



1 November 2013

Retailer Feed-in Tariff- Draft Price Determination
Statement of Reasons
Essential Services Commission of South Australia
GPO Box 2605
Adelaide SA 5001

By e-mail: escosa@escosa.sa.gov.au

Origin Energy welcomes this opportunity to respond to the Commission's draft price determination on the retailer feed-in tariff (R-FIT) for the 2014 calendar year.

We believe continued regulation of the R-FIT is not warranted. The Commission has sought evidence from other jurisdictions on the effectiveness of removing price regulation of R-FITs, and the competitiveness of those markets where this has taken place. While we note the Commission's concerns in relation to uncertainty around competitiveness and effectiveness of the market for electricity customers with solar PV installed, we believe that the South Australian market is effectively competitive and the removal of retail price regulation for supply sits uncomfortably with the continued regulation of the R-FIT.

Origin understands that the Commission is applying a cautious and reasoned approach to the question of continued regulation of the R-FIT and the level this should be, however we would strongly contend there is no evidence of market failure and consider that the competitive retail market is the best determinant of the level of the R-FIT.

Specific comments on various sections of the Commission's draft determination are set out below. Origin would welcome further discussion with the Commission on any of the matters we raise in this response, please contact me in the first instance.

Yours sincerely

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Background on rationale for R-FIT levels

On page 7 of the Draft Determination, the Commission notes that the current installed capacity of solar PV eligible for the R-FIT is 467MW. The D-FIT scheme had a cap of 10MW. As has been the case in other jurisdictions, the scheme cap has been significantly exceeded in South Australia. To the extent that any regulated R-FIT exceeds a retailer's own valuation of energy fed back into the grid, this cost has been amplified significantly in South Australia and in other jurisdictions. If regulated minimum R-FITs are impacting on the willingness of retailers to compete for customers with eligible solar PV systems, the failure to closely manage scheme caps has had an impact upon this.

While we note the analysis undertaken by ACIL Allen Consulting (AAC) for the purpose of this determination, we do not consider the range reflective of a market valuation for feed-in energy. For example, the upper range of ACIL's analysis, while based on a large number of scenarios, exceeds the cost of other renewable energy sources such as scale wind registered as generators in the National Electricity Market, for which retailers receive the benefit of the LRET scheme, which is generally not the case for solar PV. Secondly, the assumption applied by AAC that the carbon price mechanism currently in force will remain so during the second half of 2014 has become more difficult to sustain since the outcome of the Federal election. It also builds on the arguments to remove price regulation from 2014 onward.

Origin's own R-FIT (or premium) made available in other states (including the time prior to these payments being made mandatory) reflects its present view of the value of the electricity exported. Since it is clear that retail electricity markets in most National Electricity Market (NEM) jurisdictions are highly competitive and effective, our valuation of R-FIT can be challenged in the market place by any retailer and will vary in response to the normal, robust rivalry between energy retailers. Retailers without competitive offers will lose market share accordingly.

Therefore in New South Wales for example, Origin offers a voluntary R-FIT of 6 cents per kWh for customers not eligible for the now closed Solar Bonus Scheme. This level reflects Origin's current valuation of the benefits that feed-in energy provides our business. Origin would note that this level of R-FIT was paid voluntarily prior to mandatory retail contributions being required in Victoria and South Australia.

With respect to the background to the R-FIT set out on page 11 of the draft determination, Origin has previously expressed the view that voluntary retailer payments made prior to the introduction of the far more generous D-FIT, at least in our case, were to encourage solar PV system take up at a time when the number of installations were insignificant. The amounts paid by Origin at that time in no way reflected the value of export energy to the grid supplied from solar PV systems.

Draft Determination for 2014

The minimum R-FIT price determination

With respect to the draft determination, should the final determination make a non-zero R-FIT, Origin will assist the Commission with information it may require through its price monitoring functions and continued assessment of the competitiveness of the market for solar PV customers (including the rate of switching for such customers relative to conventional electricity customers).

In terms of the minimum range determined by the Commission, in our view this is closer the likely level of a competitively determined R-FIT (7.6 cents per kWh for net feed-in energy). We would argue this minimum level should consider the impact of the likely removal of carbon pricing from the electricity wholesale market in 2014.

With respect to the competitiveness of the retail electricity market for customers with solar PV installations who are eligible for R-FIT, Origin does not agree that with the view that there may be insufficient competition among retailers. Given around 20 per cent of customers have solar PV systems installed, it is implausible that these customers will be not be targeted by licensed retailers. Due to the commonality of electricity customers with solar PV installations, particularly in South Australia, Origin does not regard this group of customers as a unique cohort for the purposes of marketing products and services. The Commission has identified that retailers make different offers in New South Wales whose benefits vary for customers with solar PV systems.¹ Customers are free to select the retailer and offer that best suits their needs. Retailers that do not offer a FIT at all are likely to see their market share reduced over time. This is an expected and efficient outcome in a competitive retail market.

The extensive comparisons made with the New South Wales market are instructive; retail electricity supply prices remain regulated and while this market is quite competitive, the South Australian market is more so. Yet despite the deregulated retail prices in South Australia, and with a higher level of customer switching (compared to New South Wales), the R-FIT is to remain regulated. Origin understands that the Commission must satisfy itself of matters it is to consider in the process of determining whether to maintain a minimum R-FIT. However the case for deregulating if anything is stronger in both South Australia and Victoria relative to other NEM jurisdictions and better outcomes for customers would be expected due to the highly competitive nature of these markets.

Price monitoring

Origin supports the use of publicly available information in order to monitor market developments in the R-FIT and competition for solar PV customers generally. We understand from the draft decision that the Commission intends to only seek additional information on an ad hoc and informal basis as required and that nothing prevents retailers from providing information to the Commission on a confidential basis. If this interpretation of the light-handed price monitoring the Commission is contemplating is correct with a view to moving to a market-based determination of the R-FIT from 2015, Origin is supportive of this element of the determination.

¹ ESCOSA (2013), *Retailer Feed-in Tariff- Draft Price Determination Statement of Reasons*, page 43.