



# Retailer feed-in tariff - Review of regulatory arrangements

Draft decision

July 2016

## Request for submissions

The Essential Services Commission (**Commission**) invites written submissions from members of the community on this paper. Written comments should be provided by **Friday, 16 September 2016**.

It is the Commission's policy to make all submissions publicly available via its website ([www.escosa.sa.gov.au](http://www.escosa.sa.gov.au)), except where a submission either wholly or partly contains confidential or commercially sensitive information provided on a confidential basis and appropriate prior notice has been given.

The Commission may also exercise its discretion not to publish any submission based on length or content (for example containing material that is defamatory, offensive or in breach of any law).

Responses to this paper should be directed to: **Retailer Feed-in Tariff – Review of regulatory arrangements**

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## Glossary of terms

AEMC	Australian Energy Market Commission – the statutory rule maker for the energy market and expert adviser for federal, state and territory governments.
AEMO	Australian Energy Market Operator – the operator of the National Energy Market and systems, as well as provider of energy market planning advice in eastern and south eastern Australia.
AER	Australian Energy Regulator – the regulator of energy markets and networks under national energy market legislation and rules.
Commission	Essential Services Commission, established under the Essential Services Commission Act 2002.
D-FiT	The mandatory FiT of either 44 cents per kWh or 16 cents per kWh for each kWh of electricity fed into the distribution network payable by SA Power Networks to solar customers (based on the date of connection or connection approval of their PV units) under Division 3AB of the Electricity Act.
Electricity Act	Electricity Act 1996.
EME	Energy Made Easy – the AER’s energy price comparison website.
ESC Act	Essential Services Commission Act 2002.
ESC Vic	Essential Services Commission of Victoria – the Victorian economic regulator.
EWOSA	Energy and Water Ombudsman of South Australia.
FiT	Feed-in Tariff.
FRC	Full retail contestability.
IPART	Independent Pricing and Regulatory Tribunal of New South Wales, the NSW economic regulator.
Issues Paper	Issues Paper for the South Australian R-FiT review of regulatory arrangements, Essential Services Commission, March 2016.
kVA	Kilovolt-ampere – 1,000 volt-amperes, which is a measure of apparent power.
kWh	Kilowatt-hour, which is 1,000 Wh, an amount of energy approximately equivalent to running a single bar radiator for one hour.
MWh	Megawatt-hour – 1,000 kWh.
NEM	National Electricity Market.
NERL	National Electricity Retail Law.

PV unit	A PV customer's photo-voltaic electricity generating unit which has a maximum nameplate capacity of 10 kVA (single phase) or 30 kVA (at three phases), meets the requirements of Australian Standard AS 4777, is connected to the distribution network in a manner allowing the export of electricity and has appropriate metering arrangements in place.
R-FiT	The minimum FiT amount as determined by the Commission payable for each kWh of electricity fed into the distribution network by electricity retailers to solar customers under Division 3AB of the Electricity Act.
R-Fit Determination	Retailer Feed-in Tariff: Final Price Determination.
QCA	Queensland Competition Authority, the Queensland economic regulator.
QPC	Queensland Productivity Commission.
SA Power Networks	Operator of the South Australian electricity distribution network.
Solar customer	A residential or small business customer using less than 160 MWh of electricity per annum at a connection point which has a PV unit and complies with the requirements of Division 3AB of the Electricity Act.
SEQ	South East Queensland.
Watt	A derived SI (International System of units) unit of power, defined as one joule per second.
Wh	One watt hour - a unit of energy.
2015 Determination	2015-2016 Retailer Feed-in Tariff: Final Price Determination – statement of reasons, published by the Commission in December 2014.
2015 Review	The AEMC 2015 Retail Competition Review.
2016 Review	The AEMC 2016 Retail Competition Review.

# 1 Executive summary

The Essential Services Commission (**Commission**) is consulting on a draft proposal to cease setting the minimum Retailer Feed-in Tariff (**R-FiT**) in South Australia from 1 January 2017. The Commission's proposal is based on its view that the market structures that facilitate electricity retail competition are sound and that continued regulation of the minimum R-FiT may inhibit competition in the future, to the detriment of consumers. This is particularly so in the current market environment, where changes in technology are encouraging retailers to develop new retail service and price offerings.

Importantly, the Commission's proposal to cease setting the minimum R-FiT does not mean that solar customers will no longer receive an R-FiT. Evidence from other jurisdictions strongly suggests that customers will continue to receive an R-FiT set by retailers, reflecting the long term benefit that retailers receive from energy exported by solar customers.

## What is the R-FiT?

The current R-FiT allows for electricity customers:

- ▶ who consume less than 160 megawatt-hours (**MWh**) of electricity annually at a single connection point, and
- ▶ who have qualifying solar photovoltaic (**PV**) units installed at their premises,

to receive R-FiT payments in respect of each kilowatt-hour (**kWh**) of electricity that their PV unit exports into the distribution network.

Under the Electricity Act 1996 (**Electricity Act**), the Commission can determine whether or not there should be a minimum regulated R-FiT, which must be paid to residential and small business solar owners who export to the grid (**solar customers**). The R-FiT value under the scheme reflects a fair and reasonable value of that electricity to a retailer. If it determines that there should be such a minimum tariff, the Commission also has the power to set and re-set it from time to time.

Setting the minimum R-FiT was historically considered to be an appropriate regulatory function as the market for solar customers became established, and in the context of a regime of regulated electricity prices in effect at the time. A minimum R-FiT was, therefore, set by the Commission for each of the calendar years since the scheme's inception in 2012, with the latest minimum R-FiT having application until the end of 2016. Its ongoing usefulness is now less clear, given the PV market is now well established and electricity retail prices in South Australia have not been regulated since February 2013.

Unlike the distributor-paid feed-in tariff (**D-FiT**) (which was designed to provide an incentive or subsidy for customers to install solar PV units), the R-FiT is not a subsidy. Rather, it is based upon the projected wholesale cost of electricity, inclusive of avoided market costs, which a retailer would otherwise be expected to pay. Each kWh of electricity that is fed into the network from its solar customers is offset against electricity that the retailer must otherwise purchase through the National Electricity Market (**NEM**).

The R-FiT represents a small component of the retail electricity price. The greatest benefit to solar customers of generating from a PV unit is avoided electricity purchases. Solar customers save the full retail price of any energy consumed from their PV unit, whereas the benefit of exporting that energy (received through the R-FiT) reflects the wholesale cost of electricity only.

## The need to review regulation of the R-FiT

In a competitive market, there is generally no need for direct regulation of prices as, through competition, markets are likely to deliver the efficient price. In this environment, regulation is not only unnecessary, it may impede the efficient functioning of the market, leaving consumers worse off.

The Commission's primary objective is to protect the long term interests of consumers<sup>1</sup> and, in that context, the Commission considers it timely to review the ongoing need to set a minimum R-FiT.

This review was first foreshadowed in the Commission's 2015 R-FiT price determination (**2015 Determination**),<sup>2</sup> At that time, the Commission considered that, despite encouraging signs, the R-FiT market was not yet mature enough to give the Commission the confidence to cease setting the R-FiT. The Commission considered that a further two years of setting a minimum R-FiT was warranted (that is, to the end of calendar year 2016).

This review commenced in March 2016 with the release of an issues paper (**Issues Paper**) that outlined the factors that the Commission proposed to examine in deciding whether or not to set an R-FiT from 1 January 2017.<sup>3</sup>

## Draft decision to cease setting the minimum R-FiT

Following a review of the evidence as outlined in the body of this report, and having regard to the content of submissions to the Issues Paper, the Commission's draft finding is that a regulated minimum R-FiT does not improve the outcomes for customers, relative to allowing the competitive market to determine the R-FiT.

No single piece of evidence is determinative of this Draft Decision. There is a range of evidence that, when taken in aggregate, supports the Draft Decision. That evidence includes:

- ▶ The market for solar customers forms part of the overall South Australian electricity retail market, which has been found to be competitive by the Australian Energy Market Commission (**AEMC**).
- ▶ There is little discrimination by retailers between solar and non-solar customers, with most retailers are offering their best discounts to both solar customers and non-solar customers.
- ▶ Evidence from other jurisdictions that have deregulated electricity retail prices and do not have a regulated R-FiT suggests that solar customers have not been disadvantaged. Retailers continue to offer an R-FiT.
- ▶ The costs of continuing to regulate the R-FiT are likely to outweigh the benefits. A regulated R-FiT may be an impediment to innovation in the retail market, such as time of use tariffs and time of export R-FiTs. In addition, there are few benefits as retailers may adjust the costs of other components of a bundled offer, such as the supply charge or usage price, in response to a change in the minimum R-FiT.
- ▶ The majority of submissions to the Commission's Issues Paper supported the Commission ceasing to regulate a minimum R-FiT.

If the Commission were to adopt its Draft Decision and cease setting the minimum R-FiT, it would still continue to observe the market and would retain the power to re-introduce regulation of the minimum

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<sup>1</sup> ESC Act 2002, section 6.

<sup>2</sup> The Commission's 2015-2016 Retailer Feed-in Tariff: Final Price Determination – Statement of Reasons, December 2014, p. 22, available at <http://www.escosa.sa.gov.au/library/20141216-Electricity-RetailerFeed-inTariff-StatementofReasons.pdf>.

<sup>3</sup> The Commission's Issue paper is available at: [http://www.escosa.sa.gov.au/library/20160318-Electricity-RetailerFeedinTariff\\_ReviewRegulatoryArrangements-IssuesPaper.pdf](http://www.escosa.sa.gov.au/library/20160318-Electricity-RetailerFeedinTariff_ReviewRegulatoryArrangements-IssuesPaper.pdf).

R-FiT at a future time, should evidence arise that it was in the long term interests of customers to do so.

The Commission welcomes comments on this draft decision. All submissions made will be considered by the Commission in finalising its position on regulatory arrangements for the R-FiT to apply from 1 January 2017. The final decision will be made by the Commission in October 2016.

## 2 Background

### 2.1 Structure and purpose of this report

The Commission's primary objective in performing its regulatory functions is the protection of the long term interests of consumers with respect to price, quality and reliability of essential services. In a constantly changing social, technological and economic landscape, regular review of the regulatory frameworks established by the Commission is necessary to ensure they remain relevant and that they continue to serve consumers' long term interests.

One of the Commission's key guiding principles is that regulation is not the default option; regulation should exist only to rectify a defined problem and should be implemented only if potential alternative options are less beneficial. Consequently, regulation should only exist where that is the outcome which will ensure the maximum community benefit.

It is with this in mind that the Commission commenced its review of the regulatory arrangements for the Retailer Feed-in Tariff (**R-FiT**), a regulated (yet relatively minor) component of an otherwise deregulated electricity retail price. This review, which was first foreshadowed in the Commission's 2015-16 Retailer Feed-in Tariff: Final Price Determination (**2015 Determination**), commenced in March 2016 with the release of an Issues Paper that outlined the factors that the Commission proposed to examine. The Commission received 14 submissions in response to the Issues Paper as referred to in section 2.2 and throughout this report.

This report summarises the analysis performed by the Commission that underpins its draft decision to cease prescribing a minimum R-FiT with effect from 1 January 2017:

- ▶ Chapter 2 outlines the background to this report, including the history of the R-FiT in South Australia, the distinction between it and the distributor-paid feed-in tariff (**D-FiT**), and the average benefit of the R-FiT to South Australian solar customers
- ▶ Chapter 3 defines the electricity market in South Australia, and the R-FiT as a component within it
- ▶ Chapter 4 presents the Commission's assessment of competition in the market for R-FiT customers, as well as the costs and benefits of having a regulated minimum R-FiT
- ▶ Chapter 5 presents the Commission's draft decision, and
- ▶ Chapter 6 outlines the next steps following the release of this draft decision.

This report also contains 3 appendices:

- ▶ Appendix 1 outlines a comparison of the South Australian electricity market to those in other National Electricity Market jurisdictions
- ▶ Appendix 2 contains the detailed analysis performed by the Commission underpinning the assessment of competition summarised in Chapter 4, and
- ▶ Appendix 3 investigates the evidence of a relationship between the R-FiT which retailers offer their customers and the other components of an electricity bill, such as electricity usage charges and fixed charges.

The Commission will make a final decision on the R-FiT regulatory arrangements in November 2016. Stakeholders are invited to provide submissions to this draft decision by 16 September 2016. The Commission will take into account evidence provided in submissions prior to making a final decision.

## 2.2 Submissions

The Commission received 14 submissions to the Issues Paper for the R-FiT - Review of regulatory arrangements, from the following parties:<sup>4</sup>

- ▶ AGL
- ▶ APA Group
- ▶ Australian Gas Networks
- ▶ Business SA
- ▶ Energy Council
- ▶ Energy Australia
- ▶ Energy and Water Ombudsman of SA
- ▶ Origin Energy
- ▶ South Australian Council of Social of Social Service (SACOSS)
- ▶ Simply Energy
- ▶ G Colangelo
- ▶ L Magoch
- ▶ L Maslin, and
- ▶ S Robertson.

Specific issues raised within those submissions are addressed, as appropriate, throughout this draft decision. Except for the submissions made by private individuals, all submissions stated their support for the proposal that the Commission cease setting a minimum R-FiT.

