

RETAILER FEED-IN TARIFF

*Final Price Determination
Statement of Reasons*

December 2013



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The Essential Services Commission of South Australia 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*. For more information, please visit www.escosa.sa.gov.au.

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GLOSSARY OF TERMS

AAC	ACIL Allen Consulting, an independent expert appointed by the Commission to advise on the fair and reasonable value of PV electricity to electricity retailers
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
CO₂-e	Carbon dioxide equivalent
Commission	Essential Services Commission of South Australia
D-FiT	The mandatory FiT of 44 cents/kWh or 16 cents/kWh for each kWh of electricity fed into the distribution network payable by SA Power Networks to PV customers (based on the date of connection or connection approval of their PV units) under Division 3AB of the Electricity Act
Electricity Act	Electricity Act 1996
ESC Act	Essential Services Commission Act 2002
FiT	Feed-in Tariff
IPART	Independent Pricing and Regulatory Tribunal (New South Wales)
kWh	kilo Watt hour, which is the equivalent of 1,000 Wh, an amount of energy approximately equivalent to running a single bar radiator for one hour
MWh	Mega Watt hour, which is the equivalent of 1,000 kWh
NECF	National Energy Customer Framework
NEM	National Electricity Market
NSLP	Net System Load Profile

PV customer	A residential or small business customer using less than 160 MWh of electricity per annum at a connection point which has a PV unit and complies with the requirements of Division 3AB of the Electricity Act
PV unit	A PV customer's photo-voltaic electricity generating unit which has a maximum nameplate capacity of 10kVA (single phase) or 30kVA (at three phases), meets the requirements of Australian Standard AS 4777, is connected to the distribution network in a manner allowing the export of electricity and has appropriate metering arrangements in place
R-FiT	The minimum FiT amount as determined by the Commission payable for each kWh of electricity fed into the distribution network by electricity retailers to PV customers under Division 3AB of the Electricity Act
QCA	Queensland Competition Authority
Watt	A derived SI (International System of units) unit of power, defined as one joule per second
Wh	One watt hour, a unit of energy

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 9.8 cents/kWh for the period until 31 December 2013. This Final Price Determination sets out the Commission's reasons in respect of its decision 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 7.6 cents/kWh, which is the lower bound of the reasonable range of estimated value to an electricity retailer of electricity fed into the distribution network (the 90th percentile and 10th percentile values, which forms the reasonable range, is 7.6 and 13.4 cents/kWh respectively). This value will apply to the extent that the current Clean Energy Act 2011 remains in force and there is no change to the carbon price regime during 2014 under that Act;
- ▲ providing a mechanism to vary the *minimum* R-FiT value to 6.0 cents/kWh in the event that the Clean Energy Act 2011 is repealed or the carbon price under that Act is set to zero. The R-FiT value of 6.0 cents/kWh is the lower bound of the reasonable range of estimated value to an electricity retailer of electricity fed into the distribution network, based on an assumption of zero carbon price;
- ▲ 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 making a *minimum* R-FiT price determination for at least one more year is that there are sufficient uncertainties 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, and how competitive the market for PV customers would be if the *minimum* R-FiT was set at a lower level or not at all. The Commission has accepted that the market for PV customers is part of a broader market for electricity retail customers, which is effectively competitive. However, the Commission has insufficient evidence that competition for PV customers is effective at this time, having regard to the materially lower switching rates of PV customers relative to non-PV customers and experience in other jurisdictions, where evidence of competition for PV customers appears mixed.

It is important to note that the *minimum* R-FiT value of 7.6 cents/kWh to apply from 1 January 2014 is less than the current R-FiT of 9.8 cents/kWh, for two reasons. First, electricity wholesale cost forecasts have declined significantly. Second, a *minimum* R-FiT of 7.6 cents/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.

Trading-off the fact that the Commission does not consider full deregulation appropriate at this time and the fact that the Commission accepts, in principle, that regulators setting prices is a second-best outcome if markets are sufficiently competitive, it has set the *minimum* R-FiT at a lower bound estimate of a reasonable range to provide sufficient headroom for electricity retailers to compete above that floor and thus for the market to determine the efficient price.

The primary reason to provide a mechanism that would allow for the *minimum* R-FiT value to be varied from 7.6 cents/kWh to 6.0 cents/kWh is to reflect the Federal Government's introduction of repeal bills into Parliament which, if enacted, would effectively remove the carbon price from 1 July 2014. While there is still some uncertainty about whether or not those bills will be passed, the potential for the carbon price to be removed has increased significantly. It is therefore appropriate for the Price Determination to accommodate the impact of that event on the value of PV exports and the R-FiT, should it occur.

As explained in the report by ACIL Allen Consulting (**AAC**) to the Commission¹, the estimation of the R-FiT values inclusive of the carbon price and exclusive of the carbon price are based on the following:

- ▲ In the carbon price scenario, the wholesale spot price of electricity was projected on the assumption that the carbon price will continue to operate in accordance with the fixed price settings of \$24.15/tonne CO₂-e until 30 June 2014 and \$25.40/tonne CO₂-e from 1 July 2014 until 30 June 2015.

¹ ACIL Allen Consulting, *Estimated Value of PV Exports - Calendar year 2014 estimate from market modelling – update to include carbon price scenarios*, November 2013; available from the Commission's website at: <http://www.escosa.sa.gov.au/projects/200/review-of-the-retailer-feed-in-tariff.aspx#stage-list=4>.

- ▲ In the repeal scenario, the wholesale spot price of electricity was projected based on the assumption that the carbon price will continue to operate in accordance with the fixed price settings of \$24.15/tonne CO₂-e until 30 June 2014 and then fall immediately to zero.

The Commission notes that the difference between the R-FiT values that are inclusive and exclusive of the carbon price represents the difference in forecast NSLP-weighted wholesale spot prices under those two scenarios. It does not represent the cost of retailers entering into forward contracts for wholesale electricity, which may be more representative of retailers' wholesale costs for the purposes of setting Market Offer and Standing Offer prices. The implied value of the carbon price in the Commission's R-FiT determination is therefore not likely to be representative of the impact of the carbon price on electricity retail prices more generally.

Should any other events eventuate during 2014 that would have direct implications for the fair and reasonable value to a retailer of exported PV output, the Commission will examine the evidence and may vary its determination of the *minimum* R-FiT.

The Final Price Determination establishes 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. Based, in part, on the Commission's findings through the price-monitoring regime, it will reconsider its regulatory position through a subsequent review process in late 2014. As competition ought to be a dynamic process, the Commission would expect to see R-FiT offerings that reflect value to electricity retailers while, at the same time, not seeing any diminution in PV customers' ability to access competitive electricity retail prices relative to those available to non-PV customers.

The Final Price Determination represents a cautious and measured approach by the Commission, taking into account its primary objective and the broad range of factors set out in the Electricity and ESC Acts.

1. INTRODUCTION

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.²

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.

1.1 The feed-in scheme: D-FiT and R-FiT

The South Australian FiT arrangements are established under the Electricity Act.³

Under the FiT scheme, South Australian PV customers who consume less than 160MWh of electricity annually at a single connection point and have qualifying PV units installed at their premises may receive FiT payments in respect of each kWh of electricity exported into the distribution network.

Customers may choose to install PV units for various reasons; such as environmental concerns, the potential for financial returns or to reduce the amount they pay to electricity retailers for the electricity consumption at their premises. The generation output of a PV unit is a substitute for the need to purchase electricity from an electricity retailer. If the PV units generate more electricity than a customer requires, the excess electricity is exported to the distribution network.

² In its Issues Paper on this review and in previous regulatory documents, the Commission has referred to the R-FiT as the FiT Premium. Noting a submission received on this review from Tindo Solar suggesting that, consistent with the provisions of the Electricity Act, the payment is better characterised as a *minimum* FiT rather than a *premium*, the Commission has decided to adopt that nomenclature. The term R-FiT (short for retailer FiT) is used throughout this and associated documents. A copy of Tindo Solar's submission may be accessed from the Commission's website at: <http://www.escosa.sa.gov.au/projects/200/review-of-the-solar-feed-in-tariff-premium.aspx#stage-list=1>.

³ Refer generally, Electricity Act 1996, Division 3AB; a copy of that Act may be accessed from the South Australian Legislation website at <http://www.legislation.sa.gov.au/LZ/C/A/ELECTRICITY%20ACT%201996.aspx>.

To be a *qualifying* PV unit for FiT purposes, a PV customer's PV unit must:

- ▲ have a maximum nameplate capacity of 10kVA (single phase) or 30kVA (three phase) and meet any other requirements of Australian Standard AS 4777;
- ▲ be connected to SA Power Networks' distribution network in a manner allowing the export of electricity; and
- ▲ have appropriate metering arrangements in place.

Of note, the FiT scheme does not apply in any distribution network serving less than 10,000 customers, which effectively limits its scope to customers who are directly connected to the network operated by SA Power Networks.

The Australian Energy Market Operator (**AEMO**) noted in its August 2013 *South Australian Electricity Report* that:⁴

Rooftop PV in South Australia has grown strongly since 2009, and rooftop PV penetration is higher compared with other NEM regions. This is primarily due to government incentives in the form of rebates and feed-in tariffs, the Small-scale Technology Certificate (STC) multiplier, falling system costs and rising electricity prices. These factors help reduce payback period, making PV an attractive option for households, particularly from 2010 to 2012.

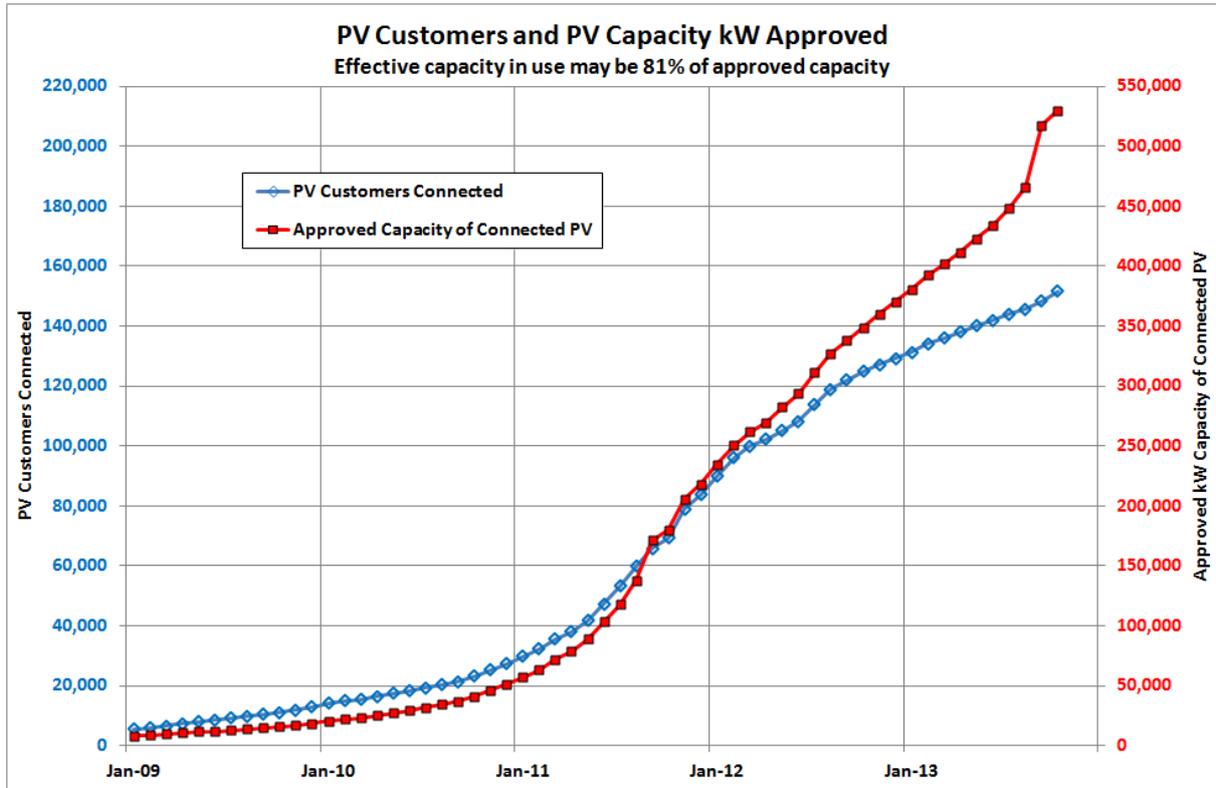
Growth has slowed in recent years, partially due to reduced feed-in tariff rates. Moderate growth is expected to continue over the outlook period due to continued increases in energy prices and decreasing costs of imported solar panels which will allow payback period to remain the same (5 to 7 years) despite a reduction in the feed-in tariff.

As at 31 October 2013, data provided by SA Power Networks shows that there were 151,676 PV customers in South Australia (approximately one-in-five South Australian residential and small business customers), with the aggregate approved PV unit capacity of around 530MW.

As set out in the figure below, and consistent with AEMO's observations, SA Power Networks' data confirms that there has been a consistent upwards trend in both the number and installed capacity of PV units in this State since the commencement of the FiT scheme.

⁴ Australian Energy Market Operator, *2013 South Australian Electricity Report*, August 2013, page 2-7; available at <http://www.aemo.com.au/Electricity/Planning/South-Australian-Advisory-Functions/South-Australian-Electricity-Report>.

Figure 1-1: SA Power Networks' PV installation data 2009-2013



Source: SA Power Networks

Notably, the average capacity of PV units has increased at a greater rate than the increase in the total number of PV units installed. In 2012/13, those PV units generated a total of 497 GWh, approximately 3.7% of South Australia’s annual energy.⁵

Under the FiT scheme, each kWh exported (as measured quarterly) entitles a PV customer to FiT payments, subject to various limitations and qualifications set out in the Electricity Act. The payments related to exported kWh of electricity are sometimes referred to as “credits” as they are, in the first instance, set off against any amounts payable for electricity consumed by the PV customer and, if in excess of those amounts, thereafter accrue to the credit of the PV customer.

There are two FiTs within the scheme: a distributor FiT (**D-FiT**) and the R-FiT.

1.1.1 The D-FiT

The D-FiT scheme is set out in section 36AE of the Electricity Act and commenced on 1 July 2008. The Commission has no regulatory role in relation to the D-FiT; however, to provide background and context, the key elements of the D-FiT arrangements are set out below.

⁵ Australian Energy Market Operator, *2013 South Australian Electricity Report*, August 2013, page 2-8; available at <http://www.aemo.com.au/Electricity/Planning/South-Australian-Advisory-Functions/South-Australian-Electricity-Report>.

Background to the D-FiT

The D-FiT scheme was originally identified in the South Australian State Strategic Plan as a Government policy intention to introduce a “feed-in law” to reward households that install PV generation units by paying them for the electricity fed back into the electricity grid as part of its broader strategy to tackle climate change.⁶

At the time of introducing the feed-in scheme in 2008, the South Australian Government stated that its proposed feed-in scheme aimed to fill the gaps left by declining Commonwealth Government support for residential PV generation units and allow the South Australian Government to pursue its objective of leadership in solar power.⁷

The proposed scheme was a means of promoting decentralised renewable energy generation by providing a specific bonus for owners of small-scale grid-connected PV generation units. PV customers⁸ would receive 44 cents/kWh, (or roughly double the price at that time of the electricity standing contract), for all electricity returned to the grid after supplying the household’s own consumption needs at any point in time.

Qualification for the D-FiT

Eligibility for the D-FiT is subject to the following conditions:

- ▲ D-FiT credits are limited to the first 45 kWh/day of electricity exported into the distribution network;
- ▲ D-FiT credits are limited to one PV unit per PV customer; and
- ▲ PV units are excluded from the scheme if they are operated primarily for the purpose of generating a profit from receiving the D-FiT credit (with SA Power Networks being responsible for determination of this matter).

⁶ “Objective 3: Attaining Sustainability” outlined a number of key initiatives to achieve that goal. The introduction of a feed-in scheme sits within the broader Target T3.5 which states: “Greenhouse gas emissions reduction (existing – modified): achieve the Kyoto target by limiting the State’s greenhouse gas emissions to 108% of 1990 levels during 2008-2012, as a first step towards reducing emissions by 60% (to 40% of 1990 levels) by 2050” and Target T3.12 which stated: “Support the development of renewable energy so that it comprises 20% of the State’s electricity production and consumption by 2014”. Refer <http://saplan.org.au/>.

⁷ Government of South Australia, *South Australia’s Feed-in Mechanism for Residential Small-Scale Solar Photovoltaic Installations*, Discussion Paper, February 2007.

⁸ While the feed-in scheme was originally proposed to apply only to residential customers, the scheme was extended to all “small customers” (that is, those customers consuming less than 160MWh of electricity annually) during the Bill’s passage through the Parliament.

Payments under the D-FiT

D-FiT credits are paid by the electricity distributor, SA Power Networks, at a value which is set under the Electricity Act: either 44 cents/kWh or 16 cents/kWh, depending on the time of installation of the relevant PV units, summarised in Table 1-1.

Table 1-1: D-FiT payment and term by PV unit class

PV UNIT INSTALLATION/ APPROVAL DATE	D-FIT CREDITS	DURATION OF D-FIT
Class 1 Before 1 October 2011	44 cents/kWh	Until 30 June 2028
Class 2 1 October 2011 to 30 September 2013	16 cents /kWh	Until 30 September 2016
Class 3 From 1 October 2013	0.0 cents /kWh	N/A

Closure of the D-FiT to new PV customers

Of note, since 30 September 2013, new PV customers are no longer entitled to receive D-FiT payments – the D-FiT scheme is now closed to new entrants and will be, in effect, a run-off scheme.

The decision to close the scheme was consistent with the original intention of the Government when the scheme was introduced. As noted in the report prepared for the South Australian Government in 2010 by Consulting Partners, *South Australian Feed-in Tariff Review – Final Report*:⁹

During the Second Reading Speech for the Bill the Government committed to undertaking a review of the solar feed-in scheme after 2.5 years or when a total of 10 megawatts (MW) of small grid connected solar electricity systems were installed in South Australia. Data from the Federal Department of Climate Change indicated that 10MW of installed capacity was reached around May 2009.

