



# VCOSS response

## Minimum feed-in tariffs – ESC draft decision

January 2018

### Introduction

VCOSS welcomes the Essential Services Commission's (ESC) draft decision on minimum electricity feed-in tariffs for 2018-19.

The ESC sets a minimum rate that electricity retailers must pay customers for the electricity they export to the grid, including electricity generated by household solar panels. The ESC proposes that from 1 July 2018 retailers must offer at least one of the following feed-in tariffs:

- a single rate feed-in tariff at a minimum rate of 9.9 c/kWh
- a time-varying feed-in tariff at the following minimum rates:

Off peak	Shoulder	Peak
10pm-7am weekdays and weekends	7am-3pm, 9pm-10pm weekdays 7am-10pm weekends	3pm-9pm weekdays N/A weekends
7.2 c/kWh	10.3 c/kWh	29.0 c/kWh

### Benefits of distributed energy for low-income households

Distributed energy can contribute to cost reductions for people relying exclusively on grid-supplied electricity. This includes people on low incomes living in private or social rental housing without access to residential solar, people who own their homes but cannot afford the capital and maintenance costs associated with solar installation, and people living in areas where household energy generation is not feasible.

By integrating small-scale, customer-owned generation and storage into the grid, network investment can be avoided and network costs are forecast to reduce.<sup>1</sup> Distributed energy integration can also put downward pressure on wholesale electricity prices and feed-in tariff rates, by increasing supply and reducing demand for grid electricity. The ACIL Allen report commissioned by the ESC indicates this is already occurring, with increased household solar installation and additional large-scale solar supply reducing the proposed single rate feed-in tariff for 2018-19, from 11.3 c/kWh to 9.9 c/kWh.<sup>2</sup>

Distributed, renewable energy resources will also play an important role in achieving a clean energy system with net zero emissions.

<sup>1</sup> Energy Networks Australia and CSIRO, *Electricity Network Transformation Roadmap: Final Report*, April 2017. Though we note non-solar households have disproportionate exposure to network costs.

<sup>2</sup> Essential Services Commission, *Minimum Electricity Feed-in Tariffs to Apply from 1 July 2018 – Draft Decision*, 19 December 2017, 9.

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Given the benefits of distributed energy, we acknowledge the need for customers to receive appropriate incentives to maximise exports and modify their export profile to increase supply at times of high demand. The introduction of a time-varying feed-in tariff can help provide these incentives, and we support this measure in principle. However, we have some concerns about the proposed minimum rates under the time-varying tariff, and whether the operation of the tariff, in practice, will be consistent with the underlying policy and legislation.

## Peak pricing

VCOSS is keen to ensure minimum feed-in tariffs do not increase energy bills for non-solar, grid-dependent households, and negate the benefits of distributed energy in placing downward pressure on network and wholesale costs.

We are particularly concerned that the peak component of the time-varying feed-in tariff may be excessive and lead to higher retail pricing. The proposed 'wholesale' peak rate of 29.0 c/kWh under the time-varying tariff approximates or exceeds some retail peak rates applicable from January 2018.<sup>3</sup> We therefore fear some retailers may increase retail pricing in order to recover costs.

The proposed tariff could worsen the current allocation of retail costs among households. Between January and July 2017, the retail component of electricity bills was steady for standing offer customers, increased for market offer customers, and decreased for solar customers. On average across the five network areas, the estimated retail component of bills was \$640 for standing offer customers, \$375 for market offer customers, and -\$3 for solar customers per annum (as at July 2017).<sup>4</sup> The proposed peak rate may mean retail costs for solar households extend further into negative. Non-solar households may have to offset these costs and face higher prices.

It is particularly important to guard against excessive feed-in tariffs following the preliminary report by the Australian Competition and Consumer Commission on retail electricity supply, which identified the inflationary effect of older, premium feed-in tariff schemes in Victoria and elsewhere, involving payments of double to triple the then retail rate for electricity.<sup>5</sup> By contrast, regulated feed-in tariffs now typically reflect the value of wholesale electricity only. Victoria's tariff, however, includes a premium above the wholesale rate representing the value of the avoided social cost of carbon. The Victorian tariffs should be calculated to exclude any further premiums above wholesale electricity rates, other than the value of the avoided social cost of carbon.

We note the ESC is legislatively obliged to have regard to the avoided social cost of carbon in determining feed-in tariff rates, and that the Governor in Council made an order in 2017 specifying a methodology for determining these avoided costs.<sup>6</sup> With that caveat, we ask the

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<sup>3</sup> Based on a review of offers on the Victorian Energy Compare website as at 15 January 2018.

<sup>4</sup> St Vincent de Paul Society and Alviss Consulting, *Victorian Energy Prices July 2017: An Update Report on the Victorian Tariff-tracking Project*, September 2017, 62, 65-66.

<sup>5</sup> Australian Competition and Consumer Commission, *Retail Electricity Pricing Inquiry: Preliminary Report*, 22 September 2017, 68-71, 117-118.

<sup>6</sup> *Electricity Industry Act 2000* (Vic) s 40FBB(3); Victorian Government, *Victoria Government Gazette No. S 36*, Tuesday 21 February 2017.

ESC to ensure that, as far as possible, the time-varying tariff closely approximates wholesale market rates, and limits the potential for an increase in retail pricing.<sup>7</sup>

## Exporting non-renewable energy

Our second concern is the possibility of non-renewable energy exports to the grid, which will be incentivised under the time-varying tariff. Households and commercial entities with storage ability could conceivably import electricity from the grid at an off-peak rate, store that energy, and then export to the grid at a peak rate under the time-varying tariff. At current prices, the off-peak rate for importing electricity could be as low as 10-13 c/kWh, making it attractive to recycle grid-supplied electricity at a peak export rate of 29.0 c/kWh.

This practice seems inconsistent with Victorian government policy and legislation, which uses regulated feed-in tariffs to promote the generation and export of renewable energy.<sup>8</sup> Under the *Electricity Industry Act 2000* (Vic), these tariffs include a value of 2.5 c/kWh for the avoided social cost of carbon, and are only available to small renewable energy generators, which are defined as a wind, solar, hydro or biomass energy facility (or other facility if specified by Order in Council) connected to a distribution system that generates electricity and has an installed or name-plate generating capacity of less than 100 kilowatts.<sup>9</sup>

Further, the feed-in tariff system should encourage additional renewable energy supply in order to put downward pressure on pricing. The recycling of grid-supplied electricity would seem to work against this aim.

We are not aware of any measures in place to prevent gaming of the tariffs. We request the ESC take steps to ensure households and commercial entities are only rewarded for renewable energy exports to the grid.

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<sup>7</sup> We acknowledge the tariffs' effect on retail pricing will depend on a range of factors beyond the tariff rates themselves, including the relative use of single rate versus time-varying feed-in tariffs, household export profiles, and competitive pressures in the retail market.

<sup>8</sup> *Electricity Industry Act 2000* (Vic) div 5A; Explanatory Memorandum, Energy Legislation Amendment Bill 2007 (Vic).

<sup>9</sup> *Electricity Industry Act 2000* (Vic) s 40F.