Australia's future is SOLAR
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SUBMISSION TO THE INDEPENDENT PRICING AND REGULATORY TRIBUNAL (IPART)

A RESPONSE TO THE TERMS OF REFERENCE FOR A FEED-IN-TARIFF FOR 2013-2016

Thank you for the opportunity to provide a response to your considerations.

1. There is a requirement on IPART to "support the long-term interests of consumers" (IPART: DR, 2. Terms of reference and context p10/11).

The Australian Solar Industries Association (SEIA) maintains that this requirement for electricity pricing is not separate from the consideration of a Feed-in-Tariff but part of it.

If IPART is to "support the long-term interests of consumers", what are those interests? SEIA submits that a prime interest for the bulk of electricity consumers is to be able to manage their power use in a way that provides reductions in their power bill. They are not looking for a 'free ride' to achieve this, but are prepared to invest in generating capacity to provide it. This willingness to invest in their own future is being blocked by un-mandated Feed-in-Tariffs at a level that is appalling compared to the rate they are forced to buy it, as well as unjustified and unjustifiable Supply (Service Availability) Charges.

Under the current system of zero or near zero Feed-in-Tariffs in this so-called "competitive environment" consumers can only benefit from the power used during daylight hours when there is sufficient sun (6-8 hours). The power use for the remaining 2/3 to 3/4 of a 24 hour day is unable to be reduced by the purchase of a solar PV system connected to the grid. Power must be used as it is produced or it is lost to the grid. This is far from being a "support for the long-term interests of consumers". Add to this the Supply Charges and the ability for energy conscious consumers to further reduce their power costs is virtually impossible.

Obviously those who are on the Solar Bonus Scheme have had, a will continue to have for a period of time, a 'free ride'. Those who are not part of that Scheme are having difficulty meeting power bills, and this is especially so for those on lower incomes. This group have major short term difficulties and the long term interests that are supposed to be supported are being sidelined by restrictive Terms of Reference for Pricing and Feed-in-Tariff Reviews and a concerted effort by Government to reduce all impact of solar on the network.

A more pro-active approach would be to follow the example of many other western industrialized nations who understand where our future lies and are restructuring networks and generating facilities to meet that future. Instead we have a 'head in the sand' approach, clinging onto business models that are doomed to failure and penalising energy consumers along the way, rather than "supporting their long-term interests".

2. There is a requirement on IPART to "facilitate competition in the retail electricity market" (IPART: DR, 2. Terms of reference and context p10/11).

Competition is an honoured concept which SEIA supports, but if the Government chooses to provide a 'gravy train' for retailers, by providing them the opportunity to obtain power from many properties for next to nothing and sell it for full price to their neighbours, there is no incentive for competition. The retailers all want to retain the *status quo*.

Currently the retailers are offering discounts to small power users of 10-15% simply to switch and are offering over 40% for large energy users and chains. This level of discounting flies in the face of the view that there is a squeeze on the retailers. IPART sets prices that accord with stated energy costs and required margins and yet there is sufficient slack in this pricing structure for this level of discounting to occur.

If retailers are operating on a 10-12% margin as shown in IPART's reports, how are they able to offer such generous discounts to customers? Some are paying a lot so others can pay far less.

The reality is that small energy users paying excessive Supply Charges and non-discounted power costs (especially those paying 15% more in regional areas) are providing the 'base load' for retailer incomes and allowing them to negotiate the 'sweet deals' with the larger users. This is an inequitable situation and doesn't "support the long-term interests of consumers". The very people who should be given the opportunity to provide for themselves by investing in energy saving or producing equipment, are carrying the load.

The Australian Solar Industries Association (SEIA) contends that if there are sufficient anomalies in the pricing structure recommended by IPART and set by the Government to provide this level of discount, there is also sufficient capacity within the structure to provide a reasonable and realistic Feed-in-Tariff for electricity consumers. This should be a mandated Tariff.

3. Setting a Feed-in-Tariff (FiT). Once again we are dealing with the stated aim of IPART's considerations to "support the long-term interests of consumers" and to "facilitate competition in the retail electricity market". In addition, there should be " no resulting increase in electricity prices". SEIA supports those aims.

However, the overriding determinant is that the same restrictive Terms of Reference used for the previous assessment be applied. From this SEIA must assume that Minister Hartcher wishes to provide a public face of fairness in the regulatory process whilst at the same time ensuring that the outcome is hobbled in respect of a future for consumers and ensuring business as usual for the electricity industry.