⁹ Consulting Partners, *South Australian Feed-in Tariff Review – Final Report*, 2010, page 6.

In 2011, when introducing into Parliament the Government's proposed Bill to give effect to the closure of the D-FiT, the Minister for Energy noted that there was already approximately 50MW of installed PV unit capacity in South Australia. The Minister went on to state that:¹⁰

To strike the right balance between the availability of the scheme and the overall cost to all electricity customers, the government proposed to close the scheme to new entrants when an installed capacity of 60 MW is reached. I advise honourable members that customer uptake of the feed-in scheme has been strong since the Premier's announcement.

In order to provide an adequate implementation period, the government proposes to close the scheme to new entrants from 1 October 2011.

D-FiT funding arrangements

While paid by SA Power Networks to PV customers, the costs of the D-FiT payments are borne by all South Australian electricity customers through their electricity network charges.

Based on information provided to it by SA Power Networks, the Commission understands that, in 2011/12, customers contributed \$69 million in D-FiT payments through electricity network charges, anticipated to rise to \$104 million in 2012/13 and then to approximately \$125 million for each year of the period 2013/14 to 2015/16. After that time, the costs are expected to fall to approximately \$90 million each year until the end of the scheme in 2028.

Based on SA Power Network's electricity network prices, the impact of the D-FiT on a typical average annual residential electricity customers bill in 2013/14 is \$98 (inclusive of GST), or approximately 5 per cent.¹¹

Based on the costs above, it is anticipated that the total value of D-FiT payments, to be collected from all South Australian customers through electricity network charges during the life of the scheme (to June 2028), will be approximately \$1.64 billion.

1.1.2 The R-FiT

The R-FiT scheme is set out in section 36AD of the Electricity Act and commenced in January 2012.

The R-FiT, which is currently set at 9.8 cents/kWh, must be paid by electricity retailers to PV customers at or above the *minimum* value (if any) set by the Commission from time to time.

¹⁰ House of Assembly Hansard, House of Assembly - Wednesday, 6 April 2011, Page 3238, Minister for Energy, the Hon. M. O'Brien M.P.; available at www.parliament.sa.gov.au.

¹¹ SA Power Networks, *Annual Pricing Proposal 2012-13*, May 2013; available at <http://www.aer.gov.au/sites/default/files/SA%20Power%20Networks%20-%202013-14%20Annual%20pricing%20proposal%20-%20revised%2024%20May%202013.pdf>.

Background to the R-FiT

Prior to the commencement of the D-FiT scheme in 2008, only three of the eleven electricity retailers operating in South Australia (AGL, TRUenergy (now EnergyAustralia) and Origin Energy) were making voluntary FiT payments to customers. Of note, the combined market share of those retailers at that time was 87.4%; with AGL holding 63%, Origin Energy 16% and TRUenergy (now EnergyAustralia) 8.4%.¹²

Following commencement of the D-FiT, those electricity retailers significantly reduced the amount of those voluntary FiT offerings, as shown in the following table.

Table 1-2: Electricity retailer voluntary FiT payments prior to and post D-FiT commencement

ELECTRICITY RETAILER	PRIOR TO D-FIT (2008)	POST D-FIT
AGL	One-for-one (based on retail consumption tariff)	July 2008 – Oct. 2009: 0 cents/kWh From 1 Nov. 2009: 8 cents/kWh
TRUenergy	18 cents/kWh	July 2008 – Aug. 2009: 18 cents/kWh From Aug. 2009: 6 cents/kWh
Origin Energy	20 cents/kWh	6 cents/kWh

This led to community concerns that electricity retailers, in reducing or removing their voluntary FiT payments, were making windfall financial gains. Those gains could arise as a result of the PV electricity fed into the distribution system reducing the amount of electricity required to be purchased from the National Electricity Market (**NEM**) and, hence, electricity retailers' costs. In that sense, the fed-in PV electricity was valuable and the central concern was the electricity retailers may have been retaining that value at the cost of those producing the PV electricity.

¹² Essential Services Commission, *Annual Performance Reports – Time Series Data*; available at <http://www.escosa.sa.gov.au/electricity-overview/reporting-and-compliance/annual-performance-reports.aspx>.

In the second-reading speech for the Bill which ultimately gave effect to the R-FiT regime, the then Minister for Energy noted that:¹³

*The government's proposal will oblige retailers, who choose to contract with solar customers, to pay **at least a minimum retail rate**, which would be determined by ESCOSA, for the power received from solar panels. The retailer payment will apply to power exported by all small-scale solar photovoltaic generators, regardless of whether or not the power exported is also eligible for the premium feed-in tariff.*

*The mandated minimum retailer payment will continue to apply beyond the feed-in scheme's expiry in 2028 to ensure that **retailers pay customers for the value they receive from power exported to the grid**. This minimum rate will not be subject to the new eligibility criteria of the daily cap, and the exclusion of multiple and dedicated generators.*

(emphasis added)

The R-FiT came into effect from January 2012. The amendments to the Electricity Act which gave effect to the R-FiT provided, consistent with the Government's policy intentions, that the Commission was required to make an initial price determination under the ESC Act at that time, to set an R-FiT value.

The requirement under the Electricity Act to make a price determination only applied to the initial price determination. The Commission has a discretion as to whether or not to make any subsequent R-FiT price determinations; however, if the Commission chooses to do so, it is required to take into account a set of statutory factors (as explained in Chapter 2) in reaching its decision.

Two important matters arise in respect of the R-FiT as established under the Electricity Act.

First, any value determined by the Commission is intended to be only a *minimum* amount paid by electricity retailers. Second, the value may vary over time (as determined by the Commission) reflecting matters such as changing market conditions.

These are important considerations, along with other statutory factors set out in the Electricity and ESC Acts, which inform the Commission when making an R-FiT price determination.

A further consideration is that, under the Electricity Act, the Commission *may* make such an R-FiT determination: for example, when it considers doing so best protects the long-term interests of South Australian electricity consumers - which is the Commission's primary statutory objective under the ESC Act; however, it is not *required* to do so.

¹³ House of Assembly Hansard, Wednesday 6 April 2011, page 3238; available at: http://hansard.parliament.sa.gov.au/docloader/House%20of%20Assembly/2011_04_06/Daily/House%20of%20Assembly_C_Daily_DIST_2011_04_06_v20.pdf.

If the Commission forms the view, having regard to all relevant statutory factors, that it would not be in South Australian electricity consumers' long-term interests for it to make an R-FiT price determination, then it will not do so.

Qualification for the R-FiT

To qualify for an R-FiT, a PV customer has to install a *qualifying* PV unit (as described in section 1.1 above). Unlike the D-FiT scheme, there is no time by which a qualifying PV unit must be installed and no time restriction on the payment of R-FiTs – the R-FiT scheme continues in perpetuity (albeit that there is the potential for the Commission to not set an R-FiT value) or until repealed by the Parliament.

The purpose of the R-FiT is to recognise that there may be an economic value for any electricity which is fed into the distribution network, albeit that the economic value may vary over time. The Electricity Act therefore requires electricity retailers to recognise that economic value through payments to PV customers.

Payments under the R-FiT

The current *minimum* value of the R-FiT is 9.8 cents/kWh, set by the Commission under an initial price determination made in 2012. That price determination was originally made for a three-year period and provided three separate prices within that period, as follows:

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

In June 2013, the Commission varied that determination to hold the value at 9.8 cents/kWh from 1 July 2013, rather than allowing it to increase to 11.2 cents/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). At the same time, the Commission commenced this review into the future regulatory approach for the R-FiT.

As outlined above, in mandating payments of this nature under the Electricity Act, there was an assumption that economic value was not being delivered, or not being delivered consistently, by electricity retailers to PV customers (noting that some retailers were voluntarily making R-FiT payments prior to the commencement of the R-FiT scheme). One of the questions for the Commission is whether or not such an assumption is sustainable at the current time.

1.1.3 Summary of amounts payable to PV customers under the FiT arrangements

Overall, the FiT scheme comprises two elements – the D-FiT and the *minimum* R-FiT (currently 9.8 cents/kWh). The Electricity Act determines a small customer’s entitlement to and the period for which he or she will receive one or both of those payments based on the time at which the relevant PV unit was connected, or approved for connection, to the network, as follows:

Table 1-3: Amount and period of FiT payments (as at August 2013)

PV UNIT INSTALLATION/ APPROVAL DATE	CREDIT AMOUNT	PERIOD PAYABLE
Before 1 October 2011	R-FiT + 44 cents/kWh D-FiT	Ongoing + Until 30 June 2028
1 October 2011 to 30 September 2013	R-FiT + 16 cents/kWh D-FiT	Ongoing + Until 30 September 2016
From 1 October 2013	R-FiT	Ongoing

1.2 The Commission’s review

When the Commission varied the R-FiT price determination in June 2013, it also commenced a review to further explore the need for, and nature of, future price regulation of the R-FiT.¹⁴

The Commission did so having particular regard to the South Australian Government’s decision to remove price regulation in the electricity and gas retail markets from 1 February 2013.

To assist members of the community in responding to the review, in June the Commission released an Issues Paper setting out key issues and matters for consideration. The key questions raised for community consideration in the Issues Paper were as follows:

- ▲ Is it in the long-term interests of consumers for the Commission to continue to regulate the R-FiT beyond 1 January 2014?
- ▲ In the absence of a regulated R-FiT, are there likely to be any differences in the extent to which consumers could exercise choice between electricity retailers providing R-FiTs, as distinct from electricity retailers selling electricity to end-users more generally?
- ▲ 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?

¹⁴ Details of this review generally may be found on the *Review of the Solar Feed-in Premium* page of the Commission’s website at <http://www.escosa.sa.gov.au/projects/200/review-of-the-solar-feed-in-tariff-premium.aspx>.

- ▲ Do the benefits of setting an R-FiT outweigh the costs?
- ▲ Are there other regulatory approaches that should be adopted by the Commission rather than directly determining the regulated R-FiT?

Submissions on the Issues Paper closed on 26 July 2013. 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.

Written submissions were received from:

- ▲ AGL Energy Ltd (**AGL**);
- ▲ Alinta Energy;
- ▲ SA branch of the Australian Solar Energy Society;
- ▲ Business SA;
- ▲ Clean Energy Council;
- ▲ Conservation Council SA;
- ▲ EnergyAustralia;
- ▲ Energy Retailers Association of Australia;
- ▲ Energy Supply Association of Australia;
- ▲ Lumo Energy;
- ▲ Mark Parnell MLC;
- ▲ Origin Energy;
- ▲ South Australian Council of Social Services (**SACOSS**);
- ▲ Simply Energy;
- ▲ Solar Citizens (enclosing a petition);
- ▲ Tindo Solar;
- ▲ Zen Energy Systems; and
- ▲ 10 Private Individuals.

Following its consideration of these submissions, the Commission released its Draft Price Determination for public consultation in October 2013. Submissions on the Draft Price Determination closed on 1 November 2013. Written submissions were received from the following parties:

- ▲ AGL;
- ▲ Alinta Energy;
- ▲ Business SA;
- ▲ Clean Energy Council;
- ▲ EnergyAustralia;
- ▲ Navitus Solar;
- ▲ Origin Energy;
- ▲ SACOSS;
- ▲ Simply Energy; and
- ▲ 3 Private Individuals.

All submissions to both the Issues Paper and Draft Price Determination, with the exception of the petition contained in the Solar Citizens' submission, can be accessed on the Commission's website.¹⁵ The Commission is unable to publish the petition contained in the Solar Citizens group submission due to its privacy policy; however, the Commission has published the petition template as a part of the Solar Citizens' submission.

The Commission appreciates the contribution made by members of the community making submissions throughout the review process, and acknowledges the valuable input that those submissions have provided into the preparation of this Final Price Determination.

In preparing this Final Price Determination, the Commission has considered each of the submissions received. Where appropriate, the Commission has, either by direct quotation or by reference to themes or arguments, mentioned certain arguments and submissions in the text to assist stakeholders to understand the positions it has reached; however, a failure to reference an argument or submission does not mean that the Commission has not taken that argument or submission into account in its deliberations.

¹⁵ Submissions are available at <http://www.escosa.sa.gov.au/projects/200/review-of-the-solar-feed-in-tariff-premium.aspx>.

2. LEGISLATIVE FRAMEWORK

Both the decision to make and the making of an R-FiT price determination occur within a statutory framework. This Chapter provides an overview of the legislative regime within which the Commission works and the specific provisions which relate to R-FiT price determinations.

2.1 The Commission

The Commission is a statutory authority, established under the ESC Act as a general regulator of essential services in South Australia, including the essential service of electricity supply.

Section 5 of the Act provides the Commission with a set of statutory functions.

5—Functions

The Commission has the following functions:

- (a) to regulate prices and perform licensing and other functions under relevant industry regulation Acts;*
- (b) to monitor and enforce compliance with and promote improvement in standards and conditions of service and supply under relevant industry regulation Acts;*
- (c) to make, monitor the operation of, and review from time to time, codes and rules relating to the conduct or operations of a regulated industry or regulated entities;*
- (d) to provide and require consumer consultation processes in regulated industries and to assist consumers and others with information and other services;*
- (e) to advise the Minister on matters relating to the economic regulation of regulated industries, including reliability issues and service standards;*
- (f) to advise the Minister on any matter referred by the Minister;*
- (g) to administer this Act;*
- (h) to perform functions assigned to the Commission under this or any other Act;*
- (i) in appropriate cases, to prosecute offences against this Act or a relevant industry regulation Act.*

In the performance of those functions, the Commission is required to meet the statutory objectives set out at section 6 of the ESC Act, which includes a paramount statutory objective:

6—Objectives

In performing the Commission's functions, the Commission must—

- (a) have as its primary objective protection of the long term interests of South Australian consumers with respect to the price, quality and reliability of essential services; and*
- (b) at the same time, have regard to the need to—*
 - (i) promote competitive and fair market conduct; and*
 - (ii) prevent misuse of monopoly or market power; and*
 - (iii) facilitate entry into relevant markets; and*
 - (iv) promote economic efficiency; and*
 - (v) ensure consumers benefit from competition and efficiency; and*
 - (vi) facilitate maintenance of the financial viability of regulated industries and the incentive for long term investment; and*
 - (vii) promote consistency in regulation with other jurisdictions.*

Together, these sections set out the broad scope of the Commission's role and a framework for its performance of that role. As can be seen from the provisions of section 5(a), the ESC Act expressly contemplates that other Acts, such as the Electricity Act in the case of setting R-FiT amounts, will at times call up the Commission's powers and functions.

2.2 R-FiT provisions of the Electricity Act

In section 1.1.2 above, the Commission examined the scope and purpose of the R-FiT; this section focuses on the detailed statutory arrangements for the R-FiT.

2.2.1 The R-FiT obligation and amount

Under section 36AD(1) of the Electricity Act:¹⁶

It is a condition of the licence of the electricity entity that has the relevant contract to sell electricity as a retailer to a qualifying customer who feeds electricity generated by a qualifying generator into a distribution network, other than an excluded network, that the retailer will, after taking into account any requirements prescribed by the regulations—

¹⁶ Section 36AD of the *Electricity Act 1996* refers to the obligation to pay the minimum R-FiT as a "condition of licence". Since the commencement of the National Energy Retail Law in South Australia from 1 February 2013 there is no longer an obligation for electricity retailers (other than those retailing in "off-grid" areas of the State) to hold a licence; electricity retailers now hold "authorisations" issued by the Australian Energy Regulator and are termed "NERL retailers". Section 36AD still applies to NERL retailers however, pursuant to section 14E(2) of that Act, which provides that section 36AD "... applies to a NERL retailer (despite the fact that it does not hold a licence under this Act)".

(a) credit against the charges payable by the qualifying customer for the sale of electricity to the qualifying customer the prescribed amount, or an amount determined by the retailer, being an amount greater than the prescribed amount, for electricity fed into the network in excess of the electricity used by the qualifying customer.

The Commission would again emphasise the *minimum* nature of the regulated R-FiT envisaged under the Electricity Act. The *prescribed amount* set by the Commission is intended to operate as a floor price, with electricity retailers able to determine amounts greater than that which they may offer to PV customers.

For the purposes of that section, the *prescribed amount* is the amount determined by the Commission from time to time through a price determination made in accordance with section 35A of the Electricity Act.¹⁷

Of note, section 36AD(1) imposes a statutory, rather than a contractual, obligation on an electricity retailer to make R-FiT payments to its PV customers. This has three key consequences.

First, all electricity retailers operating in the NEM are now required, under the National Energy Retail Law, to have available a Standing Offer for small customers, including PV customers. To the extent that any PV customer is entitled to be sold electricity by an electricity retailer under a Standing Offer, then section 36AD(1) will require that electricity retailer to make R-FiT payments, even if the terms of the Standing Offer make no provision for such payments to be made.

Second, in the case of Market Offers, electricity retailers are not obliged to provide those offers to all small customers – they may elect to refrain from making Market Offers available to particular customers or customer classes.

Third, even though an electricity retailer might actively seek to avoid PV customers, it may not be possible for it to do so. Under the terms of the R-FiT regime, if a customer on that “non-PV” electricity retailer’s Market Offer installs a qualifying PV unit during the life of that contract (and assuming that the installation of a PV unit does not bring the contract to an end under the terms of the Market Offer) then on and from the date of connection of that PV unit the customer will be entitled to receive R-FiT payments. This is so notwithstanding that the terms of the Market Offer make no provision for such payments to be made.

¹⁷ *Electricity Act 1996*, section 36AC(1).

2.2.2 The Commission's authority to make an R-FiT determination

Section 35A provides, in turn, that:

- (1) *The Commission may make a determination under the Essential Services Commission Act 2002 regulating prices, conditions relating to prices and price-fixing factors for—*

- (ba) *the feeding-in of electricity into a distribution network under Division 3AB;*

While 35A(1)(ba) is expressed in general terms (prices, conditions relating to prices and price-fixing factors) it needs to be construed alongside the terms of section 36AD, which require the Commission to determine *an amount*.

This means that for any determination of the prescribed amount, a particular amount (an ascertainable value) must be set. This includes setting zero as the amount.

