



25 January 2012

Solar feed-in tariffs
Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB Post Office NSW 1230

Lodged by email: ipart@ipart.nsw.gov.au

IPART's Solar Feed-in Tariff Draft Report – Setting a fair and reasonable value for electricity generated by small-scale solar PV units in NSW

The Energy Supply Association of Australia (esaa) welcomes the opportunity to make a submission to the Independent Pricing and Regulatory Tribunal's (IPART) Draft Report on setting a fair and reasonable value for electricity generated by small-scale solar photovoltaic (PV) units in NSW.

esaa is the peak industry body for the stationary energy sector in Australia and represents the policy positions of the Chief Executives of around 40 electricity and downstream natural gas businesses. These businesses own and operate some \$120 billion in assets, employ over 61,000 people and contribute \$19.3 billion directly to the nation's Gross Domestic Product.

esaa made a submission to IPART on the Issues Paper arguing that the NSW Solar Bonus Scheme offered a significant and arbitrary premium over the economic value of the energy supplied after accounting for any avoided costs. These excessive rates have contributed to dramatically quick rates of uptake that have contributed to electricity price increases and put pressure on electricity networks to maintain voltage levels. IPART's findings indicate that the original feed-in tariffs (FITs) under the Solar Bonus Scheme were indeed at excessive levels.

It was therefore a positive step for the NSW Government to ask IPART to determine a "fair and reasonable value" for electricity generated by small-scale solar PV. esaa argued in a submission to the Issues Paper that a light-handed approach would be beneficial in that customers and retailers could be guided towards an appropriate FIT for their circumstances rather than have one arbitrarily determined by regulation. The Association therefore welcomes IPART's decision to propose a benchmark range for FITs rather than regulate one value. This decision recognises the benefits of robust competition, the differences between individual customers in different areas and the difficulties in finding one value to suit them all.

However, esaa still has concerns with aspects of the draft report. The decision to implement a FIT was made by the NSW Government, against the explicit advice of the energy industry and the Association therefore considers that retailers should not

be required to pay for the outcomes of this policy choice – at the expense of consumers.

Accordingly, esaa is concerned by IPART's recommendation to require retailers to contribute 7.5c/kWh exported by their customers to the cost of the Solar Bonus Scheme. IPART acknowledges that this will result in customers most likely losing the voluntary FIT that they currently receive from some retailers and that customers on the 20c/kWh FIT will be at a proportionally greater disadvantage to those on the 60c/kWh rate. Furthermore, some contracts with customers may not allow for a change to be made to the voluntary component which would result in retailers then facing an extra financial cost through having to pay the NSW Government 7.5c/kWh in addition to the voluntary payment to their customers.

The Association considers that if the NSW government does seek to recover a portion of the Solar Bonus Scheme costs from retailers, then parties on both sides need to be protected from any change to their current arrangements which may have notably damaging effects. This could be solved by allowing time for contracts to end before changes are made and by only requiring retailers to contribute to the cost of the scheme for their customers on the 60c/kWh FIT.

IPART is also seeking comments around whether the three Standard Retailers should be required to pay a FIT within the 8-10c/kWh benchmark. esaa understands that the purpose of this proposal is to allow customers with solar PV to remain on a standing offer and receive a FIT but the Association does not see that it will benefit the broader market. By requiring Standard Retailers to offer the FIT benchmark rate, risks to the competitive market are created. If the rate is in fact too high, then the Standard Retailers are more likely to face increasing demand as other retailers may not find it economic to match the FIT. This could stymie competition in the sector. Furthermore, the NSW Government has agreed to phase out regulated retail electricity tariffs through the Australian Energy Market Agreement and NSW is due for its retail competition review by the Australian Energy Market Commission this year. By forcing Standard Retailers to pay a fixed FIT there is a risk of entrenching regulated prices as, depending on the level of the FIT versus that available with market offers by muting the incentive to move away from regulated tariffs. This may make it harder for a fully deregulated retail market to eventuate in NSW.

The Draft Report recognises the benefits of robust competition in the retail electricity sector and it is therefore crucial to avoid measures which may distort this market. esaa considers that IPART could help to achieve this by not imposing an obligation on Standard Retailers to pay a fixed FIT for customers on regulated tariffs.

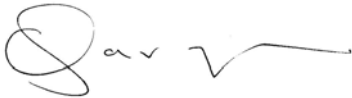
Conclusion

IPART's proposed approach to set a benchmark value for electricity generated by small-scale solar PV and fed into the grid appears to be a positive move towards an economically sustainable FIT policy which will allow the market to determine the fair and reasonable value of energy supplied from small scale solar PV. This allows for the development of competition in the sector and a sustainable long-term policy by avoiding the exorbitant FIT values that State and Territory Governments have set in recent years.

IPART acknowledges the benefits of retail market competition in the Draft Report and many of its findings support the development of competition. However, esaa encourages IPART to avoid implementing any measures which may act contrary to this.

Any questions about our submission should be addressed to Kieran Donoghue, by email to kieran.donoghue@esaa.com.au or by telephone on (03) 9670 0188.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Clare Savage', with a stylized flourish at the end.

Clare Savage
Executive General Manager