



2/164 Balcatta Rd, Balcatta WA 6021 | 1300 897 441 | www.carbonfootie.com.au

Retail Licence Exemptions for Solar Power Purchase Agreement Providers

**Carbon Footie Submission to
Draft Recommendations Report by**

**Department of Finance – Public Utilities
July 2015**

**Submission Date
7 August 2015**

Contact
JOHN McILHONE
Manager Operations

0422 274 731

INTRODUCTION

I would like to commence this brief submission with a, congratulations on its simplicity and coherence despite the topic or subject matter which has its challenges given the current Regulations that govern electricity supply in WA and the recent emergence of the product i.e. Solar PPA. The timing too is very relevant and a pertinent factor given that many market innovations and developments often leave Governments and Regulators behind. It is therefore refreshing to note that a government entity in this very space has recognised what is an emerging and fundamental market shift and that they have responded accordingly.

The electricity market in WA and nationally has of course been the subject of many studies on how it can better function and perform in relation to producers and end users or consumers but it has also been constrained by election cycles, politics, public-ownership, (arguably) policy agendas and until recently forecast supply costs. I trust your humility is being tested and would hope too, your self-confidence is brimming with this due praise.

I have made reference to a number of sources and documents and commentary from other jurisdictions, which I feel may be of value in this submission but ultimately, it is my view and the view of this organisation, Carbon Footie. This view is that the preferred option and the draft recommendations made in the Draft Report are absolutely correct.

The reasoning and conclusions arrived at in the Draft Report are valid, the Department of Finance – Public Utilities Office has espoused options and recommendations that will not only be welcomed by all sectors of the industry, I think, but which will ensure PPAs: do not operate to the detriment of users; are adopted without undue hindrance and associated cost to users; and offer consumers access to advice and counsel re the (financial) products suitability. The other very important aspect of the reports preferred option and recommendations means the costs associated with compliance, adoption and monitoring will be minimal for all parties concerned. Well done again.

Proposed 2 Conditions to an Exemption

Carbon Footie agrees with the preferred option 2 outlined in the Draft Report and agrees with the reasoning behind this, i.e. do not make the cost of the process to qualify for a Retail Licence exemption prohibitive. The term “Regulatory Equality” is very topical, a clever way to describe or define fairness re grid access and related considerations for SPPA customers.

Product Disclosure Statement

All essential as listed and there is I feel an expectation that in any SPPA Contract this requirement will be included as a fundamental component given the contractual nature of these agreements. There are sufficient PPAs operating now which could be used as a reference, a template or model agreement which covers-off on disclosure.

Registration and Reporting

The proposed workings of the SPPAs on the inside as it were, the regulatory or enforcement side as described in the Draft is again fully agreed with. As much as the PUO will assist business and act as a guide for process compliance I would think that there is scope to broaden this to include acting as a guide for potential SPPA users! This function may or may not be performed elsewhere e.g. Department of Commerce but I have provided here detail of the guidance available to consumers

and businesses in NSW who are contemplating PV Solar and who are contemplating the options available to fund it. This advice and detail is provided via the NSW Department of Environment & Heritage which is reproduced here as an example of what consumers and businesses could have access to in WA, advice provided in simple language which can assist them make the right solar PV funding choice. What follows is the website content from the NSW Department which can be viewed at www.environment.nsw.gov.au/business/solar-ppa.htm and is stated verbatim below:

ADVICE FOR CONSUMERS-RESIDENTIAL SOLAR

Solar finance options in detail

This product selection tool will help you compare options to find the one that might be right for you. Select the features you are interested in comparing. For more details, click on the product name for an explanation of key issues and an example of how this option could work.

Show product features

- ☒ Solar system owner
- ☒ Available through solar PV retailer
- ☒ Repayment type
- ☒ Performance guarantees
- ☒ Contract length
- ☒ Interest rates

I Am your Solar Finance Guide.....

Power purchase agreement

For a power purchase agreement (PPA) you pay nothing upfront for the solar PV system. Instead you enter into a long term agreement to purchase the electricity the solar PV system produces at an agreed price per kWh. The term is usually 10-15 years, but can be up to 20. You may be required to enter into a contract for your grid electricity for the same period. If you sell your home in this time, you have the choice of transferring the contract to the new owners, or paying the contract out after the property settlement. Also known as pay-as-you-go solar or solar lease

Finance details

Period	PPA tariff	Early repayment possible
7 - 20 years	\$0.15 - \$0.25/kWh	No

Ownership of the solar PV system

- The PPA provider owns the solar PV system – you just purchase the energy it produces.
- You may have an option to purchase the solar PV system or enter into a new PPA at the end of the agreement.