In this sense, the R-FiT operates in a similar manner to the former electricity standing contract price determination provisions of the Electricity Act, which required the Commission to *fix* a standing contract price, notwithstanding that its general price determination powers ordinarily permit it to make determinations by other means (for example, using methods such as prices, conditions relating to prices and price-fixing factors).¹⁸

That does not, however, mean that the Commission is prevented from including additional and complementary price control mechanisms within an R-FiT price determination – provided the determination at least fixes an amount it can also impose other forms of price control, such as price monitoring.¹⁹

2.2.3 Factors specified in the Electricity Act

As is explained in more detail below, when making a price determination the Commission is required under the ESC Act to “have regard to” various factors. Those factors include any factors set out in the industry regulation Act providing the authority for the price determination to be made – in this instance the Electricity Act.

Section 35A(2a) of the Electricity Act provides that:

- (2a) *In addition to the requirements of section 25(4) of the Essential Services Commission Act 2002, the Commission must, in acting under subsection (1)(ba), have regard to the fair and reasonable value to a retailer of*

¹⁸ See generally, Essential Services Commission, *Review of Energy Retail Price Setting Methodology, Discussion Paper*, October 2009, section 3.7 pages 22 to 25; available at <http://www.escosa.sa.gov.au/library/091023-RetailPriceMethodologyReview-DiscussionPaper.pdf>.

¹⁹ *Essential Services Commission Act 2002*, section 25(3).

electricity fed into the network by qualifying customers within the meaning of Division 3AB.

While section 6A(4) provides that:

- (4) *In performing functions under this Act, the Commission must (in addition to having regard to factors specified in this Act or the Essential Services Commission Act 2002) have regard to the provisions of the National Electricity Rules and National Energy Retail Rules and the need to avoid duplication of, or inconsistency with, regulatory requirements under those Rules.*

The first of these additional factors is very important in the context of this review and Final Price Determination and is considered in detail in Chapter 3. In summary, however, the effect of section 35A(2a) is to require the Commission to focus on the value of fed-in energy to electricity retailers, rather than to PV customers.

The second factor requiring the Commission to have regard to the National Electricity Rules and National Energy Retail Rules is not relevant to the making of an R-FiT price determination.

2.3 Price determination powers under the ESC Act

As section 35A(1)(ba) permits the Commission to make a price determination under the ESC Act, it is useful to consider that price determination regime.

Section 25 of the ESC Act permits the Commission to make a price determination²⁰ but only in cases where it is authorised to do so under a relevant industry regulation Act²¹ (the Electricity Act is a relevant industry regulation Act).²²

In this case, as shown above, the Commission is empowered under the Electricity Act to make an R-FiT price determination under the ESC Act should it choose to do so (subject to consideration of all statutory factors, as explained below).

2.3.1 Price regulation methodologies

Section 25(3) of the ESC Act sets out a non-exhaustive list of price regulation methodologies which the Commission may choose to implement in a price determination, including:

- (a) *fixing a price or the rate of increase or decrease in a price;*
- (b) *fixing a maximum price or maximum rate of increase or minimum rate of decrease in a maximum price;*
- (c) *fixing an average price for specified goods or services or an average rate of increase or decrease in an average price;*

²⁰ *Essential Services Commission Act 2002*, section 25(1).

²¹ *Essential Services Commission Act 2002*, section 25(2).

²² *Electricity Act 1996*, section 14D.

- (d) *specifying pricing policies or principles;*
- (e) *specifying an amount determined by reference to a general price index, the cost of production, a rate of return on assets employed or any other specified factor;*
- (f) *specifying an amount determined by reference to quantity, location, period or other specified factor relevant to the supply of goods or services;*
- (g) *fixing a maximum average revenue, or maximum rate of increase or minimum rate of decrease in maximum average revenue, in relation to specified goods or services;*
- (h) *monitoring the price levels of specified goods and services.*

Under section 25(6) of the ESC Act, this general power to select a price regulation methodology can be constrained by the terms of the authorising Act. In this case, as explained in section 2.2.2, the R-FiT provisions of the Electricity Act mean that the Commission must determine a prescribed amount.

As noted earlier, however, while the Commission must determine a prescribed amount (as opposed to a price range, for example), subject to it doing so there is nothing in the statutory scheme which would prevent the Commission from also implementing complementary arrangements, such as price-monitoring to assess the effectiveness of the prescribed amount.

2.3.2 Factors to take into account and matters to ensure

Section 25(4) of the ESC Act sets out a range of factors to which the Commission must have regard when making a price determination. That section provides that, in addition to the general factors set out in section 6 of the ESC Act (refer section 2.1 above), the Commission must also have regard to:

- (a) *the particular circumstances of the regulated industry and the goods and services for which the determination is being made;*
- (b) *the costs of making, producing or supplying the goods or services;*
- (c) *the costs of complying with laws or regulatory requirements;*
- (d) *the return on assets in the regulated industry;*
- (e) *any relevant interstate and international benchmarks for prices, costs and return on assets in comparable industries;*
- (f) *the financial implications of the determination;*
- (g) *any factors specified by a relevant industry regulation Act or by regulation under this Act;*
- (h) *any other factors that the Commission considers relevant.*

As noted in section 2.2.3 above, two additional factors – the requirement to have regard to the fair and reasonable value to an electricity retailer and the requirement to have regard to the National Electricity Rules and National Energy Retail Rules – are contained in the Electricity Act and must, under section 25(4)(g), be considered by the Commission.

In addition to those factors, section 25(5) of the ESC Act provides that the Commission must ensure that:

- (a) *wherever possible the costs of regulation do not exceed the benefits; and*
- (b) *the decision takes into account and clearly articulates any trade-off between costs and service standards.*

It is the Commission’s role to consider how best to have regard to these matters and how much weight to give each. Ultimately, the Commission is guided by its primary statutory objective – the protection of the long-term interests of South Australian consumers with respect to the price, quality and reliability of essential services.

2.4 Special provisions for the initial R-FiT price determination in 2012

Before commencing its review of the factors, however, the Commission would note that, for the initial R-FiT price determination in 2012, the foregoing decision-making framework did not apply.

Under the transitional provisions of the Electricity Act, the Commission was required to make that initial price determination (that is, unlike the case now, it did not have a discretion as to whether or not it would make a determination) and, in making that determination could adopt whatever process it thought fit and could base the determination on such principles, policies and other factors as it felt appropriate.²³

Noting that to be the case, the Commission nevertheless proceeded on the basis that it would generally adopt the Electricity Act and ESC Act price determination framework, stating:²⁴

Despite this displacement of the requirements of the ESC Act in respect of the initial FiT premium determination to be made by the Commission, the Commission believes that the objectives and factors set out in the ESC Act are still relevant to the determination of the FiT premium, and should still be considered as guiding principles. In particular, the Commission’s primary objective, which is to protect the long-term interests of South Australian consumers with respect to the price, quality and reliability of essential services, is as relevant to this determination as it is to the Commission’s other price determination functions.

²³ *Electricity (Miscellaneous) Amendment Act 2011*, schedule 1 – transitional provisions, clause 4.

²⁴ Essential Services Commission, *2012 Determination of Solar Feed-in Tariff Premium*, January 2012, page 10; available at <http://www.escosa.sa.gov.au/library/120125-SolarFeedinTariffPremium-FinalDecision.pdf>.

Accordingly, in addition to the reasons outlined above, it is prudent for the Commission to take into account the objectives and factors set out in the ESC Act and the Electricity Act in making the initial FiT premium determination to ensure consistency between FiT premium determinations and to mitigate the risk of any future price shocks to consumers or retailers.

The initial approach adopted by the Commission has assisted in ensuring consistency between R-FiT price determinations.

3. FACTORS CONSIDERED

This Chapter sets out the factors considered by the Commission, as required under the Electricity Act and the ESC Act, in making this Final Price Determination. Consistent with the approach taken in the making of the Draft Price Determination, the Commission's consideration of the factors has been undertaken in the context of five themes:

- ▲ definition of the R-FiT market;
- ▲ the fair and reasonable value of PV electricity to electricity retailers;
- ▲ promotion of competition, efficiency and fair market conduct;
- ▲ evidence on R-FiT equivalents from other jurisdictions; and
- ▲ deregulation and the costs of regulating.

To the extent that there are residual factors under the Electricity Act or ESC Act not captured within those thematic groups, those are considered separately at the end of this Chapter.

3.1 Definition of the R-FiT market

Section 25(4)(a) of the ESC Act requires the Commission to have regard to the particular circumstances of the relevant regulated industry and goods and services.

The overview of the R-FiT scheme and the statutory provisions in the previous Chapters set out the Commission's consideration of the broad circumstances of the matters within section 25(4)(a). In the context of this review, however, a further key consideration for the purposes of section 25(4)(a) is the extent of competition for PV customers by electricity retailers.

3.1.1 Submissions

The submissions that addressed this matter put the view that competition for PV customers is a part of the broader retail electricity market, rather than being a functionally distinct market in its own right.

AGL Energy Ltd (**AGL**) put the view that:²⁵

No retailer currently operates to serve solar PV customers only. Retailers who provide solar PV offers do so only as a part of their general retail offers.

²⁵ AGL Energy Ltd, *Submission to the 2013 Determination of Retailer Feed-In Tariff – Draft Price Determination*, 26 July 2013, page 1; available at <http://www.escosa.sa.gov.au/projects/200/review-of-the-solar-feed-in-tariff-premium.aspx#stage-list=1>.

EnergyAustralia commented that:²⁶

... 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.

EnergyAustralia further submitted that:²⁷

[EnergyAustralia] 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.

Simply Energy submitted that consideration of the broader small customer retail electricity market in South Australia is relevant in determining the extent of competition for PV customers, supported by the high penetration of rooftop PV units in South Australia. Simply Energy also noted that a PV customer will generally seek to maximise the net return over both components, rather than from one or the other. That is, an offer with the highest R-FiT may not be the best available if it is offset by a higher offer on the electricity purchase charges.²⁸

3.1.2 Commission's Consideration

The Commission notes the potential for a stand-alone market to exist for the sale of PV electricity by PV customers to electricity retailers; however, as identified in submissions, that market structure has yet to emerge in South Australia.

This is in part because, as explained in Chapter 2, the R-FiT is a statutory regime, existing and operating within bounds and parameters established by the Parliament under the Electricity Act. Under that regime, electricity retailers are obliged to make R-FiT payments to their PV customers.

Another likely reason for the lack of a stand-alone market at this time is that there is little incentive for a PV customer to have a retail electricity contract with one electricity retailer for the purchase of electricity and, at the same time, a separate arrangement with another electricity retailer for the sale of electricity. From that customer's perspective, the overall value of its contract with an electricity retailer selling energy and purchasing fed-in energy will be a product of both the tariffs for imported energy and the R-FiT.

²⁶ EnergyAustralia, *Response to the Issues Paper for the Review of the Solar Feed-in Tariff Premium*, 26 July 2013, page 3; available at <http://www.escosa.sa.gov.au/projects/200/review-of-the-solar-feed-in-tariff-premium.aspx#stage-list=1>.

²⁷ EnergyAustralia, *Submission to the 2013 Determination of Retailer Feed-In Tariff – Draft Price Determination*, 1 November 2013, page 2; available at <http://www.escosa.sa.gov.au/projects/200/review-of-the-retailer-feed-in-tariff.aspx>.

²⁸ Simply Energy, *Response to the Issues Paper for the Review of the Solar Feed-in Tariff Premium*, 23 July 2013, page 2; available at <http://www.escosa.sa.gov.au/projects/200/review-of-the-solar-feed-in-tariff-premium.aspx#stage-list=1>.

Further, the Commission considers that if there is sufficient competition in both the overall market and the market for PV customers, retail electricity prices will reflect costs and R-FiT payments will reflect value.

Accordingly, the Commission considers that the R-FiT is best characterised as a discretionary add-on to an existing product within the broader electricity small customer retail market; the question to be addressed in making an R-FiT determination is whether or not there is – or would be under a low R-FiT – sufficient competition for PV customers by electricity retailers?

3.2 *The fair and reasonable value of PV electricity to electricity retailers*

Under section 35A(2a) of the Electricity Act, the Commission must have regard to the fair and reasonable value to an electricity retailer of electricity fed into the network by PV customers. It is important to emphasise at the outset the fact that section 35A(2a) is focussed on value *to an electricity retailer*, not on the value of R-FiT payments to PV customers.

The Commission noted in the Draft Price Determination that there were two major considerations to determining the fair and reasonable value of PV electricity to an electricity retailer.

First, the Commission considered that the value to an electricity retailer should be focussed on avoided direct costs, with the sources of value to an electricity retailer being measurable and ascribed to PV electricity. Whilst the Commission accepted that there were some indirect benefits from PV electricity and the penetration of PV units in South Australia to the overall market, it considered that those benefits cannot be easily or reliably attributed to PV electricity. Accordingly, the value of those indirect benefits was excluded from the Commission's consideration of value.

Second, the Commission considered that the value of the avoided direct costs should be calculated by:

- ▲ estimating the wholesale spot price of electricity;
- ▲ *weighted by* the net system load profile;
- ▲ *adjusted for* distribution losses; and
- ▲ *adjusted for* market and ancillary service fees.

Based on those parameters, the Commission engaged AAC to provide it with independent expert advice on the value of fed-in electricity to an electricity retailer, and consequently accepted AAC's recommended range of between 7.6 and 13.4 cents/kWh as being the reasonable range of values from which to determine the fair and reasonable value to an electricity retailer of PV electricity fed into the distribution network.

3.2.1 Submissions

The SA Branch of the Australian Solar Energy Society (**AuSES**) submitted that, while it agreed that customers should receive the fair and reasonable value to an electricity retailer, that value should also be influenced by additional factors:²⁹

*The purpose of the regulation of FiTs is to ensure that all customers that are small embedded renewable generators, e.g. owners of residential PV systems, should receive a fair price that reflects the value of the electricity they export to the grid and **provides sufficient incentive for new customers to install systems in a competitive electricity market.***

(emphasis added)

The Clean Energy Council also submitted that the value of fed-in energy should be open to technologies other than PV and argued that the value should be dependent on location (reflecting localised network capacity constraints) and time (reflecting changes in the value of wholesale energy over time).³⁰ The suggestion for a technology-neutral R-FiT was also supported by the Navitus Solar submission.³¹

In general, submissions received from electricity retailers agreed that the R-FiT value should be calculated based on the fair and reasonable value of PV electricity to an electricity retailer. However, those submissions expressed differing views as to the appropriateness of the approach used by the Commission to calculate the R-FiT value, as set out in the Draft Price Determination.

AGL submitted that:³²

AGL supports the approach that the Commission has taken to set the value of the R-FiT.

While EnergyAustralia submitted that:³³

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.

²⁹ SA Branch of the Australian Solar Energy Society, *Response to the Issues Paper for the Review of the Solar Feed-in Tariff Premium*, 26 July 2013, page 1; available at <http://www.escosa.sa.gov.au/projects/200/review-of-the-solar-feed-in-tariff-premium.aspx#stage-list=1>.

³⁰ Clean Energy Council, *Response to the Issues Paper for the Review of the Solar Feed-in Tariff Premium*, July 2013; available at <http://www.escosa.sa.gov.au/projects/200/review-of-the-solar-feed-in-tariff-premium.aspx>.

³¹ Navitus Solar Pty Ltd, *Submission to the 2013 Determination of Retailer Feed-In Tariff – Draft Price Determination*, 31 October 2013, page 5 of unnumbered document; available at <http://www.escosa.sa.gov.au/projects/200/review-of-the-retailer-feed-in-tariff.aspx>.

³² AGL Energy Ltd, *Submission to the 2013 Determination of Retailer Feed-In Tariff – Draft Price Determination*, 1 November 2013, page 1; available at <http://www.escosa.sa.gov.au/projects/200/review-of-the-retailer-feed-in-tariff.aspx>.

³³ EnergyAustralia, *Submission to the 2013 Determination of Retailer Feed-In Tariff – Draft Price Determination*, 1 November 2013, page 1; available at <http://www.escosa.sa.gov.au/projects/200/review-of-the-retailer-feed-in-tariff.aspx>.

In contrast, the Origin Energy submitted that:³⁴

While [Origin Energy] note the analysis taken by ACIL Allen Consulting for the purposes of this determination, [Origin Energy] do not consider the range reflective of a market valuation for feed-in energy.

Origin Energy went on to note that:³⁵

The assumption applied by [ACIL Allen Consulting] 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.

Origin Energy further submitted that the valuation of its R-FiT made available in other states reflects its present view of the value of the electricity exported, and will vary in response to competitive pressure on the basis that retailers without competitive offers will lose market share accordingly.

3.2.2 Commission's Consideration

There are two major considerations for the Commission in determining a fair and reasonable value to a retailer of exported PV output.

Determining value by reference to electricity retailers

In relation to the AuSES submission that the fair and reasonable value should include an element of incentive for the uptake of PV units by new customers, the Commission does not agree with that proposition.

The requirement to have regard to fair and reasonable value to a retailer is a stand-alone factor of some twenty factors to which the Commission must have regard. The incentive provided to encourage new customers to install PV units is a separate consideration and one which the Commission does not consider falls within any of the other mandatory considerations in the relevant Acts. This is consistent with the approach adopted by the Commission in its review of the Electricity Standing Contract Price in 2012, where it focussed on the costs incurred by electricity retailers in providing standing contracts, not the incentives for generation investment.³⁶

While the Commission does have the duty under section 25(4)(h) of the ESC Act to consider other factors it considers relevant to the making of an R-FiT price determination, it is of the view that providing incentives to encourage new customers to install PV units is not a matter to which it should have regard under that section.

³⁴ Origin Energy, *Submission to the 2013 Determination of Retailer Feed-In Tariff – Draft Price Determination*, 1 November 2013, page 2; available at <http://www.escosa.sa.gov.au/projects/200/review-of-the-retailer-feed-in-tariff.aspx>.

³⁵ Ibid, page 2.

³⁶ Essential Services Commission, *Electricity Standing Contract – Wholesale Electricity Costs*, 2013; available at <http://www.escosa.sa.gov.au/projects/178/electricity-standing-contract-wholesale-electricity-costs.aspx#stage-list=2>.

