australia and require retailers to publish information that clearly discloses the R-FiTs that they must make available to solar customers, and
- To consider the re-introduction of a more direct form of regulation for the R-FiT at a future time, should evidence arise that it is in the long-term interests of consumers to do so.

The Commission's decision is based on its assessment of all of the evidence discussed in the preceding chapters and the appendices of this Report, as well as consideration of the issues raised in submissions. No single piece of evidence has been determinative in the Commission's decision to regulate or to not regulate the R-FiT for 2017. Some evidence may support regulation of the minimum R-FiT price while other evidence may not. The Commission's decision takes into account the totality of the evidence, including prevailing and likely future market conditions, and reflects the Commission's view of the outcome that will best serve South Australian consumers' long term interests.

As summarised below, the combination of analysis of the costs and benefits of setting the minimum R-FiT price, and evidence relating to retail competition in South Australia, particularly in comparison to other jurisdictions, indicates that removal of the minimum R-FiT price is more likely to promote consumers' long-term interests than retaining it.

4.1 Costs and benefits of setting a minimum R-FiT

The Commission's Final Decision takes into account the costs and benefits associated with having a minimum price for the R-FiT, as outlined below:

Benefits

- Solar customers are assured of receiving at least the mandatory minimum R-FiT, regardless of retailer.
- Customers who do not wish to engage with the market to procure the best deal, can rely on the presence of a minimum R-FiT.

Costs

- Retailers may adjust the costs of other components of a bundled offer, such as the supply charge or electricity price, in response to a change in the minimum R-FiT. In this scenario, there may be no net benefit to the customer. (Whether this is a benefit or a cost depends upon customers' consumption profiles).
- A mandatory minimum R-FiT price may be an impediment to innovation in the market, such as time of use tariffs and time of export R-FiTs. Although having a minimum price for the R-FiT does not necessarily preclude innovation, in order to enable it, the regulator must be able to foreshadow the innovations and the appropriate regulatory response. This requires the regulator to be one step ahead of the market, and carries risks if it is not.

- Retailers have argued that the minimum price for the R-FiT imposes direct compliance costs on retailers, who may need to adjust all their existing offers whenever the minimum R-FiT price is raised (retailers already paying more than the minimum may continue to have compliant offers, without adjustment, if the new minimum price for the R-FiT remains lower than that being offered by the retailer). The Commission notes that retailers have not substantiated the amount of those costs.
- There is also a risk that the Commission could set the R-FiT price above or below the true value of electricity fed in to the grid which, as explained previously, could impose costs on consumers.
- Retailers tend to offer at or near the minimum R-FiT price and are not encouraged to explore the real value of fed-in solar electricity, or to devise innovative offers which incorporate different R-FiT levels.

Although these costs are not easily quantifiable, the evidence from interstate jurisdictions shows that the R-FiT market functions well in the absence of regulation, as outlined in Appendix 2. In the unregulated jurisdictions of New South Wales and SEQ, solar customers continue to receive substantially the same benefits as customers in the regulated jurisdictions of Victoria and South Australia do. In all of these jurisdictions, irrespective of regulation, solar customers receive similar access to discounts, similar choice of offers and similar charging frameworks as non-solar customers. All solar customers receive access to an R-FiT which is more closely aligned to the cost of electricity than anything else, indicating that, without a mandated R-FiT, retailers and regulators are each going through a similar process in assessing the value of the minimum price for the R-FiT.

4.2 Assessment of competition in the South Australian market

Based on the evidence, the Commission has found that solar customers in South Australia are experiencing similar market outcomes to non-solar customers and to solar customers in other jurisdictions. In particular, the evidence shows that solar customers are not disadvantaged in the choice of offers available to them, and that the discounts that apply to solar offers are broadly in line with those for non-solar offers. There is evidence of price differentiation in South Australian electricity offers for solar customers, despite the current mandated minimum R-FiT price. Consequently, although there is no evidence that the mandated minimum R-FiT price is detrimental to solar customers, there is also no evidence that they are better off with it. The original perceived need for setting it, at the time of a regulated market, is no longer apparent and, therefore, there is likely to be a better regulatory approach.

The similarities between solar and non-solar offers, the apparent absence of any monopolistic pricing behaviour in other deregulated NEM jurisdictions, and the evidence obtained and summarised in the AEMC competition reviews support the Commission's position that regulation of the minimum R-FiT price is not presently the best means by which to protect consumers' long-term interests.

Although the measures of competition have yielded results similar to those presented in the 2015 Determination, the Commission has had the benefit of additional time to observe the competitive retail electricity markets in South Australia and other major jurisdictions in the NEM.

4.2.1 The 2016 AEMC Retail Competition Review

The 2016 AEMC Retail Competition Review (2016 Review) found that competition was effective in retail electricity markets in Victoria, South Australia, New South Wales and SEQ, based on a wide range of evidence.[18] This was consistent with the findings of its 2015 Review.

[18] AEMC, *Final Report: 2016 Retail Competition Review: Final Report*, 30 June 2016, page i.

AEMC's terms of reference required it to rely on objective measures and analysis and to provide comment on NEM-wide issues affecting retail competition. The extensive review drew on numerous data sources including publicly available data, information from stakeholders via submissions, meetings and data requests, as well as through consultants engaged to collect qualitative and quantitative information. The review findings encompass competition for solar customers.

The 2016 Review highlights the dynamic nature of the electricity retail market, with technological changes providing retailers with opportunities to provide new services that align with consumer preferences.

The 2016 Review provided the Commission with some assurance that the South Australian electricity retail market is competitive, which incorporates competition for solar customers.

In contrast to the findings of that review, a more recent report prepared by Bruce Mountain for GetUp! questioned the level of competition in the retail electricity market in South Australia based on estimates of retailer margins.[19] Submissions to this review have referenced that report as evidence that competition for solar customers is not effective and continued regulation of the minimum R-FiT is warranted.

However, it is important to note that the author of that report expresses caution about re-introducing retail price regulation as a policy response to the issues identified.[20] The Commission, therefore, does not interpret that report as supporting continued regulation of the minimum R-FiT.

4.2.2 Assessing competition for solar customers

The assessment of the level of competition in the market is based upon multiple sources of evidence from within the NEM, including the AER, the Victorian Government, Australian Energy Market Operator (AEMO) and SAPN. A particular focus is on the comparison between the South Australian market and those other jurisdictions in the NEM, that were assessed by the AEMC as being competitive,[21] being New South Wales, Victoria, and SEQ.

The Commission's assessment is set out in full in Appendix 2. A summary of that assessment is provided below.

4.2.3 Incidence of minimum payments

The Commission has considered the extent to which retailers are offering R-FiT amounts above the minimum set by the Commission. A variety of offerings may be indicative of a competitive market, particularly where there are offers above the minimum amount. However, the Commission stresses that focussing on R-FiT amounts alone does not reveal the full value of a market offer to a solar customer; it is equally important to consider the purchase price of energy offered by a retailer.

The Commission has found that, of the 13 retailers with offers to residential solar customers, six offer the minimum R-FiT of 6.8 cents per kWh, including two of the largest three retailers in the market, being AGL and Origin (which account for 66 percent of the small customer market)[22]. Energy Australia (10 percent) has raised its R-FiT from the minimum to 8.2 cents per kWh (refer Table 4-1). Competition in the form of higher R-FiT payments is provided by the smaller retailers; particularly newer retailers in

[19] Mountain, B., "Australia's retail electricity markets: Who is serving whom?", August 2016, available at https://d68ej2dhhub09.cloudfront.net/1879-Australia%27s_retail_electricity_markets_Bruce_Mountain_FINAL.pdf.

[20] Mountain, B., "Australia's retail electricity markets: Who is serving whom?", August 2016, p. 25.

[21] AEMC, Final Report: 2016 Retail Competition Review: Final Report, 30 June 2016, p. 133

[22] See AER, *South Australia – small customers*, available at http://www.aer.gov.au/retail-markets/retail-statistics/south-australia-small-customers.

the market. For example, the highest R-FiTs are available from Urth Energy with 10 cents per kWh[23] and Click Energy with 12 cents per kWh. These retailers began operating in South Australia in December 2015 and January 2016 respectively.

Table 4-1: R-FiT paid by electricity retailers in South Australia

Retailer	R-FiT (c/kWh)
AGL	6.8
Alinta Energy	6.8
Click Energy (residential only)	12.0
Commander Power & Gas	7.0
Diamond Energy	8.0
Dodo Power & Gas (residential only)	7.0
EnergyAustralia	8.2
Lumo Energy (SA)	7.0
Momentum Energy	6.8
Origin Energy	6.8
Powerdirect	6.8
Simply Energy	6.8
Urth Energy	10.0
ERM (small business only)	6.8

This result compares with eight of 13 electricity retailers offering the minimum R-FiT at 30 June 2014 and five at 31 October 2014.[24]

The importance of this evidence is that retailers are offering differentiated prices to consumers and the diversity of market offers, including R-FiT offers, is a healthy indicator of a competitive market.

Submissions from the Australian Energy Council, AGL, Simply Energy and Origin stated that, as part of a bundled competitive offer, the absence of a mandatory minimum R-FiT would be beneficial to solar customers, enabling greater consumer choice through product diversity. For example, Origin Energy's submission stated:

> *The level of the feed-in tariff is only one element for customers to consider when choosing a retailer. Some customers may place a high store of value on the level of a feed-in tariff, while others with solar may emphasise a preference for other features of energy products (such as a discount or fixed pricing for their energy supply). The Commission may be concerned that retailers, in a deregulated market, might offer consumers a rate that is lower than what might have been the mandated minimum. However, a retailer in these circumstances may choose to offer customers a low feed-in tariff in conjunction with highly competitive electricity tariffs and discounts. A customer in South*

[23] Customers who install a new PV unit with an installer approved by Urth Energy can access a FiT of 20 cents per kWh for up to 25 percent of the generation capacity of the installed unit, under the terms of the UrthFIT20 offer. Any exports in excess of that amount receive a 10 cent per kWh FiT (refer http://www.urthenergy.com.au/client_images/1811857.pdf).

[24] The Commission's, 2015-2016 Retailer Feed-in Tariff, Final Price Determination Statement of Reasons, December 2014, p. 45, available at http://www.escosa.sa.gov.au/library/20141216-Electricity-RetailerFeed-inTariff-StatementofReasons.pdf.

Australia that uses, rather than exports, most of its electricity would in fact benefit from this if a retailer is offering a lower electricity tariff and/or higher discount than the general market. Retailers may benefit from purchasing the solar electricity at a lower than expected rate but equally if the customer does not export much energy then they benefit from the low electricity tariffs.[25]

The Commission agrees that the R-FiT component should not be considered in isolation from the other components of electricity offers, in assessing the competitiveness of the South Australian market.