## 2.3 Legislative framework

The Commission is a statutory authority established as an independent economic regulator and advisory body under the Essential Services Commission Act 2002 (**ESC Act**).<sup>5</sup>

One of the Commission's functions is to determine whether or not to make (**R-FiT Determinations**) from time to time. If an R-FiT determination is made, it sets the *minimum* price which electricity retailers must, under the provisions of the Electricity Act of South Australia 1996 (**Electricity Act**), pay to residential and small business solar customers whose PV units feed electricity into the distribution network.

Section 35A (1) of the Electricity Act gives the Commission the discretionary power as to whether or not to make a price determination under the ESC Act, fixing a minimum R-FiT from time to time.

If the Commission determines that it will make an R-FiT price determination, it must follow the statutory requirements of the ESC Act and the Electricity Act. This includes having regard to a range of

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<sup>4</sup> Submissions are available on the Commission's website, at: <http://www.escosa.sa.gov.au/projects/246/electricity-retailer-feed-in-tariff-review-of-regulatory-arrangements.aspx>.

<sup>5</sup> Further information about the Commission is available on the Commission's website at <http://www.escosa.sa.gov.au/about-us.aspx>.

factors set out in those Acts. In particular, section 25(4) of the ESC Act sets out the following matters, to which the Commission must have regard:

- (a) *the particular circumstances of the regulated industry and the goods and services for which the determination is made;*
- (b) *the costs of making, producing or supplying the goods or services;*
- (c) *the costs of complying with laws or regulatory requirements;*
- (d) *the return on assets in the regulated industry;*
- (e) *any relevant interstate and international benchmarks for prices, costs and return on assets in comparable industries;*
- (f) *the financial implications of the determination;*
- (g) *any factors specified by a relevant industry regulation Act or by regulation under this Act;*
- (h) *any other factors that the Commission considers relevant.*

Noting the provisions of section 25(4)(g), section 35A (1) (2a) of the Electricity Act provides that, in setting the R-FiT, the Commission must have regard to the fair and reasonable value to a retailer of electricity fed into the network.<sup>6</sup> Accordingly, the Commission has, historically, based its determination of the minimum R-FiT on the projected wholesale spot price of electricity for the forthcoming period.<sup>7</sup>

Should the Commission at any time consider that the long term interests of consumers would be best served by removal of direct regulatory control of the R-FiT, it may decide not to set a minimum R-FiT. In addition, should the Commission cease setting the minimum R-FiT, the Electricity Act gives the Commission the ability to re-introduce it at any time, should the Commission consider it appropriate. In either case, the Commission would only exercise its discretionary power if it was in the long term interests of consumers, and subject to a further consultation process.

## 2.4 The history of feed-in tariffs in South Australia

### 2.4.1 The R-FiT as distinct from the D-FiT

Two distinct schemes exist in South Australia that result in a payment to customers, for each kWh of solar PV electricity fed into the distribution network (not each kWh generated):

- ▶ the distributor-paid feed-in tariff (**D-FiT**)
- ▶ the retailer-paid feed-in tariff (R-FiT).

Each of these schemes is discussed briefly below. For clarity, it should be noted from the outset that the Commission plays no role in setting the D-FiT. This review relates to R-FiT regulatory arrangements only.

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<sup>6</sup> Electricity Act 1996 section 35A(1)(2a)

<sup>7</sup> The R-FiT also accounts for the reduced losses of electricity in transmission and reduced market and ancillary service fees. See ACIL Tasman, The fair and reasonable value of exported PV output, available at <http://www.escosa.sa.gov.au/library/120103-SolarFeedinTariff-SupplementaryReport-ACILTasman.pdf>.

## 2.4.2 The D-FiT scheme

The D-FiT scheme was introduced in 2008 and was designed to fill the gap left by declining Commonwealth Government support for residential PV generation units and to allow the South Australian Government to pursue its objective of leadership in solar power.<sup>8</sup>

Any PV generation unit connected prior to 1 October 2011, will continue to attract a D-FiT credit from SA Power Networks (SAPN) of 44c/kWh of electricity fed into the network<sup>9</sup> until 30 June 2028. Any PV generation unit that was connected between 1 October 2011 and 30 September 2013 will attract a D-FiT credit from SA Power Networks of 16c/kWh of electricity fed into the network until 30 September 2016. PV generation units that were connected after 30 September 2013 do not attract any feed-in credit from SA Power Networks.

These arrangements are summarised in Table 1.

Table 1: D-FiT credits payable by SA Power Networks (nominal cents per kWh and GST exclusive)

Solar PV installation/approval date	Credit amount	Period payable
Before 1 October 2011	44c/kWh	Until 30 June 2028
1 October 2011 to 30 September 2013	16c/kWh	Until 30 September 2016
From 1 October 2013	Nil	N/A

Although the D-FiT is paid by SAPN to solar customers, the costs are borne by all South Australian electricity customers through their electricity network charges.

## 2.4.3 The R-FiT scheme

On 27 January 2012, residential and small business customers with an eligible solar PV unit became entitled to receive an additional payment for electricity fed into the network – the R-FiT. The introduction of the R-FiT scheme was designed as a transition to address a market failure, where retailers could avoid passing on a payment to reflect the value of electricity fed into the grid. Under the scheme, all retailers selling electricity to small customers eligible to receive the R-FiT were required to credit solar customers an amount equal to, or above, the minimum R-FiT for fed-in electricity. Unlike the D-FiT scheme, which represents a subsidy to customers who own a qualifying solar PV unit, the R-FiT scheme was designed to avoid the possibility of retailers making windfall gains on electricity that solar customers export to the distribution network.

The Commission has prescribed minimum R-FiT values since the inception of the R-FiT scheme in January 2012. The most recent prescribed minimum R-FiT value (6.8 cents per kWh) applies for electricity exported to the distribution network up to, and including, 31 December 2016.

<sup>8</sup> Government of South Australia, South Australia's Feed-in Mechanism for Residential Small-Scale Solar Photovoltaic Installations, Discussion Paper, February 2007, available [http://www.climatechange.sa.gov.au/uploads/pdf/Feed-in\\_Discussion\\_Paper\\_submissions\\_closed.pdf](http://www.climatechange.sa.gov.au/uploads/pdf/Feed-in_Discussion_Paper_submissions_closed.pdf).

<sup>9</sup> The D-FiT is paid for by SA Power Networks and distributed via the bill that customers receive from the retailer. The amount to which a customer is entitled is dependent upon the date on which the customer connected, or had approval to connect, their PV generation unit to SA Power Networks' distribution network.

### 2.4.3.1 Retailers' R-FiT obligations in South Australia

Energy retailers holding an authorisation issued by the Australian Energy Regulator (AER) under the National Electricity Retail Law (NERL) are obliged to pay the FiT (or equivalent). The circumstances under which an R-FiT must be paid in South Australia are detailed in section 36AD(1) of the Electricity Act.<sup>10</sup>

The amount determined by the Commission as the prescribed R-FiT amount for the purposes of section 36AD of the Electricity Act is only a **minimum** amount to be credited to qualifying solar customers by retailers for electricity fed back into the distribution network. The current regulatory environment does not prevent retailers from paying a higher amount to qualifying solar customers, should they choose to do so. It is payable to all customers with eligible PV generation units, irrespective of the date of connection or the terms of the contract they may have entered into with an electricity retailer for the sale of electricity through their connection point.

The effect of section 36AD(1)(a) is that an electricity retailer is obliged to pay at least the R-FiT amount immediately upon:

- ▶ entering into a contract with a qualifying customer<sup>11</sup> who feeds electricity generated by a qualifying generator<sup>12</sup> into a distribution network<sup>13</sup>, or
- ▶ an existing customer starting to feed-in electricity generated by a qualifying generator into the distribution network (this will be the case even if the sale contract between the retailer and the existing customer does not deal with the issue of fed-in electricity).

### 2.4.3.2 Previous minimum R-FiT settings

The minimum R-FiT amounts, as prescribed by the Commission, from 2012 to 2016, are summarised in Table 2.

Table 2: Minimum R-FiT from 2012 to 2016 (nominal cents per kWh and GST exclusive)

27 Jan 2012 to 30 June 2012	1 July 2012 to 31 Dec 2013	1 Jan 2014 to 30 June 2014	1 July 2014 to 31 Dec 2014	Calendar year 2015	Calendar year 2016
7.1c/kWh	9.8c/kWh	7.6c/kWh	6.0c/kWh	5.3c/kWh	6.8c/kWh

Changes to the minimum R-FiT over time have reflected changes in the projected wholesale cost of electricity. The 2014 R-FiT also incorporated an adjustment in the methodology, where the minimum R-FiT was set at the lower 90<sup>th</sup> percentile of a likely range, rather than the best estimate (50<sup>th</sup> percentile). The early position was justified on the basis that competition in the market for solar customers was not yet considered effective, and that retailers would therefore not voluntarily pass on any additional amounts above the minimum benchmark, resulting in customers not receiving the full value of exports.<sup>14</sup> The shift in methodology in 2014 reflected the development of the competitive

<sup>10</sup> Section 36AD of the Electricity Act 1996 refers to the obligation to pay the minimum R-FiT as a 'condition of licence'. Since the commencement of the National Energy Retail Law in South Australia from 1 February 2013 there is no longer an obligation for electricity retailers (other than those retailing in 'off-grid' areas of the State) to hold a licence; electricity retailers now hold 'authorisations' issued by the Australian Energy Regulator and are termed 'NERL retailers'. Section 36AD still applies to NERL retailers however, pursuant to section 14E(2) of that Act, which provides that section 36AD '... applies to a NERL retailer (despite the fact that it does not hold a licence under this Act)'.

<sup>11</sup> A qualifying customer is a customer who consumes less than 160MWh of electricity per annum.

<sup>12</sup> A qualifying generator is a small photovoltaic generator that is operated by a qualifying customer, complies with Australian Standard AS 4777, is connected to an electricity distribution network which supplies electricity to more than 10,000 customers, allows generated electricity to be fed into the distribution network and have installed appropriate metering so as to allow the separate recording of electricity imports and exports at the person's connection point.

<sup>13</sup> Means a distribution network that supplies electricity to more than 10,000 domestic customers.

<sup>14</sup> See ESCOSA, Variation to 2012 Determination of Solar Feed-in Tariff premium – Price Determination, December 2012, p. 26.

electricity retail market and recognised that there is a risk of setting the minimum R-FiT at an amount above the true value to retailers which could distort competition and lead to energy customers subsidising solar customers. The risk of such costs to non-solar customers has been raised as a concern by stakeholders.<sup>15</sup>

The change in the prescribed amount that occurred in mid-2014 (from 7.6 to 6.0 cents per kWh) reflected the removal of the carbon tax and its impact on the projected wholesale cost of electricity at that time.

The prescribed amount for calendar year 2016 was based on the weighted average wholesale cost of electricity as forecast in late 2015. This amount included the anticipated impact of the recent closure of the coal-fired Northern Power Station.

## 2.5 Average benefit of the R-FiT to solar customers

The Commission has analysed data received from SA Power Networks to estimate the average benefit to solar customers of the R-FiT. At the end of the 2014-15 financial year, there were 179,599 approved solar connections on the SAPN grid, exporting 512,891 MWh of electricity per year. At the 2016 minimum R-FiT of 6.8 cents per kWh, this translates to an average benefit per solar customer of around \$195 per year. This calculation assumes that all PV exports arise from small customers who are eligible to receive the R-FiT. There are, however, some non-qualifying generators, such as larger businesses, exporting PV electricity. Consequently, the actual average benefit to qualifying South Australian solar customers is likely to be lower than the above estimate.

It is important to note, however, that the greatest benefit to solar customers of a PV unit is avoided electricity purchases. Solar customers save the full retail price of any energy consumed from their PV unit, whereas the benefit of exporting that energy (received through the R-FiT) reflects the wholesale cost of electricity only.

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<sup>15</sup> See APA submission to the Issues Paper, available at <http://www.escosa.sa.gov.au/library/20160426-2016-R-FiTReviewIssuesPaperSubmission-APAGroup.pdf>.

## 3 The retail market

A general principle of economic regulation is that, in a competitive market, there is no need for direct regulation of prices as, through competition, markets are more likely to deliver the efficient price than a regulator. In this environment, regulation is not only unnecessary, but it may impede the functioning of an efficient market, leaving consumers worse off. To assess the value of continuing to set a minimum R-FiT, the Commission has assessed the development of competition in the South Australian retail electricity market and the role of the R-FiT within that market.

### 3.1 The market for solar customers

With the availability of Commonwealth Government incentives, followed by the D-FiT scheme in South Australia, and in an environment of declining costs of PV installations, the take up of solar PV systems has grown substantially over the last decade, to the point where approximately a quarter of all residential electricity customers in South Australia have PV systems operating.<sup>16</sup> In addition, customers have responded to the declining cost of PV installations by installing larger systems.

The market for solar customers receiving an R-FiT is defined according to Section 36 AC of the Electricity Act, as those small electricity customers (be they residential or small businesses) who consume less than 160MWh of electricity per annum, and who feed electricity into a distribution network with more than 10,000 customers, via a qualifying generator. In practice, there are few households or small businesses with PV that are off-grid, or within a distribution network of fewer than 10,000 connections and who therefore do not qualify for R-FiT payments.

