

# MINIMUM ELECTRICITY FEED-IN TARIFF TO APPLY FROM 1 JANUARY 2016

## Feed In Tariff 2015

Essential Services Commission

Level 37 / 2 Lonsdale St

Melbourne 3000

By email [fitreview@esc.vic.gov.au](mailto:fitreview@esc.vic.gov.au)

[Kerri.heron@esc.vic.gov.au](mailto:Kerri.heron@esc.vic.gov.au) 9032 1300

## Background

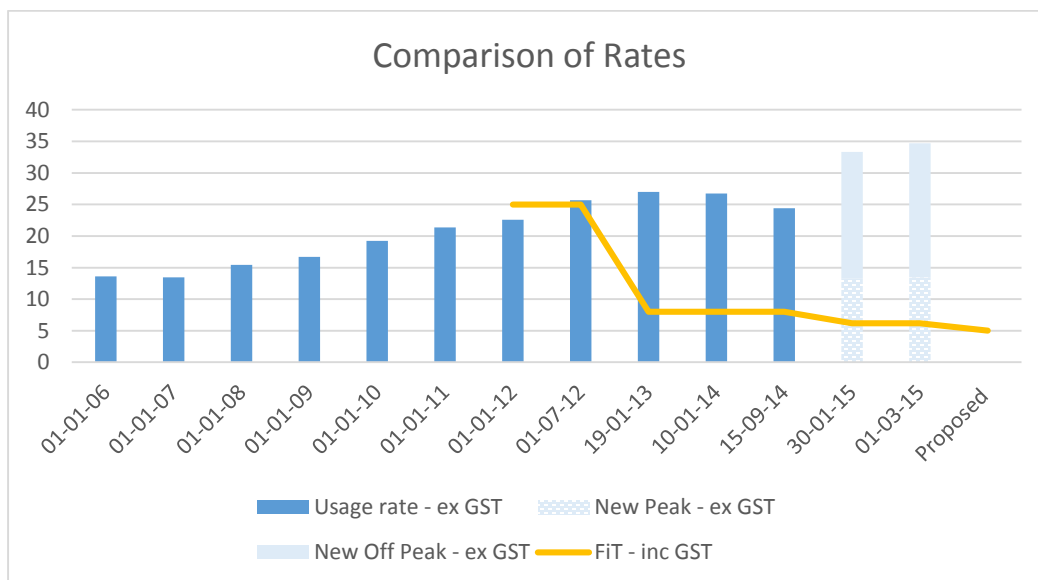
I recently became a small renewable energy generator. I made this investment in November 2014 and, although the installation was completed before Christmas, it was not finally connected to the grid until late January 2015.

My connection was greeted with a 36.3% increase in the comparable usage tariff from 24.43c/kWh to 33.31c/kWh on 30 January 2015. A further increase of 4.1% occurred shortly after on 1 March 2015 when the peak rate once again increased to 34.68c/kWh.

I do appreciate that the Off Peak rates, which were introduced at the same time, are considerably lower. However, I am referencing the Peak as this rate applies from 7am to 11pm – a period that spans the period during which PV plants are generating. It is also a period when most humans (retail consumers) are active and using electricity.

## Some Statistics

The chart below shows the **ex** GST usage rates charged in my electricity account (same location same retailer) since 2006. It also shows the new Peak/Off Peak rates (again ex GST) from January 2015 as well as the FiT since 2012 (**inc** GST).



Source – my power bill

## MINIMUM ELECTRICITY FEED-IN TARIFF TO APPLY FROM 1 JANUARY 2016

---

The rate has increased at an annual rate of 6.7% p.a.. Without checking, perhaps 4-5% p.a. in excess of price inflation over the same period. This also covers a period in which the Carbon Tax had been removed.

In stark contrast, and ignoring the transitional rate of 25c / kWh, the FiT was reduced by 23% in 2014 (8c to 6.2c) and the proposal is to reduce it a further 19% in 2016.

### **Draft Decision on Minimum Feed-In Tariff to Apply from 1 January 2016.**

I read your draft decision recommending the rate for 5c/kWh to apply from 1 January 2016. Unfortunately, I find I am not in a position to prepare a detailed challenge to the calculated rate as information referred to in the draft decision does not appear to be readily available. The report also lacks some basic information that PV generators, such as myself, may find informative. For example:-

1. Details of the generation capacity of renewable energy generators since the FiT effectively commenced 1 January 2012.
2. Details of usage by time of day\*
3. Details of central generators contribution by time of day\*
4. An idea of the actual wholesale rates charged by time of day during the period\*
5. An overview of the ACIL report approach assumptions and assessment, rather than simply the forecast rates.
6. Commentary on the impact of GST (as tariffs are quoted in electricity accounts as ex GST while the minimum FiT is quoted (or at least interpreted by the retailers) as including GST).

\* Summary by Peak/Off peak would be better than nothing. I ask this as the time of generation must have a bearing on the "marginal" cost as shown with Peak and Off peak tariffs. Possibly this should be demand rather than generation.

