

30 October 2014

2015-2016 Retailer Feed-in-Tariff Draft Price Determination
Essential Services Commission of South Australia
GPO Box 2605
Adelaide SA 5001

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

Dear Sir/Madam,

RE: 2015-2016 Retailer Feed-in-Tariff Draft Price Determination

The Energy Retailers Association of Australia (ERAA) welcomes the opportunity to provide comments in response to the Essential Services Commission of South Australia's (the Commission) 2015-2016 Retailer Feed-in-Tariff Draft Price Determination (**the Draft Determination**).

The ERAA represents the organisations providing electricity and gas to almost 10 million Australian households and businesses. Our member organisations are mostly privately owned, vary in size and operate in all areas within the National Electricity Market (NEM) and are the first point of contact for end use customers of both electricity and gas.

The ERAA has outlined in previous submissions to the Commission that it views deregulated markets as best placed to determine the most appropriate, sustainable and economical value for the electricity that is produced and exported by photovoltaic (PV) units. Just as the deregulated South Australian energy market provides customers with choice in energy offers, a deregulated market for retail Feed-in Tariffs (R-FiTs) allows energy retailers to compete for customers who export electricity from solar PV.

We do not support a mandated minimum R-FiT as it introduces an asymmetric risk into retail energy markets. Should a minimum R-FiT be set too low (or not be set at all), retailers will compete to offer customers R-FiTs that best suit their needs. Should a minimum R-FiT be set too high, retailers will be forced to purchase exported energy at higher rates than could be purchased elsewhere. This outcome would not be consistent with the long term interests of South Australian consumers, particularly solar customers who may experience a reduction in competition and associated benefits.

Assessment of competition

The Draft Determination states that no new evidence has come to light since the Commission's 2013 review of R-FiT to suggest that deregulation is in the long-term interests of energy consumers.¹ The Commission based this decision on an assessment in a number of areas including the switching rate (Solar PV customers versus non-PV customers), incidents of market offers to PV customers, incidents of minimum and higher R-FiT payments and retailer offers in other jurisdictions.

¹ 2015-2016 Retailer Feed-in-Tariff Draft Price Determination Statement of Reasons, p.2



The ERAA's view is that the switching rate for solar PV customers has been suppressed due to the generous Distribution Feed-in-Tariffs (D-FiT) of \$0.44 Kwh and \$0.16 Kwh respectively. Whilst the D-FiT has been closed to new entrants, the vast majority of South Australian PV customers will continue to receive these subsidies until 2028 and 2016 respectively. A customer receiving a D-FiT has a lower propensity to be enticed by low rate energy offers due to their lower energy consumption. We note that the Draft Determination has also concluded that the solar PV's lower energy costs drive lower switching rates.² We therefore suggest to the Commission that a lower switching rate should be considered normal for solar PV customers until the subsidies outlined above conclude.

The Draft Determination outlines that nine of sixteen retailers offer their best market rates with their R-FiT offerings. This is a majority of retailers and also demonstrates the different retailer product strategies that are executed in the market. As noted above, customers with R-FiT generally have lower energy purchases from retailers and this will be reflected in retailer offerings to these customers. The ERAA is concerned that the Commission is setting an unrealistic benchmark for the penetration of market offers to assess competition.

We note that four retailers including the largest retailer AGL SA offer an R-FiT in excess of the minimum in South Australia.³ Retailers offer a premium rate for R-FiT due to the value that these individual customers represent to the retailer. The offering of premium rates to acquire and retain customers is a clear demonstration of a functioning competitive market.

A jurisdiction's energy retail market is influenced due to a number of factors including different regulatory and government policies. Retailers respond to these conditions with different strategies and approaches and therefore we view the comparisons between markets as challenging until impediments, including jurisdictional-specific regulation, are removed.

Review of decision to regulate

The ERAA does not support the proposal to continue regulating the minimum R-FiT for a further two years and to conduct a review in mid-2016, as it does not reflect the dynamic energy market in South Australia. Should the Commission decide to regulate for the 2015 year, the ERAA would support a review of the decision to regulate commencing in mid-2015 following an open and constructive consultation on the assessment criteria.

Final price determination

The Commission intends to make a final decision in December 2014 for a commencement date of 1 January 2015.⁴ On the assumption that the final decision is made at the start of the month, a maximum of four weeks will be allowed for retailers to manage this change. Retailers will be required during this time to update their tariff structures and systems as well as complete necessary testing.

We note the recent Australian Energy Market Commission's (AEMC) Distribution Network Pricing Arrangements Draft Rule Determination provides a minimum of six weeks for retailers to update their tariffs. The ERAA recommends that the Commission harmonise their timeframe with the AEMC's and provide a minimum of six weeks notification for retailers from the final decision to commencement date.

² 2015-2016 Retailer Feed-in-Tariff Final Price Determination Statement of Reasons p.37

³ Ibid, p.38

⁴ Ibid, p.53

Should you wish to discuss the details of this submission, please contact me on (02) 8241 1800 and I will be happy to facilitate such discussions with my member companies.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Cameron O'Reilly', written in a cursive style.

Cameron O'Reilly
CEO
Energy Retailers Association of Australia