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The Essential Services Commission of SA  
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Adelaide  
SA 5001

Submitted via email to [escosa@escosa.sa.gov.au](mailto:escosa@escosa.sa.gov.au)

Dear Nathan

**Response to the Retailer Feed-In Tariff: Draft Price Determination Statement of Reasons**

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 retailer feed-in tariff (R-FiT) premium draft price determination (Draft Determination) for 2014.

**1. Introduction**

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EnergyAustralia's position on the R-FiT in South Australia (SA) can be described as follows:

- There is a value associated with the excess electricity generated by photovoltaic (PV) panels and exported to the network that should be passed on to customers.
- We have demonstrated a commitment to providing fair value to PV customers by providing an R-FiT for PV exports in SA since 2008 (this pre-dated the introduction of a regulated minimum R-FiT).
- Customer outcomes are negatively impacted by continued regulation of prices.
- The levels of competition in the SA electricity and R-FiT market are more than adequate and South Australian customers would benefit from immediate deregulation of the R-FiT.
- Deregulation of R-FiT pricing would minimise costs passed onto customers, promote competition and be in the best long-term interests of PV customers.

In our last submission, we urged the Commission not to make another price determination on the minimum R-FiT in South Australia. We also requested that if the Commission did continue to regulate the R-FiT that the minimum R-FiT premium not be set at a level that deters competition for solar customers. The Commission has now made a Draft Determination to set a minimum R-FiT for at least one more year. The primary reasons for the retention of a minimum R-FiT was the

significant uncertainty about the competitiveness of the market for PV customers and a concern that PV customers may not receive fair value for PV exports in the absence of a minimum R-FiT.

In the following sections, we address the main factors considered by the Commission in making their draft price determination for the R-FiT in 2014.

## **2. Discussion of factors considered in the Draft Determination**

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### **2.1. Definition of the R-FiT market**

For the reasons outlined in our earlier submission,<sup>1</sup> we agree with the Commission that there is no stand-alone PV market in SA and that PV is a discretionary add-on to a customer's electricity contract with the retailer.

### **2.2. The fair and reasonable value of PV exports to electricity retailers**

The Commission intends to base the R-FiT value on the value received by electricity retailers. This is entirely appropriate. The same assessment has been made by regulators in other jurisdictions.<sup>2</sup> We also broadly agree with the components that the Commission outline to calculate the value of the exported PV electricity. However, we maintain that this value should take into account the higher than usual retail operating costs that retailers incur in servicing solar customers.<sup>3</sup>

The methods used by ACIL Allen to estimate the value of PV exports differs from the approach used by consultants advising regulators in other states, but appears to arrive at a reasonable R-FiT value.

### **2.3. Promotion of competition, efficiency and fair market conduct**

In the Draft Determination, the Commission has assessed whether the extent of competition for PV customers is different to non-PV customers<sup>4</sup> by reviewing the following aspects of the R-FiT market:

#### ***Market concentration***

The PV market would not be expected to have a very different concentration to the overall electricity market, especially when all retailers must offer a mandatory minimum R-FiT to PV customers.

#### ***Price and service mix***

The Commission provides analysis to show that although only one retailer offers an R-FiT price above the mandatory minimum level, the majority of retailers in SA (seven out of twelve) are making their best-priced market offer available to PV customers.<sup>5</sup> Other analysis presented demonstrates that:

- about three quarters of market offers on Energy Made Easy are available to PV customers;

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<sup>1</sup> EnergyAustralia, Response to the Issues Paper for the Review of the Solar Feed-in Tariff Premium, 26 July 2013, page 3

<sup>2</sup> ESCOSA, Draft Determination, page 28; Essential Services Commission (Victoria), Minimum electricity feed-in tariffs for application from 1 January 2014 to 31 December 2014 – Final Decision, August 2013; Independent Pricing and Regulatory Tribunal, Solar feed-in tariffs: The subsidy-free value of electricity from small-scale solar PV units from 1 July 2013 - Final Report, June 2013

<sup>3</sup> EnergyAustralia, Response to 2013 Determination of Solar Feed-in Tariff Premium – Draft Price Determination, 22 April 2013, page 3

<sup>4</sup> ESCOSA, Draft Determination, page 33

<sup>5</sup> ESCOSA, Draft Determination, pages 37-38

- market offers for PV customers allow access to popular discount structures (e.g. pay on time and direct debit discounts);
- discount levels and exit fees offered to PV customers are not unfavourable compared to offers made to non-PV customers; and
- the retailers who offer their best-priced offers to PV customers comprise both large and small retailers who make up approximately half the market share for South Australian electricity customers.

For these reasons, it seems clear to us that PV customers in SA are not disadvantaged in the price-service mix. The fact that only one retailer is currently offering an R-FiT in excess of the mandatory minimum is not meaningful as the 2013 minimum R-FiT is above the value received from PV customers by retailers.

