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Review of the Solar Feed-in Tariff Premium - Issues Paper
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Review of the Solar Feed-in Tariff Premium - Issues Paper

Origin Energy (Origin) welcomes this opportunity to respond to the Commission's issues paper on the continued regulation of the minimum feed-in tariff (FIT) premium applying in South Australia.

As noted by the Commission on page one of its issues paper, retailers previously put the view that regulation of the FIT premium should be removed given the deregulation of retail energy prices, which will have been in place for close to one year by the time the current determination of the minimum FIT premium expires (at the end of 2013). Origin strongly supports this view and does not believe continued regulation of FITs via a minimum premium amount is justified. Continued regulation suggests that the retail electricity market is not effectively competitive. We do not accept that this is the case and there exists ample competitive tension in the retail energy market to ensure that customers continue to receive a premium in addition to any regulated FIT funded through network use of system charges (NUoS).

Contrary to some views discrediting the merit of deregulating the FIT premium, Origin believes that such a change would:

1. Increase incentives for retailers to innovate with respect to FITs; a mandatory contribution is unlikely to encourage anything other than the regulated amount to be offered.
2. Improve retail market competition by removing disincentives for retailers to market to customers with eligible distributed generation, particularly where the regulated minimum is set above a level that some retailers consider commercial market value for feed-in energy.
3. Reduce disincentives to retailers considering entry to the South Australian energy market in the future.
4. Allow South Australia to transition to a light-handed and nationally consistent framework.

Each of these outcomes relate to the primary and secondary objectives described in section 6 of the *Essential Services Commission Act 2002* that the Commission is to have regard to in undertaking its work (in this case with respect to price regulation). The table below summarises the relationship between the secondary objectives and the outcomes numbered above.

Objective	Potential outcome from deregulation
Promote competitive and fair market conduct	1
Facilitate entry into relevant markets	3
Promotion of economic efficiency	1 - 4
Ensure customers benefit from competition and efficiency	1 - 3
Facilitate maintenance of the financial viability of regulated industries and the incentive for long term investment	1, 2
Promote consistency in regulation with other jurisdictions	4

With respect to the Commission's primary objective, deregulating the minimum FIT premium would be consistent with this principle by:

- Reducing the risk that setting the premium too high results in costs being borne by customers without distributed generation through higher energy costs;
- Increasing the (already high) level of competitiveness in the South Australian electricity retail market by reducing disincentives to entry and encouraging further retail innovation; and
- Encouraging alternative offers and product innovation for customers with distributed generation.

Given the Victorian Competition and Efficiency Commission recommendation to review regulated retailer-funded FITs with a view to move to their determination on a market-basis in the near future and the fact that in New South Wales FIT contributions paid by retailers to non Solar Bonus Scheme customers are presently deregulated, Origin believes that from 2014, the regulated minimum FIT premium should be removed to support national consistency of FIT regulation. The trend in relation to oversight in this area is clearly to reduce oversight.

This being the case, customers in South Australia have access to information from energy retailers and importantly, via the *Energy Made Easy* comparator provided by the Australian Energy Regulator.

The Commission should by all means monitor offers made by retailers if any decision to deregulate FIT premiums was made. Origin believes competition for customers with embedded generation may increase as such flexibility would allow retailers to assess the combination of the retail products sold to the customer along with the feed-in tariff premium offered to customers on the 44 or 16 cent per kWh NUoS funded FIT (or for that matter, customers post 1 October 2013 installing distributed generation with no NUoS funded contribution). Furthermore, it seems implausible that retailers will not actively compete for customers with distributed or embedded generation given that South Australia has amongst the highest penetration of such installations in the National Electricity Market.

Specific responses to the questions raised in the Commission's issues paper are set out below.

Is it in the long term interest of consumers for the Commission to continue to regulate the FIT Premium beyond 1 January 2014?

For the reasons discussed above, Origin does not believe it is in the long term interest of consumers to continue regulating the FIT premium beyond 1 January 2014. In our view, there is no market failure in the South Australian retail electricity market and no evidence has been presented that the

market is ineffective.¹ Given the penetration of solar PV (in particular) among small customers in South Australia, a retailer either not offering a FIT premium, or offering an inadequate FIT premium will lose a substantial number of customers to competitors who make offers better suiting the needs of these customers.

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?

At present there is effectively no choice for consumers since all retailers are obliged to offer the minimum FIT premium, which has the effect of constraining retailer incentives to innovate and discourages some retailers from making offers to customers with eligible distributed generation where such retailers consider the minimum FIT premium level above reasonable commercial value to them for any energy supplied to the grid. While Origin notes the Commission's statement that if fewer retailers voluntarily offer a FIT premium following deregulation it may indicate the market for feed-in energy may have some unique characteristics, this of itself does not mean this market is less competitive (or distinct) from the market for grid supplied energy. Again, Origin would highlight the significant penetration of distributed generation in the South Australian market; by not competing for customers with such installations, energy retailers will materially reduce their addressable market. For this reason the market for retail electricity (from the grid) and FIT premiums paid for (energy entering the grid) are strongly correlated.

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?

Origin believes that there is sufficient competition given the relationship between the market for retail electricity and the market for feed-in electricity. The large number of customers with distributed generation can select retail offers that best meet their needs. As discussed above, retailers whose offers do not meet these needs will lose market share accordingly.

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?

Origin does not believe the benefits of setting a regulated FIT premium outweighs its cost. No market failure was demonstrated when the minimum FIT premium was proposed and retailers (including Origin) voluntarily offered FIT payments in addition to the 44 cent per kWh FIT funded through NUoS prior to regulation of the market. There are ongoing administrative costs associated with the regulated FIT premium and Origin believes its existence has a negative impact on competition and market efficiency. As the Commission notes on page three of the issues paper, to the extent that the minimum FIT premium exceeds the commercial valuation of feed-in energy, retailers making such assessments may recover these costs from their entire customer base.

¹ We note the Commission intends to engage with industry to gather information as it seeks to make a decision on this matter.

Finally, Origin does not believe regulation of FIT premiums should be continued in any way; however we do support the publication of offer information through *Energy Made Easy* and the provision to information to consumers by retailers. Adopting an alternate or transitional regulatory approach will simply add to the existing costs of FIT regulation and as such, removal of oversight in its entirety in 2014 would result in the best outcome for consumers and competitors in the retail market.

We would welcome further discussion with the Commission on any matters raised in this response. Please contact me in the first instance on (03) 8665 7712.

Regards

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