

30 October 2014

2015-2016 Retailer Feed-in Tariff – Draft Price Determination Statement of Reasons  
Essential Services Commission of South Australia  
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### **Review of the Retailer Feed-in Tariff**

Thank you for the opportunity to respond to the Draft Price Determination statement of reasons (the Paper) for this review.

The Essential Services Commission of South Australia (ESCOSA) has proposed to reduce the regulated Retailer Feed-in Tariff (FiT) to 5.3 c/kWh.

While Simply Energy welcomes this proposed reduction, we continue to hold the view that ESCOSA should discontinue with regulation of the FiT. The removal of price regulation provides more flexibility for feed in tariffs to adjust to market dynamics and for the energy generated from solar panels to be priced in accordance with what other energy consumers are prepared to pay for it.

Simply Energy is particularly concerned about ESCOSA's decision to regulate the FiT for at least two more years. This was a surprise given that ESCOSA's last decision on FiT suggested that it was contemplating moving from price regulation to price monitoring, and would be seeking information to support that decision. The ongoing regulation of prices in a competitive retail market is inappropriate and should cease as soon as possible, as regulation is not in the long term interests of consumers under these conditions.

#### **The case for continued regulation is not made**

ESCOSA bases its decision to continue regulating the FiT on its conclusion that, while the South Australian electricity market is generally considered to be competitive, the degree of competition between electricity retailers for PV consumers is less certain.

In reaching its conclusion, the Paper notes that:

- Only one electricity retailer pays more than the minimum FiT,
- PV customers appear not to have the same access as non-PV customers to best priced market offers, and
- There may be some impediments to customer switching in terms of information and transactions costs.

We do not find these conclusions entirely convincing as justification for continued regulation of the FiT.

First, the lack of market offers in excess of the minimum FiT is not evidence of a market failure but rather suggests that the regulated FiT has been set well above the efficient market rate, taking into account the other tariff components that apply to PV and non-PV consumers.

Second, seven out of the ten retailers shown on page 29 of the Paper as making market offers to PV consumers make their best available offer available to PV consumers. This is evidence of healthy competition amongst retailers for PV consumers rather than any market failure that requires regulation of FiT rates.

Finally, lower switching rates would be expected from PV consumers compared to non-PV consumers. This is because switching rates are correlated with high and increasing bills and PV consumers have lower bills than non-PV consumers with similar appliance use, and are partly insulated from increases in charges. This is particularly the case with respect to consumers who receive the 44c and 16c feed in credits in addition to the retailer feed-in tariff.

### **Regulating the FiT creates the market outcomes identified by ESCOSA as reasons to continue regulation**

The Paper acknowledges that FiTs are not a separate market, but are part of the deregulated South Australian energy market that provides consumers with choice in energy offers. Continuing to regulate a component price within the deregulated market creates distortions in that market that lead to the behaviour by participants that is considered by the Paper to justify continued regulation of the FiT.

Continuing regulation of the FiT appears to be based on the belief that in a competitive market there would be a range of FiT offers across the range of the value of the energy fed in, and as FiT offers are clustered at the lowest permissible point of this range then this is taken as evidence of a lack of competition.

This conclusion may be appropriate if FiT was a standalone offer, but it is not appropriate given that FiT is part of a bundled offer that includes a daily fixed charge and consumption-related charges.

Analysis of whether there is competition for solar PV consumers needs to consider whether there is a range of different bundled offers available to PV consumers. Analysis presented on page 29 of the Paper clearly shows that this is the case. It shows that all consumers, both PV and non-PV, have access to a range of offers that will give different price outcomes for them.

The differences between retailer offers to PV consumers and non-PV consumers reflects the generally lower energy purchases by PV consumers, and the consequently lower contribution to fixed retail costs (as the prevailing tariff structures, which were inherited at FRC, recover some fixed costs by consumption-related charges).

Regulation stifles the genuine differentiation that would allow consumers with different characteristics to find the offer that best suits them.

For example, a PV consumer who feeds in very little energy may be best suited to a tariff with low consumption-related charges and low feed-in rates. In contrast, a consumer who feeds in a lot of energy may be best suited to a tariff with high feed in rates and higher consumption-related charges.

Continuing to regulate the FiT constrains how retailers can develop their tariffs, which means that some consumers are unable to access tariffs that best suit them. The approach used in New South Wales, where a realistic range of FiTs is possible, provides greater scope to retailer tariff development, increasing the options available to consumers to find a tariff that best suits them, which maximises value.

### **ESCOSA should state clearly and specifically the evidence it would accept in order to end FiT price regulation**

Simply Energy is concerned about the way that information is used and presented in the Paper to justify continued regulation of the FiT.