### 3.2 Electricity retailing in South Australia

The retailers participating in South Australia, and the other jurisdictions in the National Electricity Market (NEM), offer customers **Market Offers** in addition to the **Standing Offers** that they are required to offer as part of the National Electricity Customer Framework (NECF), arising under the National Electricity Retail Law (NERL). Under that regime, each electricity retailer must have a Standing Offer available to small customers on request. The price of Standing and Market Offers are set by the retailers.

This review focuses only on competitive Market Offers as an indicator of competition in the electricity market. Standing Offers are not included in the analysis for this report.

At 31 March 2016, the electricity market in South Australia was served by 17 retailers. Of those retailers, 13 offered an R-FiT as part of their market offers to residential solar customers and 12 offered an R-FiT with market offers to small business customers. The R-FiTs offered ranged between the minimum amount of 6.8 cents per kWh (offered by six residential and seven small business retailers) and 12 cents per kWh (offered by one residential retailer). An additional three retailers participate in the South Australian retail electricity market but do not have solar customers, and therefore do not offer an R-FiT.

### 3.3 Components of a solar customer's bill

There are three main elements of a solar customer's electricity bill:

- ▶ the cost of each kWh of electricity sold to the customer
- ▶ the supply (or 'fixed') charge, and

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<sup>16</sup> SA Power Networks, Annual Pricing Proposal 2015/16, Revised Version 2.0. 26 June 2015, p. 13, available at <https://www.aer.gov.au/system/files/SA%20Power%20Networks%20Pricing%20Proposal%202015-16%20v2.0.pdf>.

- ▶ the R-FiT (and D-FiT if applicable) – this amount is “subtracted” from the sum of the first two.

Electricity retailers may offer various discounts, which differ from retailer to retailer. As all of these elements vary between offers, the offer with the highest R-FiT may not necessarily be the best offer for all solar customers, as the best value for each customer depends upon that customer’s usage and power export patterns.

### 3.4 Regulation of the R-FiT

The regulation of the R-FiT in South Australia differs in some ways from the other major jurisdictions in the NEM, as detailed in **Appendix 1**, but which may be summarised as follows:

#### New South Wales

- ▶ In New South Wales, the equivalent of the R-FiT is a non-binding range, which is set by the Independent Pricing and Regulatory Tribunal (**IPART**) and is currently 4.7 to 6.1 cents per kWh.
- ▶ In the broader electricity market, full retail contestability was introduced in New South Wales in 2002, but it was not until 1 July 2014 that price regulation for electricity was removed.<sup>17</sup>
- ▶ With both a deregulated retail electricity market and unregulated R-FiTs, the Commission considers that the New South Wales market is a useful guide as to potential market outcomes in South Australia, should the Commission cease to prescribe a minimum R-FiT.

#### Victoria

- ▶ A minimum FiT is determined by the Essential Services Commission of Victoria (**ESC Vic**). For 2016, the minimum FiT is 5.0 cents per kWh.
- ▶ Full retail contestability was introduced for small customers in Victoria in January 2002, with the removal of electricity price regulation in January 2009.<sup>18</sup>
- ▶ Given the similarities between the regulation of electricity markets and FiTs between Victoria and South Australia, the Commission has included Victorian market information in its comparisons between regulated and unregulated solar PV markets.

#### South East Queensland

- ▶ A minimum feed-in tariff has not been mandated since 1 July 2014.
- ▶ The electricity market in South East Queensland (**SEQ**) is open to full retail contestability and retail prices were deregulated from 1 July 2016.
- ▶ Consequently, SEQ provides the Commission with another indication of the possible outcomes in South Australia, should it allow a competitive market to set the R-FiT in South Australia.

### 3.5 R-FiT in the context of the broader electricity market

#### 3.5.1 The market for solar customers cannot be considered in isolation

Retail electricity prices in the broader electricity market in South Australia were deregulated on 1 February 2013, and each Australian Energy Market Commission (**AEMC**) review of competition conducted since then has found that the market continues to be competitive. In the context of that market, the R-FiT is unusual, as it represents the only component of the electricity market in South

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<sup>17</sup> AEMC, 2015, p. 90.

<sup>18</sup> AEMC, 2015, p. 153.

Australia that remains subject to a form of price regulation. Unlike other components of competitive retail electricity offers to solar customers, the retailer does not have full flexibility to determine the R-FiT value.

This highlights a potential weakness of the prescription of a minimum R-FiT value as a regulatory tool. In the context of an otherwise deregulated electricity price, retailers can modify other pricing parameters (that are not subject to price regulation) to offset the impact of offering at least the minimum R-FiT to its solar customers.

## 4 Analysis

The Commission notes at the outset that no single piece of evidence will be determinative in the decision to regulate or to not regulate the R-FiT for 2017. Some evidence will tend to support regulation while other evidence will not. The Commission's decision will take account the totality of the evidence, including prevailing and likely future market conditions, and will reflect the Commission's view of the outcome that will best serve South Australian consumers' long term interests.

### 4.1 The 2016 AEMC Retail Competition Review

The 2016 AEMC Retail Competition Review (**2016 Review**) found that competition was effective in retail electricity markets in Victoria, South Australia, New South Wales and SEQ, based on a wide range of evidence.<sup>19</sup> This was consistent with the findings of its 2015 review.

AEMC's terms of reference required it to rely on objective measures and analysis and to provide comment on NEM-wide issues affecting retail competition. The extensive review drew on numerous data sources including publicly available data, information from stakeholders via submissions, meetings and data requests, as well as through consultants engaged to collect qualitative and quantitative information. The review findings encompass competition for solar customers.

The 2016 Review highlights the dynamic nature of the electricity retail market, with technological changes providing retailers with opportunities to provide new services that align with consumer preferences.

Based on the 2016 Review, the Commission has relied on the finding that the South Australian electricity retail market is competitive, which incorporates competition for solar customers.

### 4.2 Assessing competition for solar customers

The assessment of the level of competition in the market is based upon multiple sources of evidence from within the NEM, including the AER, the Victorian Government, Australian Energy Market Operator (**AEMO**) and SAPN. A particular focus is on the comparison between the South Australian market and those other jurisdictions in the NEM, that were assessed by the AEMC as being competitive,<sup>20</sup> being New South Wales, Victoria, and SEQ.

The Commission's assessment is set out in full in Appendix 2. A summary of that assessment is provided below.

#### 4.2.1 Incidence of minimum payments

The Commission has considered the extent to which retailers are offering R-FiT amounts above the minimum set by the Commission. A variety of offerings may be indicative of a competitive market, particularly where there are offers above the regulated minimum amount. However, the Commission stresses that focussing on R-FiT amounts alone does not reveal the full value of a market offer to a solar customer; it is equally important to consider the purchase price of energy offered by a retailer.

The Commission has found that, of the 13 retailers with offers to residential solar customers, six offer the minimum R-FiT of 6.8 cents per kWh, including the largest retailers in the market, being AGL, Origin, Energy Australia and Simply Energy (refer Table 3). Consequently, 89 percent of solar customers in South Australia are being paid the minimum R-FiT. Competition in the form of higher R-FiT payments is provided by the smaller retailers; particularly newer retailers in the market. For example, the highest

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<sup>19</sup> Australian Energy Market Commission, *2016 Retail Competition Review: Final Report*, June 2016, page i.

<sup>20</sup> AEMC, *Final Report: 2016 Retail Competition Review: Final Report*, 30 June 2016..

R-FiTs are available from Urth Energy with 10 cents per kWh and Click Energy with 12 cents per kWh. These retailers began operating in South Australia in December 2015 and January 2016 respectively.

Table 3: R-FiT paid by electricity retailers in South Australia

Retailer	R-FiT (c/kWh)
AGL	6.8
Alinta Energy	6.8
Click Energy (residential only)	12.0
Commander Power & Gas	7.0
Diamond Energy	8.0
Dodo Power & Gas (residential only)	7.0
EnergyAustralia	6.8
Lumo Energy (SA)	7.0
Momentum Energy	6.8
Origin Energy	6.8
Powerdirect	8.0
Simply Energy	6.8
Urth Energy	10.0
ERM (small business only)	6.8

This result compares with eight of 13 electricity retailers offering the minimum R-FiT at 30 June 2014 and five at 31 October 2014.<sup>21</sup>

The import of this evidence is that retailers are offering differentiated prices to consumers and the diversity of market offers, including R-FiT offers, is a healthy indicator of a competitive market. Submissions from the Australian Energy Council, AGL, Simply Energy and Origin all supported that position and further suggested that deregulation of the R-FiT would enable even greater consumer choice through product diversity.

The Commission has balanced that against the evidence indicating that the majority of customers are choosing electricity retailers that only offer an R-FiT at the minimum level. There may be various reasons for that outcome, such as other aspects of the market offer being attractive to customers, brand loyalty or customers remaining 'sticky' to existing offers.

As outlined above, a minimum R-FiT offer is not necessarily symptomatic of a lack of competition, as it is only one component of an electricity offer. Setting a minimum R-FiT may give retailers an incentive not to determine a competitive R-FiT value or payment arrangement which may be of benefit to customers (i.e., it may discourage efficiency and innovation). In its submission, Origin Energy stated that:

<sup>21</sup> ESCOSA, 2015-2016 Retailer Feed-in Tariff, Final Price Determination Statement of Reasons, December 2014, p. 45, available at <http://www.escosa.sa.gov.au/library/20141216-Electricity-RetailerFeed-inTariff-StatementofReasons.pdf>.

In any event, we believe that a mandated minimum price may artificially limit the diversity of offers because it creates a focal point around which the market converges.<sup>22</sup>

However, the mixed evidence presented above does not, on its own, lead the Commission to any firm conclusion about the extent of competition for solar customers.

#### 4.2.2 Incidence of best priced market offers available to solar customers

The Commission found that the majority of retailers were making their best priced market offer available to solar customers (nine of 13 retailers with best priced offers to residential solar customers and 10 of 12 retailers provide their best offers to small business solar customers). However, the largest retailer, AGL, was not among them. AGL has 44 percent of the total number of solar customers in South Australia. Forty three percent of solar customers are with retailers that make their best offers available to solar customers.

In comparison to this recent analysis, analysis done for the 2015 Determination showed that half (six of 12) of retailers made their best offers available to solar customers.<sup>23</sup> In 2013 of the 10 retailers with offers to solar customers, eight made their best offers available.<sup>24</sup> This shows that, over time, although the proportions of retailers making their best offers available to solar customers varies, it is generally the majority, and the total number of retailers participating has been steadily increasing.

This evidence shows that most retailers are not discriminating between solar and non-solar customers when offering their best prices. However, similar to the previous indicator, the availability of best price offers does not translate directly into customers exercising their choice to take up those offers. The Commission is faced with similar mixed evidence in this case.

#### 4.2.3 Evidence from other jurisdictions, including a comparison of R-FiTs available, offers available to solar and non-solar customers, and the level of discounts offered to solar and non-solar customers

The Commission investigated the offers available in other jurisdictions in the NEM, with a particular focus on New South Wales and SEQ, where there are no binding R-FiTs, and Victoria, where the market is most similar to the current market in South Australia. The Commission compared these offers with corresponding data from South Australia.

##### 4.2.3.1 Switching rates of solar and non-solar customers

The Commission looked at switching rates in 2014<sup>25</sup> and has updated its analysis for this report. Switching rates were also investigated by the AEMC in its review of competition, on an Australia wide aggregate basis, although they were calculated on a different basis (survey based rather than historic data). The evidence from this indicator is inconclusive, for the following two reasons:

- ▶ The AEMC found switching rates to be higher for solar customers than non-solar customers, while the results of the Commission's analysis were the other way around, and
- ▶ High switching rates can be interpreted as either an indicator of healthy competition, or an indicator of customers' dissatisfaction with their retailers.

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<sup>22</sup> See Origin Energy's submission, p. 2, available at <http://www.escosa.sa.gov.au/library/20160426-2016-R-FiTReviewIssuesPaperSubmission-OriginEnergy.pdf>

<sup>23</sup> ESCOSA, 2015-2016 Retailer feed-in tariff: Final price determination – statement of reasons, December 2014, p. 29, available at <http://www.escosa.sa.gov.au/library/20141216-Electricity-RetailerFeed-inTariff-StatementofReasons.pdf>.

<sup>24</sup> ESCOSA, Retailer feed-in tariff: Final Price Determination – Statement of Reasons, December 2013, p.40, available at <http://www.escosa.sa.gov.au/library/131217-RetailerFeed-InTariff-StatementofReasons-FinalPriceDetermination.pdf>.

<sup>25</sup> ESCOSA, 2015-2016 Retailer Feed-in Tariff, Final Price Determination Statement of Reasons, December 2014, p. 45, available at <http://www.escosa.sa.gov.au/library/20141216-Electricity-RetailerFeed-inTariff-StatementofReasons.pdf>

#### 4.2.3.2 Offers available to solar v non-solar customers

A comparison with the jurisdictions without a minimum FiT shows a similar high level of availability of the best electricity price offers to solar customers.

In SEQ, the electricity prices associated with the offers without a FiT were generally not competitive with those that did offer one (in Queensland the highest price offer was the one without the FiT). In contrast, the New South Wales retailer, Covau, had the lowest price of all offers and offered no FiT. This provides an example of potential product differentiation in the New South Wales market compared with that in South Australia, where a low priced offer without a FiT is not an option available to solar customers.