Financing costs, fees and charges

- PPA tariff rate may increase each year over the contract
- potential establishment and administration fees
- potential early exit fees

Performance and maintenance costs

- The financier is responsible for monitoring system performance and the costs of any out-of-warranty maintenance required, such as inverter replacement.

Advantages

- Payments are likely to always be lower than bill savings, so you save money.
- Maintenance and system performance is the responsibility of the PPA provider.

Disadvantages

- Not using all the electricity the system produces can mean losing money
- A longer contract period may mean higher interest costs and paying more for the system in the long term.
- Additional finance may be needed to buy the system or sign a new PPA at the end of the agreement, but the period of the agreement is usually shorter than the life of the panels.

Managing risks

- PPAs are often priced at a premium to cover the costs of monitoring and maintenance. Make sure the PPA provider takes responsibility for these costs.
- You pay for the power the solar PV system produces whether you use it or not. Make sure you buy a system correctly sized for your needs.
- For an investment property you may have trouble passing costs on to tenants. Check with your property manager.
- Below is an illustration of how the costs and bill savings could work under a PPA.
- In practice these costs and bill savings will vary depending on what you pay for the system, how much energy it produces and how much you use, and the period and costs of any payment plans of financing.

Scenario

Solar PV project	PV system size (kW)	3kW
	Upfront system cost (\$ net STC subsidy)	\$5,200
	Proportion of power used (%)	67%
	Life of system	25 years
	Maintenance costs	\$4,300
	(Assume a new inverter is required every 10 years)	
	Cost of daytime grid electricity	\$0.20 to \$0.51 / kWh
	Deposit/initial payment	\$0
	Term of finance	\$0.20/kWh PPA tariff
		20 years, 10% residual payment at end of 20 years to own system
Payment conditions	Comparison interest rate	15%

Costs and bill savings

Total payments	\$16,100
Total bill savings	\$20,600
Net savings	\$4,500

Effective interest rate 15%
Lifetime unit cost of energy 0.18 \$/kWh

The Solar PPA - Background

There are now an estimated 20 companies offering solar PPA's in Australia which 12 months ago was pretty close to nil. While PPA's have been used to secure discounted renewable electricity around the world for many years, the Australian Energy Regulator's retailer exemption (exemption(s) application 10 July to AER by: Glenn Melton of Wodonga) for 8 businesses decided, on 2 September 2014, to grant the individual exemptions in accordance with s.110 of the Retail Law" is an example that should be viewed.

The AER Example

On 17 July 2014, the Australian Energy Regulator (AER) accepted an application from PPA Solar for an individual electricity exemption from the requirement to hold a retailer authorisation under the National Energy Retail Law.

Submissions closed 18 August 2014. No submissions were received.

On 2 September 2014, the AER granted an individual exemption to PPA Solar for electricity.

The case is attached as an example of how this jurisdiction managed the process, with perhaps some value in this example for WA!

The research I have done in completing this submission is suggesting, as alluded to by one solar energy commentator, that this approval was viewed as a "subtle and yet profound move by the AER which causes "intrigue" as to "how it will pan out over time".

The extension and application of PPAs on financed "pay as you go" deals for all sorts of other consumer goods are covered by Australian Consumer Law. As a mechanism for ensuring consumer protection, it is difficult to see how PPAs that do not deliver or perform contractually can be exempt from ACL. I do not feel there is anything inadequate about existing consumer and competition legislation. The ability to sell solar at a kWh rate is simply providing another dynamic for the industry and another incentive for consumers to use solar PV, with users having existing options and remedy in the event their consumer protection is in any way compromised.

ADVICE FOR BUSINESSES IN NSW

The advice and guidance offered below is also sourced from the NSW Department of Environment & Heritage and is the advice also offered to Businesses re Solar PPAs and it too is reproduced here FYi.

What is a solar PPA?

A Solar PPA is a long term contract to purchase electricity generated by a solar panel system installed at your premises.