However, as two of the three largest retailers are offering the minimum R-FiT price, eight out of 10 South Australian solar customers are receiving only the minimum R-FiT.[26] Weighted by market share, the average R-FiT paid in South Australia is 7.0 cents per kWh. To extend Origin's argument above, it would appear that 80 percent of customers value a lower electricity tariff above a higher R-FiT. Solar customers do have options though. Competition in the R-FiT sector is provided by the new entrants to the market – for example, the highest R-FiT payments of 10 and 12 cents per kWh are offered by retailers that entered the market in December 2015 and January 2016 respectively. On the available evidence (compared with other jurisdictions), it is not possible to conclude that regulation of the R-FiT has a material net effect, beneficial or otherwise, on the R-FiTs that would otherwise be offered in a competitive market.

An additional argument in favour of not setting the minimum R-FiT price, presented by Energy Australia in its submission to the Issues Paper, is that it will allow additional flexibility for the market to respond to impending technological advances. This includes the need to respond more quickly to increasing household battery storage systems, and the proposed rollout of more cost reflective network tariffs.[27] For example, under time-of-use tariffs, retailers may require the flexibility to adjust not only the price of electricity, but the value of the R-FiT, depending upon the supply and demand for electricity at a given time. The Commission accepts that the potential future market (new technologies and tariff structures including time-of-use pricing), particularly with reference to cost reflective tariffs, may add an element of risk if the regulatory arrangements do not keep up with product innovation.

The Commission has balanced evidence of availability of R-FiT offers against evidence indicating that the majority of customers are choosing electricity retailers that only offer an R-FiT at the minimum level. There may be various reasons for that outcome, such as other aspects of the market offer being attractive to customers, brand loyalty or customers remaining 'sticky' to existing offers.

As outlined above, a minimum R-FiT offer is not necessarily symptomatic of a lack of competition, as it is only one component of an electricity offer. Setting a minimum R-FiT may give retailers an incentive not to determine a competitive R-FiT value or payment arrangement which may be of benefit to customers (that is, it may discourage efficiency and innovation). In its submission, Origin Energy stated that:

In any event, we believe that a mandated minimum price may artificially limit the diversity of offers because it creates a focal point around which the market converges.[28]

However, the mixed evidence presented above does not, on its own, lead the Commission to any firm conclusion about the extent of competition for solar customers.

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25 Origin Energy's submission, p. 2, , available at http://www.escosa.sa.gov.au/library/20160426-2016-R-FiTReviewIssuesPaperSubmission-OriginEnergy.pdf.

26 The Commission analysed market share data provided to it by AEMO.

27 See Energy Australia, submission to the Issues Paper, p. 1, available at http://www.escosa.sa.gov.au/library/20160426-2016-R-FiTReviewIssuesPaperSubmission-EnergyAustralia.pdf.

28 See Origin Energy's submission, p. 2, available at http://www.escosa.sa.gov.au/library/20160426-2016-R-FiTReviewIssuesPaperSubmission-OriginEnergy.pdf.

4.2.4 Incidence of best priced market offers available to solar customers

The Commission found that the majority of retailers were making their best priced market offer available to solar customers (11 of 13 retailers with best priced offers to residential solar customers and 10 of 12 retailers provide their best offers to small business solar customers). However, the largest retailer, AGL, was not among them. AGL has 44 percent of the total number of solar customers in South Australia. Overall, 43 percent of solar customers are with retailers that make their best offers available to solar customers.

In comparison to this analysis, previous analysis done for the 2015 Determination showed that half (six of 12) of retailers made their best offers available to solar customers.[29] In 2013 of the 10 retailers with offers to solar customers, eight made their best offers available.[30] This shows that, over time, although the proportions of retailers making their best offers available to solar customers varies, it is generally the majority, and the total number of retailers participating has been steadily increasing.

This evidence shows that most retailers are not discriminating between solar and non-solar customers when offering their best prices. However, similar to the previous indicator, the availability of best price offers does not translate directly into customers exercising their choice to take up those offers. The Commission is faced with similar mixed evidence in this case.

4.2.5 Evidence from other jurisdictions in the National Electricity Market

The Commission investigated the offers available in other jurisdictions in the NEM, with a particular focus on New South Wales and SEQ, where there are no binding R-FiTs, and Victoria, where the market is most similar to the current market in South Australia. The Commission compared these offers with corresponding data from South Australia.

4.2.5.1 Switching rates of solar and non-solar customers

The Commission looked at switching rates in 2014[31] and has updated its analysis for this report. Switching rates were also investigated by the AEMC in its review of competition, on an Australia wide aggregate basis, although they were calculated on a different basis (survey based rather than historic data).

The evidence from this indicator is inconclusive, for the following two reasons:

- the AEMC found switching rates to be higher for solar customers than non-solar customers, while the results of the Commission's analysis were the other way around, and
- high switching rates can be interpreted as either an indicator of healthy competition, or an indicator of customers' dissatisfaction with their retailers.

4.2.5.2 Offers available to solar v non-solar customers

A comparison with the jurisdictions without a minimum R-FiT equivalent shows a similar high level of availability of the best electricity price offers to solar customers.

In SEQ, the electricity prices associated with the offers without a R-FiT were generally not competitive with those that did offer one (in Queensland the highest price offer was the one without the R-FiT). In New South Wales, the lowest price offer included a R-FiT, while the four retailers paying zero R-FiT, and

[29] The Commission's, 2015-2016 Retailer Feed-in Tariff: Final Price Determination – Statement of Reasons, December 2014, p. 29, available at http://www.escosa.sa.gov.au/library/20141216-Electricity-RetailerFeed-inTariff-StatementofReasons.pdf.

[30] The Commission's, Retailer feed-in tariff: Final Price Determination – Statement of Reasons, December 2013, p.40, available at http://www.escosa.sa.gov.au/library/131217-RetailerFeed-InTariff-StatementofReasons-FinalPriceDetermination.pdf.

[31] The Commission's, 2015-2016 Retailer Feed-in Tariff, Final Price Determination Statement of Reasons, December 2014, p. 45, available at http://www.escosa.sa.gov.au/library/20141216-Electricity-RetailerFeed-inTariff-StatementofReasons.pdf.

the five not marketing to solar customers, all had their best offers at or above the average. This provides an indication that solar customers are not discriminated against in the availability of best offers, despite the absence of a regulated R-FiT.

4.2.5.3 Discounts offered for solar and non-solar offers

In addition to setting fixed and variable electricity prices, electricity retailers commonly offer various discounts to their headline prices, in order to attract and retain customers. In making a determination in relation to the effectiveness of competition in the market, the Commission has analysed the level of discounting for solar and non-solar offers from retailers with offers for solar customers, in jurisdictions where the R-FiT is regulated (South Australia and Victoria) and in jurisdictions where the R-FiT is not regulated (New South Wales and Queensland). Offers from companies which do not provide offers to solar customers were excluded from this analysis, in order to obtain a true assessment of any differences.

The analysis found that all retailers with offers to both solar and non-solar customers, offer the same discount for both types of customers. In New South Wales and Queensland, retailers without any offers to solar customers do not offer any discount at all, although in Victoria, such retailers offered the average discount. The overall level of discounting is shown to be higher in Victoria than it is in the other major NEM jurisdictions.

This analysis suggests that the level of discount offered to solar customers is not compromised where the R-FiT is not mandated.

4.2.5.4 Comparison of R-FiTs

Table 4-2 provides a comparison of the size and range of R-FiT payments across NEM jurisdictions.

Table 4-2: Residential R-FiT statistics across the NEM (market offers attracting a FiT, cents per kWh)

State	Average	Range	Lowest	Highest
South Australia	7.7	5.2	6.8	12.0
Victoria	6.5	5.0	5.0	10.0
New South Wales	5.3	10.0	0.0*	10.0
Queensland	5.5	10.0	0.0*	10.0

*This includes retailers that do not offer a FiT to solar customers. In South East Queensland, two retailers with offers to solar customers do not offer a FiT, while in New South Wales four companies with offers to solar customers do not offer a FiT. If these companies are not included, the average in Queensland rises to 6.5 cents per kWh, and in New South Wales, to 6.7 cents per kWh. In New South Wales, the largest three retailers, with 89 percent of the small customer market, pay either 6.0 or 6.1 cents per kWh. In Queensland as a whole, the largest two retailers pay 6.0 cents per kwh (figures for South East Queensland are not available).

This analysis indicates that jurisdictions that do not have a minimum price for the R-FiT continue to produce offers with R-FiTs similar to those found in regulated jurisdictions, but also allow greater consumer choice through a wider range of R-FiTs offered. Further detail of this analysis is presented in Appendix 2.

4.3 Consideration of submissions to this review

Submissions to the R-FiT review were mixed. Owners of PV units and those involved in the solar industry see benefits in maintaining a minimum R-FiT, while energy businesses and those representing the wider energy consumer group consider that the minimum R-FiT should not be mandated.[32]

The Draft Report invited responses from stakeholders and the Commission received 623 submissions – 611 of which formed part of a campaign organised by the Solar Citizens Group, and which were not in favour of the Draft Decision not to set a minimum R-FiT. Of the remaining 14 submissions (two of which were confidential), nine were in favour of the Draft Decision.[33]

Those submissions that have argued against the Draft Decision to cease setting the minimum R-FiT have raised the following key concerns:

- competition in the South Australian retail electricity market is not competitive and continuation of the minimum R-FiT is, therefore, required
- there not evidence from other jurisdictions that solar customers have benefited from absence of a minimum R-FiT
- a mandated R-FiT does not inhibit innovation by retailers if it is possible to facilitate time-of-use tariffs while maintaining a minimum R-FiT, and
- removing the minimum R-FiT is inconsistent with the principles agreed by the Council of Australian Governments (COAG).

Those submissions are discussed in more detail below.

4.3.1 Competition in the South Australian retail electricity market

The submission from the advocacy group Solar Citizens questioned the draft finding of a competitive retail electricity market in South Australia, which the Commission based on the AEMC's 2016 Review of Retail Competition. The basis of the submission was a report by consultant Bruce Mountain, of Mark Intell, on behalf of the social advocacy group GetUp, who found that:

- In New South Wales, Victoria, South Australia and Queensland, where the retail market is deregulated (including with respect to price), the 'big three' retailers (AGL, Origin Energy and Energy Australia) are earning profit margins that are substantially higher (two to three times more) than those in the Australian Capital Territory, where the market is contestable but regulated retail pricing remains.
- The retail margin in Australia's deregulated markets is also twice as high as a proportion, and three times as high as an amount, compared with that in Britain – a country where the retailers have also been accused of misusing market power.
- In Australian jurisdictions where retailing of electricity has been fully deregulated, charges for retailing electricity (excluding network charges) far exceed the cost of generating it. In South Australia, Bruce Mountain argues it is double the cost of generation.

