

Clean Energy Council submission to the ESCoSA Issues Paper: Review of the Solar Feed-in Tariff Premium

Why continued regulation of feed-in tariffs is important

The *Review of Solar Feed-in Tariff Premium Issues Paper* (hereafter referred to as ‘the Issues Paper’) considers regulation of feed-in tariffs in the context of consumer protection for customers who export electricity from the solar system. While this is an important consideration, it should not be the only consideration. It is also important to consider the regulatory settings needed to ensure that distributed generation can contribute to a reduction in electricity costs for all electricity consumers.

The Productivity Commission (2013) has noted that,

“... existing time-invariant tariffs do not encourage householders to orient units to the west to maximise generation in periods of peak demand late in the summer afternoon. Moreover, effective use of distributed generation to produce network savings needs to ensure that take-up is maximised in those parts of the system subject to the greatest constraints”

To facilitate the achievement of these objectives the Productivity Commission recommended that,

“State and territory governments should change the feed-in tariffs for any uncontracted small-scale distributed generators exporting power into the grid, so that their tariffs reflect the market wholesale prices at the time of energy production, and the (net) value to network businesses from reducing loads on their equipment at critical peak periods.”

This submission will make the case that deregulation of the feed-in tariff (FiT) paid to South Australian would:

- preclude the South Australian Government from achieving the objectives recommended by the Productivity Commission; and
- provide inadequate consumer protection for solar households.

In summary, the approach considered by the Issues Paper would be unfair to solar households and more expensive for other electricity consumers.

The Clean Energy Council (CEC) urges the South Australian Government and the Essential Services Commission of South Australia (ESCoSA) to work toward achieving the objectives for distributed generation proposed by the Productivity Commission by putting in place a feed-in tariff that is:

- technology neutral;
- time-varying; and
- location-specific

This may require amendment of the legislative framework governing feed-in tariffs in South Australia.

We commend to ESCoSA the policy objectives for a minimum feed-in tariff, as originally proposed by the Victorian Competition and Efficiency Commission (VCEC, 2012) and recently reiterated by Victoria's Essential Services Commission (ESC, 2013) that,

“The minimum FiT should ensure that distributed generators receive a fair price that reflects the value of the electricity they export to the grid and provide an efficient price signal to investors in small-scale distributed generators that will help achieve efficient use of distributed generation in a competitive electricity market.”

The rationale for a technology-neutral, time-varying, location-specific feed-in tariff

In recent years a number of reports and reviews have acknowledged desirability of a feed-in tariff that is technology-neutral, time-varying and location-specific. In 2008, the Council of Australian Governments (COAG) agreed that all new FiT schemes would conform to a set of national principles and these principles would also be used in reviewing existing schemes. Among these principles are the following (emphasis added):

- Residential and small business renewable energy generators should have the right to export energy to the electricity grid and market participants ***should be required to pay*** for that exported power at a price at least equal to the value of that energy in the relevant electricity market and the relevant electricity network it feeds into, ***taking into account the time of day*** during which energy is exported.
- ***The terms and conditions for small renewable generators should be incorporated into the overall regulation of the minimum terms and conditions for retail contracts*** so that charges for purchasing electricity and other terms and conditions are no less favourable than those for customers without small renewables.

Feed-in tariffs should be technology neutral

Feed-in tariffs should be technology neutral to ensure that so that all electricity fed into the grid from small-scale distributed generation is treated in the same manner, regardless of the technology utilised. At present virtually all small scale distributed generation is from solar photovoltaic (PV) systems. However, new technologies (such as residential storage) are already on the market and are being adopted by a growing number of households and businesses. These technologies should not be excluded from eligibility for a FiT payment.

Feed-in tariffs should be time-varying

Feed-in tariffs should be time-varying, incorporating a peak, off-peak and critical peak payment, to reflect market wholesale prices at the time of electricity production. Several policy development forums and bodies, such as the Council of Australian Governments (COAG) and the Productivity Commission, have recommended greater attention be paid to FiTs that are higher during periods when electricity value is highest. The purpose of price structures of this kind would be to improve incentives to maximise distributed generation exports when its system-wide value is highest.

In its recent review of demand-side participation in the National Electricity Market (NEM) the Australian Energy Markets Commission (AEMC, 2012) recommended that, “consideration be given to the ability of time varying tariffs to encourage owners of distributed generation assets to maximise export of power during peak demand periods”.

The VCEC (2012) expressed a similar view, noting that “adopting time-of-use pricing is desirable, because it provides a stronger economic signal to distributed generators of the value of production when overall electricity demand is high”.

All things being equal, it could be expected that a time-varying FiT would better encourage small embedded generators to increase their export at peak times when compared with a fixed rate FiT.

