

Victoria Energy Policy Centre

Victoria University
PO Box 14428
Melbourne Vic 8001 Australia
Phone +61 (0) 405 505 060
vepc.org.au

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Lodged electronically

Dear Sir/Madam

VEPC SUBMISSION OF SOLAR SHARER OFFER CONSULTATION PAPER

Thank you for inviting submissions on your Solar Sharer Offer Consultation Paper.

As I understand it the Government's objective with the SSO is ensure that renters primarily, but also low income households, are able to obtain the benefits of rooftop solar - i.e. access to cheap electricity associated with solar electricity. The Government is seeking to achieve this objective by requiring the AER to set a default offer, the SSO, that provides electricity for free for three hours each day, probably between 11am and 2pm.

The Government's objective is perfectly understandable, and laudable. For various reasons related to building form mainly but also split incentives, renters are seldom able to access solar electricity to provide a low cost alternative to grid supplied electricity. However, I do not think the SSO you propose will provide the bill relief to renters (and other low income households without solar) that you are pursuing. Rather I think it is likely to provide a highly regressive subsidy to affluent homeowners, particularly those with electric vehicles. It will also undermine the uptake of rooftop solar and drive average prices up in the long term by reducing retail market competition. The rest of this submission explains my concerns and the reasons for them.

Your paper notes various retail offers that encourage consumers to shift demand to the middle of the day, and suggests that these have been successful in finding customers. I also understand that to be the case, particularly for EV owners who have large electrical demands that many EV owners are able to shift to the middle of the day. Your consultation paper, correctly in my view, does not claim that the retail market is failing to provide products that different customers find attractive.

Your paper makes two claims related to the retail market - “consistency” and “comparability” - to justify the SSO. Yet you correctly note and applaud the innovation in the retail market that is resulting in a variety of different (and evolving) retail offers that encourage consumption when solar is abundant. Why then is regulatory-enforced “consistency” needed? Why do you not suppose that regulatory intervention to ensure “consistency” will undermine the innovation that you applaud?

Similarly with respect to “comparability”, this too seems to be inconsistent with the innovation that you applaud. Retailers and customers are engaged in a process of discovery that you say (and I agree) is working well. Again, why do you not suppose that regulating so as to ensure comparability with a government-determined offer will stifle the discovery process you laud?

You claim that the SSO will reduce negative wholesale prices. But why is that something that policy should be seeking to achieve? Those prices are (correctly) reflecting the balance between demand and supply, indeed you correctly point to exactly this to explain those prices. Negative prices are common in all sorts of markets. They are not indicative of a market failing to deliver prices that reflect the balance between supply and demand. Why then do you suggest that an SSO is needed so as to correct those legitimate prices?

You claim that the SSO will increase electricity demand in the middle of the day and so improve the economics of, particularly, solar electricity. It might be the case that if there is a large demand shift to the middle of the day in response to the SSO, that this will raise wholesale prices in the middle of the day from what they otherwise would be. This is likely to make grid-connected front-of-meter storage less attractive (which you do not mention) and it will also make coal generation in the middle of the day relatively more attractive (which you do not mention). Your account of price effects is therefore incomplete and misleading. In addition you fail to account for the likely price effect of the investment response you assert. That price effect will be to return the balance of demand and supply, and so prices, to much the same position that they are in now, which you assert to be unsatisfactory. Why then do you posit the SSO is a solution to the problems, as you see them?

More importantly, wholesale price and investment effects attributable to the SSO (whatever they may turn out to be) will be dwarfed by the effects of “at least” three hours of free power, on the economics of rooftop solar. Based on NREL’s System Advisor Model, Rob Farago claims that around 40 % of rooftop solar production (measured annually) is produced during the three hours between 11am and 2pm¹. Since feed-in prices for rooftop exports are now close to zero, the only financial value of rooftop solar to households that own them is to substitute for more expensive grid supply. Forcing that grid price to zero for three hours, through regulation, reduces the value of rooftop solar to the small proportion of production that is self-consumed outside of the three free

¹ https://www.linkedin.com/posts/bruce-mountain-48516912_how-much-value-will-minister-bowens-three-activity-7393861838800793600-G6cW?utm_source=share&utm_medium=member_desktop&rcm=ACoAAAKD0WUBKCxFXpd4jrAPar_HGCDtkhzcuc0

grid-supply hours. This will completely destroy the economics of rooftop solar, and will expropriate much of the value of the rooftop solar systems for the 4.2 million solar homes that have already installed rooftop solar, substantially at their own expense².

If the SSO is not attractive to customers, it will not be taken up widely and the price and investment responses your consultation (and my claims) suggest, will not arise. But evidently you do not suggest that the SSO will be priced so as to be unattractive to consumers: indeed your claims on its investment and wholesale price impacts depend on this not being the case.

I therefore agree with you that the SSO is likely to be a major development in retail markets, much morseo than the DMO. Minister Bowen has boldly sold the SSO, and his Government has a track record of (successfully) pressuring the AER to reduce DMO prices. The same is surely likely here so that the SSO will not be (effectively) a retail market price ceiling – as the DMO has long been – but rather an offer at the bottom of the market.

Consider, what would happen if this was not the case. Consumer welfare advocates would, rightly, point to the limited ability of renters to shift demand, since renters, unlike homeowners, seldom have the advantage of being able to work from home. Renters are also much less likely, than home owners, to own EVs whose demand shift to free hours brings large financial gains. So consumer welfare advocates would, rightly, point out that an SSO which had meaningfully higher prices (than the DMO) in the non-free hours, will be rejected by renters and low income households on account of their inability to move demand out of those non-free hours.

Minister Bowen will therefore bring pressure to bear on the AER to ensure the SSO's non-free hour prices do not recover most of the costs for network services, renewables subsidies, wholesale energy costs, market costs and retailers' own costs, that will not be recovered during the free hours.

Consequently the SSO, unlike the DMO, is likely to force retailers to sell below their costs. The effect of this will be to lead to consolidation in the retail market by driving out those retailers unable to sustain such regulatory imposition. The consequently higher market concentration will reduce competition and innovation in the retail market.

The SSO will also, obviously, undermine rooftop solar installation by destroying the economics of new rooftop solar installation and leaving existing solar homes with “winner's curse”³.

In summary, for these reasons I suggest that in the long term the SSO will raise prices in response to retail market consolidation, and it will greatly undermine the energy transition by destroying the economics of rooftop solar installation.

² Op cit.

³ Op cit.



Will there be any short-term winners from an SSO? Taking account, again, of renters' low demand flexibility, I think it is unlikely that typical renters will gain from an SSO. At best they will be in the much the same position that they are now, in the short-term. The most likely short-term winners will be relatively affluent households whose owners and family are more likely to work from home and own an EV whose charging they are often able to shift into the free hours. I am such a customer and have benefitted from Ovo's three hours of free power despite Ovo substantially raising prices outside of the free period⁴. Consumers like me will gain from the SSO by paying substantially lower prices than we currently pay in the non-free hours in the "three for free" offers that are currently available in the market. The SSO is therefore likely to be deeply regressive.

For these reasons, I think the SSO will fail to achieve all of the objectives that you claim of it. To the contrary, for the reasons set out here, I argue it will do a great deal of damage to efforts to reduce greenhouse gas emissions, stimulate competition in retail markets and provide the benefits of rooftop solar to renters and low income households.

Yours faithfully,

Professor Bruce Mountain
Director

⁴ <https://theconversation.com/three-hours-of-free-power-sounds-great-but-it-could-raise-other-costs-and-hamstring-rooftop-solar-269184>