### ***Barriers to entry and expansion***

We agree that because barriers to entry and expansion are low, there is a credible threat to retailers that other new or existing retailers will be seeking to compete for PV customers in SA.

### ***Information and transaction costs***

EnergyAustralia has provided an R-FiT since the introduction of solar into the South Australian retail market in 2008. Although we would like to provide more information on our PV offers available, we only have a tight window in which to make updates to the Energy Made Easy website and the upload process is particularly onerous. We are working with the Australian Energy Retailer to see if improvements could be made. Information on our solar FiT offers is instead available from our website.<sup>6</sup>

### ***PV customer switching rates***

As part of this review, we have provided the Commission with confidential data on our switching rates for PV and non-PV customers. However, we caution the Commission in assuming that the switching rate for PV customers will be similar to the non-PV switching rate. Switching rates often differ between customer groups depending on behavioural factors including:

- the degree of satisfaction with the service and prices offered by their retailer;
- the perception of hurdles involved in changing retailers (e.g. the effort to cancel/change direct debit arrangements and in assessing different market offer/PV options);
- the inclination to shop around, or take up an offer made by a retailer through an outbound channel;
- the level of apathy or feeling that the value potential savings from switching not being worth the effort; and
- the level of customer engagement of PV versus non-PV customers.

The demographics of PV customers are distinctly different to non-PV customers and therefore there are good reasons why PV customers may show quite different switching behaviour.

### ***Levels of competition for PV customers relative to NSW and Queensland***

We do not accept that the NSW PV market is not competitive. The submissions made by AuSES the Clean Energy Council and the Solar Citizens petition state that NSW solar customers have suffered or have been left to the mercy of electricity retailers.<sup>7</sup> These assertions appear emotive, are not

<sup>6</sup> <http://www.energyaustralia.com.au/residential/products-services/solar-power/solar-feed-in-tariffs#South%20Australia>

<sup>7</sup> ESCOSA, Draft Determination, pages 44-45

supported by facts and appear to be based on unrealistically high assumptions of the actual value of PV exports to retailers.

In addition, the Commission has incorrectly concluded that EnergyAustralia is not offering an R-FiT to customers in NSW.<sup>8</sup> EnergyAustralia is a tier one retailer in the NSW electricity market and has been offering a voluntary FiT to PV customers for many years.<sup>9</sup> Since IPART introduced their benchmark range for the R-FiT in NSW, EnergyAustralia has always priced its R-FiT within the range. Correcting this detail would substantially change the results of the Commission’s analysis and show that four electricity retailers.

Updated data on NSW R-FiT offers is included in table 1 and shows that:

- half of all NSW retailers (with a combined market share of around 55%) offer a voluntary R-FiT that is within or above the current benchmark range published by IPART;
- the only retailers not offering a voluntary R-FiT in NSW are very small retailers with a combined market share around 2%; and
- a third of retailers (including first and second tier retailers) are competing above the low end of the benchmark range.

**Table 1: Comparison of solar R-FiT offers by retailers in NSW (Oct 2013)**

Retailer	R-FiT Status	Retailer market share <sup>10</sup>	Voluntary R-FiT (c/kWh) <sup>11</sup>
<b>Sanctuary Energy</b>	Above the benchmark range	<1%	35
<b>AGL</b>		19%	8
<b>Click Energy</b>		<1%	10
<b>EnergyAustralia</b>	Within the benchmark range	34%	6.6
<b>Lumo Energy</b>		<1%	6.6
<b>Powerdirect</b>		<1%	7.7
<b>Origin Energy</b>	Below the benchmark range	42%	6
<b>Red Energy</b>		1%	5
<b>APG</b>		<2%	-
<b>Dodo</b>		<1%	-
<b>Momentum</b>	Not offering a voluntary R-FiT	<1%	-
<b>QEnergy</b>		<1%	-

In the Draft Determination, the Commission stated, *"the available evidence from NSW does not provide sufficient support to conclude that reasonable competition for PV customers exists."*<sup>12</sup> They continue on to say, they have *"formed the same conclusion on the evidence available from Queensland, particularly due to the lack of market share data available for that State"*.

In our view, the NSW data above demonstrates that competition is healthy and that a wide range of FiT offers are available to PV customers from established and new entrant retailers. We ask that the Commission reconsider their conclusion on the state of competition in NSW.

