



Feed-In Tariff Review 2015
Essential Services Commission
Level 37 / 2 Lonsdale Street
Melbourne VIC 3000

17 July 2015

Re: Feed-In Tariff Review 2015

On behalf of the Northern Alliance for Greenhouse Action (NAGA), I am writing to thank you for the opportunity to provide input into the Essential Services Commission review of a minimum feed-in tariff for small scale energy generators.

The Northern Alliance for Greenhouse Action (NAGA) operates across northern metropolitan region of Melbourne. NAGA's council members include Banyule City Council, Darebin City Council, Hume City Council, Manningham City Council, City of Melbourne, Moreland City Council, Moreland Energy Foundation Limited, Nillumbik Shire Council, City of Whittlesea and the City of Yarra. NAGA formed in 2002 to share information, coordinate emission reduction activities and cooperate on research and the development of innovative projects. NAGA's goal is to achieve significant emissions abatement and energy cost savings by delivering effective programs and leveraging local government, community and business action.

Our submission is summarised as follows:

- We support a mandatory minimum feed-in tariff.
- The current ESC methodology is too narrow in scope and does not consider the broader benefits of small-scale renewable energy generation to the grid and other consumers.
- As a result, a feed-in tariff of 5c/kWh is not considered benefit-reflective.
- We recommend the methodology to calculate the feed-in tariff is updated and broadened to account for additional benefits.

Response to 2016 Minimum Feed-In Tariff Draft Decision

We support the need for a mandatory minimum feed-in tariff to ensure equity and fairness for small-scale energy generators, specifically solar photo-voltaics (PV). In NSW where FiT's are provided by IPART as a guideline only, 50% of retailers are not offering FiTs in the minimum recommended range¹.

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http://www.piac.asn.au/sites/default/files/publications/extras/14.05.15_piac_solar_fit_submission_to_ipart.pdf

We note that the ESC recognises that the purpose of a minimum feed-in tariff is:

“to ensure that small renewable energy generators receive a fair and reasonable rate for the electricity they supply for use by others.”

This is based on the principle, which the ESC acknowledges, that small renewable energy sources should receive *full credit* for the benefits of the electricity they supply to the market. This principle is consistent with guidance from the Australian Energy Market Commission (AEMC) and the Victorian Competition and Efficiency Commission (VCEC).

However, it is NAGA’s view that this principle for a fair and reasonable rate is currently not being met under the current economic evaluation methodology used by the ESC for determining minimum feed-in tariffs.

NAGA is not advocating for a return to the high subsidised feed-in tariffs experienced in the past such as 1:1, it believes that the current 5c/kWh is not truly benefit-reflective and that the methodology needs to be reviewed and updated.

Methodology for determining a minimum feed-in tariff

The factors that the ESC considers relevant to the value of electricity supplied by small renewable energy generators are based on two variables:

- the marginal cost of the equivalent amount of electricity that would otherwise need to be purchased from central generators (i.e. prices of electricity in the wholesale market in Victoria); and
- the locational value of electricity produced close to the final consumers compared to relatively distant central generators (i.e. avoided transmission and distribution losses).

We understand that these factors make up the principal statutory requirements under the Electricity Industry Act 2000 and have been the two factors used in the previous feed-in tariff determinations.

Therefore, it is uncertain what the purpose and function of community consultation on this draft decision is if the ESC is unable to consider other factors and is not willing to review its methodology. We note that the ESC recognises that there is a range of methodologies that could be used to calculate a feed-in tariff but has decided not to review the methodology for the 2016 draft decision. It is this point that we wish to highlight in our submission: that the current methodology does not reflect the first principle of determining a fair and reasonable rate.

New ‘disruptive’ technologies such as solar PV with battery storage are rapidly emerging and are changing the dynamics of the electricity industry. Existing electricity regulatory frameworks should be rethinking and adapting to these changes in a way that facilitates changing consumer expectations. We hope that the anticipated Victorian Government election commitment to a broader review into the benefits of distributed generation will lead to an updated methodology in future feed-in tariff determinations².

