

RETAILER FEED-IN TARIFF DRAFT PRICE DETERMINATION



EXECUTIVE SUMMARY

The Essential Services Commission of South Australia (**Commission**) is an independent economic regulator of the electricity, gas, ports, rail and water industries in South Australia. The Commission's primary objective is the **protection of the long-term interests of South Australian consumers with respect to the price, quality and reliability of essential services**.

One of the Commission's functions in the electricity industry is determining the *minimum* price which electricity retailers must, under the provisions of the Electricity Act 1996 (**Electricity Act**), pay to residential and small business electricity customers (**PV customers**) whose solar photovoltaic generators (**PV units**) feed electricity into the distribution network - the retailer feed-in tariff or **R-FiT**.

The R-FiT recognises that there may be an economic value for any electricity which is fed into the distribution network, albeit that it may vary over time, and provides a means by which PV customers may realise that economic value through the receipt of payments from electricity retailers.

Any price determination of the *minimum* R-FiT is made under the terms of the Commission's establishing Act, the Essential Services Commission Act 2002 (**ESC Act**), as authorised by and consistent with the terms of the Electricity Act.

The current R-FiT price determination establishes a minimum value of 9.8c/kWh for the period until 31 December 2013. This Draft Price Determination sets out the Commission's reasons in respect of its proposal to make a one-year price determination under the Electricity Act and the ESC Act to commence from 1 January 2014:

- setting a minimum R-FiT value of 7.6c/kWh, which is the lower bound of the reasonable range of estimated value to an electricity retailer of electricity fed into the distribution network (with the range being 7.6 to 13.4c/kWh); and
- implementing a formal price-monitoring regime in respect of electricity retailers' R-FiT offerings,
- with a view to further reviewing its regulatory approach for the minimum R-FiT prior to 2015.

The primary reason for proposing to make a *minimum* R-FiT price determination for at least one more year is that there is sufficient uncertainty about how competitive the market for PV customers would be – and therefore whether PV customers would receive fair value for fed-in electricity – in the absence of a *minimum* R-FiT

The proposed *minimum* R-FiT of 7.6c/kWh to apply from 1 January 2014 is less than the current R-FiT of 9.8c/kWh, for two reasons. First, electricity wholesale cost forecasts have declined

significantly. Second, a minimum R-FiT of 7.6c/kWh gives retailers the opportunity to demonstrate how competitive the market for solar customers can be, while ensuring that PV customers receive at least the lower bound value if the market does not prove sufficiently competitive.

The price-monitoring regime will involve monitoring of electricity retailers' offers to, and competition for, PV customers. Findings from that regime will inform the Commission's subsequent decision as to whether to continue to set a *minimum* R-FiT.

The Commission is seeking submissions from all members of the community on this Draft Price Determination.

The current R-FiT price determination

As at 30 June 2013, one in five South Australian residential and small business electricity customers were PV customers, qualified under the Electricity Act to receive the *minimum* R-FiT as determined by the Commission.

The R-FiT is distinct from another feed-in tariff available under the Electricity Act, the distributor feed-in tariff or **D-FiT**. The D-FiT provisions of the Electricity Act require SA Power Networks, the electricity distributor, to make payments to PV customers of either 44c/kWh or 16c/kWh (depending on the date on which a PV customer's PV unit was connected or approved for connection). New PV customers will not be able to access the D-FiT scheme after 30 September 2013 – the scheme will be closed to new PV customers from that time. The Commission has no regulatory functions in respect of the D-FiT.

The Commission's function in respect of the R-FiT is to determine (having regard to various statutory factors) whether or not it should make an R-FiT price determination and, if it decides to do so, what value it should set for the R-FiT from time to time.

In 2012, the Commission made an initial R-FiT price determination as required by the Electricity Act. That price determination set R-FiT values as follows:

- January to June 2012 at 7.1c/kWh;
- July 2012 to June 2013 at 9.8c/kWh; and
- July 2013 to June 2014 at 11.2c/kWh.

In June 2013, the Commission varied that determination to hold the value at 9.8c/kWh from 1 July 2013, rather than allowing it to increase to 11.2 c/kWh. That decision reflected the Commission's view that there had been some reduction in the value of wholesale electricity relative to that forecast in early 2012. The Commission also changed the term of the initial R-FiT price determination such that it will cease to have effect on 31 December 2013 (six months early).

