



18<sup>th</sup> January 2018

**Essential Services Commission: Draft decision on minimum feed in tariffs to apply from 1 July 2018**

St Vincent de Paul Society, Victoria welcome the opportunity to provide feedback on the Essential Services Commission, draft decision on minimum feed in tariffs (FIT) to apply from 1 July 2018. In this draft decision the ESC has set two feed in tariffs to apply from 1 July 2018 with retailers required to offer at least one. The two FITs are a flat rate and a time variant rate.

St Vincent de Paul Society is particularly concerned with ensuring cost impacts on low income and vulnerable households is kept to a minimum. This is particularly pertinent with regards to the regulation of minimum feed in tariffs, ensuring the rate set is accurate and is a true “value” to retailers and hence all consumers. This is particularly challenging in an environment of both significant increase in solar installations both in 2017 and forecasted for 2018, and uncertainty in wholesale costs. In a policy context which includes the Victorian fair solar policy and the additional charges for the social value of carbon reduction factored into the scheme.

Within this context we would like to raise five issues for consideration by the ESC:

**Time variant vs flat rate FIT**

We are concerned that there may be an error in one of the FIT rates as the flat rate feed in of at 9.9 cents (including social cost of avoided carbon) when compared to the time variant FIT with peak, off peak and shoulder (29 cent, 7.2 cent and 10.3 cent including cost of avoided carbon) should strike the same cost when averaged. However average cost for the time variant FIT is 12.47 cent while the flat rate FIT is 9.9 cent.

Looking in more detail at tables 3.3 and 3.4 in the draft review, it would appear that the time variant FIT scenario has a higher average wholesale rate of 9.2 cents relative to the flat rate of 6.8 cents.

This suggest to St Vincent de Paul Society that either the wholesale costs are not consistent within both scenarios hence higher price in the time variant scenario or, the relative duration of the off peak, shoulder and peak times are overly generous for the shoulder / peak period inflating the average.

We would encourage the Commission to revisit the wholesale cost and/or the time duration of the peak period of the time variant FIT.



### **Avoided cost of carbon**

The expansion of other, behind the meeting energy export options such as batteries and electric vehicles, the current design of the FITs, in particular the government's 2.5 cent avoided cost of carbon, assumes that all the energy being fed into the system is derived from solar or renewable energy production. This is not necessarily the case.

With the introduction of the time variant FIT, in particular the price differentials, there is a possibility that energy sourced from the grid in off peak hours will then be exported in peak hours.

For example using energy compare, Vic Home Choice NEWFIT offered by Pacific Hydro in the Jemena network has an off peak energy consumption charge of 11.1 Per KWH.

Theoretically if a household had a storage option such as a battery, it could charge the battery at this rate and then export at the 29cent rate (which includes the 2.5 additional payment for carbon avoidance). This is effectively a return of 260%, and should not attract the 2.5cent carbon avoidance reward.

We recommend that the Essential Services Commission limit the application of the 2.5-cent additional payment where it can be assured that the energy fed in is indeed from a renewable energy source. This could be achieved through some registration process of limiting to solar only households. This we believe would also be consistent with the community expectation that the carbon avoidance charge paid by retailers and hence energy consumers is not being charged for a policy measure that is not being delivered.

### **Victorian government fair solar policy**

We have some concerns regarding the interplay between regulated minimum FIT (and potentially the choice of FIT, time variant and flat Fits) and the interaction of the Victorian government fair solar policy which limits the ability of retailers to offer solar specific tariffs. We believe the interactions of these policies creates a situation whereby cross subsidies between non solar and solar households are occurring.

We have highlighted this in various reports and it can be seen in more detail at the following link in particular tables 2, page 17, table 3, page 20 and table 6, page 39 which explores cost stacks for solar and non-solar households by energy network. We draw to your attention the Victorian cost stacks relative to other States.

[https://www.vinnies.org.au/icms\\_docs/278548\\_National\\_Energy\\_Market\\_-\\_Time\\_to\\_shed\\_some\\_light\\_on\\_this\\_market.pdf](https://www.vinnies.org.au/icms_docs/278548_National_Energy_Market_-_Time_to_shed_some_light_on_this_market.pdf)

With this in mind, we would encourage the ESC to consider if there is to be a suite of FIT (flat, time variant and critical peak for example) that these FIT be applicable only to certain types of retail tariffs. For example, flat rate FIT only for flat tariff, time variant FIT only for



time variant tariff and so on, rather than a mix and match approach time variant FIT with an underlying flat tariff.

### **Forecasting errors under's and over's**

As there are significant challenges in forecasting future wholesale costs, particularly in times of rapid disruption and transformation in the energy market, the setting of regulated minimum FIT based on forecasting is bound to lead to a situation where the rate is either too high or too low. This has been identified by the ESC through its proposed reduction of the current flat rate FIT. With this in mind we believe that the ESC should have a regular review process to confirm if the estimate of wholesale and other costs were accurate to ensure both consumers and retailers are paying a fair and efficient price.

### **Retailers and wholesale market**

While we believe that solar households and households exporting to the grid should be provided with price signals, and rewarded for the exported generation when it provides a system benefit, we believe that to arrive at the current regulated number, in particular, a time variant number is not as simple as averaging out the pool prices across certain time periods.

While this may be the price the market is settled at it is not necessarily the price that is “paid” by the retailers. This is due to the operation of the financial instruments such as hedges, swaps and trades that retailers use to manage wholesale volatility and the use of PPA in contracting large scale renewables as part of the various renewable energy targets.

We would encourage the ESC to consider the various contracting arrangements of 1<sup>st</sup> 2<sup>nd</sup> and 3<sup>rd</sup> tier retailers and the impact if any on setting future FIT rates to ensure that the regulated price is appropriate and hence limits unintended costs being placed on retailers and hence non solar consumers.

If the Commission wishes to discuss this submission please contact [REDACTED]  
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