

FREQUENTLY ASKED QUESTIONS

SOLAR RETAILER FEED-IN-TARIFF (R-FIT)



December 2014

Why is the feed-in tariff changing – I thought it had been fixed?

There are two elements to your total solar feed-in tariff (FiT). One is the distributor-paid FiT (D-FiT) and the other is the retailer-paid FiT (R-FiT). The Commission's determination only affects the R-FiT; it has always been set with reference to the wholesale cost of power and, therefore, can be expected to vary from time to time.

The D-FiT (which is not available to new customers) is set in legislation and its value depends upon when your PV unit was installed; its value will not change until the scheme expires. Further information on the D-FiT can be found on the SA Government website, www.sa.gov.au.

What will happen to the R-FiT in the future?

The Commission has determined that the *minimum* R-FiT, payable by retailers to qualifying PV customers from 1 January 2015 through to 31 December 2016, is initially to be set at a minimum of 5.3 cents per kWh. The Commission will review the forecast value of the R-FiT to apply from 1 January 2016 and, if the forecast value lies on or within $\pm 10\%$ of 5.3 cents per kWh (ie. in the range from 4.77 to 5.83 cents per kWh) the Commission will leave that value unchanged. Although all retailers must pay the minimum R-FiT amount, retailers may choose to offer their customers a higher amount.

In the longer term, provided sufficient competition exists in the market, the Commission considers that deregulation of the R-FiT will be in the long term interests of consumers. The Commission considers that the evidence collected to date is encouraging but inconclusive as to whether sufficient competition exists in the R-FiT market. Therefore, the Commission will continue to set the R-FiT for 2015 and 2016 and will review the market prior to the expiration of this Determination with a view to deregulating the R-FiT, unless there is sufficient evidence to suggest that continued regulation remains justified.

Why is the value of the retailer-paid feed-in tariff falling?

The R-FiT is set with reference to the wholesale market price of electricity. The wholesale price has been falling more recently in response to several factors. These include falling customer demand and increasing supply of solar PV and wind generation.

Customer demand is falling due to a variety of factors such as customers' changing behaviour to minimise electricity consumption, increasing proliferation of energy efficient appliances and the continuing improvements in the energy efficiency of buildings as existing structures are either replaced or renovated and new construction has to meet more stringent standards.

Since 2008/2009, the number of solar PV units installed on South Australian houses has increased dramatically – the number of houses with solar PV has increased from 8,571 in 2008/09 to 168,122 as at 30 June 2014. This has led to those customers generating their own electricity to meet, at least partly, their own needs and, as a consequence, they do not need to purchase as much electricity from their retailer.

The considerable increase in the number of solar PV units (and also wind energy generators) installed in South Australia has added substantially to the overall supply of generators across the State. The increasing supply of electricity together with falling demand by customers has led to a fall in the wholesale market price of electricity over time.



Why is my R-FiT only about 20% to 30% of what I pay a retailer to use a kWh of electricity?

The R-FiT is set with reference to the expected wholesale cost of power. This makes up approximately 20% to 30% of the retail price of a kWh of electricity. The remaining amount largely relates to the cost of electricity distribution and transmission.

The only direct benefit the retailer gets from buying electricity from you is avoiding having to purchase wholesale electricity from the national wholesale market. However, there are various other fixed costs (including transmission and distribution costs) which cannot be avoided and are not reflected in the R-FiT. We have included a chart titled, “Why is the solar feed-in tariff less than the price of electricity?” at the end of this document for further information.

What are the costs associated with transmission and distribution?

Transmission networks transport electricity from generators to distribution networks in metropolitan and regional areas. They operate at high voltages for efficient transport over long distances.

Distribution networks transport electricity from points along the transmission lines to customers. Electricity must be stepped down to lower voltages in a distribution network for safe use by customers. A distribution network consists of the poles, underground channels and wires that carry electricity, as well as substations, transformers, switching equipment, and monitoring and signaling equipment.

The costs associated with transmission and distribution are all the costs of providing, operating, maintaining and expanding these networks.

What is the main financial benefit of installing solar?

Unless you are on the 44 cents per kWh D-FiT, by far the greatest financial benefit of installing PV units lies in the electricity you can supply for your own use at the time of generation and, therefore, do not have to buy at the retail electricity price.

As a solar power generator, exporting to the grid, am I better off switching to an offer which pays a higher R-FiT?

Not necessarily. You need to consider the R-FiT as part of an overall electricity Market Offer, and therefore, you should shop around to find the best overall deal. The easiest way to do this is to use the Australian Energy Regulator’s website, www.energymadeeasy.gov.au

Why is the solar feed-in-tariff less than the price of electricity?

WHY NOT
'1-FOR-1'
CREDIT?

Electricity retailers set their prices to recover the costs of conducting their business.



When you export solar electricity to the grid, retailers save on the amount of energy they need to buy,



but they still incur costs for networks, green schemes and retailing.



So if retailers were required to pay the retail price as a feed-in-tariff, they would not recover these other costs



This may lead to increased retail prices for all customers, or retailers avoiding servicing solar customers.



The Essential Services Commission is the independent economic regulator of essential services in South Australia. The Essential Services Commission's primary objective is the protection of the long-term interests of South Australians.

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