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32 Submissions to all stages of the review of R-FiT regulatory arrangements are available on the Commission's website, at http://www.escosa.sa.gov.au/projects-and-publications/projects/electricity/electricity-retailer-feed-in-tariff-review-of-regulatory-arrangements/sa-electricity-retailer-feed-in-tariff-review-of-regulatory-arrangements.

33 Submissions can be viewed at http://www.escosa.sa.gov.au/projects-and-publications/projects/electricity/electricity-retailer-feed-in-tariff-review-of-regulatory-arrangements/sa-electricity-retailer-feed-in-tariff-review-of-regulatory-arrangements. Campaign submissions do not appear individually, but their content was broadly consistent with the submission from Solar Citizens.

- The average margins for the big three retailers, and the average of the big three's best offers, in each deregulated jurisdiction are substantially higher than the average margins of the three cheapest offers in the market.

Based on the findings of Bruce Mountain's report, Solar Citizens argues that the South Australian electricity retail market is not competitive and there is no basis for removing the minimum price for the R-FiT. The Commission does not accept the argument that high margins measured at any point in time are indicative of a lack of competition. Solar Citizens has used the report to draw a conclusion that Bruce Mountain himself does not draw.

It is important to recognise that competition is a dynamic process and taking a snapshot of the level of competition at a particular time does not provide the full picture of the effectiveness of competition overall.

The submission from the Clean Energy Council stated that:

> *Competition in the South Australian electricity market is far weaker than in NSW. Deregulation in South Australia is therefore likely to be even less successful than the New South Wales experience.*

Although it is acknowledged that the South Australian market is the smaller of the two, the evidence of a lack of competition is not discussed in the submission, and not consistent with other evidence the Commission has relied upon.

The Clean Energy Council submission called for feed-in tariffs that are technology neutral, time varying and location specific. While aspects of technology neutrality are a matter for legislation and, therefore, outside the direct control of the Commission (and is also raised in submissions from Australian Gas Networks and APA Group), the Commission recognises the potential value of all these attributes. Further, in not setting a minimum R-FiT, the likelihood of achieving these attributes is enhanced.

Not setting a minimum R-FiT where the legislation refers to eligible solar customers, allows retailers to focus on the benefit of fed-in electricity. The value to a retailer is not dependent upon the source of the electricity – solar, or battery, or something else, but may depend upon the time of day and location of the fed-in electricity. In the absence of regulatory settings for the R-FiT, retailers may develop more flexible offers which recognise the value of fed-in electricity, dependent upon time and location but irrespective of the source of generation.

The submission from Backroad, a consultant to a consortium of solar interests, highlighted the analysis in the draft report showing that nine out of ten solar customers are receiving the minimum R-FiT of 6.8c/kWh. It argued that this is indicative of a lack of competition, stating that:

> *there is not much evidence that setting the R-FiT at 6.8c rather than the projected mean value of 9.05c has encouraged retailers to "compete above the floor".*

It is evident that many retailers are setting R-FiT to align with the minimum price. This could be seen as evidence of those retailers not actively competing for solar customers, or it could be that the retailers are using other aspects of market offers (eg, energy tariff discounts) to attract solar customers. Solar customers receive a far greater benefit from discounted energy rates that they do from increased feed-in tariffs and evidence discussed in the draft report indicated that retailers are generally offering the same tariff discounts to solar customers as they are to non-solar customers. It therefore cannot be concluded that setting the R-FiT at the minimum price is indicative of a lack of competition.

The calculation of the R-FiT is based upon the spot prices prevailing at the times when solar energy is most likely to be produced, adjusted for network losses. It is possible that, although it is set at the 90th percentile, this may still be too high for some retailers who may be able to procure electricity at a lower price, perhaps through their own generation facilities.In addition, the presence of the minimum price for the R-FiT creates a 'focal point' problem, whereby it becomes acceptable for retailers to simply set the R-FiT at an amount that has been 'endorsed' by the regulator. The Commission has examined the focal point problem extensively when it was responsible for regulating electricity standing contract prices and found that regulated prices can inhibit price differentiation and innovation by retailers, thereby limiting customer choice.[34]

4.3.2 Experiences in other jurisdictions

The Solar Citizens' submission disputed the Commission's draft finding that deregulation of the R-FiT in New South Wales and Queensland had not disadvantaged solar customers. It pointed to analysis conducted by the Alternative Technology Association (ATA) after the deregulation of electricity prices in New South Wales in 2012. The analysis showed that, of the 14 retailers active in the market, eight offered no FiT and only four offered a FiT within IPART's recommended range. The ATA also estimated that 80 percent of residential electricity customers were not offered a FiT rate within IPART's recommended range. Solar Citizens also pointed out that the Commission's 2016 analysis of the New South Wales market reveals that, of the 22 active retailers in the market, five retailers made no offers to solar customers at all, four offered zero cents FiT and 13 retailers offered a FiT of at least the IPART minimum benchmark.

The Clean Energy Council similarly stated that:

> *The NSW experiment has failed. Not one electricity retailer is paying the amount that the Independent Pricing and Regulatory Tribunal (IPART) has determined is the financial gain to Standard Retailers. Of the 22 retailers in NSW only 13 offer the value that IPART has determined should be the minimum payment, recognising the energy value of the electricity.*

Both the Solar Citizens and Clean Energy Council submissions drew on this evidence to support their positions that ceasing to regulate a minimum R-FiT would leave solar customers worse off.

The Commission tends to view the IPART approach of publishing a non-binding range as a form of regulated R-FiT, as it is clearly creating an incentive for energy retailers in New South Wales to set an R-FiT at the minimum amount published by IPART. This presents the same focal point problem as does the Commission's current approach.

It is expected that the absence of any benchmark R-FiT (even a non-binding benchmark) would encourage retailers to make their own assessments of R-FiT value, rather than simply adopt the amount published by the regulator. This is an important incentive that the IPART approach does not deliver.

The fact that four of 22 active retailers in New South Wales do not pay an R-FiT is seen as evidence by Tindo Solar that customers there are being 'ripped off', and that 'In South Australia, we need to protect the consumer from this practice'. However, as not all solar customers have the same requirements, the Commission does not regard this as market failure. There may be other elements of offers from those four companies that solar customers find attractive and if there are not, there are offers from another 18 retailers which may suit the customer more satisfactorily.

[34] Professor George Yarrow, from the Regulatory Policy Institute Oxford, developed the application of the focal point problem to price regulation (see http://www.aemc.gov.au/Media/docs/Prof%20Yarrow%20Report-80834941-a50a-4bcd-8b0c-184b30791b18-0.pdf).

4.3.3 Is the mandated R-FiT a barrier to innovation?

The Commission's Draft Report argued that setting a minimum R-FiT may stifle innovation, by discouraging time-of-use feed-in tariffs or other forms of price innovation. Many submissions supported that argument. For example, the Energy and Water Ombudsman of South Australia (EWOSA) submitted that the removing the minimum price for the R-FiT may encourage retailers to offer a greater variety of offers, which may encourage customers to switch to a more suitable market contract for their own circumstances. It added that removing the minimum R-FiT may lead to additional complaints from customers, at least initially, but it nevertheless agreed that solar customers are likely to be better off without the minimum R-FiT

The Commission agrees that the minimum price for the R-FiT may limit retailers' thinking. As submitted by EWOSA, retailers should be encouraged to differentiate products and prices as it provides customers with a greater ability to seek out an offer that best accommodates their needs. Providing consumers with the right information to allow them to exercise that choice will be an important function for regulators, including the Commission through its monitoring approach.

The submission from Backroad Connections Pty Ltd, on behalf of Energy Consumers Australia,[35] suggested that a minimum price for the R-FiT need not be an impediment to innovation in the retail market, and pointed to a proposal by the ESC which recommends that:

> *If an electricity retailer is able to offer a FiT that fully reflects the half hourly prices in the wholesale market, and the distributed generator provides express and informed consent when accepting that tariff option, then any retailer's obligation to offer regulated multi-rate FiT rates should be suspended for the duration of that agreement*.

The Commission accepts that such an arrangement would allow the flexibility to embrace new technologies within a regulated R-FiT framework. However, the other problems associated with having a minimum price for the R-FiT would remain, such as the amount becoming the default R-FiT for retailers. The costs associated with the establishment of the minimum R-FiT would also remain.

The interstate experience indicates that some (very few) retailers do cease to offer an R-FiT. If this is coupled with lower offer prices, this does not indicate a lack of competition – rather, increased options for customers. Otherwise, dropping the R-FiT may be done by retailers who are not seriously competing for solar customers. However, solar customers represent roughly a quarter of all customers (and growing), which is increasingly difficult for retailers to ignore.

However, the value of exported solar energy does provide a benefit to retailers and that benefit should accrue to solar customer, whether it is through an R-FiT or some other means.

Another form of innovation that is currently developing is 'solar as a service', whereby retailers maintain ownership and maintenance responsibility of PV units, but offer the benefits of the energy produced to consumers via reduced energy tariffs. The minimum price for the R-FIT may inhibit innovations of that nature as the benefit of exported energy must be delivered through a feed-in tariff rather than through some other means. Removing the minimum price for the R-FiT may encourage further innovations of those types of offers, which can assist customers with the high up-front capital costs of PV units.

Finally, it is noted that submissions from Australian Gas Networks (AGN), Australian Pipeline Limited (APA) and the Clean Energy Council argued for a technology neutral approach to feed-in tariffs. As discussed in the draft report, the legislation is clear that the R-FiT scheme only applies to PV units. (The legislation did not contemplate battery storage). Suggestions for the R-FiT to apply more broadly is not

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[35] Backroad Connections Pty Ltd, Submission in response to the ESCoSA draft decision: Retailer feed-in tariff – Review of regulatory arrangements of July 2016, 16 September 2016, available at http://www.escosa.sa.gov.au/projects-and-publications/projects/electricity/electricity-retailer-feed-in-tariff-review-of-regulatory-arrangements/sa-electricity-retailer-feed-in-tariff-review-of-regulatory-arrangements.

possible within the existing legislative framework. However, the minimum R-FiT is the only non-network energy price component that is currently regulated, and removing the minimum price would allow retailers more freedom to price its suite of energy products without regulatory constraint, which would enhance consumer choice.

