



NSW solar feed-in-tariffs

Submission to IPART

31 May 2017

Review of NSW solar feed-in tariffs for 2017-18

The Public Interest Advocacy Centre (PIAC) welcomes the opportunity to provide input to IPART's review of NSW solar feed-in-tariffs for 2017-18.

PIAC is an independent, non-profit law and policy organisation that works for a fair, just and democratic society, empowering citizens, consumers and communities by taking strategic action on public interest issues. PIAC seeks access to affordable and sustainable electricity and gas services for all households.

PIAC has a long-standing interest in the setting of IPART's solar feed-in tariff benchmarks, having made submissions to a number of reviews over recent years.

PIAC is concerned with creating a feed-in tariff system that is both fair for individuals and conducive to creating efficient market. To this end, PIAC's previous submissions have largely dealt with two issues:

- Ensuring that IPART's feed-in tariff benchmarks accurately reflect the value of solar electricity exports; and
- Ensuring that IPART's feed-in tariff benchmarks are actually reflected in retail tariff offerings.

PIAC continues to be concerned about these two broad issues - particularly the first - and considers them again in this submission.

Benefit-reflective feed-in tariffs

In previous submissions to IPART feed-in tariff reviews, PIAC has strongly advocated for full benefit reflectivity in feed-in tariffs to ensure solar PV customers are correctly compensated for exporting electricity to the grid. PIAC submits that when feed-in tariffs accurately reflect the net benefits provided to the broader community, including the energy market and system impacts, they are fair to individual solar customers while avoiding cross-subsidy from other consumers.

The benefits of demand side solar, particularly with respect to use of generation and network assets, are largely time-varying and location-specific. These aspects need to be reflected in efficient price signals to solar consumers, particularly given the advent of batteries that will allow solar customers to manage the timing and amount of energy they import and export to and from the grid.

Since 2014-15, IPART has used a more benefit-reflective methodology for producing feed-in-tariff benchmarks. PIAC supports these improvements. While earlier benchmarks only considered the wholesale value of solar exports, IPART's current methodology accounts for:

- The avoided cost of a retailer buying energy from the National Electricity Market (NEM), including some temporal variation;
- The avoided transmission and distribution losses due to exports being used near where they are generated; and

- The avoided cost of market fees and charges paid by retailers operating in the NEM.¹

Clearly, this is a more fair and efficient method of calculating feed-in tariffs. However, PIAC reiterates the position from our earlier submissions that IPART's current methodology does not fully account for the benefits provided by solar exports. The current methodology does not include:

- The avoided cost of network augmentation due to offset use, and export, at times of peak system usage;
- The avoided social cost of carbon emissions associated fossil-fuel generation; and
- The avoided social cost of health problems associated with coal-fired generation.

Additionally, that the current IPART methodology does not accurately reflect the value of the solar exports is evident in the analysis of 2016-17 feed-in tariffs produced by IPART itself.² IPART states that some retailers are currently offering feed-in tariffs that are considerably above the benchmark range for 2016-17. The top Origin Energy feed-in tariff, for example, is 12 c/kWh, nearly 3 c/kWh above the top of IPART's benchmark range. Given the commercial imperatives of retail businesses, PIAC does not believe that large retailers like Origin Energy would be offering higher feed-in tariffs if it did not reflect the actual value of those consumers to Origin.

PIAC notes that a number of stakeholders are concerned about cross-subsidies that accrue from consumers who do not have solar to those that do. PIAC considers that, historically, this concern is entirely valid with respect to the two early schemes that once incentivised solar systems in NSW³. Both of these schemes, however, are defunct and have not been available to new solar customers for some time.

PIAC remains concerned about cross subsidies that flow from some consumers to others (including between non-solar and solar customers) that result from the lack of cost reflectivity in pricing of network tariffs. In PIAC's view, the solution to this problem is not to distort the calculation of feed-in tariffs, but to make a transition towards cost reflective network pricing for all consumers.

Recommendation 1

PIAC recommends that IPART continue to develop its methodology for producing benchmark solar feed-in-tariffs in NSW so that it more accurately accounts for the value of households exporting solar PV-generated electricity to the grid.

Market monitoring

In previous submissions, PIAC has advocated for IPART's feed-in tariff to be enforced as a mandatory minimum. This was because PIAC, and others, identified that a number of retailers were not offering consumers FiTs within the recommended range.

¹ Independent Pricing and Regulatory Tribunal, *Solar feed-in tariffs in 2017-18 – Draft recommendation*, 2017, 1.
² Independent Pricing and Regulatory Tribunal, *Solar feed-in tariffs in 2017-18 – Draft recommendation*, 2017, 9.
³ The (arguably generous and over-subscribed) Solar Bonus Scheme for Feed-in Tariffs in NSW, and the national RET 'STC multiplier' that gave households up to five times the number of renewable energy certificates than would be expected for the amount of energy they produced.

PIAC acknowledges that IPART's analysis of 2016-17 retail feed-in tariffs indicates that "all retailers, which have electricity offers available to solar customers, are currently providing feed-in tariffs that are within or above the current benchmark range".⁴ As noted earlier, this may in part be an underestimation of export value inherent in IPART's estimates, however it does indicate that retailers are applying the benchmark range to their feed-in tariff pricing without the need for regulation.

Noting the above, PIAC accepts that a regulated minimum for feed-in tariffs may not be required at this time, but stresses that retail feed-in tariff offerings must be monitored to ensure a reasonable value is passed to consumers.

There remain commercial incentives for retailers to not pass on the full value of IPART's benchmarks to customers, including that retailers are largely financially or physically hedged against full exposure to spot market prices. As a result, the broader market and social benefit of energy from solar systems is likely to exceed the value to retailers. For similar reasons, it may simply not be in their interest to promote entry into the market of distributed generators, such as solar PV customers, through fully benefit-reflective feed-in tariffs.

While they are currently setting their feed-in tariffs in accordance with IPART benchmarks, the commercial incentives for retailers to undervalue exports still exists. For this reason, IPART (and/or the NSW Government) should continue to monitor feed-in tariffs to ensure IPART's benchmarks are properly applied in coming years and consider if a mandated minimum feed-in tariff is required.

This is particularly important as wholesale energy prices rise in coming months and years, bringing both higher value to energy exported to the grid by households, and higher cost impacts on all energy users, if and when retailers pass increasing wholesale market costs through to consumers.

Recommendation 2

PIAC recommends that IPART and the NSW Government monitor the retail market to ensure that feed-in tariffs continue to align with IPART's benchmark range and review whether or not a regulated minimum feed-in tariff is needed in the future.

Further engagement

PIAC would welcome the opportunity to discuss these issues in more depth with IPART and other stakeholders. For any queries please contact Craig Memery at cmemery@piac.asn.au or on (02) 8898 6522.

⁴ *Ibid*