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Nathan Petrus
Director, Pricing & Analysis
The Essential Services Commission of SA
GPO Box 2605
Adelaide
SA 5001

Submitted via email to escosa@escosa.sa.gov.au

Dear Nathan

**Response to 2013 Determination of Solar Feed-in Tariff Premium – Draft Price Determination**

EnergyAustralia welcomes the opportunity to make a submission to the Essential Services Commission of SA (the Commission) on the draft price determination for the 2013 solar feed-in tariff (FiT) premium (Draft Determination).

***Continued regulation of the FiT premium***

EnergyAustralia considers it unnecessary for the minimum FiT premium to continue to be regulated. Although we recognise that the Commission must determine the FiT premium under the powers given to it under the Electricity Act 1996 and the Essential Services Commission Act 2002, we request the Commission to provide comment on the need for continued regulation of this tariff.

In our view, it is an anomaly that the FiT premium is still regulated when gas and electricity pricing for small customers in South Australia is no longer regulated. The solar market in South Australia contains vigorous levels of competition as evidenced by the scale of the solar rollout in the state. We encourage the South Australian government to consider removing this last piece of price regulation at least by the end of the current determination period (30th June 2014), if not before.

If the South Australian government do not intend to remove regulation on this premium for some time, then we would like to find out:

- What type of market behaviour, competition or customer response would the SA government need to see in the solar market before making this decision?
- What role does the Commission play in monitoring these conditions?
- What are the perceived benefits of continuing to set a mandatory minimum premium when:
    - the solar industry is no longer embryonic – over a million households nationwide already have solar panels;[1]
    - solar installation costs are now able to be recovered more quickly due to a reduction in the costs of solar panels; and
    - regulators in some states have recommended that regulation is not required for solar FiTs?[2]

[1] More than one million homes nationally have solar panels installed – see Clean Energy Council, media release, 5th April 2013, http://www.cleanenergycouncil.org.au/mediaevents/media-releases/April-2013/130405-Million-solar-rooftops.html

***Timing for current and future years***

While the Commission continues to determine the minimum FiT premium we do see benefit in a set timetable that allows enough time for retailers to implement the changes in their systems prior to the effective date.

For upcoming six-month period (July-December 2013), the timeframe for updating systems is inadequate, as the Commission will be releasing their final determination on the 24th June 2013 for the new FiT price to apply from the 1st July 2013. It is unlikely that system changes would be able to be accommodated in time for the FiT to be applied to bills from 1 July 2013. The potential consequence would be widespread customer confusion and delayed bills as we would be unable to bill customers until the required system changes were implemented.

However, we understand that given the need and timeframe for this review for the 13/14 year that the Commission is limited in allowing more time for implementation. For this year, we will not be able to be compliant with any new minimum FiT premium that is higher than the current amount of 9.8c/kWh (which would remain the same under the Draft Determination). Clearly, there less issue for retailers if the Commission were to set the minimum FiT premium below 9.8c/kWh as no change to systems is required; paying more the minimum FiT would still meet the compliance obligation.

For future years, we agree with the timing proposed by the Commission. That is, to publish the new FiT premium for the coming calendar year in Q4 following the release of the National Electricity Forecasting Report (NEFR) in June. Ideally, the FiT premium would be finalised early in Q4 to provide certainty for retailers and customers.

***Methodology for determining the FiT***

We agree that while the Commission determines the FiT amount, a standard approach requiring little consultation is preferable. However, it is difficult to endorse this approach for the indefinite future. Any standard, mechanical approach should be open to periodic consultation to ensure the FiT premium accurately reflects the value of solar exports to retailers.

If a periodic review is not allowed for, then we suggest the Commission consider a review of the methodology that can be triggered by the Commission or another stakeholder group.

