



26 February 2010

Feed-in Tariff Secretariat
Department of Environment, Climate Change, Energy and Water
GPO Box 158
CANBERRA ACT 2601

By email: DECCEWfeedintariff@act.gov.au

ACT Stage 2 Feed-in Tariff: options for an expanded scheme

The Energy Supply Association of Australia (esaa) welcomes the opportunity to comment on the ACT Government's discussion paper regarding the review of options for an expanded ACT electricity Feed-in Tariff (FiT) scheme.

esaa is the peak industry body for the stationary energy sector in Australia and represents the policy positions of the Chief Executives of over 40 electricity and downstream natural gas businesses. These businesses own and operate more than \$120 billion in assets, employ 52,000 people and contribute \$16 billion directly to the nation's Gross Domestic Product. The Association understands that ActewAGL, while being a member company of esaa, will be making its own submission.

esaa supports the development of a secure, reliable and sustainable energy supply system, where open and competitive markets form the corner-stone of an efficient energy supply system and reductions in greenhouse gas emissions are achieved at least-cost through policy settings that are national, long term and complementary to competitive market arrangements.

esaa is a fuel and technology neutral organisation and represents the views of businesses that control investments across a wide range of fossil fuel and renewable energy technologies. The Association does not support policies that favour or disadvantage particular fuels or technologies because such arrangements are unlikely to deliver a secure, reliable or sustainable supply of energy or reduce greenhouse gas emissions at least-cost.

esaa's submission of 25 February 2008 in response to the original discussion paper on design of an ACT FiT scheme cautioned the Government against introducing a FiT scheme on the basis that it strayed from commitments agreed by the Council of Australian Governments (COAG), was likely to result in a significant cost imposition on ACT electricity consumers and would not promote cost effective abatement.

esaa reiterates its opposition to a premium ACT FiT scheme, including the proposed expansion of listed capacity thresholds to subsidise larger scale renewable energy

installations. The implementation and expansion of policies, such as this one, abrogate commitments agreed by COAG to implement an efficient, effective, equitable and streamlined set of climate change measures.

The ACT Feed-in Tariff scheme

The ACT FIT scheme commenced 1 March 2009.

Under the scheme, premium tariffs less the 'normal cost of electricity supply' are payable by the local distributor, ActewAGL, through electricity retailers, to the occupants of ACT properties for the gross amount of electricity generated from eligible renewable energy installations.

The 'normal cost of electricity supply' is funded by retailers at a rate determined by the Energy Minister to approximate savings from avoided energy purchases in the National Electricity Market and is currently set at 6 cents per kilowatt hour.

Payments are made for a contract period of 20 years, with the premium rate fixed for the duration of the contract.

Payments are recoverable by the distributor through regulated distributor charges and are ultimately paid for by ACT electricity consumers.

As originally legislated, premium tariffs were open to all grid-connected, renewable energy installations. However, in response to concerns over the potential cost of the scheme on ACT electricity consumers, amendments were passed to limit eligibility.

A premium tariff of 50.05 cents per kilowatt hour is payable on installations of a listed capacity of no more than 10 kilowatts and a reduced rate, 80 per cent premium tariff of 40.04 cents per kilowatt hour is payable on installations of a listed capacity of between 10 and 30 kilowatts.

The Energy Minister is required to determine the premium rate to apply to contracts drawn in each financial year after considering advice from the Independent Competition and Regulatory Commission (ICRC).

The costs of the current ACT Feed-in Tariff scheme

The Australian Energy Regulator (AER), in its final decision on the *Australian Capital Territory Distribution Determination 2009-10 to 2013-14*, approved \$47.9 million of costs estimated to be incurred by ActewAGL in relation to premium tariff payments between 1 July 2009 and 30 June 2014¹.

The ICRC, in its final decision on *Retail Prices for Non-Contestable Electricity Customers 2009-10*, estimated that the cost approved by the AER in relation to

¹ Australian Energy Regulator, *Final Decision*, 'Australian Capital Territory Distribution Determination 2009-10 to 2013-14 pp. 67.

premium tariff payments would increase typical household electricity bills by around \$27 per year if spread evenly over the first five years of the scheme².

The discussion paper notes that the cost on ACT households is not spread evenly over the first five years of the scheme but increases from approximately \$7 to \$8 in 2009-10 to about \$55 in 2014-15³.

Further to the cost of premium tariff payments, the AER approved additional FiT scheme costs of \$4.1 million dollars estimated to be incurred by ActewAGL between 1 July 2009 and 30 June 2014, including \$300,000 for IT system upgrades, \$600,000 for network operations, \$500,000 for meter inspections and \$2.7 million for meter upgrades⁴.

