



Submission to IPART re: Setting a fair and reasonable value for electricity generated by small-scale solar PV units in NSW.

Introduction

The Clean Energy Council (CEC) is the peak national body representing Australia's diverse renewable energy industries. Amongst our roughly 550 members are a large number of solar PV businesses, making us also the biggest industry group for the solar industry specifically.

The review IPART is currently undertaking on a 'fair and reasonable price' for electricity generated by solar PV units is enormously important to the future of the industry in NSW, and will likely have an influence on the regulation of solar PV around the country.

The CEC is very pleased to make a submission in response to the issues paper, and to help form our views on the questions it asks we commissioned SKM MMA to undertake a thorough and independent analysis of a range of issues under consideration by IPART. We then consulted broadly with our members to refine the findings of the report and we are happy to say that we submit this report with the strong support of a wide cross-section of our members. Many of our members believe that there is additional value from solar PV and distributed energy generally that is not captured in the report, but all saw the SKM MMA analysis as forming the benchmark for determining a minimum value.

As the report can largely speak for itself we have tried to confine our submission to the remaining issues, and to briefly highlight aspects of the report are most relevant to the concerns raised in the issues paper.

Estimating the financial gain to the retailer

CEC response: We are pleased to note that the issues paper makes explicit reference to the methodology of our SKM MMA report. Although, in terms of indirect gains to retailers, we would also like to draw attention to the acknowledgement made by SKM MMA that their analysis did not consider "other benefits [that] are also possible such as a reduction in the wholesale price to other customers during peak periods, reduced network losses faced by customers in regions with a high level of uptake" (page 2). While the CEC believes the results of the SKM MMA report constitute the minimum definition of value to retailers, these other factors are also relevant to IPART's consideration and should be examined properly.

These indirect benefits to retailers and networks would made up of both the avoided import of energy to households, as well as the export of power from households, and so in theory those benefits should be shared equally. However, in practice this would be tremendously difficult to administer (as avoided retail charges are the simplest and most easily implemented way to recognise the value of avoided imports of energy) and so it seems reasonable to assign the total benefit to the price paid for exports.,

The CEC supports the idea of sharing part of that value with all electricity consumers, since some of these benefits are difficult to quantify and capture, and public subsidies have supported private purchases of solar PV systems.

Estimating the wholesale market value of solar PV electricity

CEC response: As above.

Other possible benefits from solar PV generation

CEC response: The SKM MMA report addresses these issues in detail. One of the key findings of the report, is that in general terms the loss factors for rural and regional areas are substantially higher than for urban areas and that this can add as much as 20% to the value of exported solar energy through avoided losses.

There are obviously a number of variables to consider, including the location of major sources of generation relative to individual communities, and transmission infrastructure in a given area, but the CEC endorses the broad view that losses are greater in non-urban areas and therefore solar households in those areas should receive higher compensation for the energy they export.

While a highly complicated system could be developed to create a number of ‘zones’ for determining where the gains are highest, it is likely sufficient to simply have two or three zones to approximate this effect and to adjust payments for solar exports accordingly.

Implications of setting the feed-in tariff too high or too low

CEC response: Given the wide range of potential direct and indirect benefits from distributed solar PV generation, and the difficulty in precisely quantifying or capturing all of those effects within the bounds of tariff price, it is safe to assume that whatever decision IPART and the NSW Government come to in terms of the value of exported energy is most likely to be an underestimate of the true value.

We accept that there are limitations to what the modelling and analysis can determine at present, but it should be acknowledged that our understanding of how distributed energy generation interacts with the functioning of the grid and the energy market is still evolving and we should expect the findings of this review to be superseded in the future by new information.

That issue notwithstanding, there are real implications for the retail competition market if the tariff rates are substantially out of line with what is objectively fair and reasonable. The CEC would be concerned if IPART adopted an assumption raised in the discussion paper regarding the likelihood of the retail market being “sufficiently competitive” to result in retailers offering premiums beyond the mandated ‘fair’ price. While this may happen to a very limited extent it is nowhere near sufficient to compensate for a tariff price that is substantially below ‘fair’ pricing.

We see at present that across the country retailers are making voluntary offers to PV customers on top of FiTs, but these are all within a very narrow range of values (6-8c) which indicates that there is not sufficient market competition for retailers to aggressively bid against each other for solar households (at least through the mechanism of tariff premiums). There is little reason to believe that this will change whatever the outcome is of this process.

