

Mr James Cox PSM
Acting Chairman
Independent Pricing and Regulatory Tribunal
PO Box Q290
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NSW 1230



9 September 2011

Dear Mr Cox

Solar feed-in tariffs: setting a fair and reasonable value for electricity generated by small-scale solar PV units in NSW

The Public Interest Advocacy Centre (PIAC) welcomes the opportunity to provide comment on setting a fair and reasonable value for electricity generated by small-scale solar photovoltaic (PV) units in NSW. Given recent electricity price rises, PIAC is particularly pleased that under the Terms of Reference, IPART's recommendations must not result in any 'increase in electricity prices in NSW'.¹ PIAC's comments will focus on two interrelated areas outlined in the Issues Paper — retail competition and the form of regulation.

As part of this review, the Independent Pricing and Regulatory Tribunal (IPART) is assessing the effectiveness of retail market competition to inform decisions about the level of regulation needed to facilitate payments. IPART notes:

If competition is effective, retailers are less likely to be able to offer PV customers prices for exported electricity that are significantly below fair value. This means that the form of regulation can be more light-handed, as competition will provide PV customers with choices and provide payments to them at efficient levels.²

PIAC submits that competition does not always provide consumers with choice in a uniform manner. PIAC's recently released research, *Choice? What Choice?*, reports on a study of residential electricity consumers in five New South Wales regions; namely, Cooma, Lismore, Bourke, Wagga Wagga and Orange. This study sought to gauge the ability of these consumers to participate effectively in the NSW electricity market. The research investigated whether consumers were aware that they could choose the company that sells them electricity; whether they had ever switched electricity retailer and, if not, why not? The study also sought to uncover whether there were any significant demographical or geographical variances in relation to these questions.

Two hundred people from each region were surveyed and the survey results were compared with findings from previous electricity consumer surveys undertaken in other NSW areas by the IPART.³ This comparison illustrated that there were geographical variations in consumer behavior. For instance, consumers in the five regions surveyed were less likely to have been approached by an electricity company with an offer to

¹ Barry O'Farrell, *Reference to IPART under s9 of the IPART Act* (28 July 2011).
² Independent Pricing and Regulatory Tribunal, *Solar feed-in tariffs: Issues Paper* (2011) 32 <<http://www.ipart.nsw.gov.au/files/Terms%20of%20Reference%20-%20Solar%20Feed%20in%20Tariffs%20-%204%20August%202011%20-%20Website%20version.PDF>> at 5 September 2011.

³ Louis Schetzer, *Choice? What Choice?* Public Interest Advocacy Centre (2011) 18. www.piac.asn.au
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purchase electricity than those in other areas in NSW. An electricity retailer had approached only 35% of those surveyed in Wagga Wagga and 41% of those in Cooma and Bourke,⁴ while previous IPART surveys had noted that an electricity company had approached 53% of consumers in Sydney, the Blue Mountains and Illawarra⁵ and 53% of consumers in the Hunter, Gosford and Wyong⁶ with an offer. *Choice? What Choice?* includes additional data indicating that geographic location has an impact on consumers' experiences of the NSW electricity market.

In the Issues Paper, IPART poses three levels of regulatory intervention that could be introduced to ensure solar PV customers receive a fair and reasonable value for the electricity they export to the grid.⁷ These are:

- requiring all retailers to pay a specified feed-in tariff;
- requiring only the Standard Retailers to pay a specified feed-in tariff; and
- setting a benchmark rate in line with a fair and reasonable value.

PIAC does not support the option to set a benchmark rate. Given the findings of *Choice? What Choice?*, PIAC does not believe that competitive market forces alone will provide a fair and reasonable level of payment for solar PV generated electricity to consumers in all geographic locations. PIAC is also concerned that without any regulation, consumers with solar PV systems who live in areas with low levels of market competition may be seen as less desirable customers and may be offered lower feed-in rates or fewer choices.

With regard to the first option noted above, PIAC shares IPART's concerns that requiring all retailers to offer a regulated feed-in tariff may have some negative effects on pricing and innovation in the competitive market.⁸ As not all consumers have access to small-scale solar PV systems, PIAC believes it is important that the market is able to provide competitive offers that are not impacted by the obligation to provide feed-in tariffs outside the Solar Bonus Scheme.

At this stage, PIAC supports what IPART has categorised as a relatively light-handed regulatory approach, which requires only the Standard Retailers to offer a specified feed-in tariff. This approach will facilitate the setting of a transparent benchmark for valuing the electricity generated by small-scale solar PV units, which will provide useful guidance for consumers who are shopping around for the best energy offer. Additionally, consumers in all geographic locations in NSW will be assured of access to at least one tariff that offers the specified feed-in tariff rate.

Consumers shopping for a feed-in tariff external to the Solar Bonus Scheme, will of course need access to more than one relevant offer in order to benefit from any competitive pressure. IPART notes that requiring only the Standard Retailers to pay a specified tariff may result in the development of market offers that include feed-in tariffs — thereby

⁴ Ibid 45.

⁵ Independent Pricing and Regulatory Tribunal, *Residential energy and water use in Sydney, the Blue Mountains and Illawarra: Results from the 2006 household survey, Electricity, Gas and Water: Research Paper 29* (2007) 67, cited in Louis Schetzer, *Choice? What Choice?* Public Interest Advocacy Centre (2011) 44.

⁶ Independent Pricing and Regulatory Tribunal, *Residential energy and water use in the Hunter, Gosford and Wyong: Results from the 2008 household survey, Electricity, Gas and Water — Research Paper* (2008) 90, cited in Louis Schetzer, *Choice? What Choice?* Public Interest Advocacy Centre (2011) 44.

⁷ Independent Pricing and Regulatory Tribunal, above n 1, 35-36.

⁸ Ibid 35.

allowing consumers to choose products that fit their circumstances.⁹

Should this light-handed regulatory approach be introduced, PIAC recommends that a review be undertaken after one year of operation, to assess whether the market has indeed worked to provide accessible and fair payment rates to consumers with solar PV systems. PIAC would encourage any such review to establish whether consumers have equitable access to feed-in tariff offers regardless of their location.

A report on NSW energy prices commissioned by the St Vincent de Paul Society has found that while market offers predominantly reflect regulated tariffs; other fees, charges and tenuous discounts mean that consumers can be worse off on a market offer.¹⁰ PIAC suggests that any future review should also evaluate whether market offers that include a feed-in tariff are not leaving some consumers worse off through fees, charges or less competitive unit prices.

PIAC thanks IPART for the opportunity to provide comment on setting a fair and reasonable value for electricity generated by small-scale solar PV units in NSW. Should you require any further information, please contact Carolyn Hodge, Senior Policy Officer on 02 8898 6520.

Yours sincerely



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Ibid 36.

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May Mauseth Johnston, *NSW Energy Prices: July 2009 – July 2011*, St Vincent de Paul Society (2011) 13-17.