#### 4.2.3.3 Discounts offered for solar and non-solar offers

In addition to setting fixed and variable electricity prices, electricity retailers commonly offer various discounts to their headline prices, in order to attract and retain customers. In making a determination in relation to the effectiveness of competition in the market, the Commission has analysed the level of discounting for solar and non-solar offers from retailers with offers for solar customers, in jurisdictions where the FiT is regulated (South Australia and Victoria) and in jurisdictions where the FiT is not regulated (New South Wales and Queensland). Offers from companies which do not provide offers to solar customers were excluded from this analysis, in order to obtain a true assessment of any differences.

The analysis found that the majority of retailers offer the same discount for offers to solar customers as they do for non-solar customers. Of the retailers with different discount rates between the two customer classes, there are more retailers offering a larger discount to non-solar than to solar customers, particularly in New South Wales. The overall level of discounting is shown to be higher in Victoria than it is in the other major NEM jurisdictions.

The difference in average discount between offers for solar customers and those available to non-solar customers (from the same retailers) is very minimal, although in all cases the average discount to non-solar customers is marginally higher. For this analysis, it was assumed that non-solar customers would also be able to access the same offers as solar customers.

This analysis suggests that the level of discount offered to customers is independent of whether the FiT is regulated.

#### 4.2.3.4 Comparison of R-FiTs

The following table provides a comparison of the size and range of R-FiT payments across NEM jurisdictions.

Table 4: Residential R-FiT statistics across the NEM (market offers attracting a FiT, cents per kWh)

State	Average	Range	Lowest	Highest
South Australia	7.7	5.2	6.8	12.0
Victoria	6.5	5.0	5.0	10.0
New South Wales	6.2	5.0	5.0*	10.0
Queensland	6.4	6.0	4.0*	10.0

\*This represents the minimum among retailers that offer a FiT. In Queensland, one retailer with an offer to solar customers does not offer a FiT, while in New South Wales four companies with offers to solar customers do not offer a FiT. If these companies are included, the average in Queensland falls to 5.8 cents per kWh, and in New South Wales, to 4.8 cents per kWh.

This analysis indicates that jurisdictions that do not have a regulated minimum R-FiT continue to produce offers with R-FiTs similar to those found in regulated jurisdictions, but also allow greater consumer choice through a wider range of R-FiTs offered. Further detail of this analysis is presented in **Appendix 2**.

### 4.3 Consideration of submissions to this review

In general, submissions to this review put the view that the market for electricity is competitive and, in that context, there is no place for regulation of a small component of that market, the R-FiT.

Business SA's submission highlighted the R-FiTs available in other jurisdictions and concluded that:

Considering the de-regulation of solar feed-in tariff rates in New South Wales and Queensland with associated market rates holding between 5 to 6 cents per kWh, there does not appear to be a strong rationale to maintain the existing regulatory regime in South Australia.<sup>26</sup>

There was general agreement that customers would be better off with R-FiTs set by the competitive market rather than by the Commission. Broadly, the energy businesses, Business SA and SACOSS reinforced the relevance of the AEMC's competition review as an input to this review. SACOSS's submission stated that:

...SACOSS considers that the market is sufficiently competitive as per the Australian Energy Market Commission findings and there is no longer place for a minimum R FiT which imposes costs on all customers without material benefit.<sup>27</sup>

In its submission, the Energy and Water Ombudsman of South Australia (**EWOSA**) stated:

We believe that it should not be assumed that, because recent assessments by the Australian Energy Market Commission concluded that the South Australian electricity retail market is effectively competitive, sufficient competition also exists between electricity retailers when offering solar contracts to customers with solar PV panels.<sup>28</sup>

The Commission has considered that view in its assessment of retail competition, as discussed previously in this Chapter.

The submissions from private individuals stated that the regulated R-FiT is not high enough, given the disparity between it and the retail price of electricity, and expressed little confidence that the market can deliver a better outcome. One private submission considered the electricity market to be confusing, rather than competitive and the setting of the R-FiT to be opaque. That submission put the view that:

...all retailers should have the same style of pricing on their respective accounts – not similar – so that their customers can easily interpret and understand the variations when getting quotes from all.<sup>29</sup>

The Commission acknowledges that the issues raised in those submissions are complex. To assist consumers' and other stakeholders' understanding of the Commission's methodology for setting the R-FiT, the Commission has published its approach to calculating the R-FiT and related fact sheets on

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<sup>26</sup> Submission to the Issues Paper by Business SA, available at <http://www.escosa.sa.gov.au/library/20160426-2016-R-FiTReviewIssuesPaperSubmission-BusinessSA.pdf>.

<sup>27</sup> Submission to the Issues Paper by SACOSS, available at <http://www.escosa.sa.gov.au/library/20160426-2016-R-FiTReviewIssuesPaperSubmission-SACOSS.pdf>

<sup>28</sup> See EWOSA submission, p. 1, available at <http://www.escosa.sa.gov.au/library/20160426-2016-R-FiTReviewIssuesPaperSubmission-EWOSA.pdf>.

<sup>29</sup> Submission to the Issues Paper by J. Magoch, available at <http://www.escosa.sa.gov.au/library/20160426-2016-R-FiTReviewIssuesPaperSubmission-JMagoch.pdf>.

its website.<sup>30</sup> As explained in Chapter 2, the R-FiT reflects the value of electricity to energy retailers, which is the wholesale cost of electricity. If the Commission were to set a minimum R-FiT value higher than the true value of electricity fed in to the grid, then retailers would either seek to recover any revenue shortfall by increasing their electricity consumption tariffs for all customers or avoid retailing to solar customers, or adopt both strategies. Under any of those options, customers would be worse off.<sup>31</sup>

Australian Gas Networks submitted that it would only support the continued existence of an R-FiT if it could be applied to electricity fed into the network via other, (non-solar PV) fuel sources, and that the R-FiT does not provide the least cost carbon abatement.<sup>32</sup> As discussed in Chapter 2, the Electricity Act limits the R-FiT to electricity exported from qualifying PV units. It also requires the Commission to have regard to the fair and reasonable value to a retailer of energy exported – that is, to offset the cost the retailer would otherwise incur to acquire electricity on the wholesale electricity market. It does not encompass broader objectives (e.g. social or environmental objectives), which are beyond the scope of this review.

Having regard to all submissions received, the Commission remains of the view that the key reason for continued regulation of the minimum R-FiT would be a high likelihood – absent regulation – that solar customers would not receive an appropriate reimbursement from retailers for any energy exported.

The submissions highlight the importance of understanding how competition in the retail market impacts on solar customers and the costs and benefits of setting a minimum R-FiT. The Commission's consideration of those issues was discussed in the preceding sections of this chapter.

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<sup>30</sup> For information on the Commission's methodology for setting the R-FiT, refer to: Acil Allen Consulting, Estimated value of PV exports - calendar year 2014, 30 September 2013, available at <http://www.escosa.sa.gov.au/library/131002-EstimatedValueOfExportedPVOutputInCalendar2014ACILAllen.pdf>.

<sup>31</sup> The Commission's, 2015-2016 Retailer feed-in tariff, Final Price Determination – Statement of Reasons, December 2014, p. 4, available at <http://www.escosa.sa.gov.au/library/20141216-Electricity-RetailerFeed-inTariff-StatementofReasons.pdf>.

<sup>32</sup> See Australian Gas Networks submission to the Issues Paper, available at <http://www.escosa.sa.gov.au/library/20160426-2016-R-FiTReviewIssuesPaperSubmission-AustralianGasNetworks.pdf>.

## 5 Draft decision

The Commission's draft decision is:

- ▶ Not to make a minimum R-FiT Determination for calendar year 2017, and
- ▶ To continue to monitor the retail electricity market for solar customers in South Australia and retain the power to re-introduce regulation of the minimum R-FiT at a future time, should evidence arise that it was in the long term interests of customers to do so.

The Commission's draft decision is based on its assessment of all of the evidence discussed in the preceding chapters of this report. As summarised below, the combination of evidence relating to retail competition in South Australia, particularly in comparison to other jurisdictions, and analysis of the costs and benefits of regulating the minimum R-FiT, indicates that removal of the minimum R-FiT is more likely to promote consumers' long term interests than is retaining it. Submissions to the review generally support that finding.

### 5.1 Assessment of competition in the South Australian market

Based on the evidence, the Commission has found that solar customers in South Australia are experiencing similar market outcomes to non-solar customers and to solar customers in other jurisdictions. In particular, the evidence shows that solar customers are not disadvantaged in the choice of offers available to them, and that the discounts that apply to solar offers are broadly in line with those for non-solar offers. There is evidence of product differentiation in South Australian electricity offers for solar customers, despite the current mandated minimum R-FiT.

The similarities between solar and non-solar offers, the apparent absence of any monopolistic pricing behaviour in other deregulated NEM jurisdictions, and the evidence obtained and summarised in the AEMC competition reviews support the Commission's draft position that regulation of the minimum R-FiT is not presently the best means by which to protect consumers' long term interests.

Although the measures of competition have yielded results similar to those presented in the 2015 Determination, the Commission has had the benefit of additional time to observe the competitive retail electricity markets in South Australia and other major jurisdictions in the NEM.

### 5.2 Costs and benefits of setting a minimum R-FiT.

The Commission's decision takes into account the costs and benefits associated with having a regulated minimum R-FiT, as outlined below:

#### Benefits

Solar customers are assured of receiving at least the mandatory minimum R-FiT, regardless of retailer.

#### Costs

- ▶ Retailers may adjust the costs of other components of a bundled offer, such as the supply charge or electricity price, in response to a change in the minimum R-FiT. In this scenario, there may be no net benefit to the customer. (Whether this is a benefit or a cost depends upon customers' consumption profiles).

- ▶ A mandatory minimum R-FiT may be an impediment to innovation in the market, such as time of use tariffs and time of export R-FiTs. Although having a regulated R-FiT does not necessarily preclude innovation, in order to enable it, the regulator must be able to foreshadow the innovations and the appropriate regulatory response. This requires the regulator to be one step ahead of the market, and carries risks if it is not.
- ▶ In addition, retailers have argued that the regulated minimum R-FiT imposes direct compliance costs on retailers, who may need to adjust all their existing offers whenever the minimum R-FiT is raised (retailers already paying more than the minimum may continue to have compliant offers, without adjustment, if the new regulated minimum R-FiT remains lower than that being offered by the retailer). The Commission notes that retailers have not been able to substantiate the amount of those costs.

Although these costs are not easily quantifiable, the evidence from interstate jurisdictions shows that the R-FiT market functions well in the absence of regulation, as outlined in **Appendix 2**. In the unregulated jurisdictions of New South Wales and SEQ, solar customers continue to receive substantially the same benefits as customers in the regulated jurisdictions of Victoria and South Australia do. In all of these jurisdictions, irrespective of regulation, solar customers receive similar access to discounts, similar choice of offers and similar charging frameworks as non-solar customers. All solar customers receive access to an R-FiT which is more closely aligned to the cost of electricity than anything else, indicating that retailers and regulators are each going through a similar process in assessing the value of the R-FiT.

### 5.3 Implementation of the proposed draft decision

Following the proposed removal of the regulated floor price, the Commission will continue to monitor the progress of the market as part of its general powers under the ESC Act and, if sufficient evidence emerges of a lack of competition, the Commission may then resume direct regulation of the R-FiT, following a further period of consultation. The Commission would use the same framework for monitoring and analysing future developments in the competitive market as it used in this review.

The Commission does not propose to publish a non-binding R-FiT range as occurs in New South Wales. While it is important for customers to have access to information to enable them to make informed purchasing decisions, customers are currently able to access information comparing available electricity offers, including R-FiTs, through the Australian Energy Regulator's price comparison service, Energy Made Easy (EME).<sup>33</sup> In addition, the Commission publishes information each year on movements in electricity market offer bills for typical residential and small business customers in South Australia, including movements in retailer R-FiTs. That information assists consumers to participate in the competitive market. If the Commission were to publish a non-binding R-FiT range, it may encourage electricity retailers to set amounts that are consistent with the published range, potentially limiting customer choice and tariff innovation by retailers. The Commission's proposal to cease setting the minimum R-FiT is aimed at addressing that problem. Publishing an R-FiT range would also involve the Commission incurring direct costs in establishing annual forecasts of wholesale electricity costs in order to set the benchmark range. The costs of that approach are therefore likely to outweigh the benefits.

If regulation were to be re-introduced, the Commission would make an assessment as to the form of regulation, given that R-FiTs are a small component of an otherwise deregulated market. Given the Commission's draft decisions, this assessment is not currently required.

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<sup>33</sup> [www.energymadeeasy.gov.au](http://www.energymadeeasy.gov.au)

## 6 Next steps

This Draft Decision on the proposed changes to the R-FiT regulatory arrangements in South Australia, will be open for public consultation until **Friday, 16 September 2016**.

The Commission seeks comments from all interested parties on this draft decision. Details on how to make submissions are provided on the inside of the front cover of this draft decision.

Following the period of public consultation, and after consideration of any comments received, the Commission will prepare a final decision on changes to the R-FiT regulatory arrangements. This final decision will have effect on and from 1 January 2017.

The Commission expects to publish the final decision in November 2016.