Further, although the Commission can provide various economic incentives to encourage consumers to behave in ways which maximise efficiency in consumers' long-term interests, for example through price structures, the Commission does not have a mandate to promote specific technology types over others.

In that regard, the Commission does not rely upon the Clean Energy Council's suggestion that the R-FiT be applied to other forms of technology; the Commission must make its determination within the requirements of the FiT scheme set out in the Electricity Act, which applies to PV only.

The Commission, therefore, does not accept that, for the purposes of having regard to the fair and reasonable value of PV electricity to an electricity retailer, it should have regard to the incentives provided for customers to install new PV units.

Deriving a fair and reasonable value

Consistent with the Commission's previous approach to reviewing and determining R-FiT values, it engaged an independent expert consultant, AAC, to provide advice on forecast expected market values to an electricity retailer of PV electricity fed into the distribution network.

In its previous R-FiT determinations, the Commission was careful to define its approach in this area by quantifying the net benefits to an electricity retailer of the electricity exported from PV units.

The Commission's position, as adopted in both its 2012 initial R-FiT price determination and again in its 2013 variation price determination, is that there are three key matters to consider in establishing the value to a retailer of exported PV electricity.

First, electricity retailers buy electricity at the wholesale level and sell it to small customers.³⁷ When electricity retailers receive exported PV electricity, the amount of electricity they must buy on the wholesale electricity market is reduced. This is the most significant impact that exported PV electricity has on electricity retailers.

Second, exported PV electricity allows electricity retailers to avoid network losses involved in delivering electricity to their customers.

Third, and finally, exported PV electricity allows electricity retailers to avoid NEM fees and costs associated with the provision of ancillary services.

³⁷ Electricity retailers also supply large customers (those consuming 160MWh or more of electricity annually) but those customers are not eligible for FiT payments under the Electricity Act. Large customers are thus not relevant to this analysis. However, large customers are free to negotiate with electricity retailers to seek a FiT specific to their circumstances.

A number of other factors are often also raised as possible contributors to the value to an electricity retailer of exported PV electricity, including:

- ▲ the impact of hedge contracts;
- ▲ changes in the retailer's wholesale electricity forward contract position;
- ▲ the retailer's operating costs;
- ▲ "green schemes";
- ▲ the impact on the wholesale price of electricity; and
- ▲ the impact on network loss factors.

Those matters were considered in detail as a part of the Commission's 2012 R-FiT price determination.³⁸ The Commission, after carefully considering each, reached the position that while they may provide benefit to retailers collectively or to other parties, they do not provide value to a PV customers' *own* electricity retailer as contemplated by the terms of section 36AD(1). Hence, the Commission has excluded those matters from its assessment of the fair and reasonable value to a retailer of exported PV output.

It is the Commission's view that the value to a retailer of exported PV electricity is calculated by:

- ▲ estimating the wholesale spot price of electricity;
- ▲ *weighted by* the net system load profile;
- ▲ *adjusted for* distribution losses; and
- ▲ *adjusted for* market and ancillary service fees.

Therefore, to derive the value to a retailer of exported PV electricity, projections of each of these parameters should be undertaken.

The Commission notes that the resulting projections will apply at a statewide level, given that the wholesale price of electricity in South Australia is determined under NEM arrangements for a single "Regional Reference Node" (**RRN**). The RRN for South Australia is at the Torrens Island Power Station and an electricity retailer's liability for wholesale electricity (including losses) is calculated at the RRN rather than at the customer's meter box.

This means that an electricity retailer buys a quantity of electricity at the RRN which then flows through to customers. The Clean Energy Council's argument for a location-based R-FiT is therefore not accepted for the purposes of this review.

³⁸ Essential Services Commission, *2012 Determination of Solar Feed-In Tariff Premium, Final Price Determination*, January 2012, pages 37 to 40; available at <http://www.escosa.sa.gov.au/library/120125-SolarFeedinTariffPremium-FinalDecision.pdf>.

As explained previously, the Commission places significant weight on the requirement to have regard to benefits to electricity retailers (rather than distributors). In any event, there is no clear evidence to suggest that fed-in PV electricity necessarily results in deferred network augmentation; on the contrary, there is some evidence to suggest that PV systems may actually increase network costs.³⁹

The Commission notes that any network costs or benefits (distribution or transmission), will be assessed as part of the Australian Energy Regulator's (AER) price regulation function for those businesses and passed through to customers through amended distribution charges.

The Commission also notes that the value of fed-in energy will vary at different times of the day, due to wholesale energy prices changing over time. However, passing on that time-based price signal to customers requires time-of-use metering, which few small customers have in South Australia.

While the Commission acknowledges that there may be benefits of time-of-use pricing (including for R-FiT payments), those benefits need to be traded off against the associated infrastructure costs. Given the absence of time-of-use metering in South Australia, the Commission therefore does not support the suggestion from the Clean Energy Council for time-varying R-FiT values at this stage.

In previous reviews, AAC provided to the Commission point-estimates of its expected value for that PV electricity. The Commission took that advice into account in setting the *minimum* R-FiT value in its price determinations.

Details of the methodology used to determine the value of PV electricity are contained in the methodology report prepared by AAC for the Commission.⁴⁰ In summary, that methodology involves:

- ▲ forecasting wholesale spot prices of electricity, based on electricity demand forecasts (energy and peak demand) published by AEMO⁴¹ and using AAC's PowerMark national electricity market model;

³⁹ ACIL Tasman, *The fair and reasonable value of exported PV output*, December 2011, page 34; available at <http://www.escosa.sa.gov.au/library/120103-SolarFeedinTariff-SupplementaryReport-ACILTasman.pdf>.

⁴⁰ ACIL Allen Consulting, *Estimated Value of PV Exports - Calendar year 2014 estimate from market modelling*, September 2013; available from the Commission's website at: <http://www.escosa.sa.gov.au/projects/200/review-of-the-solar-feed-in-tariff-premium.aspx#stage-list=0>.

⁴¹ In its original modelling, AAC used the AEMO electricity forecasts published on 28 June 2013. On 15 November 2013, AEMO revised its 2013/14 demand forecasts but only after AAC had completed its additional modelling of the impact of the repeal of the carbon tax on the R-FiT. The Commission sought advice from AAC in relation to the effect of this revision on its modelling and AAC confirmed that the revised AEMO demand forecasts do not materially impact AAC's R-FiT estimates because:

- ▲ AAC's projection covered the 2014 calendar year, whereas AEMO's revision was for the 2013/14 financial year and, therefore, affected only the first half of the projection period;
- ▲ the main driver of annual spot price outcomes is the number of price spike events, which in turn are driven by the 'peakiness' of demand rather than the underlying annual energy;
- ▲ it is likely that the impact of the change would be within the range already estimated;
- ▲ the forecast revision for South Australia was for a very small increase (less than one per cent) and that this would be offset by larger energy reductions in other regions.

- ▲ projecting the Net System Load Profile (**NSLP**) for South Australia, based on recent observations of the NSLP as published by AEMO and estimating the relationship between the NSLP load and the South Australian load using regression analysis;
- ▲ projecting the total installed capacity and effective generation of PV units in South Australia;
- ▲ combining the wholesale spot price forecasts with the projected NSLP to determine an NSLP-weighted spot price forecast;
- ▲ adding the value of avoided network losses, obtained by analysing historic distribution loss factors for South Australia as published by AEMO; and
- ▲ deducting the cost of NEM market and ancillary service fees, based on the most recent actual fees published in AEMO's annual budget.

For this review, in addition to those steps, the Commission sought further advice from AAC as to a plausible reasonable range of R-FiT values which might be used for regulatory purposes. The Commission did so on the basis of the potential for modelling uncertainty in adopting a single point-estimate value in the electricity market.

AAC had previously estimated the fair and reasonable value of exported PV output on a single projection "base case" of the wholesale spot price of electricity. AAC therefore provided the Commission with a single-point estimate R-FiT value.

On this occasion, the Commission asked that the base case projection be supplemented with a stochastic analysis of key drivers of uncertainty in the wholesale spot price of electricity in South Australia. AAC therefore calculated the 2014 NSLP-weighted South Australian price from 463 scenarios, to determine the possible distribution of those prices.

In summary, AAC's advice (rounded to one decimal place) is that:

- ▲ the 10th percentile value projected for PV electricity is 13.4c/kWh; and
- ▲ the 90th percentile value projected for PV electricity is 7.6c/kWh.

The Commission notes the concerns expressed by Origin Energy that the values projected by AAC are not reflective of Origin Energy's own valuation of fed-in energy. Origin Energy stated that the upper range of AAC's analysis exceeds the cost of other renewable energy sources, such as wind generation.

As discussed in AAC's methodology report, the valuation of fed-in energy for PV units is not based on underlying costs of production (which is technology dependent), but is based on a valuation of the forecast wholesale electricity spot price on the basis that the benefit to retailers of the fed-in energy is the reduction in wholesale electricity spot market purchase. Comparisons between the cost of PV generation and the cost of other renewable generation are therefore irrelevant.

Having regard to the Clean Energy Council submission, the Commission notes that it is unable to implement location-based, time-varying and technology-neutral pricing for the following reasons.

First, the wholesale electricity price in South Australia is determined under the NEM arrangements for a single “Regional Reference Node” (**RNN**). The RNN for South Australia is at the Torrens Island Power Station and an electricity retailer’s liability for wholesale electricity (including losses) is calculated at the RNN rather than at the customer’s meter box. Accordingly, the benefit to retailers of fed-in energy is not location-based in South Australia and the Clean Energy Council’s argument for a location-based R-FiT is not accepted for the purposes of this review.

Second, passing on time-based price signals (including for R-FiT payments) requires time-of-use metering which few small customers have in South Australia. Further, the benefits of time-varying pricing signals (including for R-FiT payments) need to be traded off against the associated infrastructure costs. Accordingly, the Commission does not support the suggestion for time-varying R-FiT values at this stage.

Third, the Commission must make its determination within the requirements of the FiT scheme set out in the Electricity Act, which applies to PV only. Accordingly, the Commission does not have the power to apply the R-FiT to other forms of technology.

For the abovementioned reasons, the Commission has focussed on avoided direct costs in setting the R-FiT, with sources of value to an electricity retailer being measurable and ascribed to PV electricity.

Carbon price uncertainty

The Commission recognises that there is uncertainty around continuation of the carbon price from 1 July 2014. Subsequent to the release of the Draft Price Determination, the newly elected Government introduced repeal bills into the Federal Parliament proposing to remove the carbon price from 1 July 2014.⁴² The Commission has, therefore, considered the impact on the R-FiT value should there be no carbon price from that date.

If a *minimum* R-FiT (inclusive of a carbon price) is set by the Commission and the carbon price is successfully removed from 1 July 2014, the minimum R-FiT may overstate the lower-bound of the reasonable range of value of fed-in energy to retailers. PV customers may end up becoming less attractive to retailers resulting in reduced levels of competition, or retailers may end up choosing to recover any shortfall through non-PV customers. Neither of these outcomes is desirable from a regulatory perspective.

To examine the impacts of the removal of the carbon price on the value of PV exports, the Commission sought further advice from AAC on the range of values which might be adopted for the purposes of making an R-FiT price determination. Table 3-1 below shows the reasonable range of values projected for PV electricity based on carbon price and repeal scenarios.

⁴² Refer: <http://www.environment.gov.au/carbon-tax-repeal/consultation.html>.

Table 3-1: Projected range of reasonable values of exported PV output in South Australia

VALUE	REPEAL OF CARBON PRICE SCENARIO	CARBON PRICE SCENARIO
Upper bound (10th percentile)	12.0 cents/kWh	13.4 cents/kWh
Lower bound (90th percentile)	6.0 cents/kWh	7.6 cents/kWh

Source: ACIL Allen Consulting

Having regard to AAC’s analysis, the Commission has determined that it is appropriate to introduce a mechanism that will adjust the *minimum* R-FiT from 7.6 cents/kWh to 6.0 cents/kWh, in the event that the carbon price is removed from that date.

As explained in the report by AAC to the Commission⁴³, the estimation of the R-FiT values inclusive of the carbon price and exclusive of the carbon price are based on the following:

- ▲ In the carbon price scenario, the wholesale spot price of electricity was projected on the assumption that the carbon price will continue to operate in accordance with the fixed price settings of \$24.15/tonne CO₂-e until 30 June 2014 and \$25.40/tonne CO₂-e from 1 July 2014 until 30 June 2015.
- ▲ In the repeal scenario, the wholesale spot price of electricity was projected based on the assumption that the carbon price will continue to operate in accordance with the fixed price settings of \$24.15/tonne CO₂-e until 30 June 2014 and then fall immediately to zero.

The Commission notes that the difference between the R-FiT values that are inclusive and exclusive of the carbon price represents the difference in forecast NSLP-weighted wholesale spot prices under those two scenarios. It does not represent the cost of retailers entering into forward contracts for wholesale electricity, which may be more representative of retailers’ wholesale costs for the purposes of setting Market Offer and Standing Offer prices. The implied value of the carbon price in the Commission’s R-FiT determination is therefore not likely to be representative of the impact of the carbon price on electricity retail prices more generally.

3.3 Promotion of competition, efficiency and fair market conduct

As a general principle, the Commission holds the view that, if a market is sufficiently competitive, price setting is a matter best determined by that market rather than by a regulator. That proposition is consistent with a number of factors specified in section 6 of the ESC Act, which focus the need to:

⁴³ ACIL Allen Consulting, *Estimated Value of PV Exports - Calendar year 2014 estimate from market modelling – update to include carbon price scenarios*, November 2013; available from the Commission’s website at: <http://www.escosa.sa.gov.au/projects/200/review-of-the-retailer-feed-in-tariff.aspx#stage-list=4>.

- ▲ promote competitive and fair market conduct - section 6(b)(i);
- ▲ prevent misuse of monopoly or market power - section 6(b)(ii);
- ▲ facilitate entry into relevant markets - section 6(b)(iii);
- ▲ promote economic efficiency - section 6(b)(iv); and
- ▲ ensure consumers benefit from competition and efficiency - section 6(b)(v).

The Commission holds the view that effective competition is in the long-term interests of consumers, as effective competition is best able to deliver efficient prices and services. However, the Commission would caution from the outset that even where an overall finding of market competitiveness is made, subject to the *degree* of competition, it may be the case, at least on a transitional basis, that a transitional form of regulation remains appropriate.

The competition assessment set out in the following sections is built upon previous similar assessments carried out by the Commission and the Australian Energy Market Commission. Both assessments found that the overall South Australian electricity retail market exhibited reasonably competitive characteristics; as evidenced by, amongst other things, rivalry between retailers and willingness of consumers to participate in the competitive market by switching retailers.

The Commission also understands that the South Australian Government's decision to deregulate energy retail prices in February 2013 was made on the basis that it considered the small customer retail electricity (and gas) market to be sufficiently competitive to allow the market to determine prices.⁴⁴ As the Commission has noted publicly, both at that time and previously, it supports the removal of energy retail price regulation in the South Australian retail energy market.

Accordingly, the Commission has not undertaken a full competition assessment of the overall market for this review. Rather, its consideration is limited to examining whether or not there is any evidence which indicates that the extent of competition for PV customers is different to non-PV customers.

3.3.1 Submissions

In general, submissions received from electricity retailers highlighted their view that the overall South Australian electricity retail market for small customers is competitive and that, as a subset of that market, the market for PV customers is also competitive.

Origin Energy submitted that:⁴⁵

⁴⁴ Minister for Mineral Resources and Energy, the Hon. T. Koutsantonis M.P., *South Australia enters new era of energy deregulation*, 31 January 2013; available at http://www.premier.sa.gov.au/images/news_releases/13_01Jan/necf_launch.pdf.

⁴⁵ Origin Energy, *Submission to the 2013 Determination of Retailer Feed-In Tariff – Draft Price Determination*, 1 November 2013, page 2; available at <http://www.escosa.sa.gov.au/projects/200/review-of-the-retailer-feed-in-tariff.aspx>.

[Origin Energy] 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 Energy went on to note that:⁴⁶

With respect to the competitiveness of the retail electricity market for customers with solar PV installations who are eligible for R-FiT, [Origin Energy] does not agree 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 not be targeted by licensed retailers.

Alinta Energy submitted that:⁴⁷

A competitive approach to the FiT is in the long-term interests of consumers and further supports the deregulation of prices that occurred in February. Continued regulation of the FiT has the potential to create barriers to product innovation, and thereby reduce potential consumer benefits.

Similarly, EnergyAustralia submitted that:⁴⁸

The levels of competition in the SA electricity and R-FiT market are more than adequate and South Australian consumers would benefit from immediate deregulation of the R-FiT.

The Energy Supply Association of Australia submitted that:⁴⁹

With increasing customer switching rates in South Australia, and 81 per cent of SA electricity customers on market contracts the retail electricity market is showing strong signs of competition. In a competitive retail market, competition will tend to drive market offers for solar PV FiTs towards the efficient rate.

Submissions from other respondents put different views however.

⁴⁶ Ibid, page 3.

⁴⁷ Alinta Energy, *Submission to the 2013 Determination of Retailer Feed-In Tariff – Draft Price Determination*, 31 October 2013, page 1 of unnumbered document; available at <http://www.escosa.sa.gov.au/projects/200/review-of-the-retailer-feed-in-tariff.aspx>.

⁴⁸ EnergyAustralia, *Submission to the 2013 Determination of Retailer Feed-In Tariff – Draft Price Determination*, 2 November 2013, page 1; available at <http://www.escosa.sa.gov.au/projects/200/review-of-the-retailer-feed-in-tariff.aspx>.

⁴⁹ Energy Supply Association of Australia, *Response to the Issues Paper for the Review of the Solar Feed-in Tariff Premium*, 26 July 2013, page 2; available at <http://www.escosa.sa.gov.au/projects/200/review-of-the-solar-feed-in-tariff-premium.aspx>.

The Clean Energy Council submitted that:⁵⁰

Competition in the South Australian electricity market is far weaker than in NSW. Deregulation [of the R-FiT] in South Australia is therefore likely to be even less successful than the NSW experience.

