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Nathan Petrus
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The Essential Services Commission of SA
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Submitted via email to escosa@escosa.sa.gov.au

Dear Nathan

Response to the Issues Paper for the Review of the Solar Feed-in Tariff Premium

EnergyAustralia welcomes the opportunity to make a submission to the Essential Services Commission of South Australia (the Commission) on the issues paper for the review of the solar feed-in tariff (FiT) premium (Issues Paper).

1. Introduction

EnergyAustralia recently made a submission to the last review of the solar FiT premium in SA undertaken by the Commission.[1] In this, we noted our opposition to the FiT premium being a mandated value, as we believe that rates set by competitive markets more accurately reflect the underlying costs, contribute positively to competitive market outcomes and are in the best interests of customers. We commend the Commission for considering the issue and consulting with stakeholders on the need for ongoing regulation of the solar FiT premium in SA.

Although we do not support a mandated solar FiT in SA, we do believe that solar customers should be paid a fair and reasonable amount for the excess electricity they generate. EnergyAustralia has been involved in the SA electricity market since 2003 and has voluntarily provided a solar FiT to customers since 2008 when the solar market first began to open up.[2] Since the Commission set a mandatory minimum solar FiT premium in 2012, we have used that rate instead of setting our own rate. Additionally, since the end of 2011 we have sold solar panels to customers and thus have an interest in the viability of the solar industry in SA. Having participated in the solar market for many years, we have observed very healthy levels of competition and very high levels of uptake of solar generation by SA customers.

[1] EnergyAustralia, Response to ESCOSA on the 2013 Determination of Solar Feed-in Tariff Premium – Draft Price Determination, 22nd Apr 2013
[2] This was a voluntarily amount paid to the customer in addition to the 44c/kWh government FiT established in 2008.

2. Issues

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

The impact of the continued FiT regulation on the long-term interests of customers

No, it is not in the long-term interests of consumers for the FiT premium to continue to be regulated. It's important that retailer-funded FiTs are set at an economically efficient rate, otherwise cross-subsidies can occur. This means some customers receive more than the fair value for excess solar generation and that retailers recover the additional outlay through the electricity prices paid by all customers. Cross-subsidisation is not in customers' best interests.

Although regulators attempt to set FiTs at an efficient level, they cannot achieve this as reliably as retailers operating in a competitive market environment can. The reasons that a regulator can never achieve this are that they:

- are not a participant in the market;
- can only make assumptions about the available data when setting prices; and
- cannot test out prices in the market as a retailer can.

The regulated FiT has a different perception in the market compared to FiTs available from retailers – it is seen as the benchmark by which all other prices are assessed. Customers will always look to the regulated FiT (or benchmark FiT) therefore hampering efforts by retailers to set competitive FiTs and find the efficient pricing level.

If FiTs are not set at an efficient price level, then retailers would be unfairly providing additional value to solar customers to the detriment of other customers who would pay more through electricity prices. Additionally, if retailers are forced to buy excess generation from solar customers at a higher price than they could from other generation sources, then solar customers will be less attractive to retailers. This could result in fewer offers being available for solar customers, or that offers or discounts available to solar customers are less generous than for other customers. These outcomes are certainly not in the best long-term interests of customers.

When the regulation of the solar FiT was reviewed in NSW, IPART also looked at these matters and commented:

> *"…, it would be difficult for us to recommend an exact mandatory rate because of the individual characteristics of retailers and their PV customers. Setting the feed-in tariff too high could affect the attractiveness of PV customers in the market and potentially affect the financial viability of retailers."*[3]

These negative impacts to competition that flow on to affect customers and retailers do not occur in competitive markets where prices are set at an economically efficient levels. Therefore, we strongly support the removal of price regulation on the FiT in SA as it is in the best interests of customers as well as the market more generally.

