simply energy

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Nathan Petrus
Essential Services Commission of South Australia
Adelaide

[by email]

22 September 2011

Dear Mr Petrus

DETERMINATION OF SOLAR FEED-IN TARIFF PREMIUM

Thank you for the opportunity to comment on ESCOSA's Issues Paper regarding the feed-in tariff that retailers will be required to pay under the South Australian Government's revised legislation.

Our comments focus on the following issues:

- **ESCOSA's approach:** ESCOSA should re-think its approach and instead set a floor price for feed in and allow the market to determine the fair and reasonable value for feed in. This approach is allowed for under the Amendment Act and is more consistent with ESCOSA's legislative objectives.
- **Implementation date:** apply the retail credit from 1 July 2012

ESCOSA's approach

ESCOSA's approach to this review is to use regulation to determine a fair and reasonable value for the electricity fed into the grid.

Simply Energy understands that ESCOSA has been directed to make a determination in relation to the credits payable by a retailer. However, there is nothing in the Amendment Act that restrains ESCOSA in the approach that it uses to determine that price.

As retailers have repeatedly stated, a competitive retail market like that which exists in South Australia is unlikely to require a mandated feed-in tariff price. The intense level of competition that exists between retailers to win customers means that retailers will develop innovative feed in tariff products and offer higher feed in tariffs where retailers believe this could give them an advantage in the marketplace. For example, under the now closed Solar Bonus Scheme in NSW, retailers were voluntarily contributing additional value to customers of electricity exported from PV units of 6c per kWh. ESCOSA points out that this has also been occurring in the South Australian market place.

Determining a regulated tariff rate that artificially attempts to reflect fair and reasonable value risks limiting the scope and freedom retailers and consumers have to strike a deal for feed in and thus restricts competition. This does not meet ESCOSA's regulated objectives of promoting competitive and fair market conduct, facilitating entry or ensuring consumers benefit from competition and efficiency.

ESCOSA needs to re-think its approach and attempt to marry its instructions under the Amendment Act with its legislative objectives.

The way to do this is for ESCOSA to set a floor price for feed in and allow the market to determine what the fair and reasonable value of feed in should be. This approach would meet ESCOSA's legislative requirements

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under the Amendment Act as the credit the retailer must apply is either the prescribed amount or an amount determined by the retailer provided this is greater than the prescribed amount (section 36AD(1)(a), Electricity (Miscellaneous) Amendment Act 2011). There is no legal requirement under the Amendment Act for ESCOSA to set a fair and reasonable value — it is only required to establish a prescribed value.

Determining a floor price would also better meet ESCOSA's legislative objectives under its Act. It would promote competitive and fair market conduct, facilitate entry and ensure consumers benefit from competition and efficiency. A regulated floor price would allow for competition amongst retailers to actively seek customers with solar PV and compete on the price that they offer for the fed in power. The AEMC found the competitiveness of the South Australian electricity market to be fully effective and ESCOSA has not set out any reasons for why it disagrees with the AEMC. It therefore follows that regulating a fair and reasonable is not required and would free ESCOSA from having to develop an over-engineered pricing mechanism that achieves a second best outcome at best.

Setting a floor price would also free retailers to vary the fed in price offered over time in response to competitive pressures and conditions at the wholesale level or load profiles on the network. It would also mean that ESCOSA would not need to develop an over-engineered pricing mechanism for feed in as the market can do this job for it. At the same time, customers' investments in solar panels would remain protected because they are at least guaranteed a floor price for their power.

Implementation date

A topic not addressed in the Issues Paper is the date from which the retail premium will apply. We would prefer to have the retail credit applying from 1 July 2012 as this would align with ESCOSA's next retail price setting period.

The attachment sets out short responses to the questions raised in the paper.

Yours sincerely

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Senior Regulatory Manager

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1	What is the most appropriate method to calculate the fair and reasonable value to a retailer of electricity fed into the network by solar PV systems?	Allowing competition in the market to set the price is the most appropriate method. ESCOSA should focus on setting a floor price for fed in power.
2	How should the variability in the value of energy be reflected in the approach that ESCOSA takes?	If ESCOSA let the market determine the value then an over-engineered pricing mechanism would not be required. The market will naturally vary the price over time as the value of fed in power changes. Instead, ESCOSA may wish to consider a process whereby it updates the floor price for fed in power every three years to ensure it tracked market movements in the value for that power.
3	Should the value be linked to wholesale electricity prices?	See previous answer
4	Are there any other approaches to determining the value of energy exported from solar PV systems?	See main body of the letter
5	Are there any other potential costs or benefits to retailers from solar PV exports?	Any costs and benefits retailers receive from solar exports will be reflected in the market price for fed in power. There seems little need for a regulator to undertake this analysis when there is a market mechanism that could do this work more effectively.
6	How should ESCOSA quantify these costs or benefits in the derivation of a FiT premium?	ESCOSA does not need to quantify these costs and benefits as the competitive market could do this work instead.
7	Should the FiT premium incorporate the benefits of any avoided loss factors?	Questions about this sort of detail highlights the difficulty ESCOSA will encounter if it tries to develop some over-engineered pricing mechanism when the market could address this issue if it was allowed to.
8	Are there any extra costs and benefits that retailers may incur as a result of increased update of solar PV systems?	As above
9	Should some of the benefits to retailers be shared with all electricity customers or just those customers with a solar PV system?	As above
10	Does the level of the current voluntary FiT premium on offer from some retailers in SA accurately represent the value of the energy to that retailer?	No comment
11	Should residential customers have a different FiT premium to business customers?	As above – the market will determine whether there is value in offering different customer types different prices.
12	What are the implications of setting the FiT too high or too low?	See main letter