

Getting solar tariffs right

VCOSS response to Essential Services Commission draft decision on minimum feed-in tariffs for 2019-20



The Victorian Council of Social Service (VCOSS) welcomes consultation by the Essential Services Commission (ESC) on its proposed minimum feed-in tariffs for 2019-20.

Retailers pay feed-in tariffs to households that export electricity to the grid. The ESC sets the minimum price retailers must pay, and retailers can pay more than the minimum. Feed-in tariffs approximate the price a retailer would otherwise pay for electricity in the National Electricity Market (NEM), plus the value associated with the avoided social cost of carbon (2.5 c/kWh). In 2019-20, the ESC will continue to allow retailers to offer:

- a single rate feed-in tariff, and/or
- a time varying feed-in tariff.

We welcome continuation of this approach and the transition to time varying tariffs, which will help optimise the timing of household electricity exports. This should put further downward pressure on wholesale prices and lower network costs, e.g. by reducing the risks of high reverse flows into the network in the middle of the day.¹

The proposed single rate tariff is 11.0 c/kWh, an increase from the 9.9 c/kWh tariff for 2018-19. The proposed time varying tariff will also change, with a much lower peak rate than 2018-19:

	Minimum rates (c/kWh)		
Times	Off-peak	Shoulder	Peak
	Weekdays 10pm-7am Weekends 10pm-7am	Weekdays 7am-3pm, 9pm-10pm Weekends 7am-10pm	Weekdays 3pm-9pm Weekends N/A
2018-19 rate	7.1	10.3	29.0
2019-20 rate	8.9	10.7	14.1

The time varying tariff for 2019-20 seems to better reflect wholesale electricity prices, unlike the 2018-19 tariff. The 2018-19 peak rate seemed particularly inconsistent with wholesale electricity prices, since it was equal to or exceeded some peak retail prices. As VCOSS noted in its submission on the 2018-19 tariff, this could have led to higher prices for non-solar households if retailers recovered additional costs from other customers.² Only one retailer appears to have offered the time varying tariff to date; we hope a more cost-reflective tariff encourages other retailers to offer this option to solar customers.

Estimating wholesale prices

In developing the 2019-20 tariffs, the ESC has switched to a different method of forecasting wholesale electricity pricing. It previously used a market modelling approach that models the process for arriving at NEM wholesale prices, including assumed generator bidding strategies, demand profiles, generator outages, and generator entry and exit.

The ESC has now decided to base wholesale price forecasts on electricity futures market pricing. VCOSS welcomes this approach as it is consistent with the methodology used by other Australian regulators to develop feed-in tariffs, allowing consumer advocates to better assess the reasonableness of tariffs in different jurisdictions. A futures market approach is also more transparent than a market modelling approach because it is based on publically available data and appears to be the most accurate method of forecasting wholesale prices, with energy retailers managing their own financial risks through the futures market. ESC staff suggest a futures market method to develop the Victorian Default Offer.³

VCOSS welcomes these changes to the feed-in tariff methodology, and looks forward to increased household solar exports over 2019-20 that are timed and priced to benefit the energy system as a whole.

¹ Total Environment Centre and Renew, *Cross about subsidies: The equity implications of rooftop solar in Australia*, Discussion paper, December 2018, 7, 16. High reverse flows can cause voltage spikes that have to be managed by networks.

² Victorian Council of Social Service, 'Response—Minimum feed-in tariffs: ESC draft decision', January 2018.

³ Essential Services Commission, *Victorian Default Offer for domestic and small business electricity customers*, Staff working paper, 21 December 2018, 8.

The Victorian Council of Social Service is the peak body of the social and community sector in Victoria.

VCOSS members reflect the diversity of the sector and include large charities, peak organisations, small community services, advocacy groups, and individuals interested in social policy.

In addition to supporting the sector, VCOSS represents the interests of vulnerable and disadvantaged Victorians in policy debates and advocates for the development of a sustainable, fair and equitable society.



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VCOSS acknowledges the traditional owners of country and pays its respects to past, present and emerging Elders.

This document was prepared on the lands of the Kulin Nation.