Feed-in tariffs should be location-specific

The network value of embedded generation refers to the avoided costs of distribution network capacity augmentation caused by small-scale distributed renewable generation. Embedded generation can be a substitute for capacity augmentation that would otherwise be required to meet an increase in demand in a given locality from additional production by central generators (ACIL Tasman, 2012).

Feed-in tariffs should be location-specific to encourage take-up in those parts of the system subject to the greatest constraint.

The benefits of distributed generation will vary between distribution networks and localities within them, and over time, depending on whether capacity is constrained in that locality (Energy Networks Association, 2011). VCEC (2012) observed,

No reliable estimates of this value currently exist – at least in the public domain. The size of the network value is difficult to determine because it will be both time and location specific, but in constrained areas of the network it is likely to be large.

It is worth noting that the ESC (2013) has recommended that,

Distribution network value should be compensated through an adjustment to the connection fee to take into account any reduction in the long run marginal cost of augmenting the distribution network as a result of the embedded generator being connected to the distribution.

This recommendation would be worthy of consideration by ESCoSA.

The rationale for regulation of feed-in tariffs

The purpose of the regulation of FiTs is to ensure that all customers that are small embedded renewable generators have access to an efficient and fair price for exported electricity (DTF, 2012). That is, prices that reflect the economic value of those electricity exports, without cross subsidies between those electricity customers that generate electricity and those that do not (VCEC, 2012).

New South Wales (NSW) is the only Australian state to have deregulated feed in tariff payments to customers. The NSW experiment has failed. Not one electricity retailer is paying the amount that the Independent Pricing and Regulatory Tribunal (IPART) has determined is the financial gain to Standard Retailers.

IPART has determined that the benchmark rate for the electricity fed into the grid by owners of solar PV systems is 7.7 to 12.9 cents per kWh. As stated in its report (IPART, 2012) on solar feed-in tariffs, “The upper bound of our benchmark fair and reasonable feed-in tariff reflects the financial gain to Standard Retailers for regulated PV customers”.

As of 7 June 2013 eight of the fourteen NSW electricity retailers offered no feed-in tariff whatsoever. Five retailers offer a feed-in tariff at or below the lower bound of the IPART benchmark rate. Only one retailer (AGL Sales) offered a feed-in tariff that was above the lower bound of IPART's estimate of the financial gain to Standard Retailers. No electricity retailer offered a peak and off-peak feed-in tariff or any other form of time-varying feed-in tariff.

New South Wales consumers have fared poorly from the New South Wales experiment to deregulate feed-in tariffs. Solar consumers have suffered from a lack of consumer protection. Other consumers have suffered because investment could have been directed more efficiently, in a way likely to reduce electricity prices.

Competition in the South Australian electricity market is far weaker than in NSW. Deregulation in South Australia is therefore likely to be even less successful than the NSW experience.

Governments in other states protect the interests of solar consumers by mandating in legislation a minimum feed-in tariff rate.

CEC calls on the South Australian Government to continue to offer the same level of consumer protection for solar customers that is available in South Australia and other states - by mandating a minimum legal feed in tariff payment.

Changes to the legislative framework for feed-in tariffs

ESCoSA (2013) has noted that it may be constrained in the options available to it for setting a feed-in tariff. The Issues Paper notes that it must,

“... set a “prescribed amount” as the minimum FIT Premium (as defined in Division 3AB of the Electricity Act) and does not allow for a range of amounts, nor for retailer payments less than that amount”.

If the Electricity Act prevents ESCoSA from establishing a time-varying FIT then CEC would urge ESCoSA to recommend changes to the Act that would enable it to do so. It would also be beneficial for ESCoSA to recommend changes to the Act to ensure that the South Australian FIT is technology-neutral and not limited to solar PV.

Consistency with ESCoSA's legislated requirements

Legislation requires that in performing its functions, the Commission must—

- (a) have as its primary objective protection of the long term interests of South Australian consumers with respect to the price, quality and reliability of essential services; and
- (b) at the same time, have regard to the need to—
 - (i) promote competitive and fair market conduct; and
 - (ii) prevent misuse of monopoly or market power; and
 - (iii) facilitate entry into relevant markets; and
 - (iv) promote economic efficiency; and
 - (v) ensure consumers benefit from competition and efficiency; and

- (vi) facilitate maintenance of the financial viability of regulated industries and the incentive for long term investment; and
- (vii) promote consistency in regulation with other jurisdictions.

Supporting the deregulation of feed-in tariffs would be contrary to ESCoSA's objectives.

Deregulation of FiTs by ESCoSA would be contrary to its legislated objectives because it would not be in the long term interests of South Australian consumers. For the reasons outlined above, the long term interests of South Australian consumers would be better served by a FiT that is regulated, technology neutral, time-varying and location-specific.

Deregulation of FiTs by ESCoSA would be contrary to its legislated objectives because it would lessen competition in the FiT offers available to solar consumers, as evidenced by the failed NSW experiment.

