

Wednesday 7th December 2011

CEC Submission to the ESCOSA Draft Price Determination

The Clean Energy Council has been actively involved in the premium feed-in tariff price determination process, and we are pleased to have the opportunity to make a further contribution. We made a submission in response to the original discussion paper, which included analysis we commissioned from consultants SKM MMA, and with the support of ESCOSA we hosted a briefing for solar industry representatives on the findings of the draft price determination report. In this submission we will seek to avoid repeating arguments we provided in our previous submission.

ESCOSA's Terms of Reference

Although the Clean Energy Council acknowledges that the Terms of Reference for ESCOSA's report were determined by the South Australian parliament, we would nevertheless like to raise what we believe are deficiencies with the scope. Essentially what has been explored is the question of what is a fair price to be paid by electricity retailers, given the current structure of the electricity market in South Australia. While this is an important question, it leads to different conclusions than would be the case if the focus of the inquiry was on what the objective value is of the exported solar energy to the solar household.

The relative lack of sophistication of the pricing structures for electricity in SA should not be treated as a neutral feature of the policy landscape, but rather as a market barrier, which inhibits competition by distributed generators. Smoothing out of prices and line losses across the network is essentially a cross subsidy, one which conceals from consumers the true cost of delivering electricity at particular times and places. While the cross subsidy is being phased out for solar (through the wind down of the FIT) it continues and is legitimated for fossil fuels.

If a more sophisticated pricing systems was adopted – or even advocated for – then ESCOSA would be able to recognize the true value that distributed solar offers, through things such as reduced line losses in areas furthest from conventional generation sources and by providing power at the highest demand/price times of day. Some of these benefits accrue to the transmission and distribution businesses, which are excluded from the terms of reference, but others are deemed too difficult to quantify under the current system.

While overcoming these barriers might be beyond the scope of the exercise, at least recognizing and acknowledging them would be a step in the right direction.

The NSW IPART went some way to delivering on this in their draft report on 'fair value', by recommending that the National Electricity Rules be reviewed with an eye to reforming the way that distributed energy generators are treated. While this was not explicitly set out in their terms of reference, it was an inevitable conclusion of their findings. We would suggest that a similar recommendation is warranted in the case of ESCOSA's report.

Another issue that given only scant attention due to the limitations of the terms of reference is the purported flattening of the Net System Load Profile as a result of solar PV's presence in the grid. This is an important consideration, and it is somewhat disappointing to see that it cast aside as likely to be of limited benefit when the effects have not been properly investigated. Again it would seem appropriate under the circumstances for ESCOSA to include a recommendation to government that these effects be given further consideration through a separate piece of analysis, as it may well prove to be more significant than ESCOSA believe – and certainly will become more significant as the level of PV penetration increases over the course of the decade.

Avoided costs for 'green schemes'

It is a fairly minor point, but both ESCOSA and IPART's reports have revealed that electricity retailers are liable for RET obligations on solar energy they purchase from households. This seems to be a perverse outcome and surely an anomaly in the system. Retailers should not be subject to additional costs for purchasing solar energy, least of all as a result of a renewable energy scheme.

ESCOSA does not have the power to change this situation, but it would clearly be in the interests of electricity retailers, solar households and consumers overall for solar exports to be excluded from RET liabilities. This should form one of the recommendations in the final report and is hopefully something that the South Australian Government will take up with their federal counterparts.

Other renewable energy technologies

As the peak body for all renewable energy technologies in Australia the CEC is also interested to see fair pricing principles established for other renewable technologies, like micro wind, which obviously also deserve a fair and reasonable price for exported electricity. While again this might have fallen outside the terms of reference, it would make sense to point out to the government in ESCOSA's final report that to be consistent, and to maximise competition, consumers and industry need clear guidance on pricing for all renewable energy sources.

Conclusion

Overall the draft report is a fair approach to the question under the limitations of the terms of reference and the current nature of the electricity market, ESCOSA should not fall into the trap of believing that avoiding any commentary on those limitations is a sign of neutrality. Rather it would serve to continue to normalise the current market structures which are neither optimal nor natural. Distributed energy, such as solar PV, is entering the market and competing with conventional sources at a disadvantage, and unless those handicaps are at least acknowledged the findings cannot be considered fair to all parties.

The CEC and its members would be happy to discuss these issues further with you as your review progresses. If you have any further questions please contact Tim Sonnreich via telephone on 03 99294124 or by email: tim@cleanenergycouncil.org.au

Tim Sonnreich

[original signed]

Policy Manager

Clean Energy Council