I understand that the business is complex and the report must be readily understood. However, there must be a requirement for the ESC to provide sufficient material supporting the assertions and calculations should readers so require.

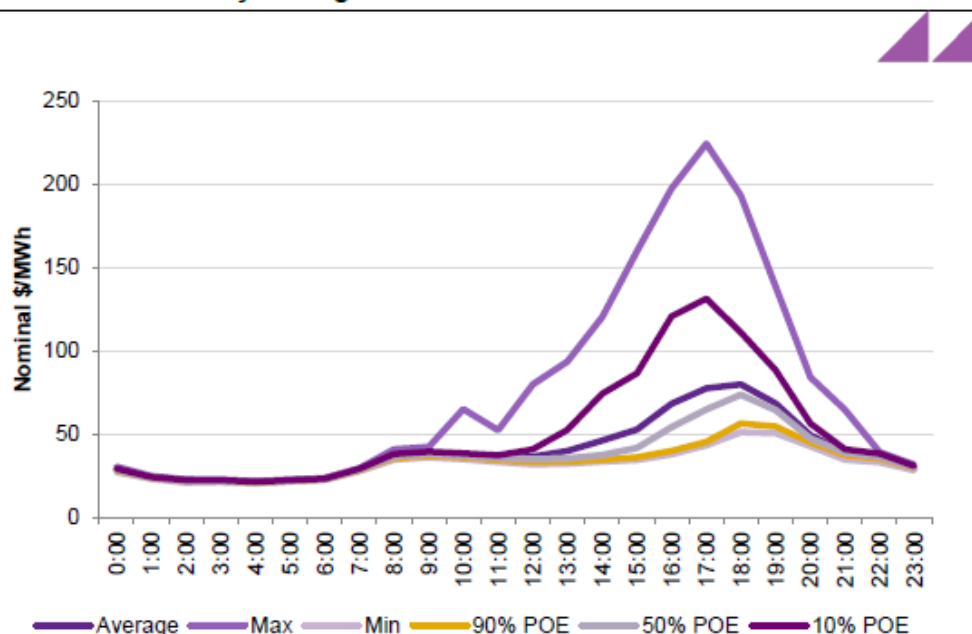
### **ACIL Allen**

I was able to obtain the consulting report from which the key underlying rate for determining the FiT of \$40.19/MWh was taken - a mean statistical projection for 2015/16. (Table 2 of the ACIL Allen report).

Interestingly, this report indicates this rate is the simple time weighted average (day and night). In my limited experience Solar only works at night with bright moons. Figures 5 and 6 of their report reveal the actual cost of electricity during PV generation hours.

The following figure reproduces Figure 6 from their report. As noted above, no hard data was included underpinning the figures such as generation/demand and actual \$/MWh. The chart does, however, suggest that a significantly higher generation weighted average price would result from considering the PV generation hours for the determination of the *marginal cost of the equivalent amount of electricity that would otherwise need to be purchased from central generators as required*. Perhaps even \$50/MWh or more. This calculation should be conducted on the generation weighted average and not time weighted as the figures suggest.

**Figure 6 Time-of-day averages across the simulations for 2016**



Note: Average Victorian RRP by time-of-day

Source: ACIL Allen PowerMark modelling

### Submission

While I am not in a position to challenge the technical details of new tariff calculations, I do make the following observations in support of my view that the draft rate is neither fair nor reasonable.

- The differential between the current FiT (6.2c) and the Peak usage tariff 34.68c of 28.48c/kWh (29.04c if one adjusts for GST) would appear excessive. After some prodding, my old retailer advised that they could offer discounts of 30%. This would reduce the possible differential to 18.08c – still almost 300% of the current FiT.

I suspect economies of scale, obligations as an essential service, profit for distributors and retailers, and network service and maintenance costs will account for some of it – but surely not 18c/kWh.

- The standard tariffs continue to increase at rates well in excess of inflation and I suspect that the wholesale price is part of this. However, the FiT is reducing at a far far greater pace. The direction of the changes let alone the size of the rate changes are incongruous.

## MINIMUM ELECTRICITY FEED-IN TARIFF TO APPLY FROM 1 JANUARY 2016

---

- PV owners (I) have made a substantial investment in order to generate electricity and that as a generator of electricity I should be paid a fair and reasonable price. I have outlaid the capital and hooked into an existing network for which I am prepared to pay rent to cover operating costs.
- The marginal cost base does not appear to recognize the actual marginal cost of PV generation – ie daylight hours. And should properly be performed on a generation/demand weighted average rather than the applied time-weighted averages shown.

### Summary

Neither the significant differential between rates (something between 18c and 29c/kWh) nor the ever widening gap (increasing tariff/reducing FiT) pass the sniff test. The ESC must be able to explain this differential and how Fit can decrease in an environment of ever increasing tariffs.

Further, the true marginal cost of generation has been ignored, contrary to the specified requirement in the *Electricity Industry Act 2000 (Vic.)* and as indicated in the executive summary of the draft decision.

As an aside, I note the FIT is a minimum. However, I have not encountered a retailer willing to pay more. In reality, it is the maximum price that generators are paid.

Yours sincerely

Clive Amery