The benefits of the current ACT Feed-in Tariff scheme

The discussion paper states that the scheme, as currently legislated, will lead to the generation of 97,860 megawatt hours of electricity from grid-connected renewable energy installations during its first five years of operation, leading to a reduction in greenhouse gas emissions of 107,402 tonnes⁵.

From this and using the forecast costs approved by the AER's in the ACT distribution determination, it can be estimated that every tonne of abatement achieved under the FiT scheme between 1 July 2009 and 30 June 2014 will cost \$484.

As the ICRC has similarly pointed out⁶, an abatement cost of this magnitude would be 20 times higher than the abatement cost expected to be achieved under a national emissions trading scheme (ETS) and almost seven times more expensive than abatement that could currently be achieved by directly purchasing green energy in the ACT.

Review of the premium rate to apply in 2010-11

The ICRC recently released for consultation a draft report on the determination of a premium rate, finding that, on balance, the current rate of 50.05 cents per kilowatt hour is excessive and that a lower rate of 37 cents per kilowatt hour should apply to contracts entered into during 2010-11⁷.

² Independent Competition and Regulatory Commission, *Final Decision*, 'Retail Prices for Non-contestable Electricity Customers 2009-10', p. 23.

³ ACT Government, *Discussion Paper*, 'National Capital to Solar Capital: Options for an Expanded ACT Electricity Feed-in Tariff Scheme', p. 5.

⁴ Australian Energy Regulator, *Final Decision*, 'Australian Capital Territory Distribution Determination 2009-10 to 2013-14', pp. 37-9, 63-9 & 147-9.

⁵ ACT Government, *Discussion Paper*, 'National Capital to Solar Capital: Options for an Expanded ACT Electricity Feed-in Tariff Scheme', p. 8.

⁶ Independent Competition and Regulatory Commission, *Draft Report*, 'Electricity Feed-in Renewable Energy Premium: Determination of a Premium Rate', p. 7.

⁷ *Ibid.*, pp. 7-8.

Taking into consideration the benefits provided by other programs, such as the Renewable Energy Target (RET), the Commission's draft report found that a household investing in a small-scale solar PV system would earn greater rates of return than could be justified for an investment with similarly low-risk.

The Commission argued that over-compensating households who invest in renewable energy should be avoided because the cross-subsidy negatively impacts the economy, its costs must be borne by other ACT residents who choose not to, or cannot, invest in renewable energy and the scheme is a costly way of reducing greenhouse gas emissions.

The costs of an expanded ACT Feed-in Tariff scheme

Modelling undertaken for the review by KPMG-Econtech shows that a FiT scheme, similar to what was originally legislated, which provided a reduced rate, 75 per cent premium tariff of 37.54 cents per kilowatt hour to renewable energy installations of a listed capacity greater than 30 kilowatts, would over the first five years:

- support a significant increase in installed renewable energy generation capacity in the ACT of up to 305 megawatts;
- but this would come at a significant cost to ACT electricity consumers, increasing average annual electricity bills for households by \$434 and business by \$6,543.

esaa supports the Government's decision that a cost impact of such magnitude is unacceptable, particularly given that increasing costs in the energy sector are already placing upward pressure on retail prices in the ACT and elsewhere. The Association finds it difficult, however, to understand on what basis the Government considers that any of the options, which involve various combinations of reduced premium rates and scheme caps, would constitute a responsible re-direction of resources within the ACT economy.

The arguments against expanding the FiT scheme, and against the scheme itself, are clearly evident in the general findings of the modelling undertaken for the review by KPMG-Econtech, including that:

- Expanding the FiT scheme increases employment over the short-term but reduces employment and income over the longer term as higher electricity prices work their way through the local economy.
- For any given premium rate, a higher cap on installed capacity invariably generates higher levels of investment and employment in the short-term but leads to greater employment and income losses over the longer term.
- For any given cap, a higher premium rate generates lower levels of investment and lower employment in the short-term and typically, although not uniformly, leads to greater employment and income losses over the longer term.

- The cost of abatement increases significantly with a higher premium rate and increases moderately with a higher cap, ranging from \$195 to \$434 per tonne of carbon dioxide equivalent.

Even at the lower end of the abatement cost spectrum, an expanded scheme with a low premium rate and a low cap on installed capacity represents a resoundingly bad investment decision taken by the Government on behalf of ACT residents. As the ICRC has similarly pointed out⁸, an abatement cost of \$195 would be 8.5 times higher than what could be expected under a national ETS and almost three times higher than what can currently be achieved by directly purchasing green energy in the ACT.