***The value of photovoltaic (PV) exports***

**Solar uptake** – Projecting Solar uptake as a straight line based on a prior period (as estimated by ACIL[3]) seems appropriate for the next six months (July-December 2013), but may not be going forward. At some point, new installations will no longer receive the feed-in tariff credit of 16c/kWh from SA Power Networks and this may result in a lower rate of increase of installed capacity over time. Market saturation will also reduce uptake.

**Value of energy** – The description of load components[4] says correctly that the reduction of demand during the middle of the day due to solar generation is seen in the actual NSLP. However, ACIL Tasman also suggest that an adjustment for solar generation is required to historical NSLP and system demand data published by AEMO as "neither accounts for electricity generated by PV systems".[5] Even after reading older documents for the 2012 solar FiT determination, it is not clear what type of adjustment is being proposed by ACIL and why it is required. We request that ACIL provide more details on this.

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[2] IPART, Solar Feed-in Tariffs: Final Report, 14th March 2012; QCA, Estimating a fair and reasonable solar feed-in tariff for Queensland, 22nd March 2013

[3] ACIL Tasman Briefing Note: The value of exported solar PV output, 27th Mar 2013, page 4, figure 2

[4] ESCOSA, 2013 Determination of solar Feed-in tariff premium (Draft Determination), March 2013, page 26

[5] ACIL Tasman, The fair and reasonable value of exported PV output, March 2013, page 21

**Losses, market and ancillary service fees** – We agree with the approach put forward for losses, NEM fees and ancillary service fees. However, we are not clear why the total NEM and ancillary service fees at the regional reference node total $0.92/MWh and not $0.89/MWh.[6]

**Retail operating costs** – The Commission reviewed "whether the cost to serve a solar PV customer is materially higher or lower than servicing a customer who does not have a PV system."[7] In considering retail operating costs, the Commission states that these costs will have already been accounted for and recovered via the retail tariffs for all customers. However, the difference between solar customers and other customers who contribute disproportionately to operating costs is that solar customers are easier to distinguish. This could lead to retailers avoiding acquiring or retaining solar customers, especially if they feel the minimum feed-in tariff is too high.

In the last determination, the Commission noted:

> *"Given that the majority of retailers do not offer any voluntary payments to South Australian customers, it is questionable whether retailers would offer any additional amounts in excess of the FiT premium set by the Commission."*[8]

If retailers consider that they are paying a fair value for the feed-in tariff and if operating costs are negligible for retailers, then there would be an incentive for retailers to offer FiT payments voluntarily and try to attract solar customers. That there were not many offering a voluntary FiT previously, and that none offer more than the minimum FiT now, suggests that the costs are significant enough to discourage retailers from actively competing for solar customers. We ask the Commission to ensure that the minimum FiT is not too high and doesn't hinder competition for solar customers.

***Conclusion***

EnergyAustralia believes that there is no need for the minimum FiT premium to continue to be regulated, particularly now price regulation has been removed from gas and electricity pricing in South Australia. We would like to see further discussion on the current aims of regulating the FiT premium and plans for the eventual lifting of this regulation.

While this regulation remains, the Commission's approach to setting up an agreed and straightforward methodology for the solar FiT that requires little consultation is sensible. However, if this methodology is to be used going forward, then it is important that it be completely understood by stakeholders and any areas of uncertainty or concern are clarified in the final report. It's also important that the minimum FiT premium not be set at a level that deters competition for solar customers.

We note that the final determination for this review will be released only a week before the effective date (1st July 2013) and this will prohibit us from being compliant if the FiT premium increases above 9.8c/kWh. Although, the timing for future FiT premium reviews does appear to allow sufficient time for making the required system changes.

If you would like more information on this submission, please contact me on (03) 8628 1242.

Yours sincerely

**Melinda Green**
Regulatory Manager - Pricing

[6] ACIL Tasman Briefing Note: The value of exported solar PV output, 27th Mar 2013, page 7, table 4
[7] ESCOSA, Draft Determination, page 40
[8] ESCOSA, 2012 Determination of solar feed-in tariff premium: Final price determination , page 23