Similarly, AuSES submitted that:⁵¹

Competition in the South Australian electricity market is far weaker than in NSW and there is not sufficient market pressure to ensure a fair unregulated price.

The Conservation Council of South Australia, taking a slightly different position focussing on the household renewables sector (rather than the electricity retail market more broadly), argued that:⁵²

The current market framework is simply not sufficiently mature to prevent market failure for the household renewables sector.

In making that submission, the Conservation Council drew to the Commission's attention its concerns over information and related practices, noting that they:

... remain unacceptably complex and non-transparent, particularly when it comes to the complicated parts of a bill such as rebates, carbon emissions, carbon pass-through costs, and GreenPower components.

Further, submissions from various private individuals drew to the Commission's attention their concerns over the potential failure of electricity retailers to make any R-FiT payments in the absence of a regulatory requirement to do so via the Commission making an R-FiT price determination.⁵³

3.3.2 Commission's Considerations

The Commission's considerations of the matters to take into account in considering issues of competition, efficiency and fair market conduct, are summarised below.

⁵⁰ Clean Energy Council, *Response to the Issues Paper for the Review of the Solar Feed-in Tariff Premium*, July 2013, page 4; available at <http://www.escosa.sa.gov.au/projects/200/review-of-the-solar-feed-in-tariff-premium.aspx>.

⁵¹ Australian Solar Energy Society, *Response to the Issues Paper for the Review of the Solar Feed-in Tariff Premium*, 26 July 2013, page 2; available at <http://www.escosa.sa.gov.au/projects/200/review-of-the-solar-feed-in-tariff-premium.aspx>.

⁵² Conservation Council SA, *Response to the Issues Paper for the Review of the Solar Feed-in Tariff Premium*, 29 July 2013, pages 2 and 3; available at <http://www.escosa.sa.gov.au/projects/200/review-of-the-solar-feed-in-tariff-premium.aspx>.

⁵³ Copies of those various submissions may be accessed from the Commission's website at: <http://www.escosa.sa.gov.au/projects/200/review-of-the-retailer-feed-in-tariff.aspx>.

Market concentration

As at November 2013, there were 12 electricity retailers offering to sell electricity to South Australian residential and small business customers.

In terms of concentration, the latest retail energy market performance report update released by the AER shows that the South Australian electricity retail market remains concentrated; with three retailers, AGL, Origin Energy and EnergyAustralia, having a combined South Australian residential market share of 80%, holding 49%, 20% and 11% of the market respectively.⁵⁴

Standing Offers versus Market Offers and the R-FiT payment: price and service mix

Under the provisions of the National Energy Retail Law, there are two forms of retail sale contracts used by energy retailers: Standing Offers and Market Offers.

Standing offers and the R-FiT

The Standing Offer regime is a part of the National Energy Customer Framework, arising under the National Energy Retail Law. Under that regime, each electricity retailer must have a Standing Offer available to small customers on request. The price of Standing Offers is set by the electricity retailers.

The Standing Offer obligation arises in respect of a particular electricity retailer where:

- ▲ a new customer seeks an offer at premises where that retailer was the last retailer to have sold electricity to a customer; or
- ▲ an existing customer at a premises wishes to return to the Standing Offer from a Market Offer.

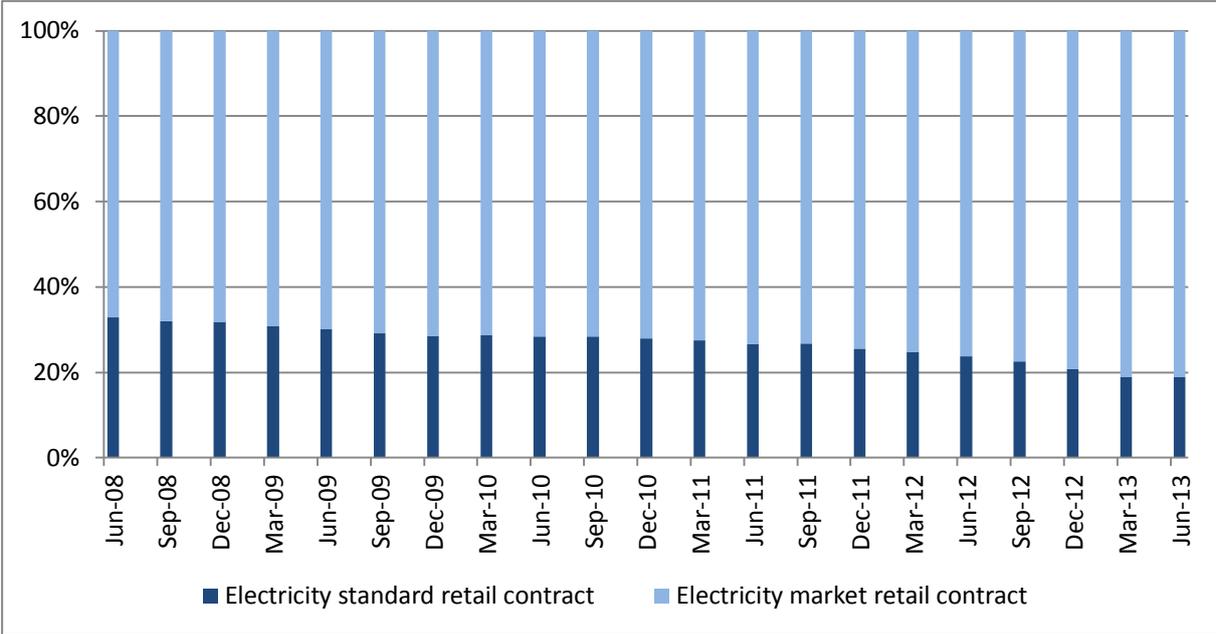
That is, there is no general obligation to sell electricity under Standing Offer terms and conditions to any small customer at any premises on request; the obligation only arises where the electricity retailer sold electricity to the immediately preceding customer (or the same customer) at the same premises.

As the R-FiT provisions of section 36AD(1) of the Electricity Act oblige electricity retailers to make *minimum* R-FiT payments to PV customers, and given that under the Standing Offer regime an electricity retailer may not refuse to supply based on the fact that a customer has a PV unit installed, then it follows that all 12 electricity retailers must offer at least the *minimum* R-FiT to Standing Offer PV customers.

It should be noted that the Standing Offer prices tend to be the highest available prices in the market. This means that the total value to a PV customer of the *minimum* R-FiT and the Standing Offer price will generally be lower than the total value to a PV customer of the *minimum* R-FiT and Market Offer price: a Market Offer should provide an overall “better deal”.

⁵⁴ Australian Energy Regulator, *Annual Report on the Performance of the Retail Energy Market 2012-13*, 26 November 2013; available at: <http://www.aer.gov.au/node/22827>.

Figure 3-1: Proportion of South Australian small customers on Standing and Market offers



Source: Commission annual performance reports and Australian Energy Regulator

Market Offers and the R-FiT

A Market Offer, on the other hand, is any retail electricity sale arrangement other than a Standing Offer.

Electricity retailers generally offer a range of Market Offers; each may have different terms, conditions and prices including discounts, bonuses, different billing periods, different payment options, fixed contract terms and early termination fees. As with Standing Offers, prices under Market Offers are set by electricity retailers.

In general, electricity retailers provide customers with a range of Market Offers with different price and service mixes. In a competitive market, an electricity retailer has discretion regarding discounts and benefits applied to all market contracts it offers. This applies to both customers who have PV units and those who do not.

Electricity retailers generally use the flexibility of Market Offers to differentiate their products and compete for market share. The proportion of customers on such offers is therefore a key indicator of the extent of competition in the energy market. Figure 3-1 shows that the proportion of small customers on a Market Offers continues to increase in South Australia.

As is the case for a Standing Offer, section 36AD(1) of the Electricity Act means that, even if an electricity retailer does not wish to retail to a PV customer and make R-FiT payments, if a customer installs a PV unit during the term of a Market Offer then it is entitled to receive at least the *minimum* R-FiT payments. An exception to that situation would be where the terms of the Market Offer are such that it comes to an end if the customer installs a PV unit.

Level of the R-FiT under Market Offers

At present, only one electricity retailer, Sanctuary Energy, is offering an R-FiT payment in excess of the *minimum* R-FiT set by the Commission. The Commission does not place significant weight on Sanctuary Energy's offer as that offer is conditional upon the purchase of a PV unit from a specified partner, is only applicable to a primary place of residence and is limited to PV units up to 3.3kW on a minimum three-year contract.

All other electricity retailers currently offer only the mandatory 9.8 cents/kWh minimum rate (refer Table 3.1 below). While electricity retailers have, in the past, offered higher amounts as a part of competitive market offering (as discussed in section 1.1.2), since the introduction of the statutory D-FiT and R-FiT regimes there does not appear to have been the same competitive focus in terms of the value of FiT payments offered to PV customers.⁵⁵

Incidence of Market Offers available to PV customers

A further point to consider is the incidence of Market Offers which are available to PV customers.

While, as noted above, electricity retailers are obliged to make R-FiT payments, for the purposes of reviewing levels of competition it is the extent to which electricity retailers are actively seeking out PV customers' business that is relevant.

One way to assess that is by considering the extent to which electricity retailers make their best-priced Market Offers available to PV customers. The Commission notes at the outset that there are two possible reasons why electricity retailers may not make those offers available to PV customers. First, there may be additional costs involved with serving PV customers. Second, there may be insufficient competition for PV customers.

As shown in Table 3-2,⁵⁶ of the 12 electricity retailers (with the residential market share of each as at 30 June 2013 shown in brackets below):

- ▲ 8 electricity retailers, AGL (49.5%), Diamond Energy (0.02%), EnergyAustralia (11.0%), Lumo Energy (5.9%), Momentum Energy (0.5%), Origin Energy (19.9%), Sanctuary Energy (0.08%) and Simply Energy (8.9%), (in total 95.8%) make their best-priced generally available Market Offer available to PV customers;
- ▲ 2 electricity retailers Alinta Energy (1.8%) and PowerDirect (2.0%) in total (3.8%) do not make their best-priced generally available Market Offer available to PV customers – with the best-priced Market Offerings to PV customers being \$266 (Alinta Energy) and \$86 (PowerDirect) above those electricity retailers' best-priced generally available Market Offers; and

⁵⁵ The Commission understands that the voluntary FiTs offered by Origin Energy prior to the introduction of the D-FiT and R-FiT regimes were to encourage solar PV system take up at a time when the number of installations were insignificant.

⁵⁶ Note that the figures in Table 3-2, sourced from the Energy Made Easy website, include GST and all conditional and non-conditional discounts for a typical residential customer who uses 5,000 kWh per annum but exclude off-peak and green energy.

- ▲ the remaining 2 electricity retailers, QEnergy (0.002%) and Red Energy (0.5%) (in total 0.5%), do not actively market to PV customers.

Further, Energy Made Easy also provides evidence to suggest that, as at 13 November 2013:

- ▲ 39 out of the 52 electricity Market Offers are available to PV customers⁵⁷;
- ▲ electricity retailers are offering a variety of incentives to PV customers (for example, pay on time and direct debit discounts);
- ▲ the discounts offered by electricity retailers to residential PV customers ranged from 0% to 15% as compared with the available discounts to non-PV customers of between 9% to 15%; and
- ▲ the early termination fees associated with PV and non-PV Market Offers do not appear to be significantly different, with fees generally set based on the term of the contract.

A further matter considered by the Commission is the market shares of the largest electricity retailers operating in South Australia and the extent to which they are offering R-FiT tariffs either above the *minimum* R-FiT or are making the *minimum* R-FiT available on their best-prices Market Offers.

As set out above, the largest electricity retailers by market share in South Australia are AGL (49%), Origin Energy (20%) and EnergyAustralia (11%). As can be seen from Table 3-2, while none of those electricity retailers offers an R-FiT in excess of the minimum, all three retailers make their best Market Offer prices available to PV customers alongside the *minimum* R-FiT payments.

On that basis, under the current R-FiT regime, while best-priced Market Offers are made available to existing and potential new PV customers by eight electricity retailers in this State (with a combined market share of 95.8%), the best-priced Market Offers of the remainder retailers are not.

A final matter to note is that, while at least ten of the twelve active electricity retailers are seeking to sell Market Offers to PV customers, only one electricity retailer, Sanctuary Energy, is currently offering an R-FiT amount higher than the minimum set by the Commission. However, the Commission notes that, as at the end of June 2013, Sanctuary Energy had a residential customer market share of less than 0.1% and that its 30 cents/kWh voluntary R-FiT is tied to the purchase of a PV unit. As explained above, the Commission does not place significant weight on Sanctuary Energy's offer for the purposes of this review.

⁵⁷ In September 2013, Energy Made Easy provided evidence that 41 out of 56 electricity Market Offers were available to PV customers.

Table 3-2: Price based comparison of electricity offers (as at 13 November 2013)

	BEST-PRICED MARKET OFFER			BEST-PRICED MARKET OFFER FOR PV CUSTOMERS		
	Product Name	Estimated Annual Cost	Available to PV Customers?	Product Name	Estimated Annual Cost	R-FIT (cents/kWh)
AGL	Advantage 10% South Australia residential electricity market offer	\$1,778	✓	Advantage 10% South Australia residential electricity market offer	\$1,778	9.8
Alinta Energy	Fair Go 15	\$1,783	✗	Standing Offer	\$2,049	9.8
Diamond Energy	DE Residential Single Rate	\$1,787	✓	DE Residential Single Rate Solar	\$1,787	9.8
EnergyAustralia	Everyday Saver - Home - Peak Only (online offer)	\$1,807	✓	Everyday Saver - Home - Peak Only (online offer)	\$1,807	9.8
Lumo Energy	Lumo Advantage	\$1,772	✓	Lumo Advantage	\$1,772	9.8
Momentum Energy	Momentum SmilePower GD\QRSR\MRSR	\$1,920	✓	Momentum SmilePower GD\QRSR\MRSR	\$1,920	9.8
Origin Energy	eSaver up to 16% electricity usage discount (Single rate)	\$1,806	✓	eSaver up to 16% electricity usage discount (Single rate)	\$1,806	9.8
Powerdirect	Powerdirect 12% South Australia residential electricity market offer	\$1,782	✗	Powerdirect 7% South Australia residential electricity market offer	\$1,868	9.8
QEnergy	Freedom Home	\$1,780	✗	N/A	N/A	N/A
Red Energy	Living Energy Saver - Residential	\$1,814	✗	N/A	N/A	N/A
Sanctuary Energy	30c Feed In Tariff	\$1,891	✓	30c Feed In Tariff	\$1,891	30
Simply Energy	SA Super Saver 17/10 DD EB	\$1,759	✓	SA Super Saver 17/10 DD EB	\$1,759	9.8

Barriers to entry and expansion

The Commission considers that barriers to entry and expansion for electricity retailers are low in the PV element of electricity retail market in South Australia.

For electricity retailers already selling electricity to customers, there are no entry barriers preventing them from seeking to also sell to PV customers, with retailer authorisation under National Energy Retail Law primarily aimed at ensuring competency to operate in the NEM.

Providing that a business meets the three entry criteria set out in the National Energy Retail Law (organisational and technical capacity, financial resources and suitability), there are minimal entry barriers for new entrants to the market. Accordingly, this creates a credible threat of competition for PV customers from new or existing electricity retailers in the market.

Information and transaction costs

All consumers are able to enter into Market Offers with an electricity retailer of their choice (although the range of Market Offers available to a particular customer will be subject to the entry terms and conditions set by electricity retailers).

Consumers play an important role in encouraging the efficient operation of markets. Through their choices, consumers encourage businesses to compete and innovate. If consumers do not have access to information – in a clear and accessible form – to understand the products on offer, then effective consumer participation will not occur.

Consumers are currently able to access a price comparison tool to compare different electricity retail products and make informed choices about electricity Standing and Market Offers. Further, electricity retailers are required under the National Electricity Retail Law to provide an Energy Price Sheet – a summary of the features, terms and conditions of each of their Standing and Market Offers.

To examine the accessibility and relevance of the information available to PV consumers, the Commission undertook a desktop review of the information on the Energy Made Easy website operated by the AER, electricity retailers' energy pricing fact sheets and electricity retailers' websites.

The Commission found that, while information to facilitate informed decision-making is generally available to consumers, there are gaps as between different sources and discrepancies in how information is disclosed to PV customers. For example, an online search of electricity retailers' websites reveals that some were not quoting prices for PV customers through that medium, requiring potential PV customers to contact their sales teams via telephone instead.

For some electricity retailers, there were also discrepancies between the information supplied by those electricity retailers to be uploaded to Energy Made Easy and those advertised on their websites (for example, number of available electricity offers).