4.3.4 Consistency with COAG principles

The submission from Backroad stated that the draft decision is not consistent with the COAG Revised National Principles for feed-in tariff arrangements (COAG 2013), which states that:

"*Governments agree that residential and small business consumers with grid connected micro generation should have the right to export energy to the electricity grid and market participants should provide payment for exported electricity which reflects the value of that energy in the relevant electricity market and the relevant electricity network it feeds in to, taking into account the time of day during which energy is exported.*"

While the submission argues that this COAG principle supports maintaining a minimum price for the R-FiT, Commission staff do not see any conflict between the principle and the proposed removal of the minimum price for the R-FiT. There would only be a conflict if, absent an obligation to offer a minimum R-FiT, retailers chose to not offer any benefit for exported energy. Evidence from other jurisdictions presented in the Commission's draft report indicates that retailers are likely to still offer a benefit, which is consistent with the COAG principle. This is supported by submissions from retailers. For example, AGL's submissions states that it 'will continue to provided competitive feed-in rates if there is no minimum R-FiT in South Australia'. In addition, as argued in the Commission's Draft Report, the removal of the minimum price for the R-FiT may encourage innovation by retailers, including by providing greater freedom to develop time of day feed-in tariffs, which would be even more consistent with the COAG principle.

Having regard to all submissions received, the Commission remains of the view that the key reason for continued regulation of the minimum R-FiT would be in circumstances where there is a high likelihood – absent regulation – that solar customers would not continue to be able to access appropriate reimbursement from retailers for any energy exported.

5 Implementation of the Final Decision

Following the proposed removal of the minimum price for the R-FiT, the Commission will continue to monitor the progress of the market as part of its general powers under the ESC Act and. The expectation of the Electricity Act is that retailers will recognise the benefit of fed-in electricity by solar customers. If sufficient evidence emerges that this benefit is not being recognised, the Commission may then determine that it is necessary and appropriate to re-introduce a minimum R-FiT price, following a further period of consultation. Subject to consultation with stakeholders, the Commission would use the same framework for monitoring and analysing future developments in the competitive market as it used in this review.

The Commission does not propose to publish a non-binding R-FiT range as occurs in New South Wales. If the Commission were to publish a non-binding R-FiT range, it may encourage electricity retailers to set amounts that are consistent with the published range, potentially limiting customer choice and tariff innovation by retailers. The Commission's proposal to cease setting the minimum R-FiT price is aimed at addressing that problem. Publishing an R-FiT range would also involve the Commission incurring direct costs in establishing annual forecasts of wholesale electricity costs in order to set the benchmark range. The costs of that approach are therefore likely to outweigh the benefits.

While it is important for customers to have access to information to enable them to make informed purchasing decisions, customers are currently able to access information comparing available electricity offers, including R-FiTs, through the Australian Energy Regulator's price comparison service, Energy Made Easy (EME).[36]

In addition, the Commission publishes information each year on movements in electricity market offer bills for typical residential and small business customers in South Australia. In future this will, include movements in retailer R-FiTs and other information as outlined below. That information assists consumers to participate in the competitive market.

Were to be re-introduced, the Commission would make an assessment as to the form of regulation, given that R-FiTs are a small component of an otherwise deregulated market

The 2016 Determination expires on 31 December 2016, with the new arrangements to take effect from 1 January 2017.

After 1 January 2017, the regulation of the R-FiT will take the form of monitoring the progress of the market, with the proviso that the minimum R-FiT may be reintroduced if that is in the long-term interests of consumers.

It would be unreasonable to use a different set of measures in any decision to remove the minimum R-FiT compared to any decision to reintroduce it. Many submissions, including those from energy retailers, supported the Commission's proposal to monitor the market to ensure that consumers' interests are served.

The ability of the Commission to step back into actively setting a minimum R-FiT, subject to the monitoring undertaken, provides a level of assurance that the long-term interests of consumers will not be compromised. Indeed, the possibility that the Commission could resume setting a minimum R-FiT is likely to provide retailers with an incentive to offer competitive contracts to solar customers.

The monitoring regime, and the triggers for reintroduction of the minimum R-FiT, are as follows.

36 www.energymadeeasy.gov.au.

5.1 Monitoring regime

The Commission will consult with key stakeholders before finalising the format of the monitoring regime. However, the proposed initial format is as follows.

The information collected through monitoring will include:

- comparison of the range of R-FiT prices available and any product and price differentiation implemented by retailers (each retailer's R-FiTs will be published at least annually).
- comparison of offers available to solar customers with those available to non-solar customers, to check that solar customers are not being unfairly discriminated against.

These two measures are most relevant to analysis of the solar market. Information on customer switching rates will not be included as it is difficult to draw any conclusions from switching rates (high switching rates can be seen as indicative of healthy competition or customer dissatisfaction).

Relevant data will be collected quarterly, and analysis will focus of trends rather than point-in-time outcomes, consistent with the nature of the competitive process.

Monitoring results would be publicly available, and published on the Commission's website, possibly as part of the annual energy price-monitoring report.

In addition, the Commission will ensure that retailers publish information that clearly discloses the R-FiTs that are available, to assist solar customers in making choices between electricity offers. This information may be published in the price fact sheets that are required for each of a retailer's electricity offers. The Commission will consult on the details of the disclosure requirements as part of its consultation on the R-FiT monitoring and reporting regime in the first half of 2017.

5.2 Trigger points to re-establish R-FiT price regulation

As the Commission will focus on trends, a single quarter's data may alert the Commission to a potential issue, but a consistent pattern will need to be established.

Potential trigger points include:

- No access for solar customers to an R-FiT which reflects the average wholesale cost of power at the relevant NSLP over the previous three months. (Note that not every offer will reflect this, but solar customers should, within the mix of offers available, have the choice.)
- Lack of access for solar customers to offers with discounts similar to those available to non-solar customers.

The Commission will provide the opportunity for stakeholders to comment on this market monitoring, which will be included in the Commission's annual report on movements in energy retail prices, published by 31 August each year.

Appendix 1: Comparison with other NEM jurisdictions

Full retail contestability (FRC) exists within all jurisdictions within the NEM. The NEM covers South Australia, New South Wales, Victoria, Queensland, Tasmania and the Australian Capital Territory. Under FRC, customers have the ability to enter a contract with a retailer of their choice. Although the contracts vary, the legislated customer protection frameworks for jurisdictions in the NEM,[37] require that all retailers incorporate minimum terms and conditions to their contracts.[38] As a result, there is some consistency in the regulatory landscape across the NEM, allowing interstate comparisons to be made, at least with respect to electricity retailing in general. Any differences between pricing outcomes for customers in different states are, therefore, not due to differences in customer protection frameworks, but to individual market characteristics, such as the wholesale cost of power, or distribution charges. One notable difference between South Australia, New South Wales and Victoria on the one hand, and SEQ on the other, is the existence of regulated pricing in the latter (until 30 June 2016). This may, potentially, affect the scope for monopolistic behaviour among retailers, The Commission has tested for this in its measures of competition, as outlined in Appendix 2.

While the regulation of some aspects of electricity retailing is consistent across these markets, the following section highlights that there is no such consistency with respect to the regulation of R-FiTs within these markets.

New South Wales

In New South Wales, the equivalent of the R-FiT is referred to as the 'subsidy-free value of electricity from small-scale PV units'. Rather than set a minimum value, the regulator, IPART, recommends a range of values.[39] It is not compulsory for retailers to adhere to this band, or even to offer a feed-in tariff at all. The current benchmark range is 5.5 to 7.2 cents per kWh (excluding GST).[40] The rationale adopted by IPART in publishing this range is that it assists solar customers in deciding whether to install a PV unit and to compare market offers. The subsidy-free feed-in is valued on the basis of the lowest 25th percentile wholesale electricity costs on a net metered basis. A net meter exports electricity to the grid only after the customer's own power usage needs have been met. South Australian solar customers are also assessed on a net metered basis.

The equivalent to the D-FiT in New South Wales is a subsidy scheme referred to as the Solar Bonus Scheme (SBS). Customers cannot receive both the SBS and the unsubsidised feed-in tariff. If a customer receives the SBS, the retailer is required to make a contribution to the cost of it (in 2016-17 this is 6.1 cents per kWh[41]) with the remainder funded by a levy included in retail electricity prices. The value of this contribution is based on the wholesale electricity costs on a gross metered basis, as customers receiving the SBS have gross meters, where all electricity generated by the customer is 'exported'. It differs from the most likely unsubsidised value as that is based upon the value of PV exports at all times. That is, it includes shoulder periods where customers with net meters would be consuming their own power and not exporting.

37 South Australia, New South Wales, and Queensland operate within the NECF, established under the NERL. Victoria has a broadly similar regulatory framework, administered by the ESC Vic.

38 See AER, State of the energy market 2015, 4 February 2016, p. 127.

39 IPART has the discretion to apply either a range or a specific value for the R-FiT under the Electricity Supply Act 1995 No 94, section 43ECB (4)(a).

40 IPART, solar feed-in tariffs – retailer contribution and benchmark range from 1 July 2016, Energy Determination, June 2016, p. 4, available at http://www.ipart.nsw.gov.au/files/sharedassets/website/shared_files/pricing_reviews_-_section_9_-_publications_-_review_of_solar_feed-in_tariffs_from_1_july_2016/determination_-_solar_feed-in_tariffs_-_retailer_contribution_and_benchmark_range_from_1_july_2016_-_june_2016.pdf.

41 IPART, solar feed-in tariffs – retailer contribution and benchmark range from 1 July 2016, Energy Determination, June 2016, p. 3.

As the unsubsidised benchmark range has never been compulsory[42], FiTs in New South Wales are essentially unregulated. Retailers are free to offer a feed in tariff, or an offer combination, as they see fit. Of the 22 retailers contesting the residential market at 31 March 2016, 17 had offers available for solar customers and of these, 13 saw the value in offering at least the minimum benchmark. Therefore, four retailers with offers to solar customers in New South Wales chose not to offer an unsubsidised FiT, and a further five retailers did not provide offers to solar customers at all.

As stated above, the New South Wales regulator (IPART) does not mandate a minimum R-FiT, allowing it to be set by the market. In the view of IPART,[43]

> *…a competitive market is the best way to provide the fair value for PV exports, and the market should determine the fair value of PV exports via competition. Customers will shop around to obtain a better deal to maximise their return on the investment for their PV exports, and retailers which do not offer competitive prices will lose customers to other retailers.*
>
> *Mandating feed-in tariffs could preclude retailers from offering different tariffs such as time-of-export tariffs, leading to fewer offers that consumers can choose from. Fixing minimum feed-in tariffs at a certain level will provide retailers with less incentive to innovate to reduce the costs associated with solar customers and offer competitive prices*.