## Appendix 1: Comparison with other NEM jurisdictions

Full retail contestability (**FRC**) exists within all jurisdictions within the NEM. The NEM covers South Australia, New South Wales, Victoria, Queensland, Tasmania and the ACT. Under FRC, customers have the ability to enter a contract with a retailer of their choice. Although the contracts vary, the legislated customer protection frameworks for jurisdictions in the NEM,<sup>34</sup> require that all retailers incorporate minimum terms and conditions to their contracts.<sup>35</sup> As a result, there is some consistency in the regulatory landscape across the NEM, allowing interstate comparisons to be made, at least with respect to electricity retailing in general. Any differences between pricing outcomes for customers in different states are, therefore, not due to differences in customer protection frameworks, but to individual market characteristics, such as the wholesale cost of power, or distribution charges. One notable difference between South Australia, New South Wales and Victoria on the one hand, and SEQ on the other, is the existence of regulated pricing in the latter (until 30 June 2016). This may, potentially, affect the scope for monopolistic behaviour among retailers, The Commission has tested for this in its measures of competition, as outlined in **Appendix 2**.

While the regulation of some aspects of electricity retailing is consistent across these markets, the following section highlights that there is no such consistency with respect to the regulation of R-FiTs within these markets.

### New South Wales

In New South Wales, the equivalent of the R-FiT is referred to as the 'subsidy-free value of electricity from small-scale solar PV units'. Rather than set a minimum value, the regulator, IPART, recommends a range of values.<sup>36</sup> It is not compulsory for retailers to adhere to this band, or even to offer a feed-in tariff at all. The current benchmark range is 4.7 to 6.1 cents per kWh (with a most likely value of 5.1 cents per kWh). The rationale adopted by IPART in publishing this range is that it assists solar customers in deciding whether to install a PV unit and to compare market offers.<sup>37</sup> The subsidy-free feed-in is valued on the basis of the lowest 25<sup>th</sup> percentile wholesale electricity costs on a net metered basis. A net meter exports electricity to the grid only after the customer's own power usage needs have been met.<sup>38</sup> South Australian solar customers are also assessed on a net metered basis.

The equivalent to the D-FiT in New South Wales is a subsidy scheme referred to as the Solar Bonus Scheme (**SBS**). Customers cannot receive both the SBS and the unsubsidised feed-in tariff. If a customer receives the SBS, the retailer is required to make a contribution to the cost of it (in 2015-16 this is 5.2 cents per kWh) with the remainder funded by a levy included in retail electricity prices. The value of this contribution is based on the wholesale electricity costs on a gross metered basis, as customers receiving the SBS have gross meters, where all electricity generated by the customer is 'exported'.<sup>39</sup> It differs from the most likely unsubsidised value as that is based upon the value of PV exports at all times. That is, it includes shoulder periods where customers with net meters would be consuming their own power and not exporting.

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<sup>34</sup> South Australia, NSW, and Queensland operate within the NECF, established under the NERL. Victoria has a broadly similar regulatory framework, administered by the ESC Vic.

<sup>35</sup> See AER, State of the energy market 2015, 4 February 2016, p. 127.

<sup>36</sup> IPART has the discretion to apply either a range or a specific value for the R-FiT under the Electricity Supply Act 1995 No 94, section 43ECB (4)(a).

<sup>37</sup> IPART, solar feed-in tariffs: the subsidy-free value of electricity from small-scale solar PV units in 2015-16, October 2015, p. 3, available at [http://www.ipart.nsw.gov.au/files/sharedassets/website/shared\\_files/pricing\\_reviews\\_-\\_electricity\\_-\\_administrative\\_-\\_solar\\_feed-in\\_tariffs\\_2015/final\\_report\\_-\\_solar\\_feed-in\\_tariffs\\_-\\_october\\_2015.pdf](http://www.ipart.nsw.gov.au/files/sharedassets/website/shared_files/pricing_reviews_-_electricity_-_administrative_-_solar_feed-in_tariffs_2015/final_report_-_solar_feed-in_tariffs_-_october_2015.pdf).

<sup>38</sup> IPART, solar feed-in tariffs: the subsidy-free value of electricity from small-scale solar PV units in 2015-16, October 2015, p. 2.

<sup>39</sup> IPART, solar feed-in tariffs: the subsidy-free value of electricity from small-scale solar PV units in 2015-16, October 2015, p. 2.

As the unsubsidised benchmark range has never been compulsory<sup>40</sup>, FiTs in New South Wales are essentially unregulated. Retailers are free to offer a feed in tariff, or an offer combination, as they see fit. Of the 22 retailers contesting the residential market at 31 March 2016, 17 had offers available for solar customers and of these, 13 saw the value in offering at least the minimum benchmark. Therefore, four retailers with offers to solar customers in New South Wales chose not to offer an unsubsidised FiT, and a further five retailers did not provide offers to solar customers at all.

As stated above, the New South Wales regulator (IPART) does not mandate a minimum R-FiT, allowing it to be set by the market. In the view of IPART,<sup>41</sup>

...a competitive market is the best way to provide the fair value for PV exports, and the market should determine the fair value of PV exports via competition. Customers will shop around to obtain a better deal to maximise their return on the investment for their PV exports, and retailers which do not offer competitive prices will lose customers to other retailers.

"Mandating feed-in tariffs could preclude retailers from offering different tariffs such as time-of-export tariffs, leading to fewer offers that consumers can choose from. Fixing minimum feed-in tariffs at a certain level will provide retailers with less incentive to innovate to reduce the costs associated with solar customers and offer competitive prices.

In the broader electricity market, full retail contestability was introduced in New South Wales in 2002, but it was not until 1 July 2014 that price regulation for electricity was removed.<sup>42</sup> With both a deregulated retail electricity market and unregulated R-FiTs, the Commission considers that the New South Wales market is a useful indicator of the potential market in South Australia, should the Commission cease to prescribe a minimum R-FiT.

## Victoria

In Victoria there are 16 electricity retailers with a combined 176 offers to residential solar customers.<sup>43</sup> An additional five retailers offer market contracts to non-solar customers only. Similar to the current arrangements in South Australia, a minimum FiT is determined by the ESC Vic. For 2016, this was set at 5.0 cents per kWh (excluding GST)<sup>44</sup>. Five of the 16 retailers offer only the minimum FiT while the rest offer more, with one retailer offering 10 cents per kWh.

Given the similarities between the regulation of electricity markets and FiTs between Victoria and South Australia, the Commission has included Victorian market information in its comparisons between regulated and unregulated solar PV markets.

Full retailer contestability was introduced for small customers in Victoria in January 2002, with the removal of electricity price regulation in January 2009.<sup>45</sup>

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<sup>40</sup> IPART, solar feed-in tariffs: setting a fair and reasonable value for electricity generated by small-scale solar PV units in NSW – Final Report, March 2012, p. 3, available at [http://www.ipart.nsw.gov.au/Home/Industries/Electricity/Reviews/Retail\\_Pricing/Solar\\_feed-in\\_tariffs/14\\_Mar\\_2012\\_-\\_Final\\_Report/Final\\_Report\\_-\\_Solar\\_feed-in\\_tariffs\\_-\\_March\\_2012](http://www.ipart.nsw.gov.au/Home/Industries/Electricity/Reviews/Retail_Pricing/Solar_feed-in_tariffs/14_Mar_2012_-_Final_Report/Final_Report_-_Solar_feed-in_tariffs_-_March_2012).

<sup>41</sup> IPART, solar feed-in tariffs: the subsidy-free value of electricity from small-scale solar PV units in 2015-16, October 2015, p. 13

<sup>42</sup> AEMC, Final Report: 2015 Retail Competition Review, 30 June 2015, p. 90.

<sup>43</sup> Sourced from Victorian Energy Compare, available at <https://compare.switchon.vic.gov.au/welcome> accessed 21 April 2016

<sup>44</sup> See ESC Vic, Minimum Electricity Feed-in Tariff to apply from 1 January 2016 to 31 December 2016, p. 1, available at <http://www.esc.vic.gov.au/getattachment/93edcf18-1659-4518-9057-eee1215bf194/Minimum-Electricity-Feed-in-Tariff-to-apply-from-1.pdf>.

<sup>45</sup> AEMC, Final Report: 2015 Retail Competition Review, 30 June 2015, p. 153.

The ESC Vic is in the process of reviewing the FiT arrangements in Victoria, including consideration of the social and environmental benefits of distributed solar generation although deregulation is not on the agenda.<sup>46</sup> The Commission notes that social and environmental considerations have never fallen within the remit of the South Australian R-FiT scheme.

## Queensland

Solar feed-in tariff arrangements vary between South East Queensland (SEQ) and regional Queensland. In SEQ, individual retailers determine the value of the feed-in tariff they will offer their solar customers as part of their competitive offers.<sup>47</sup> A minimum feed-in tariff has not been mandated since 1 July 2014,<sup>48</sup> as the market in SEQ was considered by the Queensland Competition Authority (QCA) to be sufficiently competitive to sustain an unregulated minimum feed-in tariff.<sup>49</sup>

The SEQ residential electricity market is contested by a total of 12 retailers. Of those with offers to solar customers, nine offer a voluntary FiT and one does not offer a FiT to its solar customers. A further two retailers do not have offers available for solar customers.

The absence of a set minimum feed-in tariff in SEQ, together with the presence of full retail competition (albeit with continued price regulation),<sup>50</sup> provides the Commission with another indication of the possible outcomes in South Australia, should it allow a competitive market to set the R-FiT in South Australia.

In SEQ, the Queensland Productivity Commission (QPC) has found that the level of retail competition appears to be effective in providing a range of feed-in tariffs and other options for solar consumers – and is providing a fair price for solar exports.<sup>51</sup>

In contrast, regional Queensland does not have a competitive retail electricity market with one retailer, Ergon Energy (a Queensland Government owned corporation) selling electricity at the Queensland Government's Notified Prices. (In some areas customers are able to choose a different retailer, though the prices are still regulated). In regional Queensland, a minimum feed-in tariff continues to be set by the Queensland Competition Authority (QCA). In 2015-16 this was set at 6.348 cents per kWh and was consistent throughout regional Queensland, despite varying transmission and distribution losses between different regions.<sup>52</sup> For 2016-17 the same methodology was used, but the minimum feed-in tariff was increased to 7.448 cents per kWh, reflecting higher wholesale electricity costs.<sup>53</sup>

As a fully regulated market, regional Queensland does not provide a useful comparison with South Australia for the purposes of this review.

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<sup>46</sup> ESC Vic, The energy value of distributed generation, April 2016, p. 15, available at <http://www.esc.vic.gov.au/getattachment/cd3592be-a6c0-466a-8eb5-02302e5adffa/Distributed-Generation-Inquiry-Draft-Report-Energy.pdf>.

<sup>47</sup> Queensland Productivity Commission, Draft Report, Solar feed-in pricing in Queensland, March 2016, p. xi, available at <http://www.qpc.qld.gov.au/files/uploads/2016/03/Solar-Draft-Report-FINAL.pdf>.

<sup>48</sup> Queensland Productivity Commission, Draft Report, Solar feed-in pricing in Queensland, March 2016, p. 143.

<sup>49</sup> QCA 2013, Estimating a reasonable solar feed-in tariff for Queensland, March 2013, p. v, available at <http://www.qca.org.au/getattachment/c83a068e-daf7-4d5a-ab94-10a1f4aafe62/Final-Report.aspx>.

<sup>50</sup> AEMC, Final Report: 2015 Retail Competition Review, 30 June 2015, page 49

<sup>51</sup> QPC, Draft Report, Solar feed-in pricing in Queensland, March 2016, p. xiv, available at <http://www.qpc.qld.gov.au/files/uploads/2016/03/Solar-Draft-Report-FINAL.pdf>.

<sup>52</sup> QCA, Final Report, Solar feed-in tariff for regional Queensland for 2015-16, June 2015, p. 5, available at <http://www.qca.org.au/getattachment/fac48543-69c3-4029-9d41-161f67cf4330/Final-Report-2015-16-regional-feed-in-tariff-cor.aspx>.

<sup>53</sup> QCA, Final Report, Solar feed-in tariff for regional Queensland for 2016-17, May 2016, p. 5, available at <http://www.qca.org.au/electricity/consumer/solar-feed-in-tariffs/final-report/2016-17-regional-feed-in-tariff#finalpos>.

## Tasmania

The Office of the Tasmanian Regulator determines an annual minimum 'fair and reasonable value' for exported electricity. Retailers are free to offer more than this amount. The minimum R-FiT for 1 July 2015 to 30 June 2016 was 5.5 cents per kWh (excluding GST). Despite introducing FRC from 1 July 2014,<sup>54</sup> effective competition does not yet exist as there is only one retailer, Aurora Energy, selling to small residential customers, and one retailer, ERM Business Energy, offering market contracts to all contestable business customers in Tasmania.<sup>55</sup>

Tasmania does not provide a relevant comparison with South Australia, as its retail market is not competitive.

## ACT

The broader electricity retail market in ACT was opened up to FRC for small customers in 2002, but competition is limited with only three retailers participating. Notwithstanding the limited competition, in July 2011 regulation of FiTs ceased.<sup>56</sup> For retail electricity, price regulation remains, with prices determined by IPART.<sup>57</sup> As a consequence of electricity price regulation, the small number of market participants and the AEMC finding that the electricity market is not yet competitive, the Commission has not used the ACT as a benchmark for comparison in its analysis.