Comments on the NSW solar market

The NSW solar generation market has the lightest form of FiT regulation in Australia. We note that IPART recently updated their benchmark range for 2013/14 to 6.6-11.2c/kWh,[4] and that half (six of the twelve residential[5]) retailers in NSW are offering retailer-funded solar FiTs to customers. The range of FiTs being offered by retailers exceeds both ends of the benchmark range. Notably, the combined NSW electricity

[3] IPART, Solar feed-in tariffs – Setting a fair and reasonable value for electricity generated by small-scale solar PV units in NSW: Final report, March 2012, page 6

[4] IPART, Fact Sheet Solar Feed-In Tariffs 2013 to 2014, 28th June 2013, http://www.ipart.nsw.gov.au/Home/Industries/Electricity/Reviews/Retail_Pricing/Solar_feed-in_tariffs_2013_to_2014/28_Jun_2013_-_Fact_Sheet/Fact_Sheet_-_Determination_on_solar_feed-in_tariffs_in_2013-14_-_28_June_2013

[5] Based on information accessed on www.energymadeeasy.gov.au

market share of the six retailers that do offer voluntary solar FiTs makes up a very large proportion of the NSW customer base.

The Clean Energy Council (CEC) argue that competition does not exist in the NSW solar FiT market because not all retailers are offering a FiT or a FiT considered high enough.[6] We do not consider the mere fact that some retailers exercise their right to chose to abstain or participate in the solar FiT market is evidence of a lack of competition. If some retailers do not offer FiTs in NSW, it can signal that the benchmark FiT range has been set higher than the efficient level for some retailers, effectively deterring them from competing for solar customers. We consider it a retailer's prerogative, as a part of their business strategy, to choose not to sell particular products or services to particular regions or to particular customer groups in their desired markets. It is not unusual to find retailers who sell only to small business customers, only to residential customers, only in some areas, or who avoid different market sectors from time to time (in the way they direct their marketing activity).

The CEC also suggests that NSW solar customers have been exposed to a lack of consumer protection and that other electricity customers have suffered from a lack of solar investment that would have otherwise reduced electricity prices.[6] In relation to customer protections, we see no evidence sub-optimal customer protections with regard to FiTs in NSW. Regarding solar investment, the CEC predicate that greater investment in solar will result in network savings where network constraints are alleviated and network augmentation is deferred. This is not entirely correct because even through solar generation can contribute to lower network demand, it has to be tailored effectively and this is not currently easy to achieve without appropriate metering technology, battery storage options and other market developments. As the situation exists, solar installations can actually create the need for additional network augmentation to address voltage drops and other types of network instability issues.[7] Rather than reducing prices, solar investment can create additional costs that are passed onto customers via network tariffs.

Determining the relevant market

We define the *relevant market* to be the subset of grid-connected electricity customers who have solar panels installed and who meet the requirements of South Australia Power Networks to export their generation to the network (and several other similar conditions[8]). This definition includes the majority of solar panel installations in SA for small business and residential customers. Under this definition, the customer has a relationship with the same electricity retailer for the supply of electricity and the sale of excess generation.

It is reported that penetration of solar panels into the small customer market are up around 15-20% of the entire SA customer base.[9] This is a sizeable group of customers and we believe that they are free to change retailers to access a better FiT if they choose. Based on our experience, most solar customers buy their panels upfront or pay off the cost of the panels over time to an independent party (not their electricity retailer). Retailers will sometimes enter into such arrangements, but customers always have a choice to obtain their photovoltaic (PV) panels via other parties, or to pay upfront if they do not wish to enter into a PV panel payment contract with their retailer. Thus, in the current SA market, the typical solar customer is not locked in to payment arrangements that would preclude them from changing retailers whenever they wished.

