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

Lodged by email: escosa@escosa.sa.gov.au

Review of the Solar Feed-in Tariff Premium Issues Paper

The Energy Supply Association of Australia (esaa) welcomes the opportunity to make a submission to the Essential Services Commission of South Australia's (ESCOSA) Issues Paper on the review of the solar feed-in tariff (FIT) premium.

The esaa is the peak industry body for the stationary energy sector in Australia and represents the policy positions of the Chief Executives of 36 electricity and downstream natural gas businesses. These businesses own and operate some \$120 billion in assets, employ more than 51,000 people and contribute \$16.5 billion directly to the nation's Gross Domestic Product.

The esaa made a submission to ESCOSA's inquiry into setting the solar FIT premium in 2011. At that time, we argued that the market was best placed to determine the value of solar PV to electricity retailers and that as such that any FIT should allow for the market to operate efficiently.

Since this time, the South Australian retail electricity market has changed materially through the deregulation of electricity prices. This has been a significant and positive development for South Australian consumers. Therefore, we welcome ESCOSA's decision to re-assess the need for regulating a FIT in 2014.

ESCOSA's previous solar FIT premium determinations have been largely based on the wholesale value of electricity. There are inherent uncertainties in estimating future wholesale electricity market prices. In particular, the future of carbon pricing, which makes up a significant proportion of the wholesale price of electricity, is unclear.

The esaa considers that because of this very uncertainty, and to support the deregulated market, ESCOSA should no longer set a FIT premium. Instead, electricity retailers should be allowed to determine and offer their own FITs.

With increasing customer switching rates in South Australia, and 81 per cent of SA electricity customers on market contracts¹ the retail electricity market is showing strong signs of competition. In a competitive retail market, competition will tend to drive market offers for solar PV FITs towards the efficient rate.

On the other hand, a regulated solar FIT results in highly asymmetric risks. A low figure will have little impact in a competitive retail market like South Australia's, as competition should drive it higher than the regulated minimum. But if the FIT is set higher than what turns out to be a competitive market rate, it will distort competition by making solar customers unattractive to retailers because they are required to overpay for those customers' electricity exports. Given South Australia's recent move towards a deregulated market, this would be an unfortunate and potentially damaging outcome.

Any questions about our submission should be addressed to Ben Pryor, by email to ben.pryor@esaa.com.au or by telephone on (03) 9205 3103.

Yours sincerely

A handwritten signature in blue ink that reads "Kieran Donoghue". The signature is written in a cursive, flowing style.

Kieran Donoghue
General Manager, Policy

¹ AER, Retail Energy Market Update Performance, January to March 2013