In the broader electricity market, full retail contestability was introduced in New South Wales in 2002, but it was not until 1 July 2014 that price regulation for electricity was removed.[44] With both a deregulated retail electricity market and unregulated R-FiTs, the Commission considers that the New South Wales market is a useful indicator of the potential market in South Australia, should the Commission cease to prescribe a minimum R-FiT.

Victoria

In Victoria there are 16 electricity retailers with a combined 176 offers to residential solar customers.[45] An additional five retailers offer market contracts to non-solar customers only. Similar to the current arrangements in South Australia, a minimum FiT is determined by the ESC Vic. For 2016, this was set at 5.0 cents per kWh (excluding GST)[46]. Five of the 16 retailers offer only the minimum FiT while the rest offer more, with one retailer offering 10 cents per kWh.

Given the similarities between the regulation of electricity markets and FiTs between Victoria and South Australia, the Commission has included Victorian market information in its comparisons between regulated and unregulated solar PV markets.

Full retailer contestability was introduced for small customers in Victoria in January 2002, with the removal of electricity price regulation in January 2009.[47]

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42 IPART, solar feed-in tariffs: setting a fair and reasonable value for electricity generated by small-scale solar PV units in New South Wales – Final Report, March 2012, p. 3, available at http://www.ipart.nsw.gov.au/Home/Industries/Electricity/Reviews/Retail_Pricing/Solar_feed-in_tariffs/14_Mar_2012_-_Final_Report/Final_Report_-_Solar_feed-in_tariffs_-_March_2012.

43 IPART, solar feed-in tariffs: the subsidy-free value of electricity from small-scale solar PV units in 2015-16, October 2015, p. 13.

44 AEMC, Final Report: 2015 Retail Competition Review, 30 June 2015, p. 90.

45 Sourced from Victorian Energy Compare, available at https://compare.switchon.vic.gov.au/welcome accessed 21 April 2016.

46 See ESC Vic, Minimum Electricity Feed-in Tariff to apply from 1 January 2016 to 31 December 2016, p. 1, available at http://www.esc.vic.gov.au/getattachment/93edcf18-1659-4518-9057-eee1215bf194/Minimum-Electricity-Feed-in-Tariff-to-apply-from-1.pdf.

47 AEMC, Final Report: 2015 Retail Competition Review, 30 June 2015, p. 153.

The ESC Vic is in the process of reviewing the FiT arrangements in Victoria, including consideration of the social and environmental benefits of distributed solar generation although deregulation is not on the agenda.[48] The Commission notes that social and environmental considerations have never fallen within the remit of the South Australian R-FiT scheme.

Queensland

Solar feed-in tariff arrangements vary between South East Queensland (**SEQ**) and regional Queensland. In SEQ, individual retailers determine the value of the feed-in tariff they will offer their solar customers as part of their competitive offers.[49] A minimum feed-in tariff has not been mandated since 1 July 2014,[50] as the market in SEQ was considered by the Queensland Competition Authority (**QCA**) to be sufficiently competitive to sustain an unregulated feed-in tariff.[51]

The SEQ residential electricity market is contested by a total of 12 retailers. Of those with offers to solar customers, nine offer a voluntary FiT and one does not offer a FiT to its solar customers. A further two retailers do not have offers available for solar customers.

The absence of a set minimum feed-in tariff in SEQ, together with the presence of full retail competition (albeit with continued price regulation),[52] provides the Commission with another indication of the possible outcomes in South Australia, should it allow a competitive market to set the R-FiT in South Australia.

In SEQ, the Queensland Productivity Commission (**QPC**) has found that the level of retail competition appears to be effective in providing a range of feed-in tariffs and other options for solar consumers – and is providing a fair price for solar exports.[53]

In contrast, regional Queensland does not have a competitive retail electricity market with one retailer, Ergon Energy (a Queensland Government owned corporation) selling electricity at the Queensland Government's Notified Prices. (In some areas customers are able to choose a different retailer, though the prices are still regulated). In regional Queensland, a minimum feed-in tariff continues to be set by the Queensland Competition Authority (**QCA**). In 2015-16 this was set at 6.348 cents per kWh (excluding GST) and was consistent throughout regional Queensland, despite varying transmission and distribution losses between different regions.[54] For 2016-17 the same methodology was used, but the minimum feed-in tariff was increased to 7.448 cents per kWh, reflecting higher wholesale electricity costs.[55]

As a fully regulated market, regional Queensland does not provide a useful comparison with South Australia for the purposes of this review. In South Australia, the SAPN-operated grid penetrates to most of the regional South Australian population. Therefore, the retail electricity market in regional

[48] ESC Vic, The energy value of distributed generation, April 2016, p. 15, available at http://www.esc.vic.gov.au/getattachment/cd3592be-a6c0-466a-8eb5-02302e5adffa/Distributed-Generation-Inquiry-Draft-Report-Energy.pdf.

[49] Queensland Productivity Commission, Draft Report, Solar feed-in pricing in Queensland, March 2016, p. xi, available at http://www.qpc.qld.gov.au/files/uploads/2016/03/Solar-Draft-Report-FINAL.pdf.

[50] Queensland Productivity Commission, Draft Report, Solar feed-in pricing in Queensland, March 2016, p. 143.

[51] QCA 2013, Estimating a reasonable solar feed-in tariff for Queensland, March 2013, p. v, available at http://www.qca.org.au/getattachment/c83a068e-daf7-4d5a-ab94-10a1f4aafe62/Final-Report.aspx.

[52] AEMC, Final Report: 2015 Retail Competition Review, 30 June 2015, p. 49.

[53] QPC, Draft Report, Solar feed-in pricing in Queensland, March 2016, p. xiv, available at http://www.qpc.qld.gov.au/files/uploads/2016/03/Solar-Draft-Report-FINAL.pdf.

[54] QCA, Final Report, Solar feed-in tariff for regional Queensland for 2015-16, June 2015, p. 5, available at http://www.qca.org.au/getattachment/fac48543-69c3-4029-9d41-161f67cf4330/Final-Report-2015-16-regional-feed-in-tariff-(cor.aspx.

[55] QCA, Final Report, Solar feed-in tariff for regional Queensland for 2016-17, May 2016, p. 5, available at http://www.qca.org.au/electricity/consumer/solar-feed-in-tariffs/final-report/2016-17-regional-feed-in-tariff#finalpos.

South Australia, in contrast to regional Queensland, is not distinct from the metropolitan market, with the same retailers and offers available.

Tasmania

The Office of the Tasmanian Regulator determines an annual minimum 'fair and reasonable value' for exported electricity. Retailers are free to offer more than this amount. The minimum R-FiT for 1 July 2016 to 30 June 2017 is 6.671 cents per kWh (excluding GST).[56] Despite introducing FRC from 1 July 2014,[57] effective competition does not yet exist as there is only one retailer, Aurora Energy, selling to small residential customers, and one retailer, ERM Business Energy, offering market contracts to all contestable business customers in Tasmania.[58]

Tasmania does not provide a relevant comparison with South Australia, as its retail market is not competitive.

Australian Capital Territory

The broader electricity retail market in Australian Capital Territory was opened up to FRC for small customers in 2002, but competition is limited with only three retailers participating. Notwithstanding the limited competition, in July 2011 regulation of FiTs ceased.[59] For retail electricity, price regulation remains, with prices determined by IPART.[60]As a consequence of electricity price regulation, the small number of market participants and the AEMC finding that the electricity market is not yet competitive, the Commission has not used the Australian Capital Territory as a benchmark for comparison in its analysis.

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56 Office of the Tasmanian Economic Regulator, Feed-in Tariffs, available at http://www.energyregulator.tas.gov.au/domino/otter.nsf/elect-v/30.

57 AER State of the energy market 2015, 4 February 2016, p. 127.

58 Office of the Tasmanian Economic Regulator – The power to choose, available at http://www.power.tas.gov.au/domino/powernew.nsf/v-lu-pages/Useful+Contacts?OpenDocument accessed 21 April 2016.

59 ACT Government, Current feed-in tariff rates for rooftop solar, Environment and Planning Directorate, available at http://www.environment.act.gov.au/energy/cleaner-energy/rooftop_solar.

60 AEMC, Final Report: 2015 Retail Competition Review, 30 June 2015, p. 128.

Appendix 2: Assessment of South Australian market competitiveness

The assessment of market competitiveness is based on multiple sources of evidence from within the NEM as outlined in the Issues Paper and summarised below. A particular focus is the comparison between the currently regulated South Australian and Victorian markets, and the New South Wales and SEQ markets, given that both of these markets have been deemed to be sufficiently competitive such that their FiTs are not subject to price regulation.

The Commission's decision to cease setting the minimum price for the R-FiT follows a lack of persuasive evidence to show that it would deliver net benefits to solar customers, compared with not setting the R-FiT. Therefore, the indicators of competition in South Australia as assessed in this report must be seen in comparison with other jurisdictions which do not have a minimum price for the R-FiT. Absolute measures will not show the benefits or otherwise of regulation; comparative measures will.

Sources and comparability of information

For the analysis performed in this chapter, retail electricity offer data were sourced from:

- the AERs energy comparison website, Energy made Easy (**EME**), for New South Wales, Queensland and South Australian data, and
- the Victorian Government's energy comparison website, Energy Compare – Switch On Victoria,[61] for Victorian data.

The methodology used for the Victorian website is different to EME, such that direct comparisons between Victoria and the other states are not always meaningful. However, data such as feed-in tariffs are directly comparable.

Further electricity offer information was sourced from the fact sheets which the retailers publish in respect to each of their retail offers.

The analysis focuses on the most competitive offers available from each retailer (including available discounts), for both solar PV offers and non-solar offers.

The share of the small customer retail electricity markets in each state are sourced from the AER.[62]

Switching rates were calculated using data provided by AEMO and SAPN, while information on AEMC's assessment of competition was drawn from its 2015 report[63] on electricity retail competition (**2015 Review**).

The Commission recognises that many of the measures of competition are based upon a limited dataset – for example, between 10 and 17 retailers have offers to solar customers in the main jurisdictions in the NEM. Therefore, no single piece of evidence, taken in isolation, has determined the outcome of this review.

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61 https//compare.switchon.vic.gov.au.

62 See AER, For example, New South Wales – small customers, available at http://www.aer.gov.au/retail-markets/retail-statistics/nsw-small-customers.

