



Energy Retailers Association
of Australia Limited

21 September 2011

Determination of Solar Feed-in Tariff Premium
Essential Services Commission of SA
GPO Box 2605
Adelaide SA 5001

By email: escosa@escosa.sa.gov.au

Dear Sir/Madam

RE: Determination of Solar Feed-in Tariff Premium – Issues Paper

The Energy Retailers Association of Australia (ERAA) welcomes the opportunity to provide comments on the Essential Services Commission of South Australia's (ESCOSA) Issues Paper – Determination of Solar Feed-in Tariff Premium.

The ERAA is the peak body representing the core of Australia's energy retail organisations. Membership is comprised of businesses operating predominantly in the electricity and gas markets in every State and Territory throughout Australia. These businesses collectively provide electricity to over 98% of customers in the National Electricity Market (NEM) and are the first point of contact for end use customers of both electricity and gas.

ERAA Principles on Solar Feed in Tariffs

Premium solar feeds in tariffs (FiTs) are not a preferred policy option of the ERAA. It is our view that they are an expensive and regressive way to abate greenhouse gas emissions and are not a sustainable policy. The ERAA has long held the position that Government policies and incentives should be transparent, on budget, and should address market failures. The ERAA holds the view that a competitive retail market is unlikely to require mandated FiTs. The following principles must be taken into consideration when deciding on the most appropriate FiT.

1. FiTs should be designed to minimise administrative costs. Customers who benefit from FiTs are usually managed outside a retailer's standardised operating procedures. This is from connection through to the extra resources engaged to maintain appropriate customer service levels for PV customer.
2. Competitive neutrality is essential for any effective policy on FiTs. Without such neutrality setting the FiT policy will hinder effective competition.
3. One national FiT would be more efficient than various state based schemes, as it provides for a streamlining of processes that could translate in better outcome for end use customers.
4. Any FiT should be a long-term sustainable measure, not a short-term measure that changes sporadically due to change in economic circumstances. This will promote consumer and industry confidence in ensuring longevity and effectiveness.
5. Any FiT should be net metered to ensure that the full retail value is captured for all energy that the PV units produces that is used by the consumer, and the FiT should only apply to exported energy.
6. Once there is a price on carbon and a level playing field for renewable and low-emissions technology then policy should be reviewed as to the effectiveness of FiTs operating in the energy market.
7. Networks are the most efficient and equitable form of FiT cost recovery.

In this submission the ERAA has not provided comment on the numerous questions raised in the ESCOSA's Issues Paper, as members of the ERAA will address these individually.

Determining a “fair and reasonable” value to retailers

The Electricity Act requires ESCOSA to determine a “fair and reasonable” value to retailers of the electricity fed into the network. Other benefits to DBs and the wider community must therefore be ignored. ESCOSA is not required to set the retailer contribution equal to the “fair and reasonable” value, only to have regard to it. The ERAA contends that **the retailer component to be set to zero and the competitive market should determine the retailer contribution.**

The ERAA contends that in a competitive environment markets are best placed to determine the most appropriate sustainable and economical value for the electricity that is produced and exported by PV units. To date energy retailers have **voluntarily** offered a market premium of around 6 cents per kilowatt-hour. This equates to \$60 MWh, which is good value for customers considering wholesale costs of other sources of energy. It is only through the competitive landscape of the energy market that this tariff innovation and value has been able to mature. This value is also consistent with the Council of Australian Government's (COAG) principle that customers “receive fair and reasonable value for exported energy”.¹

Whilst some energy retailers provide offers above the 6 cents per kilowatt-hour value, this is the nature of the competitive market and is also consistent with COAG's principle of not mandating policy that “deters competition for PV customers' business from electricity retailers in jurisdictions where there is full retail contestability or innovation in the tariff offerings available to PV customers”.² Requiring energy retailers to fund non-economic solar subsidies through the setting of minimum mandatory FiTs or establishing an incorrect and over inflated benchmark price would have an adverse impact on retail competition, exacerbate consumer confusion and create unnecessary additional costs. Any mandated additional cost placed on energy retailers would act as a strong disincentive for energy retailers to sign up customers with PV units and the costs of managing existing and future customers on PV units could result in some energy retailers exiting the South Australian market.

As the contestable market has provided customers with choice in energy offers, this same market has also allowed energy retailers to competitively place a value on the electricity exported from PV units. Regulatory intervention is appropriate when there is clear market failure, however the ERAA contends that there is no clear indication of market failure in the provisioning of value for exported electricity from PV units and therefore there is no need for mandated regulatory intervention by ESCOSA.

Considering there are one off subsidies provided by the Federal Government under the Renewable Energy Target scheme, overly generous FiTs on above a competitive price may be uneconomical and unsustainable for energy retailers to absorb. Mandating an overly generous FiT will not only erode industry confidence in supporting future policy objectives that use government subsidies to promote and encourage renewable energy resources, but will also discourage and create significant barriers for an effective and competitive energy market in SA.

Depending on the policy direction that results from this review, the ERAA stresses that with any policy change that impacts on the customer sufficient lead times are required by energy retailers to facilitate the policy change. Customer expectations and confusion needs to be managed smoothly and without unnecessary costs borne by energy retailers. The ERAA also recommends that in its review ESCOSA recognise the key principles of

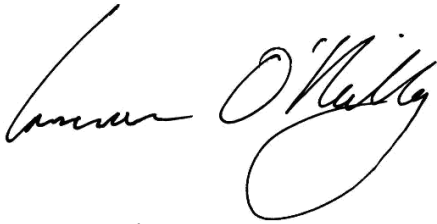
¹ COAG, National Principles for Feed-in Tariff Schemes, Nov 2008, p1

² COAG, National Principles for Feed-in Tariff Schemes, Nov 2008, p2

the ERAA on Solar FiTs and does not design policy that “deters competition for PV customers’ business from electricity retailers in jurisdictions where there is full retail contestability or innovation in the tariff offerings available to PV customers”.

Should you wish to discuss the details of this submission further, please contact me on (02) 9241 6556 and I can facilitate further discussions with my member companies.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Cameron O'Reilly', with a large, sweeping flourish at the end.

Cameron O'Reilly
Chief Executive Officer
Energy Retailers Association of Australia