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<sup>54</sup> AER State of the energy market 2015, 4 February 2016, page 127

<sup>55</sup> Office of the Tasmanian Economic Regulator – The power to choose, available at <http://www.power.tas.gov.au/domino/powernew.nsf/v-lu-pages/Useful+Contacts?OpenDocument> accessed 21 April 2016.

<sup>56</sup> ACT Government, Current feed-in tariff rates for rooftop solar, Environment and Planning Directorate, available at [http://www.environment.act.gov.au/energy/cleaner-energy/rooftop\\_solar](http://www.environment.act.gov.au/energy/cleaner-energy/rooftop_solar)

<sup>57</sup> AEMC, Final Report: 2015 Retail Competition Review, 30 June 2015, p. 128,

## Appendix 2: Assessment of South Australian market competitiveness

The assessment of market competitiveness is based on multiple sources of evidence from within the NEM as outlined in the Issues Paper and summarised below. A particular focus is the comparison between the currently regulated South Australian and Victorian markets, and the New South Wales and SEQ markets, given that both of these markets have been deemed to be sufficiently competitive such that their FiTs are not subject to price regulation.

The Commission will only retain regulation of the R-FiT if there is persuasive evidence to show that it would deliver net benefits to solar customers, compared with not setting the R-FiT. Therefore, the indicators of competition in South Australia as assessed in this report must be seen in comparison with other jurisdictions which do not have a regulated R-FiT. Absolute measures will not show the benefits or otherwise of regulation; comparative measures will.

### Sources and comparability of information

For the analysis performed in this chapter, retail electricity offer data were sourced from:

- ▶ the AERs energy comparison website, Energy made Easy, for New South Wales, Queensland and South Australian data.
- ▶ the Victorian Government's energy comparison website, Energy Compare – Switch On Victoria,<sup>58</sup> for Victorian data.

The methodology used for the Victorian website is different to EME, such that direct comparisons between Victoria and the other states are not always meaningful. However, data such as feed-in tariffs are directly comparable.

Further electricity offer information was sourced from the fact sheets which the retailers publish in respect to each of their retail offers.

The analysis focuses on the most competitive offers available from each retailer (including available discounts), for both solar PV offers and non-solar offers.

Switching rates were calculated using data provided by AEMO and SAPN, while information on AEMC's assessment of competition was drawn from its 2015 report<sup>59</sup> on electricity retail competition (**2015 Review**).

The Commission recognises that many of the measures of competition are based upon a limited dataset – for example, between 10 and 17 retailers have offers to solar customers in the main jurisdictions in the NEM. Therefore, no single piece of evidence, taken in isolation, has determined the outcome of this review.

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<sup>58</sup> <https://compare.switchon.vic.gov.au>

<sup>59</sup> AEMC, Final Report: 2015 Retail Competition Review, 30 June 2015, available at <http://www.aemc.gov.au/getattachment/56a8c56f-0aeb-48cc-9097-9f2b5e645428/Final-Report.aspx>.

## Factors used to assess competitiveness of the South Australian market.

In the Issues Paper, the Commission outlined the factors it proposed to examine in order to assess the competitiveness of the South Australian market. The factors are summarised as follows:

- ▶ incidence of minimum payment
- ▶ evidence from other jurisdictions
- ▶ switching rates from other jurisdictions, and
- ▶ the AEMC review of competition.

None of the submissions made in response to the Issues Paper raised any concerns or suggested any alternative factors that the Commission should consider. Each of the factors is discussed in turn, below.

## Incidence of minimum R-FiT payments in South Australia

At the end of March 2016, South Australia had 17 retailers participating in the electricity market. Of these, only three did not offer contracts to customers with solar PV installations. Of the 13 retailers with offers to residential solar customers, six offer the minimum South Australian R-FiT of 6.8 cents per kWh (rather than higher offers), including the largest two retailers in the market, being Origin and AGL. In addition ERM Power, which supplies electricity to the business sector only, offered the minimum R-FiT of 6.8 cents per kWh.

Table 5: R-FiT paid by electricity retailers in South Australia

Retailer	R-FiT (c/kWh)
AGL	6.8
Alinta Energy	6.8
Click Energy (residential only)	12.0
Commander Power & Gas	7.0
Diamond Energy	8.0
Dodo Power & Gas (residential only)	7.0
EnergyAustralia	6.8
Lumo Energy (SA)	7.0
Momentum Energy	6.8
Origin Energy	6.8
Powerdirect	8.0
Simply Energy	6.8
Urth Energy	10.0
ERM (small business only)	6.8

This compares with eight of 13 electricity retailers offering the minimum R-FiT at 30 June 2014 and five at 31 October 2014.<sup>60</sup>

<sup>60</sup> ESCOSA, 2015-2016 Retailer Feed-in Tariff, Final Price Determination Statement of Reasons, December 2014, p. 45, available at <http://www.escosa.sa.gov.au/library/20141216-Electricity-RetailerFeed-inTariff-StatementofReasons.pdf>.

The corollary is that seven of 13 retailers were competing for residential solar customers by offering an R-FiT payment higher than the minimum. As Simply Energy's submission states:

This indicates that, despite a regulated FiT, more retailers are differentiating their PV products and services. This provides further evidence of competition for PV consumers, which is sufficient to warrant a deregulation of the FiT.<sup>61</sup>

As outlined above, an R-FiT set by a retailer at the minimum amount is not necessarily symptomatic of a lack of competition, as it is only one component of an electricity offer. Setting a minimum R-FiT may, however, in itself imply a target, rather than retailers attempting to determine their own R-FiT market values. In its submission to the Issues Paper, Origin Energy stated that:

In any event, we believe that a mandated minimum price may artificially limit the diversity of offers because it creates a focal point around which the market converges.<sup>62</sup>

Submissions from the Australian Energy Council, AGL, Simply Energy and Origin stated that, as part of a bundled competitive offer, deregulation of the R-FiT would be beneficial to solar customers, enabling greater consumer choice through product diversity. For example, Origin Energy's submission stated:

The level of the feed-in tariff is only one element for customers to consider when choosing a retailer. Some customers may place a high store of value on the level of a feed-in tariff, while others with solar may emphasise a preference for other features of energy products (such as a discount or fixed pricing for their energy supply). The Commission may be concerned that retailers, in a deregulated market, might offer consumers a rate that is lower than what might have been the mandated minimum. However, a retailer in these circumstances may choose to offer customers a low feed-in tariff in conjunction with highly competitive electricity tariffs and discounts. A customer in South Australia that uses, rather than exports, most of its electricity would in fact benefit from this if a retailer is offering a lower electricity tariff and/or higher discount than the general market. Retailers may benefit from purchasing the solar electricity at a lower than expected rate but equally if the customer does not export much energy then they benefit from the low electricity tariffs.<sup>63</sup>

The Commission agrees that the R-FiT component should not be considered in isolation from the other components of electricity offers, in assessing the competitiveness of the South Australian market.

However, as the largest retailers are all offering the minimum R-FiT, nine out of 10 South Australian solar customers are receiving only the minimum R-FiT.<sup>64</sup> Weighted by market share, the average R-FiT paid in South Australia is 6.9 cents per kWh, barely above the minimum. To extend Origin's argument above, it would appear that 90 percent of customers value a lower electricity tariff above a higher R-FiT. Solar customers do have options though. Competition in the R-FiT sector is provided by the new entrants to the market – for example, the highest R-FiT payments of 10 and 12 cents per kWh are offered by retailers that entered the market in December 2015 and January 2016 respectively. On the available evidence (compared with other jurisdictions), it is not possible to conclude that regulation of the R-FiT has a material net effect, beneficial or otherwise, on the R-FiTs that would otherwise be offered in a competitive market.

An additional argument in favour of not setting the minimum R-FiT, presented by Energy Australia in its submission to the Issues Paper, is that it will allow additional flexibility for the market to respond to impending technological advances. This includes the need to respond more quickly to increasing

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<sup>61</sup> See Simply Energy's submission, p. 1, available at <http://www.escosa.sa.gov.au/library/20160426-2016-R-FiTReviewIssuesPaperSubmission-SimplyEnergy.pdf>.

<sup>62</sup> See Origin Energy's submission, p2 2, available at <http://www.escosa.sa.gov.au/library/20160426-2016-R-FiTReviewIssuesPaperSubmission-OriginEnergy.pdf>.

<sup>63</sup> Origin Energy's submission, p. 2

<sup>64</sup> The Commission analysed market share data provided to it by AEMO.

household battery storage systems, and the proposed rollout of more cost reflective network tariffs.<sup>65</sup> For example, under time of use tariffs, retailers may require the flexibility to adjust not only the price of electricity, but the value of the R-FiT, depending upon the supply and demand for electricity at a given time. The Commission accepts that the potential future market (new technologies and tariff structures including time-of-use pricing), particularly with reference to cost reflective tariffs, may add an element of risk if the regulatory arrangements do not keep up with product innovation.

### Incidence of best priced market offers available to solar customers.

Table 6 shows that a majority of retailers are making their best offers available to both solar and non-solar customers (including Origin but excluding AGL, who service approximately 20 percent and 46 percent of the South Australian electricity market respectively. In the case of AGL, the difference in discount results in solar customers with average consumption<sup>66</sup> paying approximately \$31 per year more than non-solar customers). Once weighted for market share of solar customers, fewer than half of customers (43 percent) are with a retailer which makes its best priced offers available to solar customers – largely due to the significance of AGL’s market share.

Table 6: Retailers making best offers available to South Australian residential and small business solar customers.

SA retailers	Is best market offer available to solar customers?	
	Residential	Small business
AGL	×	×
Alinta Energy	✓	✓
Click Energy	×	n/a
Commander Power and Gas	✓	✓
Diamond Energy	✓	✓
Dodo Power & Gas	✓	n/a
EnergyAustralia	×	✓
Lumo Energy	✓	✓
Momentum Energy	✓	✓
Origin Energy	✓	✓
Pacific Hydro	n/a	n/a
Powerdirect	×	×
Qenergy	n/a	n/a
Red Energy	n/a	n/a
Simply Energy	✓	✓

<sup>65</sup> See Energy Australia, submission to Issues Paper, p. 1, available at <http://www.escosa.sa.gov.au/library/20160426-2016-R-FiTReviewIssuesPaperSubmission-EnergyAustralia.pdf>.

<sup>66</sup> The average South Australian residential customer is assumed to purchase 5,000 kWh of electricity per year.

SA retailers	Is best market offer available to solar customers?	
	Residential	Small business
Urth Energy	✓	✓
ERM	n/a	✓
<b>Total of retailers with offers to solar customers</b>	<b>9 of 13</b>	<b>10 of 12</b>

Table 6 provides evidence of competition in the market for solar customers, as nine of 13 retailers provide their best offers to residential solar customers, while 10 of 12 retailers provide their best offers to small business solar customers. While this evidence shows that most retailers are not discriminating between solar and non-solar customers when offering their best prices, this must be balanced against the fact that the majority of solar customers do not have access to their retailer's best price.

Unless there is evidence that solar customers cost more for a retailer to service than non-solar customers do, the Commission expects such customers to have access to offers that are comparable to non-solar customers. None of the submissions to the Issues Paper offered evidence of differing service costs.

The Commission notes that the current evidence on the availability of best offers to solar customers represents an improvement compared with the results of analysis done for the 2015 Determination, when half (six of 12) of retailers made their best offers available to solar customers.<sup>67</sup> In 2013 of the ten retailers with offers to solar customers, eight made their best offers available.<sup>68</sup> This shows that, over time, although the proportions of retailers making their best offers available to solar customers varies, it is generally the majority, and the total number of retailers participating has been steadily increasing.

### Evidence from other jurisdictions

The Commission investigated the offers available in other jurisdictions in the NEM, with a particular focus on New South Wales and SEQ, where there are no binding R-FiTs, and Victoria, where the market is most similar to the current market in South Australia. The Commission compared these offers with corresponding data from South Australia.

### Offers available to solar v non-solar customers

A comparison with the jurisdictions without a minimum FiT shows a similar high level of availability of the best electricity price offers to solar customers, as indicated in the two tables below:

<sup>67</sup> ESCOSA, 2015-2016 Retailer feed-in tariff: Final price determination – statement of reasons, December 2014, page 29, available at <http://www.escosa.sa.gov.au/library/20141216-Electricity-RetailerFeed-inTariff-StatementofReasons.pdf>.

<sup>68</sup> ESCOSA, Retailer feed-in tariff: Final Price Determination – Statement of Reasons, December 2013, page 40, available at <http://www.escosa.sa.gov.au/library/131217-RetailerFeed-InTariff-StatementofReasons-FinalPriceDetermination.pdf>.

Table 7: Retailers making their best offers available to NSW residential and small business solar customers.