The *relevant market* should be viewed as a combination of the electricity and solar FiT markets as retailers may try to attract customers on the basis of the competitiveness of both their solar FiT and their electricity (usage) offer. As discussed by the Commission, it is implicit in our last submission that:

> *"deregulation of the FiT premium is appropriate because it is part of the same market in which retailers sell electricity to retail customers, which is no longer subject to price regulation."*[10]

[6] Clean Energy Council, Submission to the ESCOSA Issues Paper: Review of the solar feed-in tariff premium, 16th July 2013, pages 3-4
[7] Victorian Competition and Efficiency Commission, Power from the People: Inquiry into distributed generation, Final Report, July 2012, pages 80-83
[8] For example, the total capacity of the solar panels installed must not exceed 30kVA (10kVA per phase). The full set of EnergyAustralia conditions are available at: http://www.energyaustralia.com.au/conditions-pricing
[9] See Guardia, UK interactive map based on SunWiz data as at 21st June 2013: http://www.guardian.co.uk/news/datablog/interactive/2013/jun/21/solar-energy-map-australia
[10] ESCOSA, Issues Paper, page 3

Summary

EnergyAustralia is of the firm view that FiTs are set most efficiently by the actions of the competitive market are in the best long-term interests of customers as it is the best way to ensure that solar customers are paid a fair amount and are not cross-subsidised by other customers.

The NSW solar generation market is competitive and is allowing customers a choice a retailers with different FiT offers. The SA market has a substantial solar customer base that allows customers to move freely between retailers if they wish so they can take up the best offer (much like the SA gas and electricity markets).

Question 2 – 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?

Differences in the extent of choice for solar customers

All retailers in the *relevant market* are currently offering the minimum FiT premium. The implication of this is that all retailers are likely to have a number of solar customers, possibly around 15-20% of their SA electricity customer base. If regulation is removed from the FiT premium, or if a non-mandatory FiT benchmark is published instead, then retailers will likely want to keep offering a voluntary FiT and retain these solar customers rather than exit from the solar FiT market. Similarly, with 15-20% of SA customers having solar panels, retailers will probably find that up to 1 in 5 of their sales approaches will fail if they are not offering a FiT, or their FiT offer is lower than other retailers in the market.

We therefore do not believe that SA solar customers would be particularly limited in their choice of retailer if the FiT were to be deregulated.

It is also unrealistic to expect all retailers to offer all types of services and compete on all offer types. Retailers have different business models and different strengths across their product and service portfolios. As long as a number of first and second tier retailers are actively marketing and have solar FiTs available, we do not see that there is an issue that needs to be addressed via continued regulation of the FiT.

Question 3 – 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?

Issues of competition and market power

When assessing competition, the following measures are normally considered: switching rates, market concentration, prices, customer outcomes and availability of information to customers. These measures are considered below:

> **Switching rates:** As part of the electricity market (see discussion on the *relevant market*, above), the solar generation market is also highly competitive. The retailer switching activity in the electricity market in SA has been on average greater than 20% for the last two years. This level of switching is second only to Victoria and demonstrates that competition is very strong in SA.
>
> **Market concentration:** Residential customers have a choice of eleven retailers, while business customers have a choice of nine retailers. Second tier retailers have approximately 48% market share of the SA electricity market.[11] On both measures, there is ample choice and a lack of concentration in the market.
>
> **Pricing:** In the SA solar generation market it is not easy to consider prices as pricing regulation hinders the mechanism by which retailers would normally set and test prices in the market. All retailers in SA are offering the mandatory minimum FiT premium at the moment, while half of the

[11] Australian Energy Regulator, Retail energy market update: Performance, January to March 2013, page 6, Note AGL is the only tier 1 electricity retailer in SA and has 52% market share.

retailers in NSW are offering a voluntary FiT (under the regulated benchmark range approach adopted by IPART). In both markets, some retailers are offering significantly higher FiTs than others.

Customer outcomes: Earlier, we discussed the freedom solar customers have to shop around and access the FiT and electricity offer that is most suitable for them. Solar customers are also one of the most informed and vocal customer groups in the energy market. They are more likely to shop around and raise queries or complaints with their retailer if they are not getting the price or service they expect. This effect also inhibits the development of market power in the solar generation market.

Availability of information to customers: Price information on solar FiTs and electricity prices offered by each retailer operating in the small customer market is available from the Australian Energy Regulator's site: www.energymadeeasy.gov.au. In addition, retailers usually have pages on their websites dedicated to solar offers.

