

Essential Services Commission
GPO Box 2605
Adelaide SA 5001

Lodged (by online/email): escosa@escosa.sa.gov.au

22 April 2016

Electricity retailer feed-in tariff: Review of regulatory arrangements

The Australian Energy Council (the Energy Council) welcomes the opportunity to make a submission to the Essential Services Commission of South Australia's (the Commission) *Electricity Retailer Feed-in Tariff: Review of Regulatory Arrangements Issues Paper*.

The Australian Energy Council is the industry body representing 22 electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. These businesses collectively generate the overwhelming majority of electricity in Australia and sell gas and electricity to over 10 million homes and businesses.

Regulated retailer-paid feed-in tariffs (R-FiTs) are not a preferred policy option of the Australian Energy Council. It is our view that the market is best placed to determine the most appropriate, sustainable and economical value for the electricity that is produced and exported by photovoltaic (PV) units and as such any FiT policy should allow for the market to operate efficiently. The Energy Supply Association of Australia (esaa) and the Energy Retailers Association of Australia (ERAA) has outlined this in previous submissions to the Commission.

Assessment of competition

The Commission notes that if the South Australian market is not sufficiently competitive "*setting a minimum R-FiT may facilitate more efficient outcomes for the consumer, as retailers may otherwise price their products inefficiently*".ⁱ The Australian Energy Council believes that a minimum R-FiT should not be set as the South Australian market is effectively competitive with deregulated retail prices and a high level of customer switching.

In 2015 there were seventeen retailers that had offers available to electricity customers in South Australia while 84 per cent of electricity customers were on market retail contractsⁱⁱ. Additionally the Australian Energy Market Commission (AEMC) 2015 Retail Competition Review concluded that the retail electricity market in South Australia is effectively competitiveⁱⁱⁱ.

Competition in the South Australian market is analogous to that of south-east Queensland (SEQ), where there is a similar number of retailers offering customers feed-in-tariffs from 4-11 cents/kWh.^{iv} The absence of regulation has not proven deleterious to customers in the SEQ market; on the contrary, the wider range of feed-in tariffs on offer in SEQ indicates that some retailers are choosing to offer cheaper electricity tariffs and discounts rather than higher feed-in-tariffs. A customer in SEQ that uses, rather than exports, most of its electricity would in fact benefit from a lower feed-in tariff if it is offset by a lower electricity tariff and/or higher discount.

This option is not available to South Australian customers as the mandated minimum constrains the ability of retailers to set their own minimum rate that is offset by a competitive electricity tariff. As SEQ demonstrates, the Australian Energy Council believes that customers are better placed to determine their own preferences in a competitive market.

Market is best placed to set R-FiT

A mandated minimum R-FiT introduces regulatory risk into retail energy markets. Should a minimum R-FiT be set too high, retailers will be forced to purchase exported energy at higher rates than could be purchased elsewhere. This outcome would not be consistent with the long term interests of South Australian consumers, particularly solar customers who may experience a reduction in competition and associated benefits. The Australian Energy Council therefore does not support a minimum regulated R-FiT.

The Commission notes that “*at the end of January 2016, seven out of 15 retailers (fewer than half) who were marketing to solar PV customers in South Australia were offering rates that exceeded the minimum R-FiT of 6.8 cents per kWh.*”^v The Australian Energy Council does not believe this is in itself a justification for continuing with a minimum R-FiT. The existence of a minimum R-FiT may itself influence retailers’ decisions on what to offer, by providing them with a default choice. Removal of the minimum requires retailers to calculate an appropriate R-FiT offering independently and this may in itself lead to greater diversity. Further, in a competitive market there is no reason why *all* retailers should focus on attracting customers with solar. The fact that *some* retailers choose to offer more than the minimum in order to attract solar customers is positive evidence that there is competition for solar customers in South Australia.

The Australian Energy Council does not support the Commission regulating the minimum R-FiT after the 2016 calendar year. Should the Commission decide to regulate for the 2017 year, the Australian Energy Council would support a review of the decision to regulate following an open and constructive consultation on the assessment criteria.

Any questions about our submission should be addressed to Panos Priftakis, Policy Adviser by email to panos.priftakis@energycouncil.com.au or by telephone on (03) 9205 3115.

Yours sincerely,



Sarah McNamara
General Manager Corporate Affairs
Australian Energy Council

ⁱ Essential Services Commission of Australia (ESCOSA), 2016, “South Australian electricity retailer feed-in tariff: Review of regulatory arrangements”

ⁱⁱ Australian Energy Regulator, 2015, “Annual report on the performance of the retail energy market 2014-15”

ⁱⁱⁱ Australian Energy Market Commission, 2015 Retail Competition Review, Final Report, 30 June 2015, page 192, available at <http://www.aemc.gov.au/Markets-Reviews-Advice/2015-retail-competition-review>.

^{iv} Queensland Productivity Commission, *Draft report: Solar feed-in pricing in Queensland*, March 2016, page 51.

^v ESCOSA, 2016, Op.Cit