

6 November 2015

2016 Retailer Feed-in Tariff Price Determination
Essential Services Commission of South Australia
GPO Box 2605
Adelaide SA 5001

Submitted by email to escosa@escosa.sa.gov.au

2016 Retailer Feed-in Tariff Price Determination

Thank you for the opportunity to respond to the Amendments to the 2016 Retailer Feed-in Tariff Price Determination (the Paper).

Simply Energy is a leading energy retailer servicing Victoria, South Australia, New South Wales and Queensland. Simply Energy is a member of the Energy Retailer's Association of Australia (ERAA).

Simply Energy does not support regulated prices in competitive energy retail markets

In 2014 the Essential Services Commission of South Australia (ESCOSA) consulted on whether to continue regulating the retailer feed-in tariff (R-FiT) paid to South Australian consumers who export energy. Simply Energy's submission to that consultation stated that there is strong evidence, including from the Australian Energy Market Commission (AEMC), that there is effective competition in the electricity retail market in South Australia. Today, as in 2014, Simply Energy considers that feed-in payments are merely one component of the retail market, along with daily charges, demand charges, and usage charges, and that there is no justification for regulating one component (the R-FiT) of retailer offerings that include a number of components.

However, ESCOSA's 2014 decision regulated the R-FiT for 2 years, and Simply Energy has reviewed ACIL Allen Consulting's report to understand how it reflects the terms of ESCOSA's decision.

ACIL Allen Consulting's 6.8c minimum R-FiT is consistent with ESCOSA's determination

Simply Energy's review of ACIL Allen Consulting's 'Estimated Value of PV Exports Calendar Year 2016 Estimate From Market Modelling' report to ESCOSA indicates that ACIL Allen has met the terms of section 2.1.2, ESCOSA's price determination, when calculating the 6.8c 2016 minimum R-FiT rate.

Section 2.1.2 of ESCOSA's R-FiT price determination from December 2014 sets out how the 2016 minimum R-FiT is to be calculated.

2.1.2 On or before 31 December 2015, the Commission will:

- a) determine the value of a forecast net system load profile-weighted spot price for South Australia, based on:
 - i) a forecast of the wholesale spot price of electricity, based on the most recent electricity demand forecasts (energy and peak demand) published by AEMO and utilising the ACIL Allen PowerMark National Electricity Market Model (as in operation from time to time)*
 - ii) a forecast of the net system load profile (NSLP) for South Australia, having regard to recent observations of the NSLP as published by AEMO and the relationship between the NSLP load and the South Australian electricity consumption profiles for all customers using regression analysis, and**

- iii) a forecast of the total installed capacity of qualifying generators and total electricity to be generated by those qualifying generators*
- b) determine the value of avoided transmission and distribution network losses, utilising the relevant South Australian marginal loss factor published by AEMO and having regard to historic distribution loss factors for South Australia as published by AEMO*
- c) determine the value of National Electricity Market fees, based on the most recent actual fees published in AEMO's annual budget and ancillary services fees, having regard to previous actual fees, and*
- d) sum the values determined under clauses 2.1.2(a) to (c)(inclusive)*

A minimum R-FiT towards the lower end of the simulated range reflects ESCOSA's 2014 price determination

Section 2.1.2 of ESCOSA's price determination requires that the minimum R-FiT is based on an individual forecast value – the scope of the determination does not enable ESCOSA to set the 2016 minimum R-FiT based on a range of values. As a result, the simulations used to create the probability distribution of exported PV output are to support the determination of an individual forecast value, rather than to replace it.

Reflecting this approach, ESCOSA's 2014 price determination considered that the minimum R-FiT that was found to be at the lower end of the probability distribution created by the simulations was appropriate. For 2016 this means a minimum R-FiT of 6.8c.

In its Statement of Reasons for the 2015-2016 Retailer Feed-in Tariff Final Price Determination, ESCOSA provided the following reasons for a minimum R-FiT equivalent to the 90% probability of exceedance (POE) level of the simulated probability distribution:

- It improved on ESCOSA's previous approach that risked setting the minimum R-FiT higher than the actual value to retailers.
 - ESCOSA noted that it will be to the detriment of all South Australian energy consumers if the minimum R-FiT is set above the fair value to retailers. This was because ESCOSA considered that retailers may increase Standing Offer and Market Offer prices to subsidise the higher R-FiT payments.
- The impact on PV customers of setting a minimum R-FiT at the 50% POE level instead of the 90% POE level is immaterial. ESCOSA's customer impact analysis estimated this impact to be approximately \$3 per year for customers with large PV systems.
- The benefit of providing headroom for competition when determining regulated prices. ESCOSA refers to work carried out by the AEMC, that noted that effective competitive markets are in the long-term interests of consumers, and that headroom should be provided in regulated energy retail prices, to facilitate competition. ESCOSA also acknowledged that regulated prices are a second-best outcome compared with prices established by a competitive market.

In conclusion, while not supporting regulated retail prices, Simply Energy considers that the 6.8c R-FiT for 2016 is consistent with ESCOSA's 2014 price determination.

If you have any questions about this submission, please contact James Barton, Regulatory Policy Manager on (03) 8807 1171.

Yours sincerely

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