<sup>8</sup> ESCOSA, Draft Determination, pages 46-47

<sup>9</sup> For current information see: <http://www.energyaustralia.com.au/residential/products-services/solar-power/solar-feed-in-tariffs#New%20South%20Wales>

<sup>10</sup> Market share information sourced from ESCOSA, Draft Determination, page 46

<sup>11</sup> Sourced on 31<sup>st</sup> October 2013 from [www.energymadeeasy.gov.au](http://www.energymadeeasy.gov.au) and <http://www.energyaustralia.com.au/residential/products-services/solar-power/solar-feed-in-tariffs#New%20South%20Wales>

<sup>12</sup> ESCOSA, Draft Determination, page 51

In regards to Queensland, we have sourced some market share data for the Queensland electricity market (table 2) to assist with the Commission’s analysis. The data illustrates that the Queensland R-FiT market is similarly competitive to NSW. The comparable statistics for Queensland are:

- more than half of the retailers (seven of twelve, with a combined market share of 97.5%) are offering a voluntary R-FiT to customers in the absence of any mandatory minimum or benchmark range being set by the Queensland Competition Authority;
- as in NSW, the only retailers not offering a voluntary R-FiT in Queensland are very small retailers with a combined market share at just over 2%; and
- the R-FiT offers are comparable in price to those in NSW.

**Table 2: Comparison of solar R-FiT offers by retailers in Queensland (Mar 2013)**

Retailer	R-FiT Status	Retailer market share <sup>13</sup>	Voluntary R-FiT (c/kWh) <sup>14</sup>
<b>AGL</b>	Offering a voluntary R-FiT	27.5%	8
<b>Click Energy</b>		<1%	10
<b>Diamond Energy</b>		<1%	4
<b>EnergyAustralia</b>		6.5%	8
<b>Lumo Energy</b>		3.5%	6
<b>Origin Energy</b>		60%	6
<b>Powerdirect</b>		<1%	6
<b>APG</b>	Not offering a voluntary R-FiT	2%	-
<b>Dodo</b>		<1%	-
<b>Integral Energy</b>		<1%	-
<b>QEnergy</b>		<1%	-
<b>Simply Energy</b>		<1%	-

Based on these numbers, the Queensland R-FiT market appears even more competitive than NSW and indicates that the lack of regulation of the R-FiT amount has not had a detrimental effect on the competitiveness of R-FiT offers. The experience in Queensland shows that, left to the market, customers will not suffer in having the value of the R-FiT reduced or removed entirely (as some stakeholders appeared to have suggested). Therefore, we ask that the Commission reconsider their conclusion on the state of competition in Queensland as well as NSW and the implications for the South Australian market.

#### 2.4. The costs of regulating the R-FiT

The Commission is correct in assessing that:

- there are additional administrative costs associated with having a regulated minimum R-FiT;
- these additional costs are difficult to isolate and quantify; and
- additional costs incurred by retailers in supplying PV customers and having a regulated minimum R-FiT are passed onto customers – this constrains PV and market offers to some degree.

<sup>13</sup> Market share information sourced from: UBS, Australian Utilities Structure 2012, December 2012. Note that this data was sourced from Queensland electricity retailers and may also contain estimates from UBS. UBS does not guarantee this data is free from error. Note – excludes data for Ergon Energy.

<sup>14</sup> Queensland Competition Authority, Estimating a Fair and Reasonable Solar Feed-in Tariff for Queensland, Final Report, March 2013

We support the additional information provided by other retailers<sup>15</sup> and reiterate our original comment that "under full deregulation of the FiT, these costs would either disappear or be minimised".<sup>16</sup>

### 3. Conclusion

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While it is disappointing that the Commission has not yet decided to remove regulation from the R-FiT, it is good to see that consideration has been given to ensuring the level of the minimum R-FiT does not stifle competition by being too high.

The Draft Determination makes many pertinent points in the on the R-FiT market, the calculation of the R-FiT value and the promotion of competition, efficiency and fair market conduct in the South Australian PV market and the costs of continued regulation of the R-FiT. For the most part we agree with the Commission's views, however, we believe the analysis of the competitive of the R-FiT markets in NSW and Queensland is based on inaccurate data. To correct and complete the Commission's assessment, we have provided additional data. The results of our analysis show that there is a significant level of competitiveness of R-FiT offers in NSW and Queensland. Queensland currently does not regulate the R-FiT. Notable, competition is higher in Queensland on the basis of the number of retailers offering differentiated pricing and the combined market share of these retailers.

The Commission is in the process of collecting additional data from retailers on customer switching patterns to supplement the data available to assess the competitiveness of the R-FiT market in SA. This will likely provide some interesting perspectives on competition, but may not necessarily give a clear picture of why differences in switching exist and, therefore, what weight should be placed on this information in making a final price determination.

We believe that the information available already supports a move to full deregulation of the SA R-FiT, but view the reduction the in minimum R-FiT as a small positive step. Whether retailers will assess this new lower minimum R-FiT as lower than the value of PV exports and set their R-FiT above this level remains to be seen. Nevertheless, the new R-FiT value should facilitate diversity amongst R-FiT offers more than the old value.

If you would like further information on this submission, please call Joe Kremzer on (03) 8628 1731.

Yours sincerely

**Melinda Green**

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<sup>15</sup> ESCOSA, Draft Determination, pages 52-53

<sup>16</sup> EnergyAustralia, Response to the Issues Paper for the Review of the Solar Feed-in Tariff Premium, 26 July 2013, page 5