63 AEMC, Final Report: 2015 Retail Competition Review, 30 June 2015, available at http://www.aemc.gov.au/getattachment/56a8c56f-0aeb-48cc-9097-9f2b5e645428/Final-Report.aspx.

Factors used to assess competitiveness of the South Australian market.

In the Issues Paper, the Commission outlined the factors it proposed to examine in order to assess the competitiveness of the South Australian market. The factors are summarised as follows:

- incidence of minimum payment
- evidence from other jurisdictions
- switching rates from other jurisdictions, and
- the AEMC review of competition.

None of the submissions made in response to the Draft Paper raised concerns with the above factors. However, a submission from the advocacy group Solar Citizens contended that a report by energy expert Bruce Mountain, commissioned by advocacy group GetUp!, provided evidence of a lack of retail electricity competition across the NEM, and South Australia in particular. This report is discussed within chapter 4 – consideration of submissions to this review. The remaining factors are discussed in turn, below.

Incidence of minimum R-FiT payments in South Australia

Table A2 1 shows that at the start of October 2016, South Australia had 17 retailers participating in the electricity market. Of these, only three did not offer contracts to customers with solar PV installations. Of the 13 retailers with offers to residential solar customers, six offer the minimum South Australian R-FiT of 6.8 cents per kWh (rather than higher offers), including the largest two retailers in the market, being Origin and AGL. In addition, ERM Power, which supplies electricity to the business sector only, offered the minimum R-FiT of 6.8 cents per kWh.

Table A2 1: R-FiT paid by electricity retailers in South Australia

Retailer	R-FiT (c/kWh)
AGL	6.8
Alinta Energy	6.8
Click Energy (residential only)	12.0
Commander Power & Gas	7.0
Diamond Energy	8.0
Dodo Power & Gas (residential only)	7.0
EnergyAustralia	8.2
Lumo Energy (SA)	7.0
Momentum Energy	6.8
Origin Energy	6.8
Powerdirect	6.8
Simply Energy	6.8
Urth Energy	10.0[64]
ERM (small business only)	6.8

[64] Customers who install a new PV unit with an installer approved by Urth Energy can access a FiT of 20 cents per kWh for up to 25 percent of the generation capacity of the installed unit, under the terms of the UrthFIT20 offer. Any exports in excess of that amount receive a 10 cent per kWh FiT (refer http://www.urthenergy.com.au/client_images/1811857.pdf).

This compares with eight of 13 electricity retailers offering the minimum R-FiT at 30 June 2014 and five at 31 October 2014.[65]

The corollary is that seven of 13 retailers were competing for residential solar customers by offering an R-FiT payment higher than the minimum. As Simply Energy's submission states:

> *This indicates that, despite a regulated FiT, more retailers are differentiating their PV products and services. This provides further evidence of competition for PV consumers, which is sufficient to warrant a deregulation of the FiT*.[66]

Notably, South Australia's third largest retailer, Energy Australia, raised its R-FiT from 6.8 to 8.2 cents per kWh mid-2016, while Powerdirect lowered theirs from 8.0 to the minimum 6.8 cents per kWh.

As outlined above, an R-FiT set by a retailer at the minimum amount is not necessarily symptomatic of a lack of competition, as it is only one component of an electricity offer. Setting a minimum price for the R-FiT may, however, in itself imply a target, rather than retailers attempting to determine their own R-FiT market values. In its submission to the Issues Paper, Origin Energy stated that:

> *In any event, we believe that a mandated minimum price may artificially limit the diversity of offers because it creates a focal point around which the market converges*.[67]

Submissions from the Australian Energy Council, AGL, Simply Energy and Origin stated that, as part of a bundled competitive offer, deregulation of the R-FiT would be beneficial to solar customers, enabling greater consumer choice through product diversity. For example, Origin Energy's submission stated:

> *The level of the feed-in tariff is only one element for customers to consider when choosing a retailer. Some customers may place a high store of value on the level of a feed-in tariff, while others with solar may emphasise a preference for other features of energy products (such as a discount or fixed pricing for their energy supply). The Commission may be concerned that retailers, in a deregulated market, might offer consumers a rate that is lower than what might have been the mandated minimum. However, a retailer in these circumstances may choose to offer customers a low feed-in tariff in conjunction with highly competitive electricity tariffs and discounts. A customer in South Australia that uses, rather than exports, most of its electricity would in fact benefit from this if a retailer is offering a lower electricity tariff and/or higher discount than the general market. Retailers may benefit from purchasing the solar electricity at a lower than expected rate but equally if the customer does not export much energy then they benefit from the low electricity tariffs*.[68]

The Commission agrees that the R-FiT component should not be considered in isolation from the other components of electricity offers, in assessing the competitiveness of the South Australian market.

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65 The Commission's 2015-2016 Retailer Feed-in Tariff, Final Price Determination Statement of Reasons, December 2014, p. 45, available at http://www.escosa.sa.gov.au/library/20141216-Electricity-RetailerFeed-inTariff-StatementofReasons.pdf.

66 See Simply Energy's submission to the Issues Paper, p. 1, available at http://www.escosa.sa.gov.au/library/20160426-2016-R-FiTReviewIssuesPaperSubmission-SimplyEnergy.pdf.

67 See Origin Energy's submission to the Issues Paper, p2 2, available at http://www.escosa.sa.gov.au/library/20160426-2016-R-FiTReviewIssuesPaperSubmission-OriginEnergy.pdf.

68 Origin Energy's submission, p. 2.

However, as two of the three largest retailers are offering the minimum price for the R-FiT, eight out of 10 South Australian solar customers are receiving only the minimum R-FiT.[69] Weighted by market share, the average R-FiT paid in South Australia is 7.0 cents per kWh, barely above the minimum. To extend Origin's argument above, it would appear that 80 percent of customers value a lower electricity tariff above a higher R-FiT. Solar customers do have options though. Competition in the R-FiT sector is provided by the new entrants to the market – for example, the highest R-FiT payments of 10 and 12 cents per kWh are offered by retailers that entered the market in December 2015 and January 2016 respectively. On the available evidence (compared with other jurisdictions), it is not possible to conclude that regulation of the R-FiT has a material net effect, beneficial or otherwise, on the R-FiTs that would otherwise be offered in a competitive market.

An additional argument in favour of not setting the minimum price for the R-FiT, presented by Energy Australia in its submission to the Issues Paper, is that it will allow additional flexibility for the market to respond to impending technological advances. This includes the need to respond more quickly to increasing household battery storage systems, and the proposed rollout of more cost reflective network tariffs.[70] For example, under time-of-use tariffs, retailers may require the flexibility to adjust not only the price of electricity, but the value of the R-FiT, depending upon the supply and demand for electricity at a given time. The Commission accepts that the potential future market (new technologies and tariff structures including time-of-use pricing), particularly with reference to cost reflective tariffs, may add an element of risk if the regulatory arrangements do not keep up with product innovation.

Incidence of best priced market offers available to solar customers

Table A2 2 shows that a majority of retailers are making their best offers available to both solar and non-solar customers (including Origin but excluding AGL, who service approximately 20 percent and 46 percent of the South Australian electricity market respectively). In the case of AGL, the difference in discount results in solar customers with average consumption[71] (paying approximately $13 per year more than non-solar customers). Once weighted for market share of solar customers, fewer than half of customers are with a retailer which does not make its best priced offers available to solar customers – largely due to the significance of AGL's market share.

Table A2 2: Retailers making best offers available to South Australian residential and small business solar customers.

South Australian retailers	Is best market offer available to solar customers?	
	Residential	Small business
AGL	×	×
Alinta Energy	✓	✓
Click Energy	×	n/a
Commander Power and Gas	✓	✓
Diamond Energy	✓	✓
Dodo Power & Gas	✓	n/a

69 The Commission analysed market share data provided to it by AEMO.

70 See Energy Australia, submission to the Issues Paper, p. 1, available at http://www.escosa.sa.gov.au/library/20160426-2016-R-FiTReviewIssuesPaperSubmission-EnergyAustralia.pdf.

71 The average South Australian residential customer is assumed to purchase 5,000 kWh of electricity per year.

South Australian retailers	Is best market offer available to solar customers?	
	Residential	Small business
EnergyAustralia	✓	✓
Lumo Energy	✓	✓
Momentum Energy	✓	✓
Origin Energy	✓	✓
Pacific Hydro	n/a	n/a
Powerdirect	✓	✓
Qenergy	n/a	n/a
Red Energy	n/a	n/a
Simply Energy	✓	✓
Urth Energy	✓	✓
ERM	n/a	✓
Total of retailers with offers to solar customers	9 of 13	10 of 12

Table A2 2 provides evidence of competition in the market for solar customers, as 11 of 13 retailers provide their best offers to residential solar customers, while 11 of 12 retailers provide their best offers to small business solar customers. This evidence shows that most retailers are not discriminating between solar and non-solar customers when offering their best prices.

Unless there is evidence that solar customers cost more for a retailer to service than non-solar customers do, the Commission expects such customers to have access to offers that are comparable to non-solar customers. None of the submissions to the Issues Paper offered evidence of differing service costs.

The Commission notes that the current evidence on the availability of best offers to solar customers represents an improvement compared with the results of analysis done for the 2015 Determination, when half (six of 12) of retailers made their best offers available to solar customers.[72] In 2013 of the 10 retailers with offers to solar customers, eight made their best offers available.[73] This shows that, over time, although the proportions of retailers making their best offers available to solar customers varies, it is generally the majority, and the total number of retailers participating has been steadily increasing.

72 The Commission's 2015-2016 Retailer feed-in tariff: Final price determination – statement of reasons, December 2014, p. 29, available at http://www.escosa.sa.gov.au/library/20141216-Electricity-RetailerFeed-inTariff-StatementofReasons.pdf.

73 The Commission's Retailer feed-in tariff: Final Price Determination – Statement of Reasons, December 2013, p. 40, available at http://www.escosa.sa.gov.au/library/131217-RetailerFeed-InTariff-StatementofReasons-FinalPriceDetermination.pdf.

Evidence from other jurisdictions

The Commission investigated the offers available in other jurisdictions in the NEM, with a particular focus on New South Wales and SEQ, where there are no binding R-FiTs, and Victoria, where the market is most similar to the current market in South Australia. The Commission compared these offers with corresponding data from South Australia.

Offers available to solar versus non-solar customers

A comparison with the jurisdictions without a minimum FiT shows a similar high-level of availability of the best electricity price offers to solar customers, as indicated in the two tables below:

Table A2 3: Retailers making their best offers available to New South Wales residential and small business solar customers.