In response to KPMG-Econtech's finding that an expanded FiT scheme will lead to employment and income losses over the longer term, the discussion paper seeks to imply that there could be 'additional measures' available to the Government to sustain the short-term employment gains associated with the FiT scheme. esaa disagrees with such a suggestion and cautions the Government against avoiding disclosure or acknowledgement of what will invariably be a negative economic consequence of continuing with or expanding the FiT scheme.

The economic stimulus of the FiT scheme is short-term but is underpinned by an additional energy cost that must be borne by the ACT economy, resulting in employment and income losses, for twenty years. The short-term employment gains associated with the FiT scheme are predominantly the result of an increase in demand for installation services, which does not provide the conditions for on-going employment. Therefore, not only will 'additional measures' have to look elsewhere in the economy for sustained employment opportunities but they must first address the long-term employment losses that would occur as a result of higher electricity prices.

The effect of Feed-in Tariff schemes on investment in generation

esaa has, since February 2004, advocated for a single, national climate change policy to apply to the entire economy, where Australia's commitments to reducing greenhouse gas emissions are achieved at least-cost through policy settings that are national, long term and complementary to competitive market arrangements. The Association believes that this can be best achieved by implementing a national ETS, with any additional measures targeted at outstanding market failures and shown to be of net benefit.

By creating an economy-wide and forward looking set of carbon prices, a national ETS could promote the most efficient development of the energy supply sector, resulting in the lowest-cost generation mix for any given level of emission reductions. Under this approach, all electricity consumers would share in the benefits of clean energy and could do so at the lowest possible cost.

The FiT scheme duplicates incentives for particular forms of low-emissions generation options, which distorts efficient generation outcomes and increases the cost of abatement. For example, the rapid increase in distributed solar PV capacity

⁸ Independent Competition and Regulatory Commission, *Draft Report*, 'Electricity Feed-in Renewable Energy Premium: Determination of a Premium Rate', p. 7.

that has been artificially brought about by state and territory FiT schemes, direct government subsidies and other measures such as 'Solar Credits', has crowded out investment in lower cost, more efficient generation options such as large-scale wind, solar, geothermal and gas.

In the context of the Commonwealth Government's 20 per cent RET, the interaction of the various state and territory FiT schemes and the 'Solar Credits' multiplier has contributed to an oversupply of Renewable Energy Certificates (RECs). The oversupply of RECs has led to a significant decline in the spot REC price from levels reached during 2009 and has contributed to greater levels of uncertainty regarding future REC prices. Under such conditions, large-scale renewable energy projects, particularly wind projects, have had difficulty attracting and maintaining finance, with numerous projects being shelved. While it is sometimes claimed that the consequence of these interactions were unintended, esaa contends that they were pointed out to governments at all levels by various stakeholders but largely disregarded.

Commonwealth and state and territory government agreements

On 29 November 2008, COAG endorsed a set of principles for jurisdictions to review and streamline climate change mitigations measures and agreed a set of principles to apply to new FiT schemes and to inform the reviews of existing schemes⁹. While these agreements represent a fundamental contradiction in terms (i.e. premium FiT schemes are not complementary to the operation of a national ETS, therefore the latter agreement is inconsistent with the former), it was envisaged at the time that they may work to limit a further proliferation in the costly patchwork of climate change mitigation measures.

Unfortunately, this has not occurred and the proposed expansion of the ACT FiT scheme represents another departure from the commitment by COAG to develop and implement climate change policies and a regulatory framework that could enable greenhouse gas emissions to be reduced at least cost to the economy.

The COAG agreement on FiT schemes stipulates that where a premium rate is applied it must be transitional with clearly defined time limits; should give explicit consideration to public funding of premium payments; and should not impose a disproportionate burden on electricity consumers. Contrary to this, the ACT FiT scheme does not sunset, consideration has not been given to public funding of premium payments and it appears that a 20 year contract period has been adopted to spread the costs of the scheme over a long enough period to avoid what might otherwise be considered a disproportionate burden on electricity consumers.

Social equity under the ACT Feed-in Tariff scheme

The FiT scheme is inequitable and is a socially regressive policy.

⁹ Council of Australian Governments, *Communiqué*, 29 November 2008.

The gross nature of the FiT scheme is a particularly excessive source of inequity. Under the gross scheme, ACT residents who cannot, or choose not to, access the scheme are required to pay not only the cost of renewable electricity that is exported to the grid but also for the cost of renewable electricity that is consumed by residents generating renewable electricity. This is an incongruous proposition when considered from a general view on the imperatives for public policy. It is even more absurd considering that low-income households are less able to benefit from the scheme because of difficulties they face in accumulating the savings required to make an upfront investment in renewable energy.

The degree of inequality created by the FiT