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Submission in response to the ESCoSA draft decision: Retailer feed-in tariff - Review of regulatory arrangements of July 2016

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Context

This submission is made by Backroad Connections Pty Ltd as the project manager of a collaborative project *Research review and advocacy on the fair value of distributed generation*. This project is funded by Energy Consumers Australia. The project's aim is to summarise existing research and undertake advocacy on setting a fair feed-in tariff for solar customers in Australia, with particular reference to review processes currently underway in Queensland, Victoria and Tasmania.

The project includes involvement from:

- Solar Citizens
- Alternative Technology Association
- Australian Solar Council
- Total Environment Centre
- Clean Energy Council
- Tasmanian Renewable Energy Alliance

More information about the project is available at

<http://www.energyconsumersaustralia.com.au/grant-archive/772-fair-value-of-distributed-generation>

Submission

We submit that the ESCoSA draft proposal to cease setting the minimum Retailer Feed-in Tariff (R-FiT) in South Australia from 1 January 2017 is misguided and should be reversed. Our reasons are as follows:

It is not consistent with COAG principles

The COAG Revised National Principles for Feed-In Tariff Arrangements (COAG 2013) state:

*"Governments agree that residential and small business consumers with grid connected micro generation should have the right to export energy to the electricity grid and **market participants should provide payment** for exported electricity which reflects the value of that energy in the relevant electricity market and the relevant electricity network it feeds in to, taking into account the time of day during which energy is exported."* (our emphasis added)

It is clear that not all retailers will provide payments which reflect the value of energy unless they are required to do so.

It is not consistent with the National Electricity Objective

The National Electricity Objective, as stated in the National Electricity Law, is:

“to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to – price, quality, safety, reliability, and security of supply of electricity; and the reliability, safety and security of the national electricity system.”

Installation of distributed generation using solar PV provides many benefits to the electricity system beyond the direct cost savings to retailers. By encouraging local generation the long term costs of electricity will be reduced because:

- Electricity is generated closer to the point of use, leading to less need for network infrastructure.
- More energy will be obtained from renewable sources with no fuel costs which will reduce future price increases.
- Due to the merit order effect, distributed generation drives down wholesale prices, particularly at times of peak demand which often coincide with times of maximum solar export.

Support for distributed PV through a R-FiT is therefore in the long term interest of consumers in reducing the cost of electricity.

A regulated FiT need not be an impediment to innovation in the retail market

The Draft Decision argues (p.2) that *“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.”* The Draft Decision does acknowledge (p.19) that *“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.”*

The main innovations discussed in the Draft Decision are time of use and time of export tariffs. Unlike the situation in Victoria, these are unlikely to be widely offered in South Australia in the short term due to the lack of a smart meter rollout.

The Victorian Essential Services Commission’s recently released report on the Energy Value of Distributed Generation provides a practical model for ensuring that all retailers recompense the energy value of distributed solar while not discouraging innovative offerings.

The report recommends that:

“If an electricity retailer is able to offer a FiT that fully reflects the half hourly prices in the wholesale market, and the distributed generator provides express and informed consent when accepting that tariff option, then any retailer’s obligation to offer regulated multi-rate FiT rates should be suspended for the duration of that agreement.” (ESC 2016, p.6)

ESCoSA could provide similar informed opt-out provisions to its R-FiT which would facilitate innovation without disadvantaging solar owners on existing tariffs.

The current ESCoSA R-FiT methodology understates the value of exported solar for retailers

We note that the current FiT methodology deliberately places the R-FiT at the bottom of the projected value range:

“The most likely range of reasonable values for PV output (covering 80 per cent of modelled outcomes) is 6.78 to 12.99cents per kWh. In line with recent practice and the 2015 Determination, the minimum R - FiT for 2016 is set at the 90th percentile, meaning there is a 90 per cent probability that this value will be less than the actual load weighted average adjusted value of PV output during 2016.” (ESCoSA 2015, p.6)

This is justified on the basis that:

“The rationale for this is that it is considered to be in the best long term interest of PV Customers to provide sufficient “headroom” for electricity retailers to compete above that floor and thus leave it to the market to determine the efficient price.” (ESCoSA 2015, p.2)

The Draft Determination notes that

“... 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.” (ESCoSA 2016, p.28)

On the basis of this, there is not much evidence that setting the R-FiT at 6.8c rather than the projected mean value of 9.05c has encouraged retailers to “compete above the floor”.

We therefore argue that abolishing the R-FiT is likely to lead to most solar owner being offered even less than the projected wholesale value of their exported energy.

Solar PV has value beyond the value to retailers

The main focus of our project has been to understand the broader value of exported solar energy, beyond simply the value to retailers. We welcome the Victorian ESC’s acknowledgement (ESC 2016) of at least some of these additional values, notably:

- Time and location varying FiTs would better reflect that energy value of exported solar PV
- Reduction in greenhouse gas emissions can be reliably estimated and mechanism could be implemented to recompense solar owners for this value.

As ESCoSA will be aware, the Victorian ESC is continuing to work to identify the network value of distributed generation.

We attach as an example of the scope of these additional values, a [fact sheet](#) explaining that in Tasmania, exported solar energy is worth 17-22c/kWh when all the network, environmental and health benefits are taken into account. We are currently finalising material using a similar methodology for other states.

We understand that the additional values of solar PV are not within the direct scope of the current Draft Determination but we urge ESCoSA to continue with the current mandated Retailer FiT because it is clear that solar PV has substantial long term benefit to electricity consumers and the environment.

It is clear that deregulation of FiTs under the current market arrangements will result in:

- solar owners not being adequately rewarded for the value of their exported energy and
- a reduction in the financial benefits to all electricity users of a more decentralised energy system.

References

COAG 2013, *Revised National Principles for Feed-In Tariff Arrangements*, Council of Australian Governments, 17 July 2013
<https://www.coag.gov.au/node/507>

ESC 2016c, *The Energy Value of Distributed Generation, Distributed Generation Inquiry Stage 1 Final Report*, Victorian Essential Services Commission, Aug 2016
http://www.parliament.vic.gov.au/file_uploads/Essential_Services_Commission_-_The_Energy_Value_of_Distributed_Generation_Distributed_Generation_Inquiry_Stage_1_Final_Report_KPxzvMML.pdf

ESCOSA 2015b, *Retailer feed-in tariff 2016: Decision pursuant to clause 2.1 of the retailer feed-in tariff price determination of December 2014*, Essential Services Commission of South Australia, 2 Dec 2015
<http://www.escosa.sa.gov.au/ArticleDocuments/496/20151202-RetailerFeed-inTariff2016-Determination.pdf.aspx>

ESCoSA 2016, *Retailer feed-in tariff - Review of regulatory arrangements, Draft Decision*, Jul 2016
<http://www.escosa.sa.gov.au/projects-and-publications/projects/electricity/electricity-retailer-feed-in-tariff-review-of-regulatory-arrangements>

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