16 September 2016

Mr Angus Bruce
Regulatory Analyst
Essential Services Commission of South Australia
GPO Box 2605
ADELAIDE SA 5001

Business SA
Chamber of Commerce
and Industry South Australia

ABN 000 14 725 309 328
Level 1, 136 Greenhill Road
Unley South Australia 5061
T: +61 8 8300 0000

Working for your business.
Working for South Australia

Dear Mr Bruce

I write in response to your request for submissions on ESCOSA's draft decision on South Australia's regulated electricity retailer minimum solar feed-in tariff (R-FiT).

Executive Summary

- Business SA supports ESCOSA's draft decision to abolish South Australia's R-FiT on the basis of there being adequate market competition, including several market prices for minimum solar feed-in-tariffs set above the legislated minimum.
- Business SA has long advocated to abolish the R-FiT for lack of being convinced of a demonstrated market failure and we do not believe that R-FiT payments are a significant driver of investment decisions by businesses and residential consumers when investing in solar or associated battery storage.
- Given the need for South Australia to explore all options to ensure our transition to a low carbon future does not unnecessarily cost consumers, particularly employers, retailers cannot be constrained in the manner in which they set solar related tariffs to ensure that where possible, options such as aggregated battery storage programs can be progressed to offset a lack of competition for the provision of local baseload electricity.
- Business SA supports ESCOSA continuing to monitor minimum solar feed-in-tariffs and extending this monitoring function to electricity contract prices for business customers consuming above the small customer threshold of 160MWh per annum.

Should you require any further information or have questions, please contact Andrew McKenna, Senior Policy Adviser, on (08) 8300 0000 or andrewm@business-sa.com.

Yours sincerely,

Anthony Penney
Executive Director, Industry and Government Engagement

Australian Chamber of Commerce and Industry Member

SOUTH AUSTRALIA

Why this matter is important to South Australian businesses

As South Australia's Chamber of Commerce and Industry, Business SA is the peak business membership organisation in the State. Our members are affected by this matter in the following ways:

- After labour, electricity costs are the most significant concern for small business with the average small business electricity bill having doubled over the last decade from approximately $2,100 per annum to in excess of $4,250 per annum.[1]
- South Australia has the highest proportion of non-firm renewable generation in the National Electricity Market (NEM) and the withdrawal of Alinta's Northern Power Stations in May 2016 has put significant pressure on South Australia's wholesale electricity market, effectively leaving two key players to hedge the base-load electricity needs of industry.
- The benefits of any continued State Government intervention in the South Australian electricity market must outweigh its costs which are shared by all market participants, including small businesses.
- Business SA supports continued development of renewable energy storage technologies to ensure the needs of business and the economy more broadly can be met as South Australia and the nation transitions to a low carbon future.

Key Policy Points

1. In past submissions on the minimum solar feed-in-tariff, Business SA has consistently questioned the validity of ESCOSA's legislated minimum solar feed-in-tariff on the basis of whether the case for market failure was adequately substantiated. From our perspective, this is not about our support or otherwise for renewable energy, rather an argument of what constitutes good public policy and ensuring that the benefits of any market intervention outweighs the associated costs.

   The evidence set out in the issues paper and Energy Australia's recently advertised 8.2 cents per KWh solar feed-in-tariff offer demonstrates the South Australian retail solar market is paying in excess of the legislated minimum rate of 6.8 cents per KWh. Considering all electricity consumers still pay for consumers who benefit from the State Government's generous feed-in-tariff schemes, including business customers who by and large do not directly benefit, any future Government intervention which continues to underpin minimum solar feed-in-tariffs is not valid.

   Furthermore, new solar customers still benefit from their upfront capital costs being subsidised through the value of renewable energy certificates. Again, this benefit is paid for by all electricity consumers, including businesses, regardless of whether or not they have solar installed.

2. South Australia's wholesale electricity market has been increasingly volatile since Alinta announced it would close its Northern Power Stations in June 2015. Over the past 12 months, the effective contract peak energy rates for many Business SA members going to market have increased from approximately 6-7 cents per KWh to approximately 14-15 cents per KWh, reflecting a doubling of underlying wholesale electricity costs. Notwithstanding the variation in the component of total electricity costs for businesses attributable to generation, which can range from 40% up to 75%, the cost burden on South Australian business has been significant and not surprisingly, the recent Council of Australian Governments (COAG) meeting was squarely focused on ameliorating South Australia's high electricity costs.

[1] SA Power Networks TSS presentation – August 2016

3. Considering electricity prices have not been regulated in South Australia since 2013 and are no longer regulated in other key NEM jurisdictions, regulators have clearly demonstrated a recognition that optimal pricing outcomes come from deregulated markets. Furthermore, Victoria is the only other key NEM jurisdiction to maintain a regulated minimum solar feed-in-tariff and there is no continuing justification for South Australia to continue a legacy price regulation which constrains the potential of energy retailers to offer innovative solar tariffs, for example to remunerate customers for exports at times of peak demand.

   Business SA agrees with the views of New South Wales economic regulator, IPART, referenced in ESCOSA's draft decision:

   > '…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.'

4. Business SA acknowledges ESCOSA's assessment 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.'

   It is important to recognise this aspect of the argument to deregulate for it indicates the relativity of drivers which influence investment in solar panels and associated battery storage.

5. Business SA supports ESCOSA continuing to monitor the market for solar customers in South Australia and retaining the power to re-introduce regulation of a minimum R-Fit providing there is evidence that it is in the long term interests of consumers to do so.

   Furthermore, ESCOSA should extend its monitoring functions to cover contract electricity prices paid by large customers, particularly businesses which are not typically able to cost effectively or practically manage their exposure in the spot market but are above the small customer usage threshold of 160MWh per annum.

6. Business SA understands that new and innovative residential battery storage programs, such as that offered through SA Power Networks, are paying significantly above the minimum solar feed-in-tariff for electricity drawn from residential batteries which demonstrates the value being attributed to that electricity by the market place.