However, creating a disincentive for retailers to connect solar systems would be a major impediment for the industry, and needs to be avoided. This issue of the 'right to connect' is emerging in a range of States for various reasons, as a significant issue for the industry and we appreciate the importance of this decision in that regard. The impact of whatever new tariff is agreed to will ultimately have to be tested in practice, and may change over time as the scale of PV penetration grows.

Therefore, a mechanism to review the tariff over time has merit, although it would be best to avoid making these reviews too frequent, which would create uncertainty for consumers. A review on the basis of 'evidence to the contrary' (new evidence which materially alters the findings of this review) would be preferable to a carte blanche review process.

Assessing retail market competition

CEC response: The CEC is aware of voluntary tariff offerings for a variety of electricity retailers across NSW and Australia. Until recently these have usually come on top of a mandated FiT and so have been treated by consumers as a small 'bonus' rather than as a reflection of the value of the energy export. While many retailers no doubt set their voluntary offers at a level which they believe reflects the fair value, our analysis from SKM MMA would indicate that the minimum value is significantly higher.

Form of regulation

CEC response: While the CEC supports a competitive market for electricity retailers, for the reasons stated previously we feel strongly that a minimum 'fair tariff' rate (as defined by our SKM MMA report – split into two zones, urban and rural) needs to be mandated. This will avoid the onus being put on the consumer to negotiate the terms of a fair price (a negotiation which would be particularly one sided) and avoids the perception that some customers will be paid an 'unfair' price if they are unable to negotiate effectively for the export price.

If retailers wanted to go above the mandated price than we see no problem with that, but unless IPART determines that the voluntary prices already being paid by most retailers constitute the fair price, we envisage resistance from some retailers to paying a higher tariff.

As described above we support a review process, but believe that this should be regular but not frequent, and that the new arrangements need a few years of operation to really test the implications for competition in electricity market. So setting the price for period

of 2-4 years, with a short review on the basis of new information, would balance the competing risks.

In terms of the tariff itself, as far as possible it should be structured as a percentage of the retail tariff, or in any other way which indexes it automatically against changes in the market price, to avoid the need to constantly update the tariff. The SKM MMA report provides a framework for how to do that.

In response to system size limits, we suggest that the Victorian rules regarding the eligibility for the “standard feed-in tariff” (SFiT) be adopted. Namely that systems up to 100kW be included, and for a range of approved technologies (although the fair price for exported energy will likely be different for different technologies, but should be assessed in the same way).

The question of whether different customer types should receive a different tariff rate is an important one. The CEC is in the process of finalising a new report with SKM MMA on commercial installations of PV which will go some way to addressing this issue (the report is scheduled for release at the end of September). Our preliminary findings indicate that there is a significantly higher benefit to installing PV on commercial premises rather than households, because of a stronger coincidence of peak demand and peak solar generation. The methodology in the original SKM MMA report would recognise that value, although we have not conducted an assessment of what the value of commercial installations would be under that regime.

Therefore we do think commercial installations warrant a higher tariff, as too should households (and companies) in rural and regional areas, based solely on the application of the pricing methodology we propose for household systems.

Retailer contribution to the Solar Bonus Scheme

CEC response: The CEC has previously made available to the NSW Government our assessment of the over-estimation of the costs of the SBS through our peer review of the AECOM paper. We are happy to resubmit that for further consideration.

Moreover, since the costs of other schemes were mentioned in the discussion paper we would point out that the costs of ‘green’ schemes have been regularly over-estimated. For example, the costs of the Commonwealth’s SRES is quite clearly over stated in the price determination process through overly simplistic modelling of the costs of SRES by Frontier Economics. When informing IPART’s price determinations Frontier assume that all Small Technology Credits (STCs) are purchased by retailers at the clearing house price of \$40. This has only ever been the case in quite limited circumstances, and as the price of STCs has been below even \$30 for essentially all of 2011, and is projected to stay well below \$40 for most if not all of 2012, it is curious that there has been such resistance to recognising this saving to consumers.

While is difficult to calculate exactly what prices have been paid by retailers for their STCs, it is certainly in error to use the \$40 assumption.