



Premier of New South Wales



28 JUL 2011

Mr Jim Cox, PSM
Acting Chairman
Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB Post Office NSW 1230

Dear Mr Cox

I write in relation to the Independent Pricing and Regulatory Tribunal undertaking an investigation into the establishment of a fair and reasonable value for electricity generated from small scale solar photovoltaic generators.

Please find enclosed a reference under section 9 of the *Independent Pricing and Regulatory Tribunal Act 1992* for the Tribunal to undertake this investigation.

If your officers wish to discuss this matter, they should contact Mr Tim Hurst, Executive Director, Infrastructure, Environment and Economic Development Policy, Department of Premier and Cabinet on (02) 9228 5493.

Yours sincerely

Barry O'Farrell MP
Premier

Reference to IPART under s9 of the IPART Act

I, Barry O'Farrell, Premier of New South Wales, approve the provision of services by the Independent Pricing and Regulatory Tribunal (IPART) under section 9 of the *Independent Pricing and Regulatory Tribunal Act 1992*, jointly to the Office of Environment and Heritage (Department of Premier and Cabinet) and the NSW Department of Trade, Investment, Regional Infrastructure and Services, by conducting a review in accordance with the following terms of reference.

IPART is to independently investigate and report on a fair and reasonable value for electricity generated from small-scale solar PV consistent with the COAG National Principles for Feed-in-Tariffs.

In investigating and reporting on a "fair and reasonable" value for small-scale solar PV, IPART is to consider the following key parameters:

- there should be no resulting increase in electricity prices in NSW;
- a fair and reasonable value will not be funded from the NSW Government budget;
- any price should be administratively simple and must take into account the impact on business operations of administering such pricing; and
- a fair and reasonable price benchmark should operate in such a way as to support a competitive electricity market in NSW.

As part of its investigation and report, IPART is also to consider:

- the benefit gained by customers and retailers from electricity produced from small-scale solar PV;
- whether a fair value should be linked to particular metering arrangements;
- whether the facilitation of retailer competition would require any supporting arrangements;
- whether a fair value should be limited in application to generators of a particular size or in a particular location; and
- the impact of small-scale solar PV, if any, on the costs of network distribution businesses, including capital and operating costs. IPART is requested to investigate this issue to the extent necessary to make recommendations as to whether comprehensive network system modelling is warranted.

IPART is also to report on the mechanism(s) by which a fair and reasonable value could be implemented in NSW and which can potentially transition to a national scheme if one is established. In reporting on an implementation mechanism IPART is to consider:

- The need for predictability for customers wanting to install small-scale solar PV;
- Arrangements for reviewing the fair and reasonable value at appropriate intervals;
- The place of an independently derived fair and reasonable value within a competitive market with a mixture of regulated and market-determined price offerings.

A key question for consideration is how a fair and reasonable value should apply within NSW, for example:

- as a mandated floor price;
 - as a mandated price range (with, or without an upper limit);
 - at the discretion of the competitive market; and/or
 - as an advisory benchmark.
- Similar pricing and mechanisms in other jurisdictions.

As a related task, IPART is to investigate the contribution that could be made by retailers to the cost of the Solar Bonus Scheme. This contribution would reflect the benefit to retailers of the energy produced by small scale solar PV generators.

Public consultation

IPART should consult with stakeholders by issuing an Issues Paper and Draft Report and calling for submissions. It may also hold a public hearing. IPART must make its Issues Paper and Draft and Final reports available to the public.

Timing

IPART is to complete this investigation within 8 months of receiving the terms of reference, and release its Draft Report by the end of November 2011.

Background

Renewable energy is a critical part of Australia's energy future and the NSW Government is committed to building a prosperous sector in NSW that will contribute to meeting Australia's 20 per cent renewable energy target by 2020.

The NSW Government recently held a Solar and Renewable Energy Summit that brought together industry, energy experts, government, environment and community groups to discuss actions to ensure further development of solar and other renewable energy in NSW. A draft Solar and Renewable Energy

Plan will be prepared for public consultation, informed by discussions at the Summit, with oversight from a Joint Industry-Government Taskforce.

Electricity retailers gain a benefit for the net electricity exported from small-scale solar PV to the grid.

In this context the NSW Government is committed to there being a fair and reasonable value for energy generated from small-scale solar PV following the closure of the Solar Bonus Scheme. Such a value should operate to support a sustainable solar PV industry, avoiding "boom/bust" cycles.

The NSW Government's preference is for a national renewable energy buy-back framework, consistent with the COAG National Principles for Feed-in Tariffs. In the absence of a national framework, however, the NSW Government supports the introduction of a state-based fair value framework for small-scale solar PV electricity buy-back.

An independently determined value will provide customers with a level of assurance that the price they are receiving is fair and reasonable and also a point of comparison to enable customers to better consider and negotiate offers.

The potential benefits and costs to network distribution businesses from small-scale solar PV will also be considered, including impacts (such as costs or avoided costs) which may be attributable to specific small-scale solar PV systems.

This component of IPART's investigation will be completed in light of a number of reviews planned or underway, including by the Australian Energy Regulator and the Australian Energy Market Commission, examining network pricing rules and policies.