New South Wales retailers	Is best market offer available to solar customers?	
	Residential	Small business
1st Energy	n/a	n/a
AGL	✓	×
Alinta Energy	✓	n/a
Click Energy	×	×
Commander Power and Gas	✓	✓
Diamond Energy	✓	✓
Dodo Power & Gas	✓	n/a
EnergyAustralia	✓	✓
Lumo Energy	✓	✓
Mojo Power	✓	n/a
Momentum Energy	✓	✓
Next Business Energy	n/a	n/a
Origin Energy	✓	✓
Powerdirect	✓	✓
Qenergy	n/a	n/a
Red Energy	✓	✓
Simply Energy	✓	✓
Urth Energy	✓	✓
ERM	n/a	✓

New South Wales retailers	Is best market offer available to solar customers?	
	Residential	Small business
Total of retailers with offers to solar customers	14 of 15	11of 13

Table A2 4: Retailers making their best offers available to Queensland residential and small business solar customers

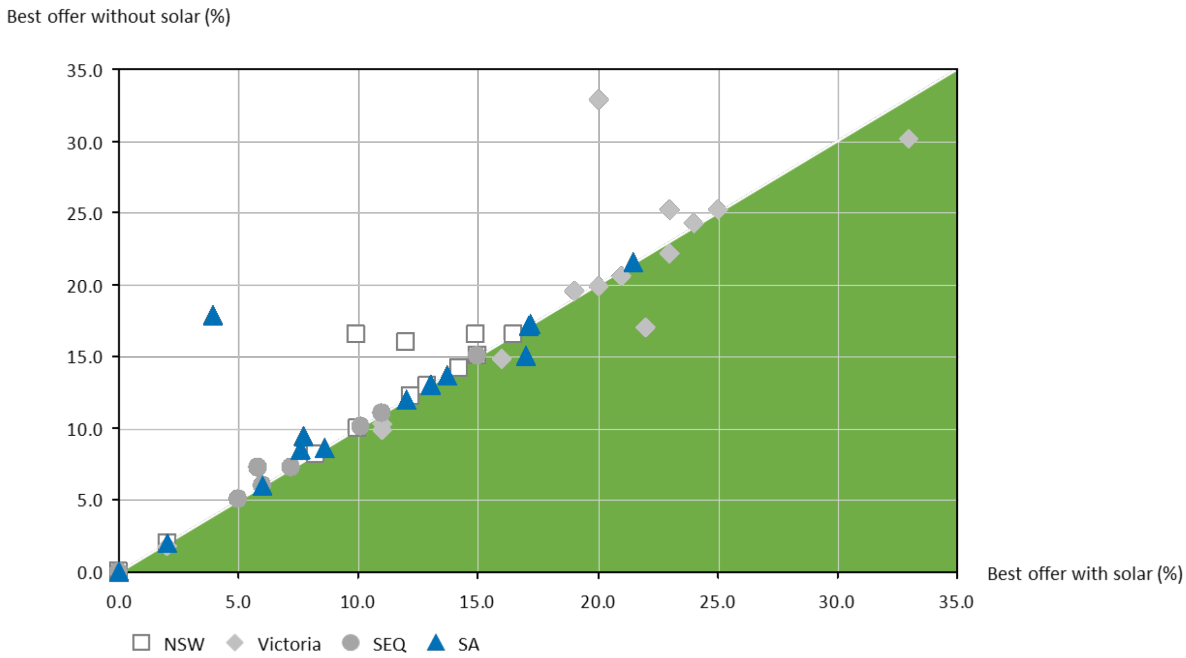
Queensland retailers	Is best market offer available to solar customers?	
	Residential	Small business
AGL	×	×
Click Energy	×	n/a
Diamond Energy	✓	✓
Dodo Power & Gas	✓	n/a
ERM Business Energy	n/a	✓
EnergyAustralia	✓	✓
Lumo Energy (Qld)	✓	✓
Mojo	×	n/a
Momentum Energy	✓	✓
Next Business Energy	n/a	n/a
Origin Energy	✓	✓
Powerdirect	✓	✓
QEnergy	n/a	n/a
Sanctuary	✓	n/a
Urth Energy	✓	✓
Qenergy	n/a	n/a
Simply Energy	✓	✓
Total of retailers with offers to solar customers	10 of 13	9 of 10

In SEQ, the electricity prices associated with the offers without a FiT were generally not competitive with those that did offer one (in Queensland the highest price offer was the one without the FiT). The one exception was the retailer, Covau, in New South Wales which, as calculated by EME, had the lowest price of all the offers and offered no FiT. This provides an example of potential product differentiation in the New South Wales market compared with that in South Australia, where a low priced offer without a FiT is not an option available to solar customers.

Discounts offered for solar and non-solar offers

In addition to setting fixed and variable electricity prices, electricity retailers commonly offer various discounts to their headline prices, in order to attract and retain customers. In making a determination in relation to the effectiveness of competition in the market, the Commission has analysed the level of discounting for solar and non-solar offers from retailers with offers for solar customers, in jurisdictions where the FiT is regulated (South Australia and Victoria) and in jurisdictions where the FiT is not regulated (New South Wales and Queensland) as shown in Figure A2.1. Offers from companies which do not provide offers to solar customers were excluded from this analysis, in order to obtain a true assessment of any differences.

Figure A2 1: Discounts offered for solar and non-solar offers



The diagonal line in the above figure represents those points on the matrix where the average discount offered to solar customers is identical to that offered to non-solar customers. Observations that fall in the green shaded triangle represent retailers that offer a higher discount to solar customers. Conversely, observations in the unshaded triangle represent retailers that offer better discounts to their non-solar customers.

As indicated in Figure A2 1, the majority of retailers offer the same discount for offers to solar customers as they do for non-solar customers. Of the retailers with different discount rates between the two customer classes, there are more retailers offering a larger discount to non-solar than to solar customers, particularly in New South Wales. The overall level of discounting is shown to be higher in Victoria than it is in the other major NEM jurisdictions.

The difference in average discount between offers for solar customers and those available to non-solar customers (from the same retailers) is very minimal, although in all cases the average discount to non-solar customers is marginally higher. For this analysis, it was assumed that non-solar customers would also be able to access the same offers as solar customers.

This analysis suggests that the level of discount offered to customers is independent of whether the FiT is regulated.

Comparison of R-FiTs

In jurisdictions without a binding minimum R-FiT, a comparison of the incidence of minimum R-FiT payments is not relevant. However, a comparison of the size and range of R-FiT payments is useful, as represented in the following table.

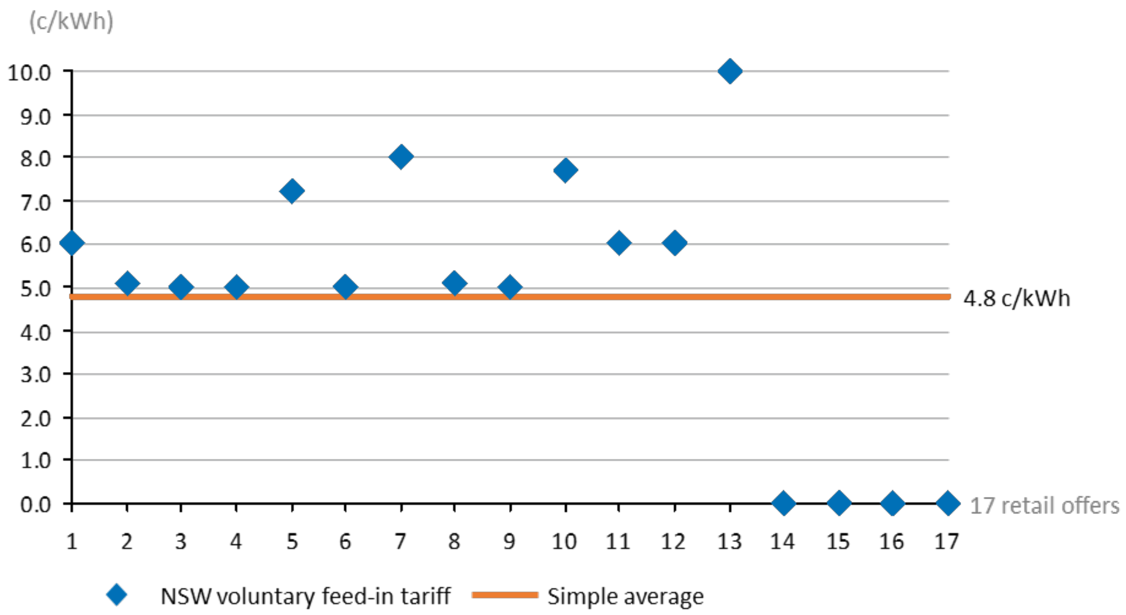
Table A2 5: Residential R-FiT statistics across the NEM (market offers attracting a FiT, cents per kWh)

State	Average	Range	Lowest	Highest
South Australia	7.7	5.2	6.8	12.0
Victoria	6.5	5.0	5.0	10.0
New South Wales	6.2	5.0	5.0*	10.0
Queensland	6.4	6.0	4.0*	10.0

*This represents the minimum among retailers that offer a FiT. In Queensland, one retailer with an offer to solar customers does not offer a FiT, while in New South Wales four companies with offers to solar customers do not offer a FiT. If these companies are included, the average in Queensland falls to 5.8 cents per kWh, and in New South Wales, to 4.8 cents per kWh.

The distribution of FiTs in New South Wales, South Australia, Victoria and Queensland is illustrated in the following four figures:

Figure A2 2: New South Wales voluntary feed-in tariff levels among retailers with offers available to solar customers



Note: The average of 4.8 cents per kWh indicated above is inclusive of the retailers who do not pay a FiT. The average among retailers that do pay a FiT is 6.2 cents per kWh.