² <https://www.viclabor.com.au/media-releases/labor-will-put-renewable-newstead-back-on-target/>

Such a review should consider the methodological framework put forward in the recent Clean Energy Council report “calculating the value of small scale generation to networks”³.

Similarly the ESC has considered that other factors such as time of use variations on feed-in tariffs and including Transmission Use of System (TUOS) charges are outside the scope of this review. We strongly believe that such factors are important in considering a “fair and reasonable rate” so we question the conclusion that such factors are outside of the scope.

Capturing the benefits of solar PV

All energy consumers share the broader benefits of distributed generation in the long term, in line with the National Electricity Objective. This objective seeks to promote ‘efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity’.

Renewable energy reduces wholesale prices by offsetting demand and the need to turn on expensive gas fired plants to meet peak periods. This leads to a more efficient use of the networks (particularly avoided transmission losses) as well as reducing the overall greenhouse gas emissions intensity of the National Electricity Market (NEM).

Solar households also help to increase competition in the energy market. There are many other broader social and environmental benefits such as job creation and health benefits from avoided coal generation, but we recognise that these are currently outside of the scope of the review.

We support and reiterate the views previously expressed by the Alternative Technology Association in their 2014 FiT review submission, that there are two other significant values that PV is delivering to the broader market that should be reflected in the FiT, that of:

- avoided transmission capital expenditure (as solar generation and peak transmission load profiles broadly overlap); and
- merit order value (i.e. the downwards pressure that PV is placing on wholesale prices at peak times which according to MEI (2013), is worth hundreds of millions of dollars savings to all consumers per year⁴).

We also support the views of the Clean Energy Council and the Australian Solar Council that a benefit-reflective feed-in tariff should be time varying and include a critical peak payment. The previous ESC review welcomed comments regarding a time-of-use component, noting the existing limitations under the Electricity Industry Act⁵. A feed-in tariff that includes this component would provide an important incentive for small-scale generators seeking to maximise feeding electricity in times of peak demand. We wish to encourage the ESC to continue to research a time-of-use component to solar feed-in tariffs and are disappointed to see it not considered in this review.

Previous reviews of feed-in tariffs by regulators have often framed the issue in terms of the value of solar power to electricity retailers, rather than the broader benefits of solar generation to the grid, other consumers and the environment. The Queensland Competition Authority justifies this approach of focussing on benefits to retailers using the rationale that high feed-in tariffs are unfair to non-solar customers:

“...setting the retailer-funded feed-in tariff at a rate any higher than the direct financial benefit to retailers would likely result in retailers increasing

³ <http://www.cleanenergycouncil.org.au/policy-advocacy/arena/FPDI-project/value-of-small-scale-generation>

⁴ <http://www.energy.unimelb.edu.au/documents/paper-merit-order-effect>

⁵ <http://www.esc.vic.gov.au/getattachment/30ba3a48-00db-4256-a7da-c80f67cd0b28/Draft-Decision-Minimum-Electricity-Feed-in-Tariff.pdf>

electricity prices for all customers to cover costs that exceed the benefit they receive.” (QCA 2013, 10)

This may be an important principle when considering subsidising premium or 1:1 feed-in tariffs, but when feed-in tariffs are at their current low rates it does not reflect the significant profit margin currently received by retailers purchasing cheap electricity and on-selling it to neighbours at almost five times the rate. Conversely, having a low feed-in tariff of 5c/kWh creates a perverse incentive for households to avoid exporting electricity to the grid during peak times, which is exactly when solar should be exported to the grid to reduce overall wholesale prices to all consumers.

Thank you for the opportunity to make a submission to the minimum feed-in tariff for Victoria.

In summary, we do not consider the proposed 5c/kWh feed-in tariff for 2016 to be benefit-reflective and recommend the methodology be updated and broadened in scope.

Yours sincerely

A handwritten signature in black ink, appearing to read "Paul B. Murfitt". The signature is fluid and cursive, with a large initial 'P' and 'M'.

Paul Murfitt

Chair

Northern Alliance for Greenhouse Action