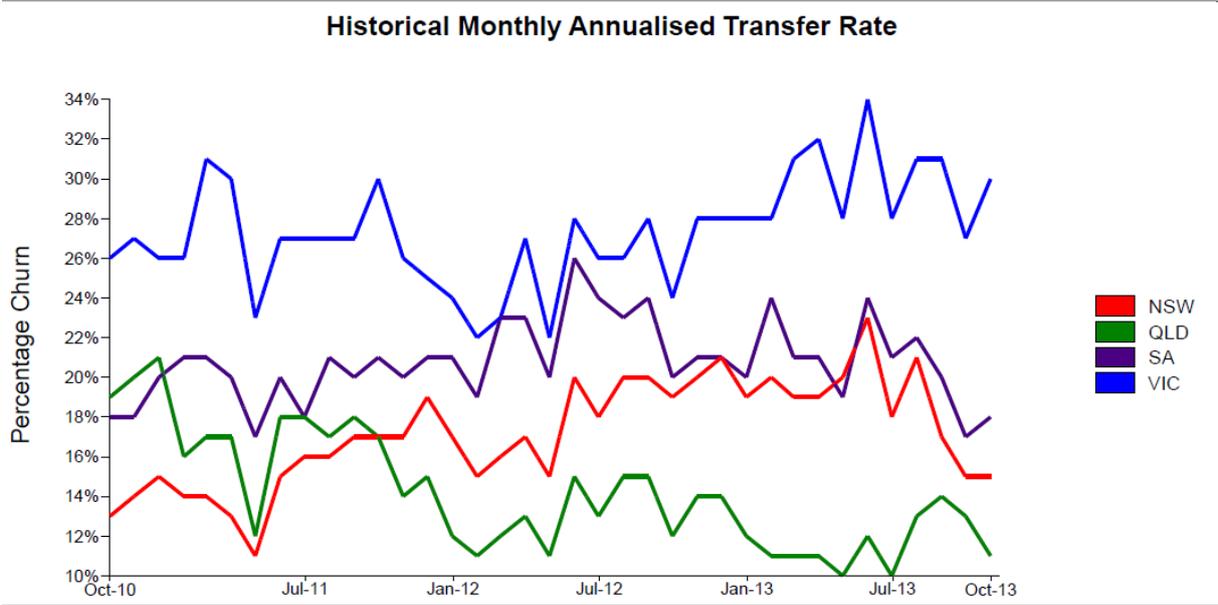
The Commission considers that these issues indicate that there continues to be some inadequacies in terms of information and customer service provision for PV customers. In particular, the Commission is concerned that retailers’ information disclosure practices are not assisting PV customers to compare offers easily nor do they assist customers to identify the offer best suited to their particular circumstances. The Commission’s concern over information disclosure by retailers also applies to market offers generally. Regardless of the channel used, information should be provided in a standardised, consistent, concise and transparent manner that would facilitate informed decision-making of the various competing market offers by consumers.

Customer switching rates

The rate of customer switching between electricity retailers provides a key indicator of the intensity of competition for customers.

For the overall small customer retail electricity market, historical monthly transfer rate data published by AEMO indicates that South Australia continues to have a high transfer rate compared to most other jurisdictions, as shown below.

Figure 3-2: AEMO comparative monthly transfer rates between electricity retailers

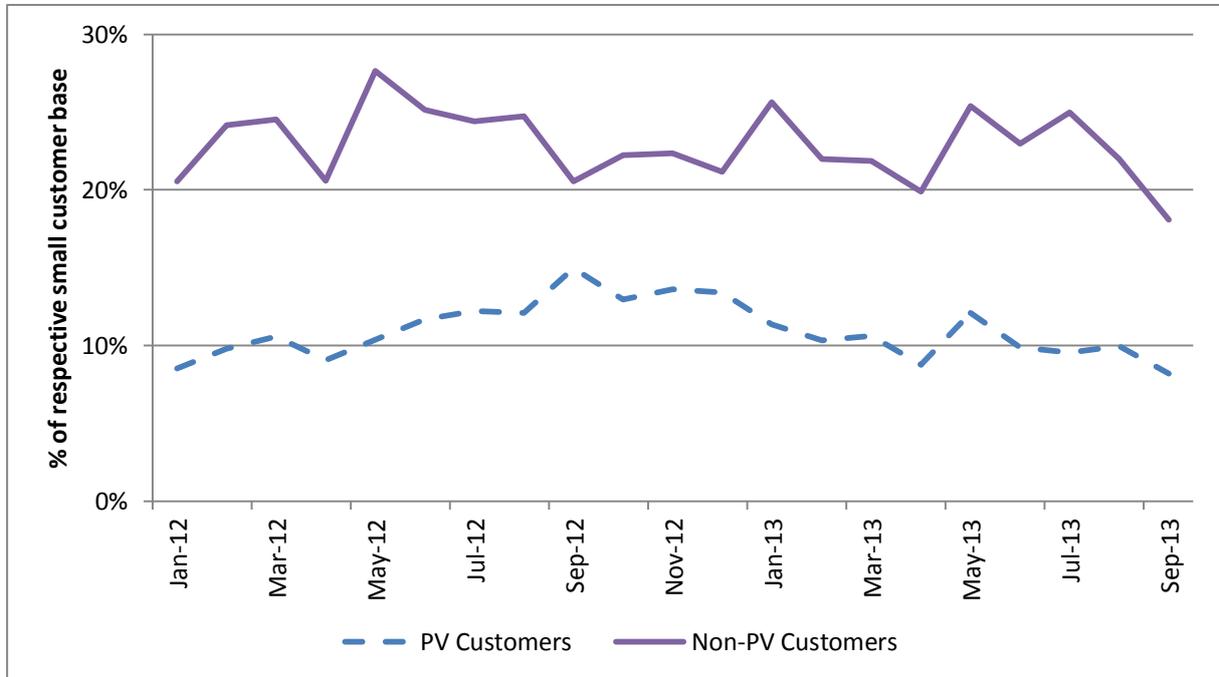


Source: Australian Energy Market Operator

For the purposes of developing this Final Price Determination, the Commission has sought switching information for both PV and non-PV small customers from SA Power Networks and AEMO and compared that information using data obtained from electricity retailers.

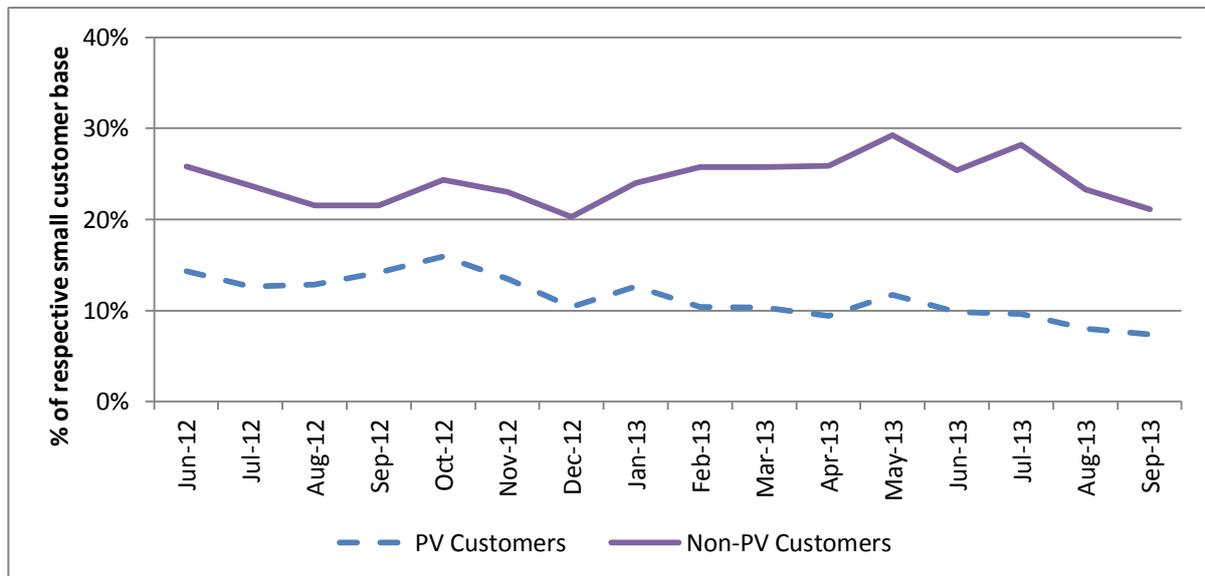
The information provided by SA Power Networks and AEMO shows that switching rates of PV customers are generally well below switching rates of non-PV customers. This is generally consistent with the information provided by electricity retailers (presented below in aggregate form). The figures show switching rates between retailers and switching rates within retailers (that is, changing market offers within the same retailer).

Figure 3-3: Historical monthly annualised transfer rate for small customers switching between retailers (SA Power Networks/AEMO data)



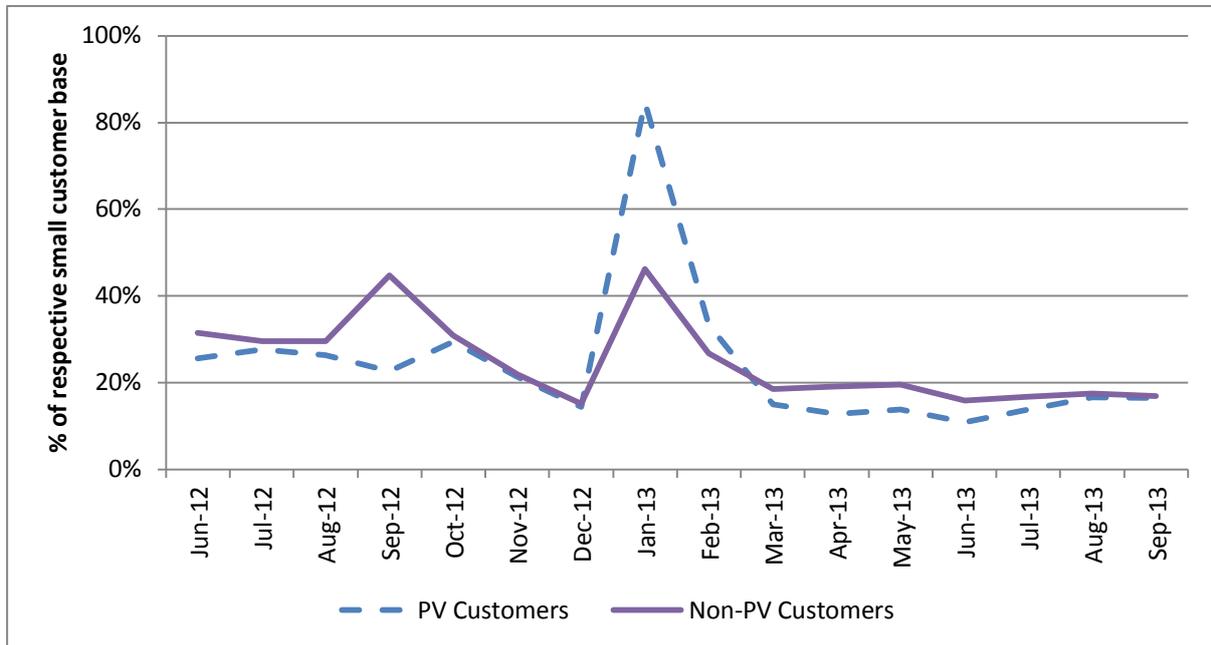
Source: SA Power Networks and Australian Energy Market Operator

Figure 3-4: Historical monthly annualised transfer rate for small customers switching from another electricity retailer (retailer data)



Source: Electricity retailers

Figure 3-5: Historical monthly annualised transfer rate for small customers switching between products offered by their existing electricity retailer (retailer data)



Source: Electricity retailers

The Commission notes that the spike in the proportion of PV customers switching between products offered by their existing electricity retailer in January 2013 was primarily driven by the high level of marketing activity undertaken by a major retailer to target its internal customer base following the South Australian Government’s decision to deregulate the retail energy market from 1 February 2013.

The Commission is unable to determine the precise cause(s) of the different switching rates between PV customers and non-PV customers. However, the data raises some doubts about the level of competition for PV customers, on the basis that switching rates are an indicator of competition.

3.4 Evidence on R-FiT equivalents from other jurisdictions

The ESC Act provides that the Commission may have regard to interstate evidence when making price determinations:

- ▲ section 25(4)(e) requires the Commission to have regard to any relevant interstate and international benchmarks for prices; and
- ▲ section 6(b)(vii) requires the Commission to have regard to the need to promote consistency in regulation with other jurisdictions.

The Commission has therefore reviewed equivalent R-FiT arrangements in Victoria, New South Wales and Queensland, whether existing or proposed, on the basis that those States are the largest in the NEM. Those arrangements are summarised below. For the sake of

completeness, the Commission has also summarised the R-FiT equivalent regimes in all States and Territories, including the ranges of R-FiTs available.

3.4.1 Submissions

Views put in submissions as to the interstate evidence and the use to which it could be put fell into two distinct groups.

Many electricity retailers' submissions urged the Commission to have regard to the findings of both IPART and QCA in their respective reports and put views as to the effectiveness of the IPART benchmarking regime. AGL submitted that it:⁵⁸

... agrees with IPART and QCA's views and, given that standing contract prices in South Australia are no longer regulated, the continued regulation of a subset of this market could lead to market inefficiencies in the form of cross subsidies and regulatory costs.

EnergyAustralia submitted that:⁵⁹

We note that IPART recently updated their benchmark range for 2013/14 to 6.6-11.2c/kWh, and that half (six of the twelve residential) 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 market share of the six retailers that do offer voluntary solar FiTs makes up a very large proportion of the NSW customer base.

Both the Business SA⁶⁰ and EnergyAustralia⁶¹ submissions also pointed out that the Commission's Draft Price Determination was incorrect in stating that EnergyAustralia was not offering an R-FiT to customers in New South Wales.

EnergyAustralia went on to submit that it has been offering a voluntary R-FiT to PV customers in New South Wales for many years and that correcting this detail would substantially change the results of the Commission's analysis. In addition to providing a reference to a webpage containing information on EnergyAustralia's state-based FiT

⁵⁸ AGL Energy Ltd, *Submission to the 2013 Determination of solar feed-in tariff premium – Draft Determination*, 26 July 2013, page 1; available at <http://www.escosa.sa.gov.au/projects/200/review-of-the-solar-feed-in-tariff-premium.aspx#stage-list=1>.

⁵⁹ EnergyAustralia, *Response to the Issues Paper for the Review of the Solar Feed-in Tariff Premium*, 26 July 2013, pages 2 to 3; available at <http://www.escosa.sa.gov.au/projects/200/review-of-the-solar-feed-in-tariff-premium.aspx#stage-list=1>.

⁶⁰ Business SA, *Submission to the 2013 Determination of Retailer Feed-In Tariff – Draft Price Determination*, 1 November 2013, page 2 of unnumbered document; available at <http://www.escosa.sa.gov.au/projects/200/review-of-the-retailer-feed-in-tariff.aspx>.

⁶¹ EnergyAustralia, *Submission to the 2013 Determination of Retailer Feed-In Tariff – Draft Price Determination*, 1 November 2013, page 4; available at <http://www.escosa.sa.gov.au/projects/200/review-of-the-retailer-feed-in-tariff.aspx>.

payments, the submission contended that deregulation of the R-FiT in New South Wales has not had a detrimental effect on the competitiveness of the R-FiT offers.⁶²

Origin Energy further submitted that:⁶³

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.

Submissions from other respondents put entirely different views on the evidence from other States. AuSES submitted that:⁶⁴

New South Wales (NSW) is the only Australian state to have deregulated feed in tariff payments to customers. This has led to not one electricity retailer in NSW paying the amount that the Independent Pricing and Regulatory Tribunal (IPART) has determined is the financial value to Standard Retailers for the electricity produced. As of June 2013 eight of the fourteen NSW electricity retailers offered no feed-in tariff whatsoever and only one retailer (AGL Sales), offered a feed-in tariff that was above the lower bound of IPART's estimate of the financial gain to Standard Retailers.

Hence in New South Wales owners of PV systems have suffered from deregulation of the feed-in tariff.

The Clean Energy Council made a submission in similar terms and also submitted that:

New South Wales consumers have fared poorly from the New South Wales experiment to deregulate feed-in tariffs. Solar consumers have suffered from a lack of consumer protection. Other consumers have suffered because investment could have been directed more efficiently, in a way likely to reduce electricity prices.

Finally, submissions from various private individuals, including the terms of the petition submitted to the Commission by Solar Citizens, stated that:⁶⁵

⁶² EnergyAustralia, *Submission to the 2013 Determination of Retailer Feed-In Tariff – Draft Price Determination*, 1 November 2013, page 5; available at <http://www.escosa.sa.gov.au/projects/200/review-of-the-retailer-feed-in-tariff.aspx>.

⁶³ Origin Energy, *Response to the Issues Paper for the Review of the Solar Feed-in Tariff Premium*, 26 July 2013, page 2; available at <http://www.escosa.sa.gov.au/projects/200/review-of-the-solar-feed-in-tariff-premium.aspx#stage-list=1>.

⁶⁴ SA Branch of the Australian Solar Energy Society, *Response to the Issues Paper for the Review of the Solar Feed-in Tariff Premium*, 26 July 2013, page 1; available at <http://www.escosa.sa.gov.au/projects/200/review-of-the-solar-feed-in-tariff-premium.aspx#stage-list=1>.

⁶⁵ Copies of those various submissions may be accessed from the Commission's website at <http://www.escosa.sa.gov.au/projects/200/review-of-the-solar-feed-in-tariff-premium.aspx#stage-list=1>.

The evidence in NSW shows that deregulated feed-in tariffs reduce choice for consumers and competition between retailers – leaving consumers at the mercy of retailers.

3.4.2 Commission's Considerations

Having carefully reviewed the available information and submissions put before it on this matter, the Commission has found that there is insufficient evidence to definitively conclude that competition for PV customers in other jurisdictions is effective.

The Commission's assessment of R-FiT equivalents in other jurisdictions is summarised below.

New South Wales

In New South Wales, electricity retailers are not required to make any mandatory R-FiT equivalent payments. Under the scheme in that State, the Independent Pricing and Regulatory Tribunal (**IPART**) publishes an annual benchmark range for the R-FiT to provide guidance on the likely value of PV electricity and to assist PV customers in assessing electricity retailers' offers.⁶⁶

IPART determined that a subsidy-free feed-in tariff is in the range of 6.6 to 11.2 cents/kWh for 2013/14. In making that determination, IPART noted that:

The benchmark range is not mandatory and is intended as a guide for retailers and customers. We consider that the competitive market is the best way for customers to get the best deal, having regard to their electricity usage and exports. Several retailers, but not all, are voluntarily offering unsubsidised feed-in tariffs therefore customers can access these feed-in tariffs. The value of PV customer's exports is also difficult to determine and its value can differ for different retailers and customers. If mandatory feed-in tariffs are set too high, retailers would be required to subsidise their customers. This would make it less attractive to serve these customers. If mandatory feed-in tariffs are set too low, these customers would not receive the full value of their exported energy.

The incidence and level of R-FiT payments offered to PV customers in New South Wales as at 13 November 2013 is set out in Table 3-3 below (along with the residential market share of each retailer as at 30 June 2013).

⁶⁶ 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; available at http://www.ipart.nsw.gov.au/Home/Industries/Electricity/Reviews/Retail_Pricing/Solar_feed-in_tariffs_2013_to_2014.