It is obvious that the current arrangement of no mandated FiT and leaving it up to the energy retailers to provide rates in a competitive environment has been a failure. It is hard to avoid the impression that the retailers together have ensured a non-competitive environment in order to all benefit from the large amount of residential solar generated power that has been exported to the grid for next to nothing and sold at full price to neighbouring properties.

There are three main benefits for the electricity industry arising from this: avoidance of capital investment, reduced network costs and excessive margins for energy retailers, especially at shoulder and afternoon peak times.

Obviously, in setting a mandated minimum FiT, the cost of provision of poles and wires for electricity supply needs to be met, but the charges relating to network costs are currently passed on as though the power was coming from a distant power station instead of a neighbour and this is inequitable. A mandated minimum FiT should be provided and should reflect this.

The nett purchase price of power is typically 90% of the retail price providing a 10% margin to the energy retailer (IPART: Draft report 2013, graph p15). It is appropriate that the FiT should reflect that margin. An additional percentage should be calculated for the use of the network based on the short distances between generation and use, i.e. network costs. These in combination should provide the FiT that is realistic and equitable for consumers, retailers and generator alike.

Distribution costs now constitute around 52% of the overall cost of power (IPART Draft report 2013, graph p15), an increase from 28% in 2008 (IPART report 2012). This increase has been largely due to the provisions for upgrading of the networks based on projected increase in power requirements and preparing for asset sale (privatisation). The reality is that network demands are decreasing, and have been for the last 4 years, and with the increased penetration of distributed energy into the network and energy efficiency measures, the upgrading requirements will be further reduced.

This ongoing reduction in network requirements should be to the advantage of DNSPs due to reduced need for further capitalisation. It appears from the Draft Report on electricity pricing (p18) that it is recognised that these network increases were partially unjustified in hindsight but the proposal is to hold them and hold the rate at which they increase for the next 6 years in line with inflation.

SEIA ask that the network charges allowed under the 2010 pricing be reduced in light of the changes to electricity demand rather than retained.

Therefore we believe that any FiT that is set should reflect a revision downwards of the network component for residential and small commercial customers with solar PV connected as they are in effect assisting the network rather than detracting from it’s capacity to deliver power cost effectively.

Under previous FiT schemes now closed to consumers, there was an opportunity for consumers to create income from solar PV systems at the expense of the energy retailer and all other consumers. SEIA does not see this as appropriate or equitable, and whilst the intention was to stimulate the solar industry it has created long term problems for all. SEIA does not wish to have a FiT that continues this situation.

Our proposal is that any income from residential and small commercial solar systems, typically <100kW, should not exceed the bill for that billing period. This will ensure that systems are sized to cover power use rather than to create an income stream. If the Supply Charges are fully justified then this cap would exclude the Supply Charges and be capped at the energy costs. If However, the Supply Charges remain unjustified and unjustifiable as they presently are, then the cap should include the total bill including the Supply Charges.

From our preliminary assessment, a FiT of around 75-80% of the rate at which power is billed to a consumer would provide retailer margins, some realistic provision towards network costs and an equitable rate for consumers.

A floating percentage rate capped at billing, would have the following additional benefits:

Energy consumers would benefit as the rate of a Feed-in-Tariff would change automatically with price increases, providing a hedge against inflation and providing certainty in terms of the investment made.

Energy retailers would benefit as they would retain their margins, would not have accrued liabilities with accumulated credits, the billing procedures would reduce administrative costs, and if they negotiated reduced energy costs for a consumer, then the applicable Feed-in-Tariff for that consumer would also automatically reduce.

The general public would benefit from a simple formula for power purchase and export and they wouldn't need to negotiate the minefield of offers from energy retailers in which the real costs are buried in the fine print.

SEIA ask that as part of the Final Report an assessment of a fair and equitable rate of a Feed-in-Tariff be determined for all new installations starting in 2013, and that those already with distributed energy systems connected to the grid and recommended as a minimum <u>mandated</u> rate based on:

- **that the rate be in accord with reduced use of the network as per details above.**
- **that the rate be in line with the retail margins regulated for energy retailers.**
- **that payments for Feed-in-Tariff are not accrued by the customer and are capped at the rate of the current power bill, subject to the Supply Charge issues outlined above.**

Yours sincerely.

BRIAN ENGLAND
National Chairman
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