

**ACAT COMMENTS ON ICRC REPORT NO 9 OF 2009
ISSUES PAPER
ELECTRICITY FEED-IN RENEWABLE ENERGY PREMIUM: DETERMINATION
OF PREMIUM RATE**

Issues Paper

The first part of the Paper (Sections 1, 2 and 3) gives an overview of the present situation in the ACT and other parts of Australia with regard to the premium rate feed-in tariff (FIT) for electricity. It also briefly covers overseas FIT schemes.

The second part of the Paper (Sections 4 and 5) discusses key issues bearing on the setting of the FIT premium rate in the ACT and proposes a model for setting the premium rate in 2010-11 and for adjusting the rate in 2011-12 to 2014-15.

General Comment on Equity

ACAT wishes to reiterate previous comments made by the ACAT and its predecessor, the Energy and Water Consumer Council, namely that the Feed In Tariff, in the form adopted by the ACT, is highly inequitable. The FIT scheme seeks to achieve environmental benefits through increased local renewable electricity generation, however the Scheme design provides significant financial benefits to the wealthy investors in FIT capacity and passes the cost equally on to all customers, including low income customers who have no financial capacity to make such an investment.

ACAT recommends that the FIT scheme design must be varied to exempt energy concession customers from the costs of the FIT scheme. This can be best achieved by including in the energy concession an amount which fully offsets the cost of the FIT passed through to customers in the distribution tariffs set by the AER.

ACAT Response to ICRC Questions

In covering various issues the ICRC asks for input from stakeholders to 9 specific questions. The Tribunal's comments are structured according to these questions.

1 The Commission seeks input from stakeholders regarding overseas examples of the calculation methodology for gross feed-in tariffs and their applicability to the ACT.

ACAT has no comment in relation to this question.

2 On what basis should the Commission estimate the cost of investing in renewable generation capacity?
Should the Commission have regard to the value of solar credits payments that may offset the initial purchase or be retained by the customer?

The value of solar credits payments are an intrinsic element of the total investment and return on that investment. These credits should be included in the Commission's model.

ACAT recommends that the data in Table 4.1 should be checked against other sources, particularly any source which provides ACT-specific daily output estimates.

3 What is an appropriate payback period?

How is the take up of the scheme likely to change based on different premium rates and payback periods?

The provision of a 20 year payment period for the FIT premium in relation to each household generator implies that the payback period should bear some relationship to 20 years, however this could be balanced by reference to the environmental goal of increasing local, renewable electricity generation. It should also be noted that the average turnover of properties in the ACT is significantly less than 20 years and this could be taken into account when considering the payback period.

In the absence of equity in the scheme for low income consumers, ACAT submits that the payback period should be as long as possible, in order to minimise the cross subsidy from poor households to wealthy households.

If the scheme is made more equitable, as discussed above, ACAT recommends a payback period of 10 - 15 years (without a discount applied – see Q 4).

4 Should a discount rate be used to calculate the payback period? If so, how should it be determined?

For reasons of simplicity, ACAT suggests that a discount rate not be applied and that this be reflected in the payback period adopted.

5 What level of greenhouse gas emission reductions should the premium rate be targeted to achieve? What level of take-up should the premium rate be designed to achieve?

A high level of take-up will increase the inequity of the scheme unless direct equity measures are adopted.

6 Are there benefits in setting the premium rate at the same level as the rate in NSW?

Some of the design features of the NSW scheme are significantly different to the ACT Scheme (in particular, the period of premium payment) so there is little point in aligning with New South Wales.

At some point, it may be necessary to harmonise the ACT scheme with a nationally-consistent model.

7 Should the calculation of the feed-in premium rate have regard to the level of concessions that are available?

Section 4.7.2 (Social impacts of the decision) consists of only four short paragraphs. The first simply notes the estimated increase in the cost of electricity for the average consumer. The second notes that lower income households and tenants will be disadvantaged by the scheme. The third notes that the ACT Government 'will be considering a range of support mechanisms' for these people. The fourth notes that the Commission has previously made recommendations to link concessions to the Transitional Franchise Tariff (TFT), which would, in turn, be increased by the scheme. Having said the above the Paper then asks Question 7.

The Commission has not made any concrete suggestions about concession levels. While the matter of concessions is complex, the Commission is best placed to make quantitative estimates of the concessions needed to compensate the disadvantaged (including but not limited to lower income households and tenants) for essential utility usage. ACAT considers that the Commission should make quantitative recommendations concerning the extent that the energy concession should be increased to cover the costs of the premium tariff.

8 Given the forgoing discussion, what should the premium feed-in tariff rate be set at in 2010-11?

This question seeks a comprehensive answer to the whole question of the premium rate that the ACAT is not in a position to give.

9 What principles should underlie the model to establish the feed-in rate for the period 2011-12 to 2014-15? Should the model take account of the outcomes of the scheme to date?

The ACT has significantly different climate and energy use patterns which suggests that outcomes here could be significantly different from those of other states/countries. The ACT scheme has not been operating very long; available data should be considered, but with caution.