Table 3-3: New South Wales R-FiT offers and market shares⁶⁷

R-FIT STATUS	ELECTRICITY RETAILER MARKET SHARE AND R-FIT PRICE			TOTAL MARKET SHARE
Not selling to PV customers	QEnergy	<1%	n/a	approx. 1%
Selling to PV customers but not offering FiT	Momentum Energy	<1%	n/a	approx. 2%
	DoDo Power and Gas	<1%	n/a	
	Australia Power and Gas	<2%	n/a	
Selling to PV customers below IPART range	Red Energy	1%	5 cents/kWh	approx. 43%
	Origin Energy (including Country Energy and Integral Energy)	42%	6 cents/kWh	
Selling to PV customers within IPART range	AGL	19%	8 cents/kWh	approx. 54%
	Lumo Energy	<1%	6.6 cents/kWh	
	Click Energy	<1%	10 cents/kWh	
	EnergyAustralia	34%	6.6 cents/kWh	
	Powerdirect	<1%	7.7 cents/kWh	

As can be seen, of the eleven electricity retailers operating in New South Wales:

- ▲ four (with a combined market share of 3%) make no voluntary R-FiT payments;
- ▲ seven make voluntary R-FiT payments and, of those:
 - two (with a combined market share of 43%) lie below the lower bound of IPART’s benchmark range; and
 - five (with a combined total market share of approximately 54%) lie within IPART’s recommended benchmark range.

The Commission has confirmed that EnergyAustralia is offering a voluntary R-FiT of 6.6 cents/kWh in New South Wales. At the time of making its Draft Price Determination, Energy Made Easy indicated that EnergyAustralia was not making any of its offers available to customers with solar panels. As at 13 November 2013, the Energy Made Easy website continued to reflect that situation.

⁶⁷ While Sanctuary Energy offers an R-FiT of 30c/kWh in New South Wales, the Commission does not rely on Sanctuary Energy’s voluntary FiT payment as it is conditional upon the purchase of a PV unit from a specified partner, only applicable to the primary residence (which must be occupied full time), and is limited to systems up to 3.3 kW on a minimum 3 year contract.

The Commission considers that this omission from Energy Made Easy further reiterates its view that there are gaps between information sources and discrepancies in how relevant information is disclosed to PV customers. Under the AER's Retail Pricing Information Guideline, energy retailers have a regulatory obligation to ensure their Energy Price Fact Sheet clearly indicates when an offer is available to PV customers. As the Energy Price Fact Sheets developed by EnergyAustralia do not comply with this regulatory obligation, the Commission intends to refer this matter to the AER to be dealt with separately under its compliance regime.

Based on those data and the information presented in Table 3.3, the Commission notes that, of the three largest electricity retailers in New South Wales (with a combined market share of 95%), only AGL (19% market share) and EnergyAustralia (34%) make a voluntary R-FiT available to PV customers within IPART's recommended range. The State's largest electricity retailer, Origin Energy (42%), offers a value below the lower bound of that range.

Table 3-4⁶⁸ shows that the majority of electricity retailers in New South Wales are making their best-priced generally available Market Offer available to PV customers. Energy Made Easy also shows that 33 out of the 52 electricity Market Offers are available to PV customers.

In a competitive market, the Commission would expect to observe electricity retailers in New South Wales actively competing for PV customers by offering a wide range of PV products and differentiated pricing. However, this is not the case as PV customers in that State have limited access to the range of Market Offers and only one of the three biggest electricity retailers is offering a R-FiT above the lower bound of IPART's recommended benchmark range. In that regard, the inclusion of EnergyAustralia's voluntary R-FiT in this analysis does not change the Commission's conclusions.

The Commission observes that the number of electricity retailers offering voluntary R-FiTs within IPART's recommended benchmark range remains low and, furthermore, retailers holding a collective market share of approximately 47% are either offering payments below that range or, indeed, not offering a voluntary R-FiT. The State's largest electricity retailer Origin Energy (holding a 42% market share) continues to offer an R-FiT payment below the lower bound of IPART's recommended benchmark range.

⁶⁸ Note that the figures in Table 3-4, sourced from the Energy Made Easy website, include GST and all conditional and non-conditional discounts for a typical residential customer residing in the Ausgrid distribution zone and who uses 5,000 kWh per annum (excluding off-peak and green energy).

Table 3-4: Price based comparison of New South Wales electricity offers (as at 13 November 2013)

	BEST-PRICED MARKET OFFER			BEST-PRICED MARKET OFFER FOR PV CUSTOMERS		
	PRODUCT NAME	Estimated Annual Cost	Available to PV Customers?	PRODUCT NAME	Estimated Annual Cost	R-FIT (cents/kWh)
AGL	Select 8% New South Wales residential electricity market offer	\$1,532	✘	Advantage 7% New South Wales residential electricity market offer	\$1,574	8
Australian Power and Gas	Simplicity Plus E1001	\$1,736	✓	Simplicity Plus E1001	\$1,736	0
Click Energy	Click Elite - Monthly billing, direct debit only, no exit fees - Any Time Tariff - Domestic	\$1,520	✘	Click Shine - Monthly billing, 10 cent FIT, no exit fees - Any Time Tariff - Domestic	\$1,554	10
Dodo Power and Gas	Ausgrid Res No Term Market Offer (E2EAR-MAT1)	\$1,463	✓	Ausgrid Res No Term Market Offer (E2EAR-MAT1)	\$1,463	0
EnergyAustralia	Everyday Saver Home - Peak Only (Online)	\$1,497	✓	Everyday Saver Home - Peak Only (Online)	\$1,497	6.6
Lumo Energy	Lumo Advantage	\$1,587	✓	Lumo Advantage	\$1,587	6.6
Momentum Energy	Momentum SmilePower GD	\$1,560	✓	Momentum SmilePower GD	\$1,560	0
Origin Energy	eSaver up to 8% electricity usage discount (Single Rate)	\$1,560	✓	eSaver up to 8% electricity usage discount (Single Rate)	\$1,560	6
Powerdirect	Powerdirect 11% New South Wales residential electricity market offer	\$1,558	✘	Powerdirect 7% New South Wales residential electricity market offer	\$1,615	7.7
QEnergy	Freedom Home	\$1,505	✘	N/A	N/A	N/A
Red Energy	Living Energy Saver - Residential	\$1,470	✓	Living Energy Saver - Residential	\$1,470	5
Sanctuary Energy	35c Feed In Tariff	\$1,671	✓	35c Feed In Tariff	\$1,671	35

Queensland

At present in Queensland there is no mandatory R-FiT equivalent regime (although there is a now-closed D-FiT equivalent regime).

However, in August 2012 the Queensland Competition Authority (**QCA**) was referred an Inquiry by the Minister for Energy and Water Supply to investigate and report on, among other things:

- ▲ a fair and reasonable value for energy generated by small scale PV units and exported to the Queensland electricity grid; and
- ▲ the mechanisms by which a fair and reasonable value or values could be implemented in Queensland.

In its March 2013 Final Report, the QCA found, among other things, that:⁶⁹

- ▲ any future feed-in tariff schemes should be funded by electricity retailers, rather than regulated network businesses, to avoid cross-subsidies and the inequitable recovery of costs from those customers least able to afford them;
- ▲ the fair and reasonable value of exported PV energy should generally reflect the direct financial benefit that a retailer receives when it on-sells electricity exported by its PV customers;
- ▲ based on retail prices in Queensland for 2013-14, the QCA estimated that value to be 7.55 cents/kWh;
- ▲ based on the prevailing level of competition, there was no compelling evidence to support a regulated, mandatory minimum R-FiT for customers in the south-east Queensland retail electricity market; and
- ▲ based on the absence of competitive pressures in the Ergon Energy network area, there was compelling evidence to support a regulated, mandatory minimum R-FiT of 7.06 cents/kWh and 14.05 cents/kWh, reflecting the differing costs in supplying energy across that area.

The Queensland Government is yet to implement the QCA's findings.

Based on information published by the QCA in March 2013, voluntary R-FiT payments were offered in Queensland in March 2013 by electricity retailers as shown in Table 3-5.

⁶⁹ Queensland Competition Authority, *Estimating a Fair and Reasonable Solar Feed-in Tariff for Queensland – Final Report*, March 2013, page iv; available at http://www.qca.org.au/electricity-retail/Review_Of_Solar_Feed/FinalReport.php.

Table 3-5: Queensland voluntary R-FiT payments at November 2013

ELECTRICITY RETAILER	VOLUNTARY R-FIT
AGL	8 cents/kWh
Click Energy	10 cents/kWh
Diamond Energy	4 cents/kWh
DoDo Power and Gas	8 cents/kWh
EnergyAustralia	8 cents/kWh
Lumo Energy	6 cents/kWh
Origin Energy	6 cents/kWh
Powerdirect	6 cents/kWh

As shown below, seven of the nine electricity retailers in Queensland make their best Market Offer prices available to PV customers (the Commission notes that it was not able to obtain data as to Integral Energy's offer). Three electricity retailers, Integral Energy, QEnergy and Simply Energy, were not featured on QCA's Price Comparator tool.

Table 3-6: Queensland best Market Offer (as at 13 November 2013)⁷⁰

RETAILER	PRODUCT NAME	ESTIMATED ANNUAL COST	AVAILABLE TO PV CUSTOMERS?
AGL	Select 5	\$1,569	✘
Australian Power & Gas	AP&G Simplicity Plus	\$1,588	✓
Click Energy	Click Elite Monthly	\$1,521	✘
Diamond Energy	Diamond Energy	\$1,620	✓
DoDo Power & Gas	No Term Offer	\$1,517	✓
EnergyAustralia	Flexi Saver - Home	\$1,488	✓
Lumo Energy	Lumo Advantage	\$1,586	✓
Origin Energy	eSaver	\$1,554	✓
Powerdirect	Powerdirect 8% discount	\$1,554	✓

Source: Queensland Competition Authority Price Comparator

EnergyAustralia's submission argued that those retailers in Queensland not offering a voluntary R-FiT have market shares of 2% or less. It suggests that competition for PV customers is similar to that in New South Wales. Whilst the Commission notes the market share estimates provided in the EnergyAustralia submission, it is unable to verify the accuracy of the data. The Commission's previous request to QCA to access Queensland's retail electricity market share data was declined for confidentiality reasons.

⁷⁰ Note that the figures in Table 3-6, sourced from the Queensland Competition Authority's Price Comparator, include GST and all conditional and non-conditional discounts for a typical residential customer on Tariff 11 who uses 5,000 kWh per annum (excluding off-peak and green energy).

The Commission continues to consider that the evidence of competition for PV customers in Queensland remains mixed. On the one hand, the available evidence indicates that most electricity retailers are actively competing for PV customers by offering a voluntary R-FiT and their best Market Offer to PV customers. On the other hand, only four electricity retailers are electing to offer an R-FiT payment above the value of 7.55 cents/kWh recommended by QCA. In addition, the absence of competitive pressures in the Ergon Energy network area was compelling enough to persuade QCA to recommend the introduction of a regulated mandatory minimum R-FiT in that area.

Victoria

All electricity retailers in Victoria are required to offer a minimum R-FiT of 8 cents/kWh for 2013 and 2014 (the former value being mandated in statute; the latter having been determined by the Essential Services Commission of Victoria in August 2013).

The Victorian R-FiT does not need to be applied to every offer and electricity retailers have the discretion to offer different terms and conditions; however, if an offer (Market or Standing) is open to PV customers, an electricity retailer must pay a minimum FiT premium of 8 cents/kWh to those customers (as is the case in South Australia).

Summary of interstate R-FiT and D-FiT arrangements

Table 3-7 sets out a summary of R-FiT and D-FiT arrangements in Australian jurisdictions as at November 2013.

Table 3-7: Jurisdictional comparison of FiT arrangements

JURISDICTION	DISTRIBUTOR FIT (cents/kWh)	RETAILER FIT (cents/kWh)
Australia Capital Territory	30.16 - 50.05 Nil from 14 July 2011	7.5 (voluntary)
New South Wales	20 - 60 Nil from 29 April 2011	0 - 11.2 (voluntary)
Northern Territory	25.91 from 1 July 2013	Nil
Queensland	8 - 44 Nil from 1 July 2014	0 - 10 (voluntary)
South Australia	16 - 44 Nil from 1 October 2013	9.8 (mandatory)
Tasmania	Nil	8 (mandatory)
Victoria	25 - 60 Nil from 1 January 2013	8 (mandatory)
Western Australia	40 - 60 Nil from 1 August 2011	Synergy: 8.8529
		Horizon Power (location specific) 10 - 50

3.5 Deregulation and the costs of regulating

Under the ESC Act, the Commission is required, in making a price determination, to have regard to the following factors:

- ▲ the costs of making, producing or supplying the goods or services: section 25(4)(b);
- ▲ the costs of complying with laws or regulatory requirements: section 25(4)(c); and
- ▲ facilitate maintenance of the financial viability of regulated industries and the incentive for long term investment: section 6(b)(vi).

In the current context, it is the Commission's view that these factors relate to the arguments as to "deregulation" of the R-FiT in the context of the costs of regulation under the R-FiT. Given the scheme of the R-FiT, deregulation means the circumstance where the Commission either decides not to make an R-FiT price determination at all or does so but sets the prescribed minimum amount at zero.

In considering these factors, the Commission notes that there is a difference between the costs of regulation overall (that is, the administration of the R-FiT) and the actual costs of serving PV customers. In that latter context, in the absence of evidence that the costs of serving PV customers is related to kWh of PV electricity fed-in to the distribution network, then those costs should not affect the amount (in cents/kWh) determined for the R-FiT (although those costs may explain such outcomes as electricity retailers not making their best-priced Market Offers available to PV customers).

3.5.1 Issues Raised in Submissions

In general, submissions received from electricity retailers highlighted their view that there are additional administrative costs associated with having a regulated minimum R-FiT and that additional costs are incurred by retailers to serve PV customers.

EnergyAustralia submitted that:⁷¹

... 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*

⁷¹ EnergyAustralia, *Response to the Issues Paper for the Review of the Solar Feed-in Tariff Premium*, 26 July 2012, page 5; available at <http://www.escosa.sa.gov.au/projects/200/review-of-the-solar-feed-in-tariff-premium.aspx#stage-list=1>.

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).

Alinta Energy submitted that there are high administrative costs involved in managing customer accounts where there is a FiT applied, with the implication that “deregulation” of the R-FiT would remove those costs.⁷²

Similarly, Origin Energy highlighted its view that there are ongoing administrative costs associated with the R-FiT.⁷³

As neither Alinta Energy nor Origin Energy had described or quantified the incidence of the administrative costs identified in their submissions, in September 2013 the Commission sought further information from both.

In its response, Alinta Energy identified the following additional administrative cost drivers, although it did not quantify the amount of the likely cost associated with them:⁷⁴

When billing system, price and tariff changes are made, additional regression testing is required for feed-in tariff customers in relation to billing to ensure the ongoing accuracy of solar customer bills. This relates to additional test scenarios to account for customers with solar.

There is also a need to manage the additional pricing structures required for solar customers, this includes the additional customer collateral required for these customers specifically relating to adjustments to feed-in tariff rates.

In dealing with customer billing enquiries where solar is involved there is a higher level of training and education required for agents required to be able to adequately deal with what are potentially more complex issues and discussions, relating to the application and practical operation of feed-in tariff schemes.

⁷² Alinta Energy, *Response to the Issues Paper for the Review of the Solar Feed-in Tariff Premium*, 24 July 2012, page 2; available at <http://www.escosa.sa.gov.au/projects/200/review-of-the-solar-feed-in-tariff-premium.aspx#stage-list=1>.

⁷³ Origin Energy, *Response to the Issues Paper for the Review of the Solar Feed-in Tariff Premium*, 26 July 2012, page 3; available at <http://www.escosa.sa.gov.au/projects/200/review-of-the-solar-feed-in-tariff-premium.aspx#stage-list=1>.

⁷⁴ Alinta Energy, *Re: ESCOSA – R-FiT Review – Alinta submission 24/07/13 – Cost to serve information*, email to Commission, Friday 13 September 2013.

As is often the case with customer billing enquiries, metering arrangements and configurations come into play and there is a need to liaise with the [distribution network businesses]. These type of enquiries where solar is involved are generally more complex in nature due to metering set up etc. and therefore will in most cases require a greater level of administrative involvement to resolve.

Origin Energy also provided further information to the Commission, identifying the additional administrative costs suggested in its original submission, as follows:⁷⁵

Engaging in consultation to determine the level of the minimum FIT premium;

Communicating the final decision throughout various parts of the retail business;

Preparing and submitting system change requests to update the amount of the minimum R-FiT (for example, the R-FiT may be higher than the valuation a retailer may have previously applied- this occurred in Origin's case when the retailer contribution was made mandatory);

Updating customer collateral and information as required (website, hardcopy, call centre scripts etc);

Fielding customer inquiries about changes in the level of the regulated R-FiT; and

The opportunity cost of these activities to the business incurred by deploying resources to this task rather than to alternatives.

Origin Energy went on to note that:

In terms of costs, it is difficult to provide an accurate estimate. Industry wide however, a material number of FTE hours would be committed to this activity...

The incremental cost for retailers who do not choose to make additional premium FiT offers is 100%. For a retailer such as Origin (who would maintain a market determined FIT premium as we do in NSW), the reduction in cost would be between 60-80% (less external engagement, more stable pricing and so on).

Even if price changes occurred more frequently than under the current regulated model, due to competitive pressure from other retailers, this would be a more efficient outcome than regulating, since the costs are a result of competitive market activity- retailers responding to price movements and competition from their peers would incur these costs in the knowledge that they wish to maintain market share, profitability etc (whatever their business goal may be). In this case, the level of cost retailers

⁷⁵ Origin Energy, Re: ESCOSA – R-FiT Review – submission of 26 July – administrative costs, email to Commission, Wednesday 11 September 2013.

would incur would be determined by them based on the price signals in the market, not because they were fulfilling a regulatory or license obligation.

The Commission acknowledges the assistance of both Alinta Energy and Origin Energy in providing this additional information.