Features and benefits include:

- Monthly payments per unit electricity delivered
- Solar PPA electricity reduces your grid electricity purchases
- Solar PPA electricity is charged at agreed prices for the duration of the contract
- Flexible lease terms between 10 –20 years with extension and early buyout options
- We maintain and manage the system throughout the solar PPA term

- Provides future certainty over electricity expenditure

What is a Solar Operating Lease?

A Solar Operating Lease is a contract to pay a fixed monthly amount for consuming electricity generated by a solar power system on your premises. Some of the benefits include:

- Fixed monthly payment for all electricity delivered
- A solar lease reduces your organisation's dependence on electricity from the grid
- System generation guarantee
- Flexible lease terms between 7 –15 years
- SunEdison maintain and manage the system throughout the lease term
- Provides future certainty over electricity costs

Which is best – a solar lease or PPA?

The major differences between a solar lease and power purchase agreement are the duration of the arrangements and pricing model. With a PPA, you make monthly payments per unit of electricity delivered. With a lease, the payments are predetermined; regardless of how much electricity is consumed.

While both a PPA and a solar lease arrangement involve zero capital outlay; there are a number of factors needing to be considered with either option to gauge the best solution for your company or organisation. Our friendly experts can advise you on whether a PPA or a lease would be the better option for your circumstances.

Power Purchase Agreement (PPA)

Under a power purchase agreement (PPA) you host the system on your roof but do not own the system. You buy energy produced by the system for your consumption from the financier. The financier is responsible for the operation and maintenance of the system and for ensuring that the system produces the required energy.

Also known as: Power plant agreement

The price you pay for the energy produced by the solar PV system is stipulated in the contract in c/kWh. It may be fixed for the entire term or may increase over the life of the system. As long as the price remains lower than the grid electricity price and you consume all of the produced electricity, you are guaranteed net benefits over the life of the contract. You are under no obligation to buy the solar PV system at the end of the contract. Some PPAs are offered by electricity utilities. In this case the electricity you purchase under a PPA will appear as a line item on your regular bill.

Finance details

Period	Principal	Interest Rate
15 - 20 years	Up to \$500k	8 -25c/kWh

Fees, charges and other payments

PPAs may involve an establishment fee, monthly service fees and exit fees. PPAs have no residual. For long leases, i.e. 20 years, you may have the option to buy the system at the end of the contract at a negligible price. You don't pay anything for operating and maintenance.

Accounting and tax

The financier owns the solar PV system and it does not appear on your balance sheet as there is no obligation to buy at the end of the PPA. You may claim tax deductions for all electricity purchased as you would for grid electricity, but may not claim deductions for depreciation of the asset.

Advantages

- All performance risk is borne by the financier and they pay for all operation, monitoring and maintenance costs.
- Zero upfront cost, freeing up cash for other business investments.
- You are under no obligation to purchase the possibly obsolete system at the end of the PPA.
- You may have the option to purchase the system quite cheaply at the end of the contract and continue to save on energy bills for the short remaining life of the system.
- Grid electricity prices may grow faster than the PPA electricity price and increase the benefits.

Disadvantages

- The market for PPAs is relatively new, deals are customised and complex, so costs may not be competitive compared with traditional forms of finance.
- Longer contract lengths may result in higher overall costs of finance than financing options with shorter terms or self-funding.
- Grid electricity prices may grow slower than the PPA electricity price, decreasing benefits or leading to a net loss.

