

Minister for Finance
Minister for Tourism
Minister for Hospitality
Minister for Veterans' Affairs



First Floor, Franklin Square Offices, Hobart TAS 7000
Ph +61 3 6233 6752 Fax +61 3 6233 2806
Email scott.bacon@parliament.tas.gov.au

Mr Glenn Appleyard
Chairman
Tasmanian Economic Regulator
GPO Box 770
HOBART TAS 7001

15 AUG 2013

Dear Mr Appleyard

Special Report under section 9 of the *Electricity Supply Industry Act 1995*

As you would be aware, the Tasmanian Government has announced new feed-in tariff arrangements for small customers with micro renewable embedded generation systems to support the move to full retail competition.

The central component of the Government's new feed-in tariff policy is the transition from the current voluntary feed-in tariff arrangements offered by Aurora Energy under the Net Metering Buyback Scheme (NMBS) to a legislatively mandated, 'fair and reasonable' feed-in tariff that will be determined by the Tasmanian Economic Regulator, according to certain principles to be established in new legislation.

Following the release of an Issues Paper in May 2013, and having taken into account significant public feedback, the Government has formulated a feed-in tariff policy, the key elements of which are:

- existing feed-in tariff arrangements under the NMBS will be closed to new customers at midnight, 30 August 2013;
- all existing NMBS customers at this date will continue to receive their current feed-in tariff (the 'legacy' feed-in tariff) until 1 January 2019, subject to maintaining an electricity account in their name at their current premises. Customers who upgrade the capacity of their systems will cease to be eligible for the grandfathered rate on all of their generating capacity;
- to be eligible to be included as an NMBS customer, customers who have not yet installed or connected a system will have until midnight 30 August 2013 to lodge with Aurora Energy a completed application form for embedded generation. The application form will require evidence that the customer has signed a contract and paid a deposit to an installer. These customers will then have until 30 August 2014 to install and connect their systems to remain eligible for the legacy feed-in tariff;
- customers applying to install an eligible embedded generation system on or after 31 August 2013 will be entitled to an 'transitional' feed-in tariff of 8c per kW/h, which will be paid by

Aurora Energy to customers until it exits the market on 31 December 2013. The payment of the 'transitional' feed-in tariff will be subject to the same eligibility criteria, terms and conditions as the existing NMBS;

- the Government will introduce legislation in the Spring Session of Parliament to give effect to the new feed-in tariff arrangements, including establishing the relevant rights and obligations for retailers, the network business and customers;
- the Tasmanian Economic Regulator will be required under the new legislation to complete by the end of 2013 an investigation to determine the new 'fair and reasonable' feed-in tariff that will apply from 1 January 2014. The Regulator's determination will be subject to consultation, as appropriate, and will be reviewed annually;
- all retailers operating in Tasmania will be required by law to offer this feed-in tariff as a minimum to all eligible small customers;
- where customers are eligible for the legacy feed-in tariff, retailers will be required to pay these customers at this rate, but will also be entitled to recover any amount over and above the fair and reasonable rate from the state-owned network business. The Government will issue a direction that the network business must not seek a regulatory pass-through to recover the cost imposed by this proposed legislative obligation;
- the network business will retain and manage the list of customers who are eligible to receive the legacy feed-in tariff over the grandfathering period, and will communicate with retailers in this regard. Legislation will establish a fair and transparent process for resolving any disputes with regard to eligibility for the legacy tariff; and
- the network business will, as soon as practicable, provide to new applicants seeking to connect an eligible renewable embedded generation system from 31 August 2013 onwards, a meter that is capable of allowing these customers the option of off-setting all of their on-site electricity consumption prior to any electricity 'export' occurring.

As noted above, the Government's proposed legislation, to be introduced in the Spring Session, will formally establish the framework for the Tasmanian Economic Regulator to make feed-in tariff determinations. However, in recognition of the timeframes involved and the need for appropriate consultation to be undertaken, I am formally requesting, under section 9 of the *Electricity Supply Industry Act 1995*, that the Regulator commence, as soon as practicable, an investigation into a 'fair and reasonable' feed-in tariff for small customers, in accordance with the attached Terms of Reference.

Please direct any queries you may have in relation to this matter to Mr Richard Sulikowski, Executive Director, Electricity Reform Project on 6233 2600 or by email: Richard.Sulikowski@treasury.tas.gov.au

Yours sincerely



Scott Bacon MP
Minister for Finance

Encl

Terms of Reference

A Fair and Reasonable Feed-in Tariff for Tasmanian Small Customers

As the Minister for Finance, pursuant to section 9 of the *Electricity Supply Industry Act 1995*, I hereby require the Tasmanian Economic Regulator to complete a report investigating and recommending to the Government a 'fair and reasonable' value that should be placed on net 'exported' electricity that is fed into the Tasmanian electricity network by residential and small business customers who:

- have a grid-connected renewable (as defined as currently eligible under the Renewable Energy Target scheme) generation system, up to a maximum total installed capacity of 10 kW;
- consume less than 150 MWh per annum; and
- are located on mainland Tasmania (including Bruny Island).

1) Matters to be considered

In investigating and reporting on the fair and reasonable value of electricity exports from these customers, the Regulator is to take into account:

- the net financial benefits to retailers of exported electricity with respect to retailers' controllable costs, including, but not limited to:
 - the price that the retailer pays for wholesale electricity; and
 - the costs a retailer incurs in running its retail electricity business;
- consistency with the operation of a competitive Tasmanian retail electricity market;
- the principle that feed-in tariffs should not result in any cross-subsidies between customers or customer classes;
- the Commonwealth Government's current carbon pricing arrangements;
- the Council of Australian Governments' National Principles for Feed-in Tariff Arrangements and the concept of 'fair and reasonable' value reflected therein;
- approaches, methodologies, findings and/or recommendations from other jurisdictions the Regulator considers relevant; and
- any other matter the Regulator considers relevant.

The Regulator is also to consider and report on, where it considers it relevant or appropriate:

- any material costs and benefits of micro distributed generation to the Tasmanian transmission and/or distribution networks;
- any other material direct or indirect costs or benefits of micro distributed generation; and
- how any such material costs or benefits identified by the Regulator would be most appropriately captured (for example the potential for different feed-in tariff arrangements based on generation technology and/or grid location).

2) Consultation

The Regulator must undertake such consultation as is considered appropriate.

3) Timing

The Regulator is to complete its investigation and produce its report as soon as is practicable, and no later than by 31 October 2013.