3.5.2 Commission's Considerations

A number of assertions were made by electricity retailers during the public consultation process for this review on the additional administrative costs associated with serving PV customers. However, no retailer has yet been able to quantify the operating costs associated with these customers from other customers.

It is important to note that the Commission's role is not to simply accept assertions put forward by electricity retailers but rather make an independent decision based on its assessment of the available evidence. In the absence of any evidence showing how the costs of serving PV customers is related to kWh of PV electricity fed-in to the distribution network then those costs should not affect the cents/kWh determined for the R-FiT.

Accordingly, the Commission considers it is reasonable to assume that retailers are recovering all operating costs, including those associated with PV customers, either by not making their best-priced Market Offers available to PV customers and/or through Market Offer and Standing Offer prices generally.

The Commission accepts that there may be additional administrative costs associated with the regulated *minimum* R-FiT and that those costs are relevant to the making of an R-FiT price determination. In reaching this position, the Commission has had regard to the costs of supplying R-FiT services, complying with R-FiT laws and regulatory requirements and the incentive for long term investment.

Of those factors, the first two are considered to have greater weight, as, in respect of the last matter, there is no evidence available to the Commission that would suggest that a potential new entrant retailer would avoid market entry merely on the basis of the R-FiT.

3.6 Other factors

The Commission also notes that section 25(4)(g) of the ESC Act requires the Commission to have regard to any factors specified by a relevant industry regulation Act. There are two such factors set out in the Electricity Act:

- ▲ section 35A(2a) - *have regard to the fair and reasonable value to an electricity retailer of electricity fed into the network by PV customers*: this was considered by the Commission at section 3.2 above; and
- ▲ section 6A(4) - *have regard to the provisions of the National Electricity Rules and National Energy Retail Rules and the need to avoid duplication of, or inconsistency with, regulatory requirements under those Rules*: that factor is not relevant in respect of an R-FiT price determination and is not further considered.

4. FINAL DECISIONS

Having reviewed the relevant factors under the ESC Act and the Electricity Act (noting that some factors, such as the Commission's primary objective under section 6(a) of the ESC Act will be considered in this Chapter), the Commission's task is now to review and balance those considerations.

4.1 *The final decision to make a price determination*

Under section 35A of the Electricity Act, the Commission has discretion as to whether or not it will make an R-FiT price determination at all.

In exercising that discretion, the Commission is guided by statutory factors under the Electricity and ESC Acts.

In this case, the Commission has decided that it will make a price determination of the *minimum* R-FiT, for the following reasons.

4.1.1 *Uncertainties*

The extent to which electricity retailers will compete for PV customers and provide R-FiT payments in the absence of a regulated *minimum* R-FiT is a key uncertainty.

The best available evidence the Commission has at this stage as to the likelihood that electricity retailers will vigorously compete in the absence of a regulated *minimum* R-FiT is the evidence arising in New South Wales and Queensland.

As noted in section 3.4.2 above, the available evidence from New South Wales and Queensland does not provide sufficient support to conclude that reasonable competition for PV customers exists.

In terms of New South Wales, IPART has established a non-binding benchmark range of 6.6 to 11.2 cents/kWh for 2012/13, representing its best estimate of the value to electricity retailers of fed-in PV electricity. Of the three biggest electricity retailers in that State (with a combined market share of 95%), only AGL (19% market share) is offering a voluntary R-FiT of 8 cents/kWh which is above the lower bound of IPART's recommended benchmark range. Of the other two, EnergyAustralia (34% market share) offers a voluntary R-FiT of 6.6 cents/kWh and Origin Energy (42% market share – the largest) offers a voluntary R-FiT of 6 cents/kWh.

Those three electricity retailers also hold the largest market shares in South Australia.

Further, Energy Made Easy provides evidence to suggest that PV customers in New South Wales appear to have limited access to the range of products offered by electricity retailers.

The evidence from Queensland, however, is slightly stronger but remains mixed, with seven of nine electricity retailers making their best-priced Market Offers available to small customers and seven electricity retailers offering a voluntary R-FiT within the range of 4 to 10 cents/kWh (with most offering either 6 or 8 cents/kWh).

However, only three electricity retailers in that State are electing to offer an R-FiT payment above the value of 7.55 cents/kWh recommended by QCA. Further, there remain concerns over the absence of competitive pressures in the Ergon Energy network area to justify QCA recommending the introduction of a regulated mandatory minimum R-FiT in that area.

Finally, the Commission has found that switching rates of PV customers in South Australia are significantly lower than those of non-PV customers. The Commission has relied upon data provided by electricity retailers and independent data obtained from SA Power Networks and AEMO to reach that conclusion. This provides further weight to the Commission's concern that competition for PV customers may not yet be sufficient to warrant an immediate transition to deregulation at this point in South Australia.

4.1.2 Increased flexibility

That said, it may be that price-monitoring in South Australia and further evidence from other jurisdictions will produce sufficient evidence to support deregulation of the South Australian R-FiT in the future.

In that regard, making a price determination will provide greater flexibility to the Commission to formally monitor the R-FiT, including the extent and incidence of voluntary R-FiT price offerings above any prescribed amount set by the Commission.

If the Commission does not make a price determination, its monitoring powers will be significantly reduced; if it does make a price determination, the ESC Act permits the Commission to invoke complementary price-monitoring arrangements.

Using those powers will provide the Commission with the opportunity to examine the evidence as to the incidence and extent of such voluntary payments and will assist in arriving at any future decision as to whether or not to make an R-FiT price determination

4.2 The value of the minimum R-FiT value

Having decided that it will make an R-FiT price determination, the next matter for the Commission is to determine the level at which the R-FiT will be set. As was shown earlier, the level of the R-FiT is also a matter of uncertainty – and one which presents both up-side and down-side risks.

4.2.1 Factors given weight by the Commission

In determining the R-FiT value, the following matters have been given particular weight by the Commission:

- ▲ The fair and reasonable value to electricity retailers of electricity fed into the network for 2014 has been estimated by the Commission (relying on expert advice provided by AAC) taking into account the uncertainty around whether, or not, the carbon price is to be removed, as summarised below.

Table 4-1: Projected value of exported PV output in South Australia under 2 carbon price scenarios

VALUE	SCENARIO 1: CARBON PRICE REPEALED	SCENARIO 2: CARBON PRICE REMAINS
10 th percentile	12.0 cents/kWh	13.4 cents/kWh
90 th percentile	6.0 cents/kWh	7.6 cents/kWh

Source: ACIL Allen Consulting

- ▲ The risk that, if the Commission's determination of the *minimum* R-FiT value is **higher** than the fair and reasonable value to them, electricity retailers may:
 - increase Standing Offer and Market Offer prices to subsidise the R-FiT, to the detriment of all South Australian electricity consumers; or
 - stop marketing to PV customers (if the market is not sufficiently competitive); or
 - do both of the above.
 - Consequently, all of the above outcomes would be contrary to the Commission's objectives of promoting competition and efficiency and, most importantly, promoting the long-term interests of consumers.
- ▲ The risk that, if the Commission's determination of the *minimum* R-FiT value is **lower** than the fair and reasonable value to electricity retailers, then if the market for PV customers is not sufficiently competitive PV customers will not realise that value.
- ▲ The risk that, if the Commission's determination of the *minimum* R-FiT value is set based on the assumption that the carbon price would apply for the whole of 2014, and that the repeal bills introduced by the newly-elected Government into Federal Parliament to remove the carbon price are passed and enacted, then the *minimum* R-FiT value may be set too high.

Having regard to those risks, and recognising that, in principle, if markets are sufficiently competitive they are better than regulators at price discovery, the Commission has also considered the extent to which the market for PV customers is competitive and could therefore be relied upon to set an appropriate R-FiT value.

While accepting that, for the purposes of this Final Price Determination, the South Australian small customer retail electricity market is reasonably competitive, the Commission notes that there is significant uncertainty as to how competitive the market for PV customers would be if the R-FiT was set below the fair and reasonable value to electricity retailers (or at zero). Noting this, to assist it in forming a forward-looking view of the potential for the market to deliver a fair and reasonable R-FiT value for the future, the Commission has reviewed R-FiT equivalent arrangements and market outcomes in other jurisdictions.

Through its review, the Commission has concluded that there is sufficient uncertainty at this time to conclude that there is a risk that the South Australian retail market will not price feed-in energy at an appropriate level for all PV customers. In the Commission's view, this risk is such as to warrant the Commission continuing to set a prescribed R-FiT amount supported by a price-monitoring regime.

Having regard to these matters, the Commission's overall position is that, while it accepts that markets, if sufficiently competitive, will generally find efficient prices more readily than can a regulator, at this stage it would be premature to cease determining the R-FiT value.

4.2.2 *Setting a minimum R-FiT*

Trading-off the fact that the Commission does not consider full deregulation appropriate at this time and the fact that the Commission accepts, in principle, that regulators setting prices is a second-best outcome if markets are sufficiently competitive, the Commission considers that setting a *minimum* R-FiT prescribed value at the lower bound of a reasonable range of expected 2014 R-FiT values is appropriate.

This is because a *minimum* R-FiT set in that way will provide sufficient headroom for electricity retailers to compete above that floor and thus for the market to determine the efficient price.

Based on the advice of AAC, the Commission has determined that the reasonable range of expected 2014 R-FiT values (including the carbon price) is between 7.6 cents/kWh and 13.4 cents/kWh. Based on the principle outlined above, the Commission proposes to adopt 7.6 cents/kWh as the *minimum* R-FiT from 1 January 2014 under a one-year price determination.

To address the uncertainty around whether or not the carbon price will be removed, the R-FiT price determination includes a mechanism to vary the *minimum* R-FiT value in the event that the repeal bills to remove the carbon price are passed and the carbon price effectively becomes zero. In that event, the *minimum* R-FiT will be varied from 7.6 cents/kWh to 6.0 cents/kWh, which is the lower bound of the reasonable range of 6.0 cents/kWh to 12.0 cents/kWh as recommended by AAC in the event that the carbon price is successfully repealed.

Should any other events eventuate during the next regulatory period that would have direct implications for the fair and reasonable value to a retailer of exported PV output, the Commission will examine the available evidence and may vary its determination of the *minimum* R-FiT.

Further, the Commission will implement a formal price-monitoring regime under the ESC Act to obtain evidence of the extent, if any, to which electricity retailers might be paying amounts in excess of that value during 2014 (as discussed further below).

Based, in part, on the Commission's findings through the price-monitoring regime, it will reconsider its regulatory position through a subsequent review process in late 2014. As competition ought to be a dynamic process, the Commission would expect to see R-FiT offerings that reflect value to electricity retailers while, at the same time, not seeing any

diminution in PV customers' ability to access electricity retail prices relative to those available to non PV customers (whilst recognising at least some degree of additional costs to serve).

This represents a cautious and measured approach by the Commission, taking into account the broad range of factors set out in the Electricity and ESC Acts.

Recognising that the R-FiT is intended, under the Electricity Act, to be a minimum payment (with the anticipation that retailers will provide higher payments as a result of competitive forces) the Commission would expect to observe that, if sufficient, competition will drive electricity retailers to pay higher amounts by setting the *minimum* R-FiT at the lower bound end of the reasonable range of estimated fair and reasonable R-FiT values.

4.3 Price-monitoring

The Commission's final decision is to set a *minimum* R-FiT prescribed value for 2014, complemented by a formal price-monitoring regime to gain evidence of the extent, if any, to which electricity retailers might be paying amounts in excess of that value during 2014.

In this instance, having regard to the purposes proposed for the complementary price-monitoring regime, the Commission proposes that it will rely generally on publicly available data for this element of the price determination, noting, however, that it may seek other information from electricity retailers if required.

The key design features of the Commission's proposed price monitoring frameworks are set out below.

4.3.1 Monitoring of Pricing Outcomes

Articulating how prices, cost and market outcomes are monitored is important to the transparency and accountability of a price-monitoring regime. An important consideration for the Commission is ensuring that the outcomes of its price monitoring are relevant to the regulatory intent.

Conscious that electricity retailers structure their offers differently (for example, the number of tariff blocks and consumption bands), the Commission recognises that the monitoring approach must be sufficiently flexible to accommodate such differences. Accordingly, the Commission is proposing to adopt a hypothetical annual bill approach to monitoring prices of PV offers.

This approach is based on examining how the different charges would translate into individual bills; examining the sensitivity of the results to different assumptions about usage and the amount of electricity fed back to the distribution network, thereby allowing for a meaningful comparison of electricity charges and R-FiTs across different retailers. This approach is consistent with the notion that consumers are interested in that combination of low imported energy tariffs and high export R-FiTs that maximises the net return to that individual.

Table 4-2 below summarises the different exporting profiles that the Commission proposes to match against the three main consumption profiles.

Table 4-2: Assumed consumption and exporting profiles of solar PV customers

CONSUMPTION PROFILES	EXPORTING PROFILES
Residential customers	
Low user (3,500 kWh per annum) Medium user (5,000 kWh per annum) High user (7,500 kWh per annum)	No amount exported (0 kWh per annum)
	Low amount exported (200 kWh per annum)
	Medium amount exported (400 kWh per annum)
	High amount exported (600 kWh per annum)
Small business customers	
Medium user (10,000 kWh per annum)	No amount exported (0 kWh per annum)
	Low amount exported (200 kWh per annum)
	Medium amount exported (400 kWh per annum)
	High amount exported (600 kWh per annum)

Under the proposed hypothetical annual bill approach, the Commission’s analysis would differentiate by retailer and separately identify the amount of R-FiTs paid by each retailer to PV customers. Importantly, the monitoring of pricing outcomes in the PV market is intended to complement the Commission’s current role in publishing annual comparison reports on certain electricity and gas retail prices for small customers in South Australia. For example, informing the Commission on whether or not PV customers are receiving comparable discounts compared to non-PV customers.

All data used for the monitoring of pricing outcomes will be sourced from Energy Made Easy and retailers’ pricing fact sheets.

4.3.2 Monitoring of Non-Pricing Outcomes

To complement its monitoring of pricing outcomes, the Commission will also monitor a set of non-pricing indicators. Conscious not to duplicate the energy retail market monitoring role performed by the AER and impose unnecessary regulatory burden on retailers, data for these indicators will be largely sourced from public sources. However, the Commission may seek information that is not publicly available from electricity retailers if required.

Table 4-3 sets out the non-pricing indicators in the solar PV market to be monitored under the Commission’s proposed price-monitoring regime.

Table 4-3: Indicators to be monitored

INDICATOR	COMMENT	DATA SOURCE
Innovation in solar offers	Examining whether PV customers have a good range of offers to choose from	Energy Made Easy and electricity retailers' websites
Number of solar offers	Examining whether PV customers have a good range of offers to choose from	Energy Made Easy and electricity retailers' websites
Number of retailers selling to PV customers	Examining whether PV customers have a good range of offers to choose from, and thereby putting pressure on retailers to compete for market share through competitive and innovative offers	Energy Made Easy and electricity retailers' websites
Terms and conditions of solar offers	Examining whether there are any impediments to customers switching between contracts and/or retailers (for example, exit fees and terms on contract)	Energy Made Easy and electricity retailers' websites
Level and accessibility of reliable information provided by retailers	Examining whether consumers have access to consistent and reliable information through different information sources to facilitate informed decision making (for example, pricing fact sheets or retailers' websites)	Energy Made Easy and electricity retailers' websites
Customer switching rates: PV and non- PV	Examining the switching rate of PV and non-PV customers from one electricity retailer to another and between offers with their incumbent retailer.	To be provided by electricity retailers to the Commission on a confidential basis

4.4 Effective date of the Final Decision

It is intended that the Final Price Determination will take effect from 1 January 2014.

The Commission notes the concern expressed by Alinta Energy in its submission to the Draft Price Determination over the potential for non-compliance due to insufficient time between the release of this Final Price Determination and 1 January 2014. In response to that concern, the Commission makes the following points.

First, the Commission does not believe that the concern over non-compliance is warranted as it has determined the *minimum* R-FiT value of 7.6 cents/kWh to apply from 1 January 2014, which is less than the current R-FiT of 9.8 cents/kWh. Any non-compliance would therefore only arise if electricity retailers are paying a value that is less than the *minimum* R-FiT determined by the Commission.

Second, the Commission sees no compelling reasons why electricity retailers would have any problems meeting the 1 January 2014 implementation date. To the best of the Commission's knowledge, the varying of the R-FiT value does not require substantial changes to retailers' billing systems. It is also important to note that there are precedent cases where electricity retailers were able to make changes to their billing systems, including system testing, within a relatively short time frame. For example, retailers were able to implement the initial R-FiT that applied from 27 January 2012 with only 4-days notice.

Finally, the Commission notes that no other retailers have expressed concern in relation to the above matters raised by Alinta Energy during the review's public consultation process.

For the above reasons, the Commission has not been persuaded that either the Final Decision needs to be brought forward or the implementation date delayed.

5. IMPLEMENTATION OF FINAL DECISION

The Commission has made a price determination, setting a *minimum* R-FiT carbon inclusive value of 7.6 cents/kWh to apply from 1 January 2014. All electricity retailers are required to pay at least that *minimum* R-FiT amount for electricity exported into the distribution network, although they may offer higher amounts to PV customers.

To address the uncertainty around whether or not the carbon price will be removed, the R-FiT price determination includes a provision to vary the *minimum* R-FiT value to 6.0 cents/kWh in the event that the repeal bills to remove the carbon price are passed by Parliament and are enacted.

Should any other events eventuate during the next regulatory period that would have direct implications for the fair and reasonable value to a retailer of exported PV output, the Commission will examine the available evidence and may vary its determination of the *minimum* R-FiT.

As well as setting the *minimum* R-FiT value, the final price determination also provides for the implementation of a formal price-monitoring regime to allow the Commission to monitor the extent of competition of PV customers and the incidence of FiT above the mandatory *minimum* R-FiT value over the next regulatory period. Evidence provided through that process will inform the Commission's future decision as to whether or not a further price determination is required.

To give effect to its Final Decision, the Commission has made a price determination under Part 3 of the ESC Act and pursuant to the Electricity Act. The Commission's Final Price Determination accompanies this Statement of Reasons. The Commission will publish a notice of its Final Price Determination so that it takes effect from 1 January 2014.



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