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Independent Competition and Regulatory Commission  
GPO Box 296  
Canberra City ACT 2601

### **Issues Paper - Electricity Feed-in Renewable Energy Premium: Determination of Premium Rate**

Origin Energy Retail Limited (Origin) welcomes this opportunity to respond to the Commission's issues paper on developing a model for determining the premium rate for the feed-in tariff (FIT) applying in the ACT from 1 July 2010 to 30 June 2011.

Origin is Australia's leading retailer of renewable energy and is a significant investor in renewable generation as well as supplying solar PV solutions to customers. We have strong interest in the development of feed-in tariff policies and regulation in Australia and believe we have been a constructive participant in this development.

We set out our response to a number of areas where the Commission is seeking comment from stakeholders below.

#### *1. Gross feed-in tariffs in other jurisdictions*

The Commission seeks input from stakeholders regarding overseas examples of the calculation methodology for gross feed-in tariffs and their applicability to the ACT.

Origin agrees with the Commission's view that the relevance of other jurisdictions (particularly overseas jurisdictions), while instructive, is not always meaningful in the Australian energy market and solar resource context.

We observe that the New South Wales FIT rate as legislated is of similar size to the current scheme administered by the Commission. The overseas experience described by the Commission confirms that in Germany, FIT rates are around AUD \$0.75 to \$0.90/kWh. Given the reduced sunshine resource and the absence of wholesale market renewable energy targets in most European jurisdictions, such levels may be appropriate.

In Origin's view, for the reasons stated above, European levels of FIT rates are not likely to be appropriate in jurisdictions served by the National Electricity Market (the NEM). Origin further notes that the net FIT schemes established in Queensland and South Australia (\$0.44/kWh) and Victoria (\$0.60/kWh) equate to gross FIT rates approximately in the range of \$0.15-\$0.20/kWh.

If anything, the relativity between the NSW gross scheme and net schemes in other Australian jurisdictions are likely to be the most use in determining an appropriate FIT. The level of the FIT will depend on a range of objectives (some of which are noted in the Terms of Reference and the original objectives of the ACT scheme):



- The size of the cross-subsidy that the government believes appropriate (the cost to electricity consumers who do not have solar PV generation, relative to the benefits of those that do); and
- The degree to which the FIT encourages the targeted level of solar PV generation as a renewable energy source.

## 2. Key issues

### 2.1 Cost of investing in renewable energy and payback period

On what basis should the Commission estimate the cost of investing in renewable generation capacity?

Should the Commission have regard to the value of solar credits payments that may offset the initial purchase cost or be retained by the customer?

Shorter payback timeframes are obviously desirable for customers investing in embedded, renewable generation. Origin believes that premium FIT rates need to be set in reference to:

- The cost of the system after rebates have been accounted for;
- A method that optimises the payback period of common system sizes and capacities and any preferred scale that may become more common in the future at small customer premises, thereby capturing some of the scale benefits the Commission refers to on page 14 of the issues paper.

Origin believes that the Commission should also have regard to simplicity in determining its approach to setting a premium FIT. At present, the ACT scheme contains more complexity in this respect (and therefore administrative cost) than most jurisdictions because:

- The level of the premium FIT rate is not constant over the life of the scheme; and
- There are differential rates based on installed capacity.

Given there are significant differences already between jurisdictions with active FIT schemes, this complexity imposes an administrative burden and reduces incentives for retailers to compete.

For this reason, a single rate is preferred; however Origin does acknowledge that scale efficiencies from system size and different renewable generation technologies may warrant different FIT rates. To the extent there is a need to give regard to different rates; we believe the Commission should apply the following principles:

- Does the creation of different rates create appropriate incentives and investment signals based on available competing renewable energy technologies? and
- Does the creation of different rates minimize the regulatory and compliance burden for industry participants (such as network service providers and retailers)?



What is an appropriate payback period?

How is the take-up of the scheme likely to change based on different premium rates and payback periods?

Shorter payback period inevitably require higher premium rates and encourage higher take up. Origin suspects the relationship between scheme payback, FIT levels and the take up rate is non-linear in terms of influencing investment decisions and incentives facing consumers. That is, a 50 per cent decrease in pay the payback period may result in a greater than 50 per cent increase in the rate of take up.

Payback periods should not be set at unrealistically short levels, nor should they discourage investment due to unreasonably long periods over which a customer might expect a return. The current 20 year life of the scheme at \$0.5005/kWh on a gross basis is likely to result in a payback period that is less than the life of the scheme.

While Origin does not have a particular view on the optimal payback period (since consumers have different preferences, investment horizons and so on, any such period could only be considered a *typical* payback period), we would encourage the Commission to:

- Avoid significant changes to the scheme at this early stage in order to preserve certainty for customers who have already invested and those considering investment in eligible renewable energy generation; and
- Also avoid significant changes in order to minimize the risk of ‘boom and bust’ cycles that some renewable energy policies have created in various Australian jurisdictions.

In Origin’s view for example, an adjustment to the premium rate should not dramatically increase or decrease the current payback period, which would appear at present to be between 10 and 15 years depending on system size and the rebates secured by the customer (for small solar PV systems).

Should a discount rate be used to calculate the payback period? If so, how should it be determined?

Assuming an appropriate payback period can be identified for eligible customers, Origin believes it is difficult to determine an appropriate discount rate given the wide range of likely individual attitudes toward rates of return and opportunity cost. Origin notes that in other jurisdictions (South Australia and Queensland for example), the feed-in rate is set in nominal terms; meaning that in real terms it decreases in value over time (and encourages higher take up in earlier years).

A premium rate adjusted for opportunity cost would reduce this effect to some extent. However, including a discount rate at this time would move the ACT scheme further away from the objective of national consistency. As such, and given the complexities involved, either no discount rate should be accounted for or a simple vanilla approach be adopted



to determine a rate (noting that the current premium rate may change significantly for the next period, even with a small discount rate).

## 2.2 Equity issues

The Commission states on page 16 that energy retailers make savings by avoiding NEM purchases because of the output of their customer's embedded generation. While spot settlement exposure may be reduced, this does not automatically translate to savings for retailers and ignores individual hedging strategies that may be in place.

Furthermore, while 6 cents per kWh is a characterisation of spot market outcomes (indeed Origin applies similar 'top-up' rates for its net feed-in customers in South Australia, Queensland and Victoria), it is an approximation and does not reflect the fact that such generation cannot be called when the retailer requires it (noting that the level of installed capacity is not material relative to major power generation sources in the NEM).

The Commission states that the cost of maintaining the premium rate per customer is forecasted to reach \$27 per year. This contrasts with the limit of costs imposed on electricity consumers by feed-in tariff schemes elsewhere. For example, Victoria will limit access to the scheme if the costs per customer reach \$10 per annum. Origin discusses equity issues further below, but would note (without debating the merits of gross or net schemes) that the ACT and New South Wales feed-in tariff schemes result in materially higher cost to their respective communities than the schemes in force in other NEM jurisdictions.

## 2.3 Encouraging generation from renewable sources

What level of greenhouse gas emission reductions should the premium rate be targeted to achieve?

What level of take-up should the premium rate be designed to achieve?

Origin does not make specific comment on these questions in this response. However, the ACT, like all jurisdictions developing policies to tackle climate change and carbon dioxide emissions, should implement measures that ultimately result in least-cost abatement. There are important reasons to offer specific incentives for small-renewable generation however and the cost of these incentives (and the public and private benefits they result in) need to be balanced against the social costs and benefits of the range of policy responses available to government.

## 2.4 Amounts paid by electricity suppliers

The 'normal cost' of electricity is a difficult area to assess and Origin agrees with the Commission's comments on the uncertainties associated with setting the 6 cent per kWh rate. Origin believes that in a competitive market, the 'normal cost' of electricity would be set through competition between retailers, rather than by regulation. Retailers who do not value the benefit of the energy fed into the grid will not pay customers this additional amount and in not doing so, will lose such customers to retailers who do value the energy. This approach is the policy applied in Victoria, South Australia and



Queensland at present and provides consumers with the opportunity to switch to the retailer that best meets their needs.

A further element of the benefits provided by (any) embedded generation is the avoided use of system costs that occur when grid-supplied energy is displaced by output from generators connected to the distribution network. These avoided transmission and distribution costs have not been addressed in detail in the various discussions that have taken place in relation to feed-in tariff schemes in Australia, even though the National Electricity Rules provide for such avoided costs to be recognised.

### 2.5 NSW Feed-in Tariff Scheme

Are there benefits in setting the premium rate in the ACT at the same level as the rate in NSW?

Origin would make a general comment that it has been disappointed with the fractured development of feed-in tariff policies across various jurisdictions and would have preferred a joint development of policy to ensure national consistency of feed-in tariff schemes. While we note that the Council of Australian Governments have developed principles to consider, which included commitments to harmonisation, there are significant differences between jurisdictions that result in inefficiency, customer confusion and additional costs to all levels of the supply chain (retailers of renewable generation systems, installers and electrical industry professionals, energy retailers and distributors and so on).

Practically, Origin considers that legislative change would be required to align with the New South Wales Solar Bonus Scheme and we understand this is outside the scope of the review currently being undertaken.

### 2.6 Social impacts

Should the calculation of the feed-in premium rate have regard to the level of concessions that are available?

Origin is unable to comment specifically on the concessions regime, however, to the extent that there is a view that financially disadvantaged consumers are negatively impacted (and less likely to benefit directly) by feed-in tariff schemes, it is appropriate that consideration be given to either:

- (a) Higher support through rebates or transfer payments to vulnerable customers; or
- (b) A lower cost impact on all customers through a lower premium rate.

### 2.7 What should the premium rate be?

Origin does not have a view on the rate that should apply, however we note the wide-range of current rates in force in various jurisdictions. The Victorian rate of \$0.60/kWh on a net basis is substantially lower in practical terms than the same New South Wales



rate on a gross basis. A gross rate of \$0.60/kWh might seem pragmatic for the ACT if alignment and harmonisation is an important goal. However, it would be difficult to commit to this level given the different length of scheme lives between the ACT and NSW. In any event, the cost of the feed-in schemes in New South Wales and the ACT are likely to be significantly higher than in Victoria, South Australia and Queensland, not because the former are gross metered schemes, but because of the quantum of the premium rate applied.

Origin is concerned that if the scheme costs exceed levels that the community and government would consider reasonable, dramatic changes to the feed-in tariff rates paid will amplify the cyclical influence that policy at all levels has had to date on small renewable energy investment. As such, any change should provide for certainty at this early stage of policy operation.

#### 2.8 A model for adjusting premium rates

Origin appreciates that the Commission had invested some time into understanding how a model for updating the premium rate might be constructed and how it would function. Again however, we believe that a frequent change to the premium rate adds to the administrative and compliance burden of the ACT scheme. While the flexibility of the ACT model has certain advantages (by being able to respond to changing market conditions), on balance, frequent variation to the premium rate in one jurisdiction only results in higher costs for national energy retailers such as Origin.

Origin would like to discuss the model for adjusting the scheme further with the Commission, along with other matters raised in this response. Please contact myself in the first instance.

Yours sincerely

A handwritten signature in blue ink that reads "David Calder".

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