



7 December 2011

Mr Nathan Petrus
Director - Pricing and Analysis
Essential Services Commission of SA
GPO Box 2605
Adelaide SA 5001

By e-mail: escosa@escosa.sa.gov.au

Dear Mr Petrus

2011 Determination of Solar Feed-in Tariff (FIT) Premium- Draft Determination

Origin Energy Limited (Origin) welcomes this opportunity to comment on the Commission's Draft Determination of solar feed-in tariffs (herein the draft determination).

While Origin understands the Commission's task has been to arrive at a 'fair and reasonable' value for electricity from solar PV systems fed into the distribution network, we are concerned that the draft determination may reduce the scope for competition among retailers. The basis of this concern is that the quantum of the FIT premium exceeds the level voluntarily offered by some retailers today. The result of this may be that instead of reflecting a price floor, the prescribed amount may become a price ceiling. This may reduce the flexibility of retailers to value feed-in energy based on their particular circumstances and will discourage retailer differentiation and price competition based on setting their own FIT premiums.

In our view the analysis undertaken by the Commission's consultants, while robust, did not place sufficient emphasis on the additional costs faced by retail businesses engaged in managing a number of FIT regimes within a single jurisdiction and across jurisdictions. Historically, South Australia's feed-in tariff scheme has been less complex from an administrative perspective than those of other jurisdictions; however the practical impact of the legislative changes and the draft determination will be to amplify this complexity for retailers and further erodes national harmonisation across jurisdictions with respect to FIT policies.

Furthermore, the lack of opportunity to review the premium FIT rates before 2014, combined with the risk of setting the premium based on forward wholesale market outcomes at a point in time (2011) creates some concern that the premium (particularly in 2012-13 and 2013-14) reflects a higher rate than might otherwise be the case.

On page 21 and 22 of the draft determination, the Commission interprets retailer responses to its issues paper (in relation to the voluntary premiums currently offered by retailers) as vehicles for brand and marketing differentiation. While Origin acknowledges that other retailers may view a voluntary FIT premium as principally a means of differentiating a retailer's brand or offering a marketing advantage, our submission made



clear that the voluntary amount paid by Origin at present “reflects the value of electricity as a retailer”.¹ In Origin’s view, the primary determinant of its voluntary FIT premium has been the value of the exported energy, rather than brand differentiation, or other qualitative drivers.

In summary, Origin considers that the level of FITs set out in the draft determination are beyond what it considers a fair and reasonable level, given factors that mitigate against the value of feed-in energy to retailers. There is potential for the prescribed FIT contained in the draft determination to impact upon the competitiveness of the South Australian retail electricity market. The draft determination diminishes retailer flexibility and may become the default premium FIT.

Given the relatively small difference between the voluntary FITs currently being paid and the levels identified in the draft determination, Origin believes that there is scope for the Commission to establish a fair and reasonable price that would preserve retailer flexibility in relation to the value ascribed to feed-in energy (in excess of the minimum prescribed FIT premium), encouraging rather than reducing competition.

Should you have any questions or comments in relation to this response, please contact me in the first instance.

Yours sincerely

[SIGNED]

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¹ Origin Energy Limited, issues paper response (Determination of Solar Feed-in Tariff Premium), <http://www.escosa.sa.gov.au/library/110923-2011SolarFeedinTariff-IssuesPaperSubmission-OriginEnergy.pdf>, page 5