

23 July 2013

Review of future regulation of the Solar Feed-in Tariff Premium
Essential Services Commission of South Australia
GPO Box 2605
Adelaide SA 5001

Dear Sir/Madam,

I write to you in relation to the review of the future regulation of South Australia's Solar Feed-in Tariff Premium (*solar ftp*) which we will refer to as the Review.

Business SA is South Australia's leading business membership organisation, representing thousands of businesses through direct membership and affiliated industry associations. We represent businesses across all industry sectors, ranging in size from micro-business to multi-national companies. Business SA advocates on behalf of business to propose legislative, regulatory and policy reforms and programs for sustainable economic growth in South Australia.

Business SA acknowledges that solar customers who connect after 1 October 2013 will not be paid premiums other than the Minimum Retailer Payment, set at 9.8 cents per kWh and due to expire on 31 December 2013.

Business SA has previously advocated for an increase in the coverage of the solar ftp for customers with usage above 160 mWh per annum, to incentivise more businesses to install solar. Notwithstanding our position on the threshold, which is a separate economic argument, the market for solar is now well established and Business SA questions the validity of ongoing price regulation.

The fundamental role of ESCOSA is to regulate essential infrastructure and services where not doing so would result in market failure. Business SA notes the Government finally acted on our long held policy position and deregulated prices for electricity and gas on 1 February 2013. Business SA viewed this decision as the Government's acceptance that competition in electricity and gas markets had matured to a point where price regulation was no longer in the best interests of consumers. Further, the decision to deregulate was an acknowledgement that electricity and gas providers were not in a position to misuse market power given the inherent level of competition.

The market for solar power in South Australia is now well developed and stands testament to this State's willingness to embrace and encourage renewable technology. The recent history of incentive schemes for households to install solar power has resulted in the highest per capita penetration in Australia. On the flip side though, there are equity issues around the fact that many residential and business customers are essentially subsidising those households benefiting from the incentive schemes.

While Business SA has to date been supportive of measures to increase solar uptake, there is no longer a case to justify an artificial price floor in the market for excess power fed into the grid. Any continuation of price determination for solar power effectively undermines the basis upon which the Government decided to deregulate gas and electricity prices earlier this year. Further, there is no evidence to suggest that deregulation would necessarily result

in a market price materially lower than 9.8 cents per kWh. And any reduction should also be tapered with the fact that where solar ftps are still regulated, for example Victoria and Queensland, minimum retailer payments are only 8 cents per kWh.

Business SA notes that NSW has recently deregulated its solar ftp and regulated energy suppliers are currently offering between 6.6 and 8 cents per kWh for solar power. Although WA's energy market is still largely non-competitive, particularly for small consumers, Business SA notes that solar power ftps are no longer regulated and the minimum price is currently 8 cents per kWh.

What is also important to remember in the Review is the significant contribution or benefit that small consumers receive from the solar power they actually consume. The Review should not presuppose that the entire incentive for consumers to install solar power is for revenue generated from ftp payments. Further, as technology advances, and the lead is coming from right here in South Australia, battery storage should enable significantly increased usage of embedded generation during non generating times.

As both the State and Federal Government's continue to pursue an agenda of renewable energy advancement, it will become increasingly important that the true value of alternative energy sources be transparent. Only with free and open markets, will policy makers be able to accurately determine the contribution of renewable energy in reducing the output of non-renewable energy generators.

Business SA requests ESCOSA to abolish the Minimum Retailer Payment from 1 January 2014 and shift its focus to that of monitoring the market price for solar and other renewable energy sources.

Should you require any further information or have any questions, please contact Rick Cairney, Director of Policy, Business SA on (08) 8300 0060 or rickc@business-sa.com.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Nigel McBride', written over a circular stamp or seal.

Nigel McBride
Chief Executive Officer