As the SA electricity and solar generation market (the *relevant market*) is highly competitive on all measures, we do not believe that market power could exist in this market, nor do we see any evidence that market power does exist. We also don't see any potential for any issues involving competition or market power to arise if FiT regulation were to be removed or lightened in SA.

Question 4

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

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

Costs and benefits of regulatory intervention

In the SA solar generation market, we cannot see any benefits to regulation of the FiT premium. We have already discussed how regulated FiTs contribute inefficient pricing outcomes to customers' detriment. Other costs associated with continued regulation include:

- Costs of conducting and responding to regulatory reviews
- Costs associated with lost opportunities for retailers to innovate their offers and services
- Costs of making last minute system changes to update the minimum FiT to a regulatory timetable

All of these costs are passed on to customers under a price-regulated regime. Under full deregulation of the FiT, these costs would either disappear or be minimised (e.g. system changes will still have to be made at times).

Other approaches

We have a strong preference for full deregulation of the SA FiT premium on the 1st January 2014 as this option best avoids and minimises the costs above and is more clearly in customers' interests.

However, we would consider that the following would be a step forward, but with lesser benefits for customers:

- the Commission publish a non-mandatory benchmark FiT value; or
- the Commission set a much lower minimum FiT premium to allow retailers to compete above this rate.

The Queensland Competition Authority recently contemplated setting a non-mandatory benchmark FiT but concluded they were:

> *"… concerned that publishing a benchmark indicative range could dilute the benefits of competition by not providing an incentive for retailers to avoid revealing their efficient costs. It is likely that the lower bounds of a benchmark range, if published by the Authority, would effectively be viewed by retailers as a minimum obligation and would offer voluntary tariffs no*

higher than that level, regardless of their individual financial capacity to make more generous offers. There appears to be some evidence of this in NSW, where a number of retailers adjusted their voluntary feed-in tariff offers to reflect the lower bound of the IPART's 2012-13 benchmark range after it was published."[12]

We agree with this assessment by the QCA and urge the Commission to proceed with full deregulation of the FiT in SA.

3. Summary

EnergyAustralia are supportive of the Commission undertaking a review on the need for continued regulation of the solar FiT premium in SA.

The SA solar generation market is competitive and makes up of a significant proportion of the electricity customer base. We believe the *relevant market* can be defined as the small customer solar and electricity usage market. This market is no longer a niche market and operates within a very competitive retail electricity market for which prices were deregulated in February 2013.

We have outlined how market power is effectively inhibited within this market and why we believe retailer choice for solar customers will not be significantly impacted under a deregulated FiT premium. The benefits of the removal of regulation of the FiT are in the avoidance of ongoing costs associated with regulatory reviews, system updates and hampering market development and cost inefficiencies in the FiT premium that are otherwise being passed onto South Australian customers. These costs can largely be avoided under full deregulation of the FiT premium and this is why we contend that deregulation is in the best long-term interests of customers.

Price regulation is a safety net that customers are used to, but which rarely exists in markets for 'opt-in' service markets, such as solar generation buy back. We strongly urge the Commission to make no further determinations that apply to the FiT premium from the 1st January 2014.

If the Commission decides to continue to regulate the solar FiT we then reiterate comments made in our last submission to the Commission on the FiT determination that applies from 1st July -31st December 2013,[13] and request that:

- the approach to setting up an agreed and straightforward methodology requires little consultation;
- if the existing methodology is to be used going forward, that it be completely understood by stakeholders and any areas of uncertainty or concern are clarified in the final report;
- the determination should be made at least two months in advance of the effective date; and
- the minimum FiT premium not be set at a level that deters competition for solar customers.

If you would like more information on this submission, please contact me on (03) 8628 1242.

Yours sincerely

Melinda Green
Regulatory Manager - Pricing

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[12] QCA, Estimating a fair and reasonable solar feed-in tariff for Queensland – Final Report, March 2013, page 47
[13] EnergyAustralia, Response to ESCOSA on the 2013 Determination of Solar Feed-in Tariff Premium – Draft Price Determination, 22nd Apr 2013. Note that these comments will also apply to the period from 1st Jan 2014 – 31st Dec 2014.