

## **Feed-in tariff Review 2016 – Submission on the ESC Draft Decision Paper**

Dear Sir/Madam

I make this submission on my own behalf as a domestic electricity customer and a small scale solar producer. In early 2014 I purchased an 8 panel, 2KW PV system and had it installed on my property in Surrey Hills.

The primary purpose of this submission is to register my strong disagreement with the Commission's draft decision to reduce the minimum feed in tariff (FIT) to 5.0 cents per kWh from 1 January 2016.

The proposed 5 c/kWh FIT is too low because the tariff determination process and key prices used by the Commission cause a systemic downward bias in its calculations.

Given this bias, it is difficult to argue that the 5 c/kWh FIT is "fair and reasonable". I note that the Draft Decision Paper includes no evaluation of the "fairness and reasonableness" of the draft decision.

Expansion of these arguments and recommended changes to the tariff determination process are outlined below.

I trust the Commission will give appropriate consideration to the points/recommendations made.

Thank you for the opportunity to make input to this important public policy question.

Rod Williams

## 1. Marginal cost of electricity from central generators

As outlined on page 17 of the Draft Decision Paper, the Commission has utilised the ACIL Allen forecast average pool price for 2016 of 4.02 c/kWh. This price systematically understates the true marginal cost of generating electricity in Victoria because it omits the carbon costs incurred in that production. The practical effect of the carbon tax was to force generators to include this carbon cost in their cost structures.

Since the Abbott government removed the carbon tax from 1 July 2014, coal fired generators have (again) been free to discharge their Co2 emissions into the atmosphere at no cost to them. As the Commission would be aware, any firm that can avoid some of its production costs by shifting them onto external parties, at no cost to itself, reap the benefits of what economists call “market failure”.

As brown coal fired generators are currently able to avoid paying the carbon pollution costs they cause, conventionally calculated marginal cost of electricity from such generators understates the true (carbon cost included) marginal cost.

Consequently the current ESC minimum FIT pricing model uses a marginal cost of electricity which systematically understates the ‘true’ cost. Given the wholesale price’s dominant role in determining the minimum FIT this ‘market failure’ discount remains in any finally determined FIT.

Continuing to utilize the discounted “market failure” price to determine the minimum FIT systematically depresses returns to PV solar generation and punishes households for investing in renewable, carbon free energy. This discourages investment in PV solar and, by default, supports the most carbon intensive source of electricity generation – brown coal.

While (perhaps) unintended, persisting with this “market failure” minimum FIT model will position the Commission in lock-step with the Abbott government’s objective of destroying the renewable energy sector and dogged defending fossil fuels, particularly coal.

Such an outcome is difficult to reconcile with the Victorian Government’s position (as confirmed by the Premier on ABC radio on 15<sup>th</sup> July 2015) that he wants Victoria to be the “renewable energy state”, thereby enjoying the investment, employment and environmental benefits thus produced.

### **Recommendation:**

**The “market failure discount” should be removed by adding a carbon cost equivalent to the marginal cost figure used in the minimum FIT pricing model. The forecast average EU carbon price could be used to calculate this adjustment.**

## 2. Treatment of avoided Transmission Use of System (TUOS) charge

As specified in the Draft Decision Paper (section 2.1 (b)), the Commission must have regard to “any distribution and transmission losses avoided” when determining the minimum FIT. If it is appropriate

to include avoided energy losses throughout the transmission and distribution system (and it is), then other savings, such as avoided TUOS charges should also be included in the pricing model.

**Recommendation:**

**Re-consideration of the 2014 and 2015 arguments around inclusion of avoided charges, such as TUOS, should be included in the scope of the 2016 review with the objective of quantifying and including all impacts of PV solar supply in the minimum FIT.**

3. Explicit evaluation of whether minimum FIT is “fair and reasonable”

As specified in the Draft Decision Paper introduction – “The purpose of the minimum FIT is to ensure that small renewable energy generators receive a fair and reasonable rate for the electricity they supply for use by others”. The Paper remains mute on the questions of “fairness” and “reasonableness.”

While concepts of fairness and reasonableness are, necessarily subjective and difficult, any draft decision should be subject to an explicit evaluation of whether it is fair and reasonable. Such an assessment should be made against broader energy market dynamics including changes to retail prices, competition, the behaviour of firms, regulatory or other government policy changes. The absence of any explicit evaluation of the “fairness and reasonableness” of the FIT in the Draft Decision Paper implies that the Commission accepts that the price generated by the mathematical formulae and the model are automatically “fair and reasonable”.

As discussed above, the model and input prices used by the Commission produce a downward bias in any suggested FIT. With this downward bias there is a prima facie case that the minimum FIT is unfair and unreasonable. This conclusion is further supported when the actual and recommended reductions in the minimum FIT are compared with changes in retail prices over the relevant 2 year period.

	Min FIT	change	Ave retail (excl supply charge)	change
2014	8 c/kWh		22 c/kWh	
2015	6.2 c/kWh	- 22.5%	20 c/kWh	- 9.1%
2016 (Rec & For)	5.0 c/kWh	- 19.3%	20 c/kWh	0%

Although retail prices for 2016 are not known, there is little prospect of them falling. Assuming retail prices remain unchanged in 2016, they will have fallen by 9.1% from 2014 while the minimum FIT will have declined by 37.5%. It is difficult to argue that such an outcome is “fair and reasonable.”

According to the Brotherhood of St Laurence Equity and Climate Change Program Chairman, John Thwaites, Victorian consumers have been “duded” by deregulation of the electricity market.

As reported in *The Age* on 7<sup>th</sup> July 2015, Mr Thwaites stated that “other areas of costs have been kept down, but the retail component has increased very substantially” A recent report from the Program showed that retailer component of average Victorian electricity bills has more than tripled

since 2008. For example, in 2014 “retail charges” in an average bill ranged from \$371 to \$471 compared to a range of \$86 to \$183 in 2008. The oligopolistic, cartel like behaviour of electricity retailers has largely driven this result. Under-pricing the minimum FIT merely exacerbates this problem. The lack of competition in the retail sector is further evidenced by the fact that all the large operators set their feed in tariffs at the minimum set by the Commission.

The Commission may argue that the non-competitive behaviour of electricity retailers is beyond the scope of this study. However, questions of fairness and reasonableness can only be addressed with a broader consideration of the operating dynamics of the total electricity supply sector.

**Recommendation: That the Commission explicitly evaluate the “fairness and reasonableness” of their recommended minimum FIT by reference to the broader energy market and include that evaluation in their Draft Decision Paper.**