7 December 2011

2011 Determination of Solar Feed-in Tariff Premium
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Dear ESCOSA

**RE: Solar Premium Draft Determination**

TRUenergy welcomes this opportunity to provide comments on "2011 Determination of Solar Feed-in Tariff Premium" Draft Price Determination of November 2011.

*Setting a minimum rate in a competitive market*

As ESCOSA has outlined in the Issues Paper and again in the Draft Determination, it is required to determine a prescribed amount that will be the minimum retailer contribution to solar feed-in tariffs. The legislation requires ESCOSA to have regard to the fair and reasonable value of solar to a retailer. It does not require that ESCOSA set the mandated retailer contribution at the fair and reasonable value and the legislation is drafted such that the mandated contribution is a minimum or floor amount. Retailers are not permitted to offer below the mandated contribution but are free to make offers above it.

It is concerning that while noting feedback to the Issues Paper regarding the potential impact of this decision on competition in the SA retail electricity market, the Draft Determination does not appear to have considered this issue in any detail. There is a significant risk asymmetry in setting the level of the retailer contribution to the solar feed-in tariff. If the contribution is too low then we would expect to see market offers being developed above the regulated rate, with solar customers able to access these offers and receive the higher rates. The fact that there is currently no mandated retailer contribution but many retailers are offering voluntary premiums of 6-8 cents is clear evidence of this.

However if the mandatory contribution is set too high then solar customers will become unprofitable, meaning some retailers may actively avoid supplying solar customers where possible, an outcome that would be contrary to ESCOSA's legislated objectives regarding competition.

The work undertaken by ACIL Tasman goes into some detail in attempting to derive the fair and reasonable value of solar generation. However, as the ACIL report also notes "As with all projections of future events, actual prices may differ". [1] Given the asymmetry outlined above, ESCOSA would be better balancing its requirements and objectives by adopting the low end of the reasonable range of values for the mandated minimum retailer contribution, not the midpoint expected outcome.

*Start Date and Billing*

If the final decision is not published until 27 January 2012 and the FiT premium takes effect on the same date, then it is likely that retailers will be unable to comply with the final determination, or only

[1] ACIL Tasman, *The fair and reasonable value of exported PV output: A report prepared for ESCOSA*, October 2011, page iv

comply at significant cost. Such costs are likely to be included in future electricity prices and it is difficult to see how this approach is promoting economic efficiency as ESCOSA's legislated objectives require.

An alternative approach that would avoid costly billing upgrades would be to set the 2011/12 retailer contribution to 6c. This would avoid costly billing changes in January for most retailers and be consistent with the approach of ESCOSA setting a minimum price that some retailers may choose to offer above.

*Wholesale market – the price impact*

TRUenergy concurs with the arguments outlined by ACIL in regards to the price impact of solar generation. The price impact will not be captured by retailers. We note that any new generator entering in the wholesale market will have a similar price impact and this price impact leads to lower overall wholesale prices which all customers benefit from.

*Loss factors*

As the Draft Decision identifies, energy losses are reduced by distributed solar generation. However under current arrangements the avoided losses will be shared back across all energy users over time as loss factors will fall. It would appear appropriate for future avoided energy loss calculations to take into account the impact of current solar connections on future loss factors.

*Retail operating costs*

ACIL notes that the costs of serving solar customers "may be higher than average" [2] but appears to conclude that the incremental cost to serve a solar customer is "extremely small". [3] Such a conclusion is uninformed to say the least. The additional complexity of quoting, service order processing, tariff changes and ongoing meter data management and billing costs for solar customers means there is no doubt that the cost to serve a solar customer is materially higher than a non-solar connection. Under current arrangements there is no mechanism for recovering this cost from solar customers and non-solar customers are effectively cross-subsidising this cost.

ESCOSA has noted in the past the potential for "a reduced incentive to compete for customers with PV generation units" due to cost concerns and also that there are "reports that this may already be happening in the market." [4]

*Conclusion*

TRUenergy believes that there is a strong case for minimalist regulation in this area and that both customers and retailers are likely to benefit from such an approach. The minimum mandated rate should be set no higher than 6c for the remainder of 2011/12 and no higher than the lower end of the reasonable range of fair value outcomes thereafter.

Should you wish to discuss any of the issues raised in this submission please feel free to call me on (03) 8628 1120.

Yours sincerely,

**Andrew Dillon**
**Regulatory Pricing Manager**

[2] ACIL Tasman, *The fair and reasonable value of exported PV output: A report prepared for ESCOSA*, October 2011, page 27
[3] ACIL Tasman, *The fair and reasonable value of exported PV output: A report prepared for ESCOSA*, October 2011, page 28
[4] ESCOSA, *Proposed Amendments to the South Australian Photovoltaic Feed-in Scheme - Advice to the Treasurer*, June 2009, page 22