Deregulation of FiTs by ESCoSA would be contrary to its legislated objectives because it would be an obstacle to the promotion of economic efficiency, consistent with the recommendations of the Productivity Commission.

Deregulation of FiTs by ESCoSA would be contrary to its legislated objectives because the NSW experiment has shown that deregulation of FiTs does not ensure that consumers benefit from competition and efficiency. To the contrary, NSW consumers have suffered from less competition and investment in distributed generation in NSW will be less efficient than it could otherwise have been if the NSW Government were to implement the approach recommended by the Productivity Commission.

Deregulation of FiTs by ESCoSA would be contrary to its legislated objectives because it would not promote consistency with other jurisdictions. Only NSW has deregulated FiTs.

Responses to the questions raised in the ESCoSA Issues Paper

The following sections address the questions raised by ESCoSA in its Issues Paper.

1. Should retailers be allowed to set their own feed in tariff?

No.

As outlined above, electricity retailers in NSW are permitted to set their own feed-in tariffs. The majority of NSW electricity retailers offer zero feed-in tariff. Not one electricity retailer is paying the amount that IPART has determined is the financial gain to Standard Retailers. No electricity retailers in NSW offer a time-varying FiT.

The NSW experience demonstrates that the policy objectives recommended by the Productivity Commission will not be achieved if electricity retailers are allowed to set their own feed-in tariffs.

The NSW experience has also demonstrated that there is insufficient competition in that part of the market to ensure adequate consumer protection without deregulation. There is far less competition in the South Australian market than in the NSW market.

In the absence of regulation, consumer protections for South Australian solar households would be inadequate.

2. Is it in the long-term interests of consumers for the Commission to continue to regulate the FiT Premium beyond 1 January 2014?

Yes.

The Productivity Commission has demonstrated that it is in the interests of all consumers for feed-in tariffs to be time-varying and location-specific. The NSW experience demonstrates that if electricity retailers are allowed to set their own feed-in tariffs they will not offer time-varying and location-specific tariffs.

Continued regulation of feed-in tariffs is required to maximise the likelihood of efficient investment in distributed generation.

The Productivity Commission has outlined the benefits of an efficient approach to regulating feed-in tariffs.

ESCoSA has failed to demonstrate that the economic benefits of the proposed deregulation of feed-in tariffs would exceed the costs of more inefficient investment that would result.

3. In the absence of a regulated FiT Premium, are there likely to be any differences in the extent to which consumers could exercise choice between energy retailers providing retailer feed-in tariffs, as distinct from energy retailers selling electricity to end-users more generally?

Yes.

The failure of the NSW experiment demonstrates that deregulation of feed-in tariffs reduces choice for consumers and competition between retailers.

4. Is there sufficient competition in the relevant market (however defined) to ensure that consumer interests can be promoted without the need for direct price regulation?

No.

The NSW experiment has been a failure. There is far less competition in the South Australian electricity market compared with NSW.

Deregulation of feed-in tariffs in South Australia would fail.

5. Do the benefits of setting a regulated FiT Premium outweigh the associated costs?

The Productivity Commission has recommended that FiTs should be time-varying and location-specific to maximise the benefits of efficient investment in distributed generation and thereby reduce costs to all consumers. The Productivity Commission did not undertake a cost-benefit analysis of its recommendations for FiTs. Nor has ESCoSA undertaken a cost-benefit analysis of its proposal to deregulate FiTs.

ESCoSA should undertake a cost-benefit analysis of feed-in tariff deregulation and compare that with the costs and benefits of the approach recommended by the Productivity Commission. CEC anticipates that such analysis, if it were undertaken, would show that the approach recommended by the Productivity Commission would be more efficient and of greater benefit to all consumers, including solar households. Without such analysis, it is difficult to understand how ESCoSA could conclude that their recommendations are economically superior to the policy proposals of the Productivity Commission.

6. Are there other regulatory approaches that should be considered by the Commission rather than directly determining the regulated FiT Premium?

Yes.

As outlined above, the South Australian FiT should be:

- technology neutral;
- time-varying; and
- location-specific.

References

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Australian Energy Markets Commission (2012), *Final Report: Power of Choice Review – Giving Consumers Options in the Way they use Electricity*

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Department of Treasury and Finance (2012), *Victorian Government Response to the Victorian Competition and Efficiency Commission's Final Report 'Power to the People: An Inquiry into Distributed Generation'*, Melbourne: September 2012

Energy Networks Association (2011), *Impacts and Benefits of Embedded Generation in Australian Electricity Distribution Networks*

Essential Services Commission (2013), *Minimum Electricity Feed-in Tariffs: For application from 1 January 2014 to 31 December 2014 – Draft Decision*, Melbourne: July 2013

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Independent Pricing and Regulatory Tribunal (2012), *Solar feed-in Tariffs: Setting a fair and reasonable value for electricity generated by small-scale solar PV units in NSW*

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