As a result, the current *minimum* R-FiT payable by electricity retailers to PV customers is 9.8c/kWh.

Reviewing the Commission's R-FiT approach

At the same time as it varied the R-FiT price determination, the Commission also commenced a review to further explore the need for, or nature of, future price regulation of the R-FiT. The Commission did so having particular regard to the South Australian Government's decision to

remove formal retail price regulation in the electricity and gas retail markets from 1 February 2013.

To assist community members in responding to the review, in June 2013 the Commission released an Issues Paper setting out key issues and matters for consideration. There was significant interest in the review, with the Commission receiving 27 submissions, including one submission enclosing a petition signed by 1,420 South Australians.

Proposed 2014 price determination of the R-FiT

Following further considerations and deliberations, which have been informed by submissions, the Commission has reached the draft position that it is appropriate for it to make a further one-year R-FiT price determination to apply from 1 January 2014, setting a new *minimum* R-FiT value of 7.6c/kWh.

The Commission has also reached the draft position that it will implement a formal price-monitoring regime under the ESC Act, to monitor the extent to which competitive forces are driving electricity retailers to provide R-FiTs in excess of the *minimum* value determined by the Commission.

Reasons for the Commission's draft price determination

In making this Draft Price Determination the Commission has taken two key uncertainties into account. Those uncertainties are in relation to:

- the fair and reasonable value to electricity retailers of PV electricity fed into the distribution network; and
- how competitive the market for PV customers would be if the R-FiT was set at a lower level or not at all.

The Commission has determined that, based on independent economic advice provided to it by ACIL Allen Consulting (**AAC**), the reasonable range of expected fair and reasonable values is between 7.6c/kWh and 13.4c/kWh.

The fair and reasonable value to an electricity retailer of each kWh fed into the distribution network is, however, only one of the statutory factors that the Commission must take into account in making a price determination. At this time, the Commission has selected the lower bound of 7.6c/kWh to encourage competition in respect of R-FiT payments in South Australia.

It has done so having regard to (among other matters) the overall competitiveness of the South Australian retail electricity market, interstate experience and its view that competitive forces, rather than regulators, should set prices if sufficient competition exists.

Inevitably, considerable uncertainty exists regarding the fair and reasonable value (hence the wide range estimated by AAC). Given this uncertainty there is a risk that, if the Commission were to set a *minimum* value which proved too high, then there may be a reduction in competition for PV customers and hence in the incidence or extent of Market Offers available to them, as those customers may be less attractive to electricity retailers.

On the other hand, if the Commission was to set the *minimum* R-FiT at too low a level *and* if competition was not sufficiently robust to deliver competitive R-FiTs above that level, then PV

customers may not receive fair value for their fed-in electricity (to the extent of the difference between the Commission's *minimum* R-FiT and the value to the electricity retailers of the fed-in electricity).

The Commission has had to balance the possible gains and losses to consumers involved with setting higher or lower R-FiT values.

The Commission considers that, based on its consideration of the statutory factors set out in the Electricity Act and the ESC Act, setting a *minimum* R-FiT value for 2014 at 7.6c/kWh will provide a safety net for consumers. For the purposes of this Draft Price Determination, the Commission accepts that the overall electricity retail market appears to be reasonably competitive and therefore considers that an R-FiT set in this way will also provide flexibility for electricity retailers to compete more vigorously above that minimum value - if it is valuable to do so.

The Commission has attempted to reduce uncertainty about how competitive the market for PV customers would be if the R-FiT was set at a low level (or zero) in various ways; e.g., by assessing experience in other jurisdictions. Nevertheless, significant uncertainty remains.

To ascertain the extent to which electricity retailers actually do compete for PV customers during the period of the price determination, the Commission also proposes to implement a formal price-monitoring regime under the ESC Act.

In reaching these positions, the Commission has adopted a cautious and measured approach, with the price-monitoring regime – and particularly the insights it will provide as to the level of competitive behaviour in the delivery of R-FiTs – to be used by the Commission to inform any subsequent price determination.

Next steps

The Commission is seeking submissions from all members of the community on this Draft Price Determination, with submissions due on or before **Friday 1 November 2013**. All submissions will be placed on the Commission's website, subject to any confidential material being excluded.

The Commission intends to release its Final Decision in early December 2013. If the Commission elects to make a Price Determination (whether or not on the same terms as this Draft Price Determination) as a result of its Final Decision, then that determination will take effect from 1 January 2014.