For example, the table on page 29 of the Paper compares the offers available to PV consumers and non-PV consumers. Estimated annual costs are calculated that assume the same level of energy consumption for both PV and non-PV households. This approach fails to take account of the lower energy consumption by PV households compared to similar non-PV households, which is acknowledged by ESCOSA on page 4 of the Paper in the statement “The greatest benefit to PV customers continues to be reduced energy imports from the distribution network and the associated avoided energy costs.”

A more reasonable approach would be to compare the likely bills from the average household without PV to those from a household with similar appliance use and an appropriately sized PV. This could use the energy consumption and PV assumptions used by ESCOSA to generate the tables on page 51 and 52 of the paper.

This analysis would show that the bills of the PV household are significantly lower than the non-PV household. This would be in sharp contrast to the information provided on page 29 of the Paper that suggests that PV consumers accepting market offers from some retailers will pay from \$53 to \$84 in additional annual charges.

This analysis would also show that the greatest driver of the reduced charges for PV households is reduced consumption-related charges. Given that prevailing tariff structures recover some retailer fixed costs through consumption-related charges, this would show that the PV household is receiving a cross subsidy from the non-PV household in relation to retailer fixed costs.

We are also concerned about the conclusion drawn in relation to the differences between how retailers market to PV consumers.

An important feature of competitive retail markets is the market segmentation that enables retailers to increase the benefits to the market by developing offers that differentiate between different types of consumer.

However, when retailers attempt to do this with respect to different types of PV consumers it seems to be taken as evidence of lack of competition.

For example, the report refers to AGL’s offer of a FiT that is above the minimum. This is a clear example of a retailer competing in the market by offering a FiT that differentiates it from other retailers, attempting to win customers on the strength of its FiT offer. The Paper does not accept this as evidence of competition, stating that it is not evidence of competition because the additional margin over the minimum FiT is ‘subsidised’ by higher usage charges.

We cannot understand this conclusion because what has been observed is exactly what you would expect in a competitive market – retailers making offers that differ because they are targeted at different types of consumer.

Finally, ESCOSA needs to set out clearly and specifically what it would consider to be sufficient evidence of competition that would enable it to end price regulation of the FiT. This is important because the Paper provides evidence that there is competition, but concludes that there is not. This shows that ESCOSA has different criteria for deciding about what constitutes evidence of competition; it is important that ESCOSA explains this to stakeholders and indicates what it would consider to be evidence of competition.

### **Additional time to gather information does not justify price regulation**

The Paper states that ESCOSA needs two years of further regulation of the FiT in which to obtain more information about competition for FiT. One of the reasons given in the Paper for needing this additional time

is that the current arrangements have only been in place for 8 months, since January 2014. We cannot understand this justification, as ESCOSA has been regulating the FiT since January 2012 and has therefore had almost three years in which to obtain the information it needs to understand FiT in South Australia and how it fits into the competitive energy retail market.

**No Issues Paper or Discussion Paper was released for this review, which is inconsistent with ESCOSA's Charter of Consultation**

The review process diagram on page 5 of ESCOSA's September 2014 *Charter of Consultation and Regulatory Practice* states that reviews will be initiated by release of an Issues Paper or Discussion Paper.

We question why this process was not followed in this review, and are concerned that the release of the draft determination as the first paper in this review provides stakeholders with insufficient opportunity to engage with the issues.

**Regulating FiT has little positive impact on the consumers who receive it, and this comes at significant cost that is borne by consumers as a whole**

Continuing to regulate the FiT adds industry and regulator's costs that are borne by all consumers and makes a minimal difference to the consumers that receive FiT. This is made clear by the Paper's executive summary, which states that the change from 6.0 c/kWh to 5.3 c/kWh will reduce the FiT income obtained by a customer with a large PV system by \$8 per year.

Taken together with the Paper's assessment that the value of the electricity fed in is between 5.3 c/kWh and 7.4 c/kWh, this suggests that the impact on a consumer with a large PV system from receiving the minimum value (5.3c) rather than the maximum value (7.4c) is \$24 per year. This is negligible in comparison to the average SA residential electricity annual bill of approximately \$1900.

**PV consumers would be better served through publication of a non-mandatory benchmark range**

We agree with ESCOSA that information can assist PV consumers to evaluate the offers available to them.

Simply Energy has submitted in the past of the need to replace direct regulation (or price monitoring) of FiT prices with the publication of a non-mandatory benchmark range. Publication of such a range can provide the information that PV consumers require to assess the offers available to them.

Simply Energy does not consider that a regulated FiT is necessary. If ESCOSA confirms its draft determination to regulate the FiT, then we consider that a regulated FiT at the lower end of the range, as proposed, has less overall negative impact on consumers than a higher value.

Please don't hesitate to contact James Barton on (03) 8807 1171, or at [james.barton@simplyenergy.com.au](mailto:james.barton@simplyenergy.com.au), if you wish to discuss this submission further.

Yours sincerely

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