Risks

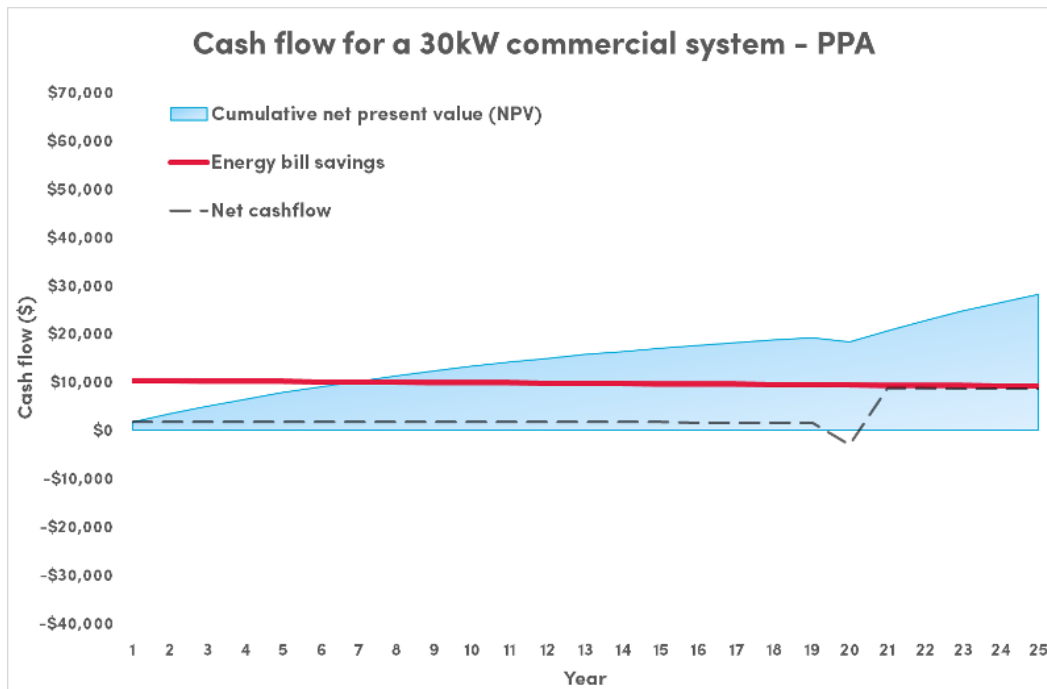
- If you don't use all of the energy generated, you won't enjoy the full benefits of the PPA.
- PPA electricity prices may escalate faster over the life of the contract than grid electricity prices.
- Locking your business into long term contracts may be risky.
- If you want to buy the system at the end of the PPA, make sure you budget for that payment.
- Fees and charges will vary between financiers, so make sure you understand them all.

Scenario

Below is an illustration of cash flows and benefits of how a power-purchase agreement *could* work under a realistic, but hypothetical scenario.

Solar PV project	Solar PV system size	30kW
	System cost	\$46,285
	Replacement inverter cost (assume new inverter is required after 15 years)	\$9,355
	Cost of daytime grid electricity	\$0.21 to \$0.28 / kWh
	Capacity charge	\$0.34 / kW / day
Finance conditions	Proportion financed	100%
	Term	20 years
	Energy tariff	\$0.20 / kWh
	Residual payment	10%

The chart below illustrates the annual cash flow outcomes based on this scenario.



DRAFT RECOMMENDATION 1

Comment

Carbon Footie is of the view the first of the Draft Recommendations is inherent to a SPPA but to state categorically of the need to incorporate a Product Disclosure Statement is reinforcing the need and its importance.

While the second of the draft recommendations is generally accepted as favourable, the secondary requirement to submit “annual reports of its operations” can mean different things to different people! Assuming there will be more detail and information sought it seems a reasonable request. It may be another option to incorporate the operational information need along the lines of “the OPB reserves the right to seek a summary report of operations to affirm the operations of the business provided the SPPA remain consistent with the exemption of said business as a Licensed SPPA Provider”this option may reduce compliance burdens to both parties!

DRAFT RECOMMENDATION 2

Carbon Footie agrees with all the proposed information cited as part of any Product Disclosure Statement.

DRAFT RECOMMENDATION 3

The time period for an assessment of the effectiveness of the exemption is really a Government or Regulatory Authority call. The suggested 3 years is a relatively long period for business and it is the view of this company that this timeframe is entirely appropriate and welcomed. It may well be that a secondary statement be considered as part of this recommendation which alludes to the reserved right of the “Authority” to alter or amend, with due notice and/or consultation perhaps!! If it is working for all, the inclination should be....to let it be.

Conclusion

The final comment here simply reinforces the introductory comment. The preferred option, the draft recommendations and the resultant processes and outcomes are, in the view of Carbon Footie very appropriate and very welcome. They are no-nonsense, administratively superior and a ringing endorsement of the way Finance-Public Utilities Offices thinks on the emergence of Solar PPAs. Congratulations and thank you for the opportunity to provide this comment.

JOHN McILHONE
Manager Operations

7 August 2015