NSW retailers	Is best market offer available to solar customers?	
	Residential	Small business
1st Energy	n/a	n/a
AGL	✘	✘
Alinta Energy	n/a	n/a
Click Energy	✘	-
Commander Power and Gas	✓	✓
Diamond Energy	✓	✓
Dodo Power & Gas	✓	-
EnergyAustralia	✓	✓
Lumo Energy	✓	✓
Mojo Power	✓	n/a
Momentum Energy	✓	✓
Next Business Energy	n/a	n/a
Origin Energy	✓	✓
Powerdirect	✘	✘
Qenergy	n/a	n/a
Red Energy	✓	✓
Simply Energy	n/a	n/a
Urth Energy	✓	✓
ERM	n/a	✓
<b>Total of retailers with offers to solar customers</b>	<b>10 of 13</b>	<b>9 of 11</b>

Table 8: Retailers making their best offers available to Queensland residential and small business solar customers

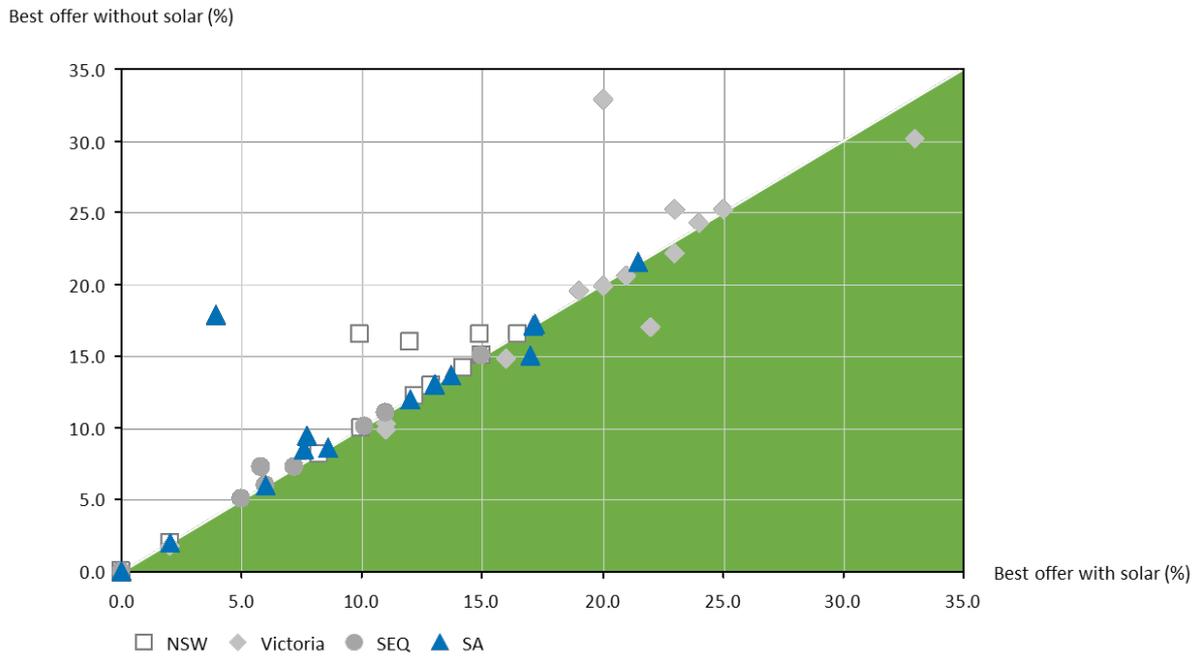
Queensland retailers	Is best market offer available to solar customers?	
	Residential	Small business
AGL	✘	✓
Click Energy	✘	n/a
Diamond Energy	✓	✓
Dodo Power & Gas	✓	n/a
ERM Business Energy	n/a	✓
EnergyAustralia	✓	✓
Lumo Energy (Qld)	✓	✓
Origin Energy	✓	✓
Powerdirect	✓	✘
Sanctuary	✓	n/a
Urth Energy	✓	✓
Qenergy	n/a	n/a
Simply Energy	n/a	n/a
<b>Total of retailers with offers to solar customers</b>	<b>8 of 10</b>	<b>7 of 8</b>

In SEQ, the electricity prices associated with the offers without a FiT were generally not competitive with those that did offer one (in Queensland the highest price offer was the one without the FiT). The one exception was the retailer, Covau, in New South Wales which, as calculated by EME, had the lowest price of all the offers and offered no FiT. This provides an example of potential product differentiation in the New South Wales market compared with that in South Australia, where a low priced offer without a FiT is not an option available to solar customers.

### Discounts offered for solar and non-solar offers

In addition to setting fixed and variable electricity prices, electricity retailers commonly offer various discounts to their headline prices, in order to attract and retain customers. In making a determination in relation to the effectiveness of competition in the market, the Commission has analysed the level of discounting for solar and non-solar offers from retailers with offers for solar customers, in jurisdictions where the FiT is regulated (South Australia and Victoria) and in jurisdictions where the FiT is not regulated (New South Wales and Queensland) as shown in Figure 1. Offers from companies which do not provide offers to solar customers were excluded from this analysis, in order to obtain a true assessment of any differences.

Figure 1: Discounts offered for solar and non-solar offers



The diagonal line in the above figure represents those points on the matrix where the average discount offered to solar customers is identical to that offered to non-solar customers. Observations that fall in the green shaded triangle represent retailers that offer a higher discount to solar customers. Conversely, observations in the unshaded triangle represent retailers that offer better discounts to their non-solar customers.

As indicated in Figure 1, the majority of retailers offer the same discount for offers to solar customers as they do for non-solar customers. Of the retailers with different discount rates between the two customer classes, there are more retailers offering a larger discount to non-solar than to solar customers, particularly in New South Wales. The overall level of discounting is shown to be higher in Victoria than it is in the other major NEM jurisdictions.

The difference in average discount between offers for solar customers and those available to non-solar customers (from the same retailers) is very minimal, although in all cases the average discount to non-solar customers is marginally higher. For this analysis, it was assumed that non-solar customers would also be able to access the same offers as solar customers.

This analysis suggests that the level of discount offered to customers is independent of whether the FiT is regulated.

### Comparison of R-FiTs

In jurisdictions without a binding minimum R-FiT, a comparison of the incidence of minimum R-FiT payments is not relevant. However, a comparison of the size and range of R-FiT payments is useful, as represented in the following table.

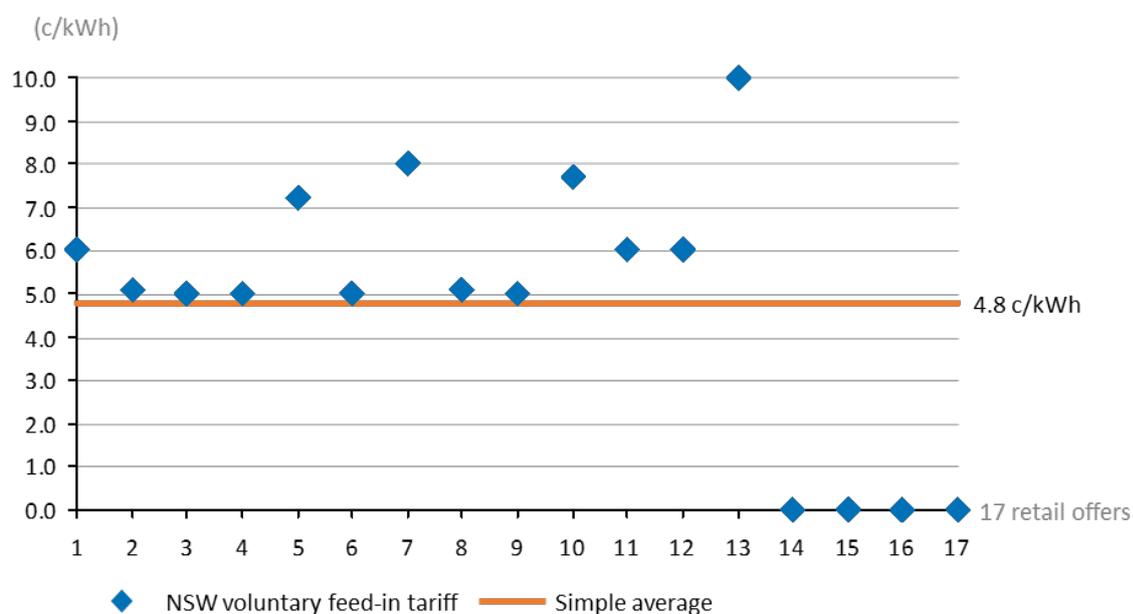
Table 9: Residential R-FiT statistics across the NEM (market offers attracting a FiT, cents per kWh)

State	Average	Range	Lowest	Highest
South Australia	7.7	5.2	6.8	12.0
Victoria	6.5	5.0	5.0	10.0
New South Wales	6.2	5.0	5.0*	10.0
Queensland	6.4	6.0	4.0*	10.0

\*This represents the minimum among retailers that offer a FiT. In Queensland, one retailer with an offer to solar customers does not offer a FiT, while in New South Wales four companies with offers to solar customers do not offer a FiT. If these companies are included, the average in Queensland falls to 5.8 cents per kWh, and in New South Wales, to 4.8 cents per kWh.

The distribution of FiTs in New South Wales, South Australia, Victoria and Queensland is illustrated in the following four figures:

Figure 2: New South Wales voluntary feed-in tariff levels among retailers with offers available to solar customers



Note: The average of 4.8 cents per kWh indicated above is inclusive of the retailers who do not pay a FiT. The average among retailers that do pay a FiT is 6.2 cents per kWh.

Figure 3: South Australian R-FIT levels among retailers with offers available to solar customers

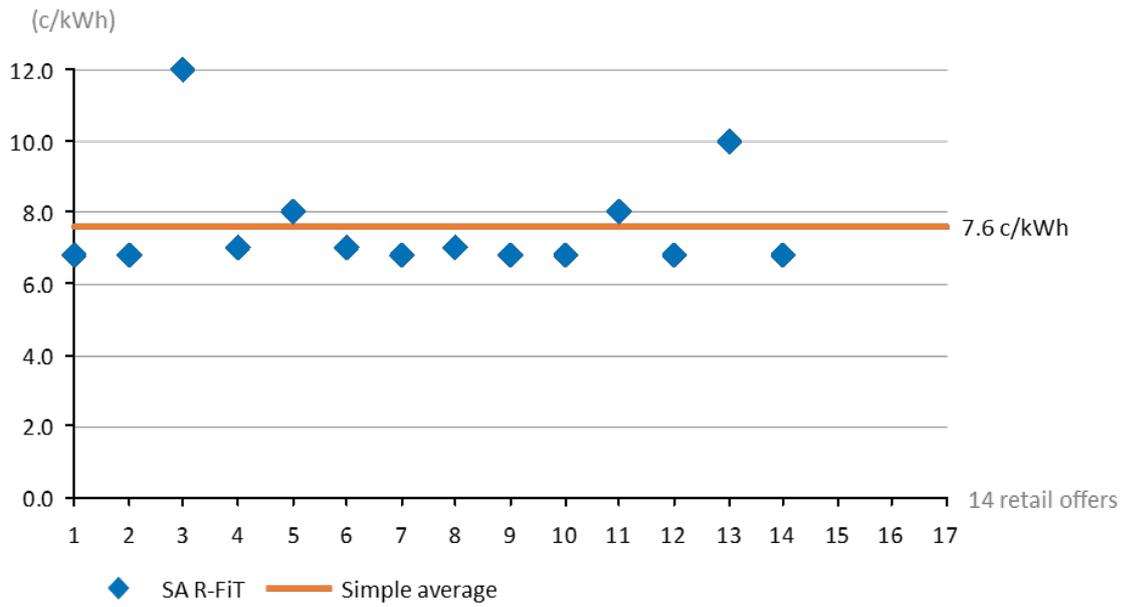


Figure 4: Victorian feed-in tariffs among retailers with offers to solar customers

