

Essential Services Commission
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MELBOURNE VIC 3000

Lodged online: <https://engage.vic.gov.au/minimum-feed-tariff>

17 January 2020

Minimum electricity feed-in tariff to apply from 1 July 2020

The Australian Energy Council (the '**AEC**') welcomes the opportunity to make a submission to the Essential Services Commission (the '**ESC**') on the Minimum electricity feed-in tariff to apply from 1 July 2020 Draft Decision (the '**Draft Decision**').

The AEC is the industry body representing 23 electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. These businesses collectively generate the overwhelming majority of electricity in Australia and sell gas and electricity to over 10 million homes and businesses.

The AEC supports Victorian customers receiving a fair value for the electricity generated, and fed back into the grid, by their solar installations. Our members value this generation source, and even in jurisdictions where feed in tariffs are not mandatory, have continued to pay their customers a fair price for their solar, often above the rates recommended by state regulators.

That being said, the AEC remain concerned that if Feed in Tariffs (FiT) are set at a rate higher than the wholesale cost of electricity they are intended to offset, they have the potential to increase the gap between the outcomes for those that have solar, and those that do not.

The AEC welcome the draft decision of the ESC to shift from a time weighted calculation of the electricity price, to a solar weighted calculation. A solar weighted will ensure the FiT more accurately reflects the wholesale electricity costs as the increasing solar penetration continues to impact Victoria's load profile. The AEC consider this change will mitigate unnecessary costs on non-solar households.

The ACCC highlighted in its recent electricity monitoring report that the bills of solar customers are vastly lower than those for non-solar customers.¹ There is a risk that this imbalance will be further exacerbated in coming years, as the costs of maintaining the system, and of funding inflated FiT's such as the Premium Feed in Tariff and the avoided social cost of carbon bonus credits are recovered from a declining number of non-solar customers.

The avoided social cost of carbon represents a clear wealth transfer from customers who do not have solar, to those that do. As the Government's Solar Homes program injects an additional 650,000 solar systems into Victoria, the impact of the avoided social cost of carbon will be exacerbated. Given the economic incentives to install solar, it is likely that in the coming years non-solar customers will increasingly be made up of customers for which solar is impractical (eg, renters and apartment dwellers), or those who cannot afford it.

¹ The ACCC found electricity bills for solar customers in Victoria were 34% than non-solar customers. See ACCC, *Inquiry into the National Electricity Market—November 2019 Report, Figure 4*

Whilst the AEC accepts the avoided social costs of carbon bonus credit is not within the ESC's control, it does increase the obligation on the ESC to ensure that the elements of the FIT that are within its purview do not further exacerbate costs. The AEC considers that the Draft Decision to mandate retailers to offer a time varying FIT will increase retailer costs, and represents a clear overreach from the ESC absent any evidence of benefits nor great desire from customers to seek out more complex pricing arrangements. Given this, the AEC strongly encourages the ESC to maintain the status quo, allowing retailers to continue to offer either the flat FIT, or the time-varying FIT.

Benefits and costs of a time varying FIT

Responding to the ESC on the Draft Decision to mandate a time varying FIT is a challenge given the Draft Decision does not provide any evidence or rationale as to why the change is warranted. The Draft Decision notes that retailers gave strong views that the costs would be high, and the timeframe to implement would take 3-12 months. It also notes that other products, such as the ability to offer Virtual Power Plants and other dynamic pricing models may be impacted by the Draft Decision, yet still proceeds.

In effect, the onus of proof is passed from the ESC, which has legislated requirements to ensure that changes are in the long term interests of consumers, to retailers, who are being asked to prove that such a change would in fact not be in consumer interests. Whilst the ESC notes it has been flagged in previous years that the current approach was a transitional measure, the AEC notes that the Victorian retail market has fundamentally changed since the last time the ESC considered whether or not this change would be beneficial to consumers in 2016.²

This is clearly not reflective of good regulatory practice.

Even before costs and system implications are considered, it is incumbent on the ESC to detail why they consider such a change would deliver enhanced outcomes for consumers. The ESC has published time varying FITs in each of the last two financial years, and a number of retailers are now offering these products to customers on request. Given these products are available to customers today, the AEC consider that it would only be necessary to mandate each retailer to offer the time varying rate if there was clear evidence of customer frustration, or harm, caused by the inability to obtain a time varying product from their own retailer.

Similarly, the ESC should consider the benefits available to customers if they opted onto a time varying FIT, compared to the outcomes if they remained on the flat FIT. Given the relatively low difference between each component of the time varying FIT in the Draft Decision, the AEC expects that even for customers with a solar system facing directly west (and thus generating electricity later in the afternoon than other system orientations), they would be unlikely to benefit materially if they switched from the flat to the time varying FIT. This creates a scenario where the benefits are low, irrespective of costs.

Practical implications of mandating a time varying FIT in 2020

As the ESC is aware, over the last 12 months, retailers have been required to make fundamental changes to their systems and processes at extremely short notice to comply with changing regulations. The Clear and Fair Contracts Draft Decision will require retailers to implement another significant tranche of changes by 1 July 2020.

The AEC does not consider there is any pressing need to implement yet another incremental change to the regulatory framework at this time. Vast changes, with short implantation timeframes, significantly increase

² <https://www.esc.vic.gov.au/electricity-and-gas/inquiries-studies-and-reviews/distributed-generation-inquiry-2015-true-value>

the costs faced by retailers and ultimately their customers. This is particularly important for changes that only benefit solar customers, given their costs are disproportionately recovered from non-solar customers.

The AEC strongly encourages the ESC to avoid making any hasty changes to the FIT framework, and instead, utilise the first half of 2020 to undertake a proper assessment of the benefits and costs of requiring all retailers to offer a time varying FIT. If it was determined in mid-2020 that a change was warranted, providing a 12 month implementation window would vastly decrease the costs faced by retailers, and ultimately, their customers.

The AEC would welcome the opportunity to further engage with the ESC on this price reset, and for any future assessment of the costs and benefits of this reform on Victorian energy consumers. For any questions about our submission please contact me by email at ben.barnes@energycouncil.com.au or on (03) 9205 3115.

Yours sincerely,



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