Figure A2 3: South Australian R-FiT levels among retailers with offers available to solar customers

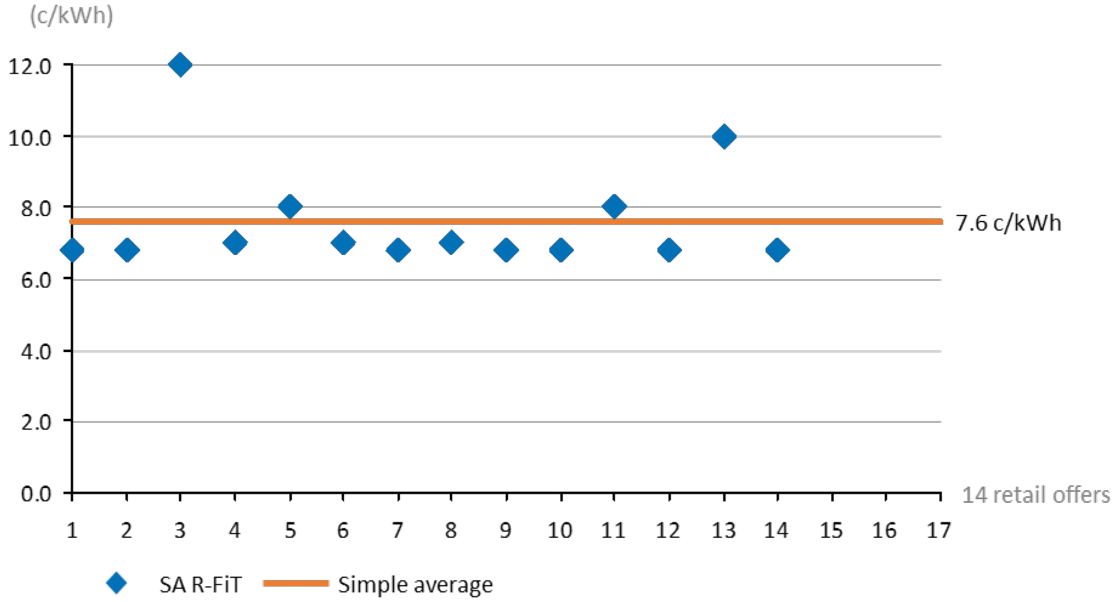


Figure A2 4: Victorian feed-in tariffs among retailers with offers to solar customers

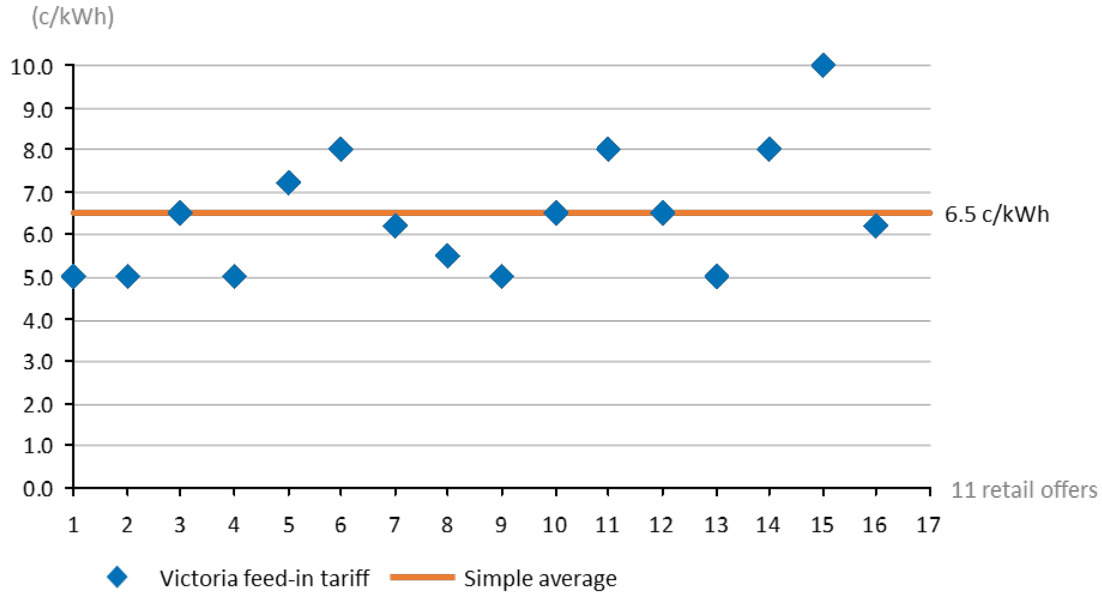


Figure A2 5: Queensland voluntary feed-in tariff levels among retailers with offers available to solar customers

Note: The average of 5.8 cents per kWh indicated above includes the one retailer which does not pay a feed in tariff on its solar offers. Of those retailers paying a FiT, the average is 6.4 cents per kWh.

This analysis indicates that jurisdictions that do not have a minimum price for the R-FiT continue to produce offers with R-FiTs similar to those found in regulated jurisdictions, but also allow greater consumer choice through a wider range of R-FiTs offered.

Switching rates of solar and non-solar customers

Switching rates may indicate the level of satisfaction that customers have with their electricity offers. However, switching rates can also be an indicator of the ease of swapping electricity provider, and the level of customer engagement within that market. They may also indicate the intensity of competition for customers. The Commission studied switching rates in 2014, based upon information from SAPN and the AEMO, which found that switching rates of solar customers were well below switching rates of non-solar customers, at that time.[74] This analysis showed that around 10 percent of solar customers had switched retailers within the previous 12 months, compared with around 23 percent of non-solar customers. The analysis was updated to March 2016 and confirmed that, for the preceding 12 months, customer switching rates for solar customers were again less than half of the rate for non-solar customers.

This evidence conflicts with the Australia wide switching outcomes presented in the AEMC 2015 Retail Competition Review (**2015 Review**) (referred to below), which found that solar customers were considerably more active in energy markets.[75] The AEMC survey found that 31 percent of solar customers had switched in the past 12 months, compared with 21 percent of non-solar customers.

74 The Commission's Retailer feed-in tariff – Final Price Determination – Statement of Reasons, December 2013, p. 44, available at http://www.escosa.sa.gov.au/library/131217-RetailerFeed-InTariff-StatementofReasons-FinalPriceDetermination.pdf.

75 AEMC, Final Report: 2015 Retail Competition Review, 30 June 2015, p. 7, available at http://www.aemc.gov.au/getattachment/56a8c56f-0aeb-48cc-9097-9f2b5e645428/Final-Report.aspx.

Although the results were inconsistent, as noted by the AEMC, high or low switching rates alone are not necessarily a sign of a well-functioning market.[76] It can be argued that high switching levels are indicative of customer dissatisfaction but, alternatively, they may indicate a well-informed and confident customer base, responding to better offers as they become available.

The AEMC survey suggests the latter as it found that, compared with non-solar customers, solar customers were more likely to have been approached by at least one energy retailer in the last 12 months, were more active in investigating their options, and expressed greater confidence to choose the right energy option.[77] Given the number of competing retailers and offers for both solar and non-solar customers, any barriers to switching do not relate to a lack of consumer choice, but more likely a lack of consumer awareness.

The Commission has therefore not identified any conclusive evidence from its review of switching rates, that lead to a conclusion that the market for solar customers in not competitive.

The AEMC retail competition reviews

Since 2014 the AEMC has undertaken a national retail competition review for electricity and gas markets. AEMC's terms of reference required it to rely on objective measures and analysis and to provide comment on NEM-wide issues affecting retail competition. The extensive review drew on numerous data sources including publicly available data, information from stakeholders via submissions, meetings and data requests, as well as through consultants engaged to collect qualitative and quantitative information.

The AEMC's 2016 retail competition review (2016 Review) found that competition was effective in retail electricity markets in Victoria, South Australia, New South Wales and SEQ. This was consistent with the findings of the 2015 review, which are summarised below.

The AEMC's 2015 Review found that customers in the NEM actively shopped around, particularly in Victoria, New South Wales and South Australia. Customers were less likely to switch in Queensland, reflecting a smaller number of retailers in that market and continued retail price regulation.

Overall, customer satisfaction with market outcomes was high, with the AEMC survey finding that between 0.1 and 3.0 percent (1.0 percent in South Australia) of customers making a complaint to the Ombudsman in 2013-14 across the NEM jurisdictions. The level of customer dissatisfaction with retailers was also regarded as low, at nine percent of surveyed respondents (6.0 percent in South Australia).

Barriers to entry were not found to impede competition in Victoria, South Australia and New South Wales. The AEMC's 2015 Review suggested that in SEQ, a barrier to entry was presented by wholesale electricity purchase costs and spot price volatility, combined with a preference among retailers to wait for retail price deregulation before expanding their market participation. Since the publication of the 2015 Review, the Queensland Government announced (in February 2016) that electricity prices in SEQ would be deregulated from July 2016, following a recommendation from the Queensland Productivity Commission.[78] The AEMC's 2016 review has subsequently found electricity retail competition in SEQ to be competitive.

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[76] AEMC, Final Report: 2015 Retail Competition Review, 30 June 2015,, p. 276.

[77] AEMC, Final Report: 2015 Retail Competition Review, 30 June 2015, p. 276.

[78] Australian Financial Review, Queensland to deregulate electricity prices, Mark Ludlow, 3 February 2016, available at http://www.afr.com/news/politics/electricity-price-deregulation-starts-in-qld-in-july-20160203-gmkhqz.

The degree of independent rivalry between retailers was found to be intensifying in the NEM, with second tier retailers continuing to gain market share from the 'big three' retailers (AGL, Energy Australia and Origin Energy).[79] Although second tier retailers still only have a combined limited market share (ranging from less than 10 percent in New South Wales and Queensland, 19 percent in South Australia, to 35 percent in Victoria, as at December 2014), the 2015 Review suggests that the large incumbent retailers are working harder to retain customers and attract new ones by improving their customer service and product offerings.

The AEMC also considered the extent to which retail energy prices are consistent in a competitive market, and found that in Victoria, New South Wales and South Australia, customers have a greater choice of retailers and plans, higher reported levels of customer activity and higher reported satisfaction with the level of choice available. It found that, in these jurisdictions:

- between 16 and 21 electricity brands are available to residents
- around 30 percent of customers shopped around for a better energy deal in the last 12 months
- around 60 percent were satisfied with the level of choice available
- a higher level of product differentiation is occurring, and
- customers were more confident they could choose the right energy deal than in other NEM jurisdictions.[80]

The level of choice available in Queensland was found to be slightly less, with 11 electricity retail brands. (By April 2016 this had risen to 13). A quarter of customers surveyed had shopped around for a better energy deal in the previous 12 months, while 48 percent were satisfied with the level of choice.

In contrast, the degree of rivalry in the Australian Capital Territory and Tasmania was more limited, with the Australian Capital Territory having three electricity retailers and 34 percent of customers satisfied with the level of choice, while in Tasmania there was only one retailer and 10 percent of customers satisfied with the level of choice.

On balance, the AEMC concluded that electricity retail competition was effective in New South Wales, Victoria, South Australia and South East Queensland.

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[79] AEMC, Final Report: 2015 Retail Competition Review, 30 June 2015, p. 24.

[80] AEMC, Final Report: 2015 Retail Competition Review, 30 June 2015, pp. 24-25

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