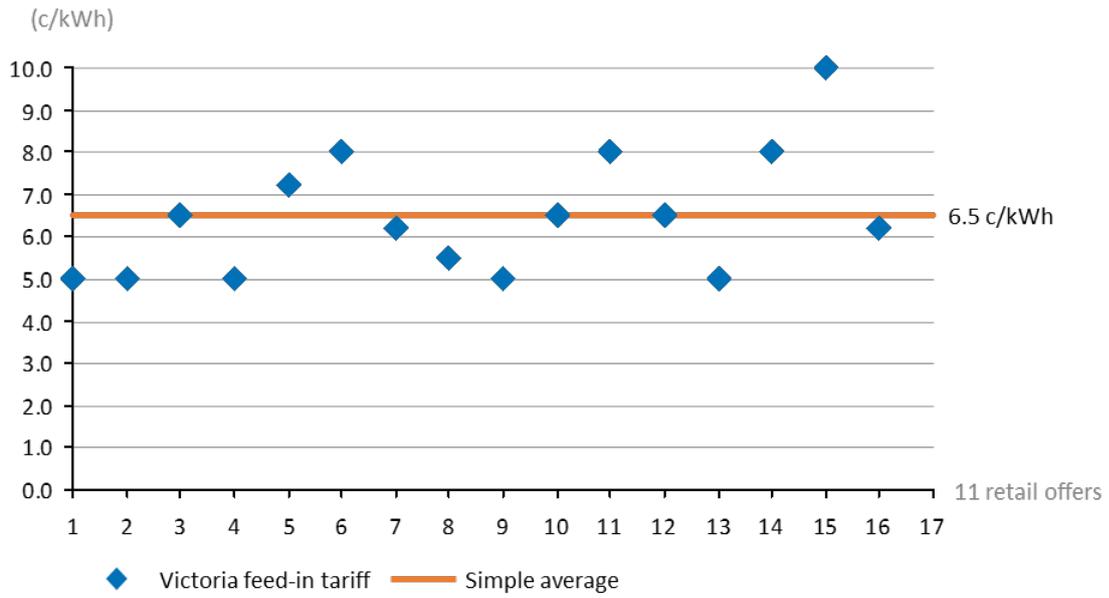
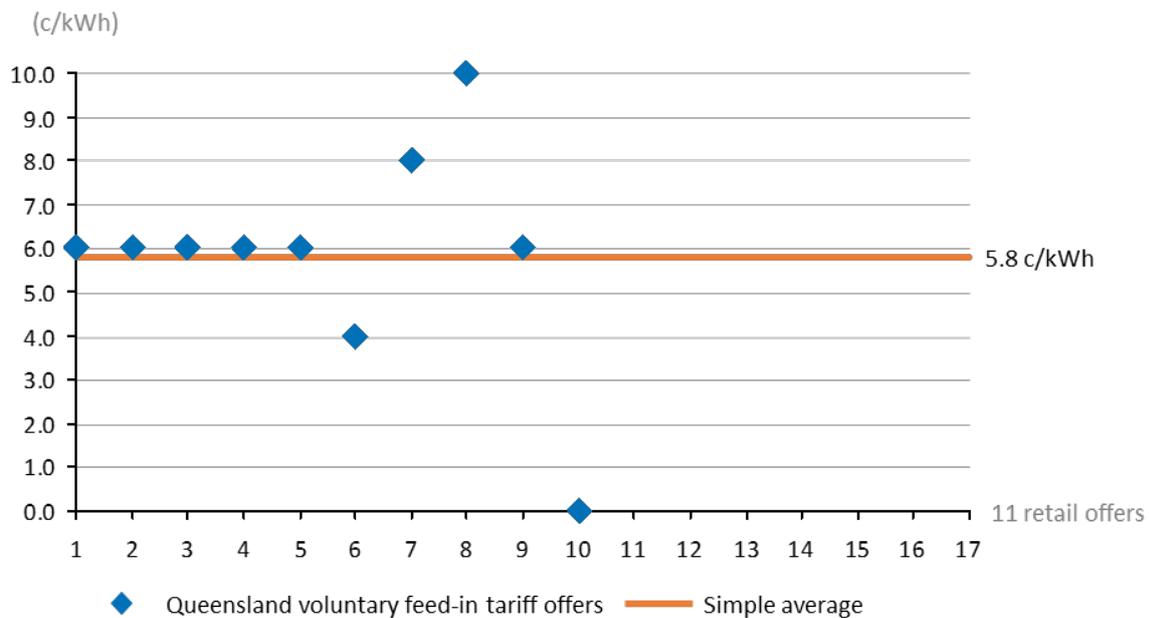


Figure 5: Queensland voluntary feed-in tariff levels among retailers with offers available to solar customers



Note: The average of 5.8 cents per kWh indicated above includes the one retailer which does not pay a feed in tariff on its solar offers. Of those retailers paying a FiT, the average is 6.4 cents per kWh.

This analysis indicates that jurisdictions that do not have a regulated minimum R-FiT continue to produce offers with R-FiTs similar to those found in regulated jurisdictions, but also allow greater consumer choice through a wider range of R-FiTs offered.

### Switching rates of solar and non-solar customers

Switching rates may indicate the level of satisfaction that customers have with their electricity offers. However, switching rates can also be an indicator of the ease of swapping electricity provider, and the level of customer engagement within that market. They may also indicate the intensity of competition for customers. The Commission studied switching rates in 2014, based upon information from SAPN and the Australian Energy Market Operator (AEMO), which found that switching rates of solar customers were well below switching rates of non-solar customers, at that time.<sup>69</sup> This analysis showed that around 10 percent of solar customers had switched retailers within the previous 12 months, compared with around 23 percent of non-solar customers. The analysis was updated to March 2016 and confirmed that, for the preceding 12 months, customer switching rates for solar customers were again less than half of the rate for non-solar customers.

This evidence conflicts with the Australia wide switching outcomes presented in the AEMC 2015 Retail Competition Review (2015 Review) (referred to below), which found that solar customers were considerably more active in energy markets.<sup>70</sup> The AEMC survey found that 31 percent of solar customers had switched in the past 12 months, compared with 21 percent of non-solar customers.

Although the results were inconsistent, as noted by the AEMC, high or low switching rates alone are not necessarily a sign of a well-functioning market.<sup>71</sup> It can be argued that high switching levels are

<sup>69</sup> ESCOSA, Retailer feed-in tariff – Final Price Determination – statement of reasons, December 2013, p. 44, available at <http://www.escosa.sa.gov.au/library/131217-RetailerFeed-InTariff-StatementofReasons-FinalPriceDetermination.pdf>

<sup>70</sup> AEMC, Final Report: 2015 Retail Competition Review, 30 June 2015, p. 7, available at <http://www.aemc.gov.au/getattachment/56a8c56f-0aeb-48cc-9097-9f2b5e645428/Final-Report.aspx>.

<sup>71</sup> AEMC, Final Report: 2015 Retail Competition Review, 30 June 2015, p. 276.

indicative of customer dissatisfaction but, alternatively, they may indicate a well-informed and confident customer base, responding to better offers as they become available.

The AEMC survey suggests the latter as it found that, compared with non-solar customers, solar customers were more likely to have been approached by at least one energy retailer in the last 12 months, were more active in investigating their options, and expressed greater confidence to choose the right energy option.<sup>72</sup> Given the number of competing retailers and offers for both solar and non-solar customers, any barriers to switching do not relate to a lack of consumer choice, but more likely a lack of consumer awareness.

The Commission has therefore not identified any conclusive evidence from its review of switching rates, that lead to a conclusion that the market for solar customers is not competitive.

## The AEMC Retail Competition Reviews

Since 2014 the AEMC has undertaken a national retail competition review for electricity and gas markets. AEMC's terms of reference required it to rely on objective measures and analysis and to provide comment on NEM-wide issues affecting retail competition. The extensive review drew on numerous data sources including publicly available data, information from stakeholders via submissions, meetings and data requests, as well as through consultants engaged to collect qualitative and quantitative information.

The AEMC's 2016 retail competition review (**2016 Review**) found that competition was effective in retail electricity markets in Victoria, South Australia, New South Wales and SEQ. This was consistent with the findings of the 2015 review, which are summarised below.

The AEMC's 2015 Review found that customers in the NEM actively shopped around, particularly in Victoria, New South Wales and South Australia. Customers were less likely to switch in Queensland, reflecting a smaller number of retailers in that market and continued retail price regulation.

Overall, customer satisfaction with market outcomes was high, with the AEMC survey finding that between 0.1 and 3.0 percent (1.0 percent in South Australia) of customers making a complaint to the Ombudsman in 2013-14 across the NEM jurisdictions. The level of customer dissatisfaction with retailers was also regarded as low, at nine percent of surveyed respondents (6.0 percent in South Australia).

Barriers to entry were not found to impede competition in Victoria, South Australia and New South Wales. The AEMC's 2015 Review suggested that in SEQ, a barrier to entry was presented by wholesale electricity purchase costs and spot price volatility, combined with a preference among retailers to wait for retail price deregulation before expanding their market participation. Since the publication of the 2015 Review, the Queensland Government announced (in February 2016) that electricity prices in SEQ would be deregulated from July 2016, following a recommendation from the Queensland Productivity Commission.<sup>73</sup> The AEMC's 2016 review has subsequently found electricity retail competition in SEQ to be competitive.

The degree of independent rivalry between retailers was found to be intensifying in the NEM, with second tier retailers continuing to gain market share from the 'big three' retailers (AGL, Energy Australia and Origin Energy).<sup>74</sup> Although second tier retailers still only have a combined limited market share (ranging from less than 10 percent in New South Wales and Queensland, 19 percent in South Australia, to 35 percent in Victoria, as at December 2014), the 2015 Review suggests that the large incumbent

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<sup>72</sup> AEMC, Final Report: 2015 Retail Competition Review, 30 June 2015, page 276

<sup>73</sup> Australian Financial Review, Queensland to deregulate electricity prices, Mark Ludlow, 3 February 2016, available at <http://www.afr.com/news/politics/electricity-price-deregulation-starts-in-qld-in-july-20160203-gmkhqz>.

<sup>74</sup> AEMC, Final Report: 2015 Retail Competition Review, 30 June 2015, p. 24

retailers are working harder to retain customers and attract new ones by improving their customer service and product offerings.

The AEMC also considered the extent to which retail energy prices are consistent in a competitive market, and found that in Victoria, New South Wales and South Australia, customers have a greater choice of retailers and plans, higher reported levels of customer activity and higher reported satisfaction with the level of choice available. It found that, in these jurisdictions:

- ▶ between 16 and 21 electricity brands are available to residents
- ▶ around 30 percent of customers shopped around for a better energy deal in the last 12 months
- ▶ around 60 percent were satisfied with the level of choice available
- ▶ a higher level of product differentiation is occurring, and
- ▶ customers were more confident they could choose the right energy deal than in other NEM jurisdictions.<sup>75</sup>

The level of choice available in Queensland was found to be slightly less, with 11 electricity retail brands. (By April 2016 this had risen to 13). A quarter of customers surveyed had shopped around for a better energy deal in the previous 12 months, while 48 percent were satisfied with the level of choice.

In contrast, the degree of rivalry in the ACT and Tasmania was more limited, with the ACT having three electricity retailers and 34 percent of customers satisfied with the level of choice, while in Tasmania there was only one retailer and 10 percent of customers satisfied with the level of choice.

On balance, the AEMC concluded that electricity retail competition was effective in New South Wales, Victoria, South Australia and South East Queensland.

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<sup>75</sup> AEMC, Final Report: 2015 Retail Competition Review, 30 June 2015, pp. 24, 25

## Appendix 3: R-FiT in the context of the electricity bill

The Commission investigated whether there is any evidence to support the relationship between the R-FiT which retailers offer their customers, and the other parameters of the total electricity offer, such as electricity usage charges and daily supply charges.

Using data from the Australian Energy Regulator's (AER) energy made easy comparison website, the Commission looked at the correlation between the R-FiT offers and the corresponding bill, including discounts, using the best available residential offers from each retailer by state. For this report, the term R-FiT may also be applied to those equivalents). The results are provided in Table 10.

Table 10: Correlation between R-FiT (or equivalent) and the corresponding best offer price (including discounts)

Best offer by retailer by state (estimated annual bill)	Observations	Correlation
South Australia	13	0.518
Victoria	16	-0.195
New South Wales	17	0.544
SEQ	10	-0.559

The statistical measure of correlation is designed to measure the strength or absence of a relationship between factors (in this case, the R-FiT offer and the estimated cost of electricity by retailer). A correlation of 1.0 indicates there is a perfect positive relationship between the data, while a correlation of -1.0 indicates there is a perfect inverse relationship between the data. A correlation of 0.0 indicates that there is no discernible relationship between the data.

The South Australian and New South Wales results support the assertion that there is a positive (but not overwhelmingly strong) relationship between R-FiT offers and electricity price offers. The SEQ results suggest there is an inverse relationship between the two, while for Victoria, the analysis suggests the inverse relationship is weaker.

The SEQ and Victorian results are counterintuitive and indicate that, in those jurisdictions, a solar customer may be able to have both a higher R-FiT and lower electricity prices yet retailers not providing such competitive offers are still able to survive. The result in SEQ could be influenced by the regulated electricity pricing regime there. The Victorian result may differ as the bills were calculated differently, via the Victorian Government's Energy Compare tool, as EME does not cover Victoria. The Energy Compare tool calculates the benefit of solar rebates to provide the likely net bill. Although this is a more accurate indication of a solar customer's likely bill, it is not comparable to the calculations in EME, which are based upon a specific consumption level. To improve comparability, the estimated solar credit was added back to the bill for each offer.

Consequently, firm conclusions on the level of competition cannot be drawn from this indicator.

The Commission also looked at the relationships between the R-FiTs (and equivalents), the daily supply charge and the first tier electricity price, but found no strong or consistent relationships from which any conclusions could be drawn, as outlined in the tables below

Table 11:  
Correlation between R-FiT (or equivalent) and the corresponding best offer price (based on daily supply charge)

Best offer by retailer by state (daily supply charge)	Observations	Correlation
South Australia	13	0.529
Victoria	16	-0.185
New South Wales	17	0.325
SEQ	10	0.003

Table 12: Correlation between R-FiT (or equivalent) and the corresponding best offer price (based on first tier tariff)

Best offer by retailer by state (first tier tariff)	Observations	Correlation
South Australia	13	0.204
Victoria	16	-0.546
New South Wales	17	0.130
SEQ	10	-0.033

The Commission looked at the lowest priced market offers available to solar customers in each of the four major NEM jurisdictions and found that, in Victoria, the lowest priced offer coincided with the average R-FiT. In the other jurisdictions, the lowest priced offer coincided with below average FiTs. In New South Wales, the best priced offer to solar customers did not include a FiT at all, as shown in the following table.

Table 13:  
The R-FiT that corresponds with the lowest priced (best) offer in each jurisdiction, compared with the average.

State	R-FiT with lowest priced solar offer (c/Kwh)	Average R-FiT (c/Kwh)
South Australia	6.8	7.7
Victoria	6.5	6.5
New South Wales	0	6.2
Queensland	6	6.4

That the lowest price offers attract R-FiTs at the lower end of the range is in line with expectations of a competitive market, where retailers trade one benefit off against another.



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