

CONSUMER FACT SHEET

A fair and reasonable solar feed-in tariff for NSW

Based on Solar feed-in tariffs - Setting a fair and reasonable value for electricity generated by small-scale solar PV units in NSW, Final Report March 2012

In recent years, governments have provided generous subsidies to customers installing solar photovoltaic units (PV units). At the same time, the cost of installing PV units fell significantly. This made pay-back periods very short. As a result, the number of customers installing PV units (PV customers) was much greater than governments anticipated and the costs of the subsidy schemes were also greater than expected.

In an environment of already increasing electricity prices (and continued access to subsidies from the Federal Government), the NSW Government closed the Solar Bonus Scheme to new participants on 1 July 2011. It then asked IPART to recommend a 'fair and reasonable' value for a feed-in tariff for customers who are not in the Solar Bonus Scheme, and also a regulatory or other mechanism by which this value could be implemented in NSW. However, it stipulated that our recommendations:

- ▼ should not result in an increase in electricity prices in NSW, and
- ▼ should not involve funding from the NSW Government budget.

In other words, any future feed-in tariff for these customers must be subsidy-free.

This Fact Sheet briefly explains our draft findings and recommendations. If you want more information, our Final Report is available on the [IPART website](http://www.ipart.nsw.gov.au).

1.1 What is a fair and reasonable value for an unsubsidised feed-in tariff in NSW?

Our final recommendation is that a fair and reasonable value for this feed-in tariff is in the range of **5.2 to 10.3 cents per kilowatt hour** (c/kWh) in 2011/12.

This range reflects 2 different approaches we used to value the electricity that PV customers export to the grid (PV exports). The first approach considered the direct financial gain that PV customers provide to their standard retailer. The second approach valued the electricity on the wholesale market, treating a PV customer like other electricity generators in the market. Both approaches take into account the volume and timing of when PV exports tend to occur.

The range is wider than our draft report, to better account for variability in the value of the energy that is fed into the grid from different customers.

To set the tariff any higher than the top of this range would mean retailers would need to receive funding from the Government or increase their prices for other electricity customers. Alternatively, they could choose not to supply customers with PV units to avoid paying the tariff, which would undermine competition in the market. None of these outcomes are desirable, and all are contrary to the terms of reference for our review.

Many stakeholders have called for a feed-in tariff to be set equal to the retail price of electricity (currently 20 to 30 c/kWh). They believe that retailers 'sell' PV exports to other customers for this price, and so should pay the same price to the customers that generate it (a '1-for-1' scheme).

However, this is not the case. Retailers do make a gain from their customers' PV, but they only gain around 8.3 to 10.3 c/kWh for this electricity from regulated customers. This is because they still incur other costs including network costs,¹ and the costs of meeting their obligations under government green schemes (including the Renewable Energy Target scheme) on this electricity. Both these costs are based on the total electricity a retailer supplies to its customers, which includes PV exports.

We cannot estimate the fair and reasonable value for 2012/13 until June 2012, as the data we need is not available until then. However, the value will increase when the new carbon pricing mechanism is introduced on 1 July 2012. In June 2012 we will release a Fact Sheet which will present our recommended range for 2012/13.

¹ These network prices are regulated by the Australian Energy Regulator (AER) and are intended to reflect the costs of operating and maintaining the electricity transmission and distribution system.

1.2 How should an unsubsidised feed-in tariff be implemented in NSW?

Our final recommendation is that IPART should determine and publish an annual benchmark range for a fair and reasonable feed-in tariff. This will guide retailers in designing their feed-in tariff offers and will guide customers in assessing these offers. Setting a range that covers different customer characteristics, including location and types, will allow retailers to tailor their feed-in tariffs to suit their customers.

In reaching this recommendation, we considered whether retailers are likely to offer a fair and reasonable feed-in tariff in response to competitive pressures alone. We also considered the risks to customers, retailers and competition of regulating to require retailers to offer such a tariff. We found that it is currently difficult for customers to access clear and concise information on feed-in tariffs.

We think that if customers know the benchmark range and can access retailers' offers more readily, they should be more likely to shop around to attract the fair and reasonable value for their PV exports. We are therefore recommending improvements in information disclosure by retailers, particularly through their call centres and door-to-door marketers. The feed-in tariff offers from retailers are now available on our myenergyoffers website, <http://www.myenergyoffers.nsw.gov.au/>.

To further improve customer information, we have released a separate consumer Fact Sheet on the [IPART website](#), which provides information on generation and consumption of electricity by PV customers. We also believe there is a role for Government and the solar industry (including retailers who are increasingly involved in the installation market) to play in improving customers' understanding. This could build on the information that the NSW Government currently provides.²

² For example, the NSW Government (Trade and Investment NSW) has prepared a short number of frequently asked questions (FAQs) on its website.
<http://www.trade.nsw.gov.au/energy/sustainable/renewable/solar/solar-scheme/questions>.