

Draft Report: Solar feed-in tariff benchmark range methodology

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About the Justice and Equity Centre

The Justice and Equity Centre is a leading, independent law and policy centre. Established in 1982 as the Public Interest Advocacy Centre (PIAC), we work with people and communities who are marginalised and facing disadvantage.

The Centre tackles injustice and inequality through:

- legal advice and representation, specialising in test cases and strategic casework;
- research, analysis and policy development; and
- advocacy for systems change to deliver social justice.

Energy and Water Justice

Our Energy and Water Justice work improves regulation and policy so all people can access the sustainable, dependable and affordable energy and water they need. We ensure consumer protections improve equity and limit disadvantage and support communities to play a meaningful role in decision-making. We help to accelerate a transition away from fossil fuels that also improves outcomes for people. We work collaboratively with community and consumer groups across the country, and our work receives input from a community-based reference group whose members include:

- Affiliated Residential Park Residents Association NSW;
- Anglicare;
- Combined Pensioners and Superannuants Association of NSW;
- Energy and Water Ombudsman NSW;
- Ethnic Communities Council NSW;
- Financial Counsellors Association of NSW;
- NSW Council of Social Service;
- Physical Disability Council of NSW;
- St Vincent de Paul Society of NSW;
- Salvation Army;
- Tenants Union NSW; and
- The Sydney Alliance.

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The Justice and Equity Centre office is located on the land of the Gadigal of the Eora Nation.

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1. Introduction

The Justice and Equity Centre (JEC) welcomes the opportunity to respond to the Independent Pricing and Regulatory Tribunal's (IPART) Draft Report: Solar feed-in tariff benchmark range methodology (the Draft).

The JEC broadly supports IPART's draft decisions and methodology.

Evolving consumer experience of residential solar

The JEC supports the draft decision to set the all-day solar feed-in tariff benchmark range for 2025-26 at 4.9 - 7.4 c/kWh.

The JEC acknowledges that residential solar is a mature technology which has reached a high system penetration. In this context subsidies and other incentives are less necessary, and it is appropriate for feed in tariffs to more accurately reflect the benefit and costs of residential solar exports to the energy system.

We acknowledge that some consumers may not have been aware that feed-in tariffs of 10c/kWh and beyond could not continue as the daytime cost of energy declined with the increasing penetration of renewables in the wholesale market. However, this should not result in continuation of 'inflated' feed in tariffs which would unfairly impact disadvantaged households who are currently unable to access the benefits of solar and who currently cross-subsidise system impacts and costs associated with accommodating residential solar.

Residential solar systems are predominantly privately-owned infrastructure. Residential solar exports feed into shared network infrastructure and rely upon that infrastructure. Residential solar-owners are contributing to positive carbon-emissions outcomes by replacing grid electricity with solar for their own use and contributing excess solar when it is available. However, the benefit of solar exports (to the energy system and emissions reduction) is contingent upon when they are made and at some times is actually negative. Further, it is important to recognise there is no "right" to access the public infrastructure for financial benefit (through solar exports) without contributing to the costs associated with that access. The pricing level and structure of residential feed in tariffs should reflect this.

The JEC appreciates IPART explaining, in plain language, that the primary benefits of residential solar (to both the household, the wider energy system and emissions reduction) are now mostly to be found in maximising self-consumption. This is not well or widely understood by consumers and solar households and IPART's work is an important contributor to improved public understanding and informed NSW household consumer choices regarding solar. We encourage IPART to continue highlighting this message and to recommend to the NSW Government further measures to support improved information for NSW households.

We note that IPART's feed-in tariff benchmarks are guidelines. They are not mandatory, and retailers may choose to offer feed-in tariffs above or below the guidelines.

2. Time-dependent feed-in tariffs

The JEC supports the NSW Government requiring IPART to produce time-dependent feed-in tariff benchmarks alongside the flat-rate. The time-dependent benchmarks are a positive step towards achieving stronger household and system outcomes from consumer energy resources. Alongside improved information, time-dependent benchmarks are important enablers encouraging NSW households to make decisions regarding solar and household appliances which will be most beneficial to them. For example:

- electrifying their largest household loads to maximise the benefit from using their own solar. This includes hot water, heating and cooling, EV charging, and removing their household gas connection.
- orienting their solar panels to be more Western-facing to maximise their solar generation late in the day, with more capacity to export to the grid when there is most benefit to the energy system, and most scope for benefit from the higher feed in tariffs associated with this.
- Accessing schemes to support the purchase and use of a home battery where this economic.

However, alongside poor understanding of how best to benefit from solar, the impact of time-dependent feed-in benchmarks is currently undermined by very few retailers offering time-dependent feed-in tariffs to their customers.

The JEC recommends that IPART requests the NSW Government implement reforms requiring retailers to offer time variant feed-in tariffs in NSW. This would be a positive and important enabling innovation contributing to NSW's energy transition.

Our energy system is moving towards more dynamic pricing. NSW distribution networks are developing more complex tariff offers differentiating between solar export and import at different capacities and times. There is also significant progress towards the implementation of dynamic operating envelopes and other innovations improving the flexibility of import and export. Offering time-dependent feed-in tariffs is something that retailers will need to implement in the near future. An obligation now would simply accelerate this process without imposing a significant burden on retailers.

Recommendation

That IPART request the NSW Government place an obligation on electricity retailers to offer time variant feed-in tariffs to consumers in NSW.

3. Broader issues

There are several issues this draft report raises for the JEC which, while outside the direct scope of the consultation paper, are related to the issues under consideration, including:

The trend towards larger residential solar systems

Through engagement with NSW DNSPs the JEC is aware of the concerning trend towards larger (often oversized) residential solar systems. This is particularly concerning where these are being installed without batteries or associated with equally large household electricity loads.

While there are some households (such as very large families with pool pumps, EVs and other fully electrified loads) for whom these large systems may be appropriate, and who may be able to utilise most of their solar onsite, many households are installing capacity well beyond what can be used or efficiently exported without issue.

There are likely to be many drivers for this trend, including:

- A generally poor understanding of the benefits and costs of solar and what is required to benefit from a household installation. As we have noted this manifests as a widely held assumption that exports and associated income is a key benefit both to the household and the system.
- A lack of understanding regarding the systemic issues and limitations related to solar export at peak times.
- Lack of awareness of ongoing changes to network and export pricing.
- Misleading or predatory sales tactics from installers and representatives, selling expensive oversized systems and raising issues of a need to 'future-proof' systems according to unreasonable perceived future needs.

It is critical that information provided to consumers, particularly by installers, enables good consumer decision-making and 'right-sizing' of solar installations, ensuring that NSW households are able to optimise the benefit they can derive from the investment they make in solar.

We are concerned with the real risk that consumers will be left with expensive, inefficient systems, unfulfilled expectations of payback and benefit, and loss of trust in an important part of the energy transition. We are also concerned with the wider systemic impacts (and associated costs) which are likely to result from an ongoing trend to inefficiently sized solar systems.

IPART should support improved information and further measures to help address this.

Lack of retailer responsiveness to solar price signals

Alongside the minimal time-dependent feed-in tariffs offers, the JEC is aware more broadly of a lack of retailer responsiveness to solar price signals in NSW. Increased penetration of residential solar in NSW is a clear opportunity for retailers to innovate and provide different benefits of solar to different consumer cohorts.

The growing number of households with smart-meters should open up greater opportunities for retailers to create more dynamic 'solar soaker' offers to spread the benefits of solar to those without the technology on their own rooftops, while also helping to address issues arising from excess solar at peak times.

Further, as part of wider measures to ensure the optimal utilisation of solar, retailers could also be considering measures to dynamically compensate households with excess solar for not exporting at times when this is needed, in order to avoid AEMO using more expensive measures to address minimum system load events.

Negative pricing impacts

While NSW is not currently in the same situation as Victoria or South Australia, it is likely that we will increasingly be impacted by negative price events. The JEC strongly recommends more coordinated engagement from IPART, the NSW Government, energy retailers and other stakeholders to develop more efficient responses to negative price events.

Energy bill cost-stack

While NSW households with solar can offset rising costs associated with large energy infrastructure investments, the quantum and share of those costs still impacts them and other NSW households. For NSW households who have often installed solar to insulate themselves from rising costs this is a potential social licence issue for the energy transition.

The JEC advocates for a range of reforms that would substantially, and enduringly, lower energy costs for all NSW households and improve the fairness of cost-recovery. These include:

- Targeted policies and programs to improve the energy performance of NSW homes through household electrification, installation of efficient electric appliances and thermal efficiency upgrades. This helps ensure more electrified load, better network utilisation, lower peak demand and more flexible demand and lower overall costs for all consumers;
- A review of cost recovery for environmental and efficiency schemes to implement more equitable cost recovery arrangements. This would help ensure that those without solar and efficient appliances are not unfairly contributing to benefits accrued to others. This should include removing exemptions for large-users and transmission connected entities to ensure that all beneficiaries of lower cost renewable energy contribute to enabling it; and
- Reviewing the cost recovery arrangements for the NSW Energy Infrastructure Roadmap to ensure generators, transmission-connected businesses and large energy users, as beneficiaries of the Roadmap, contribute fairly to the investments and scheme architecture associated with it.

4. Continued engagement

The JEC would welcome the opportunity to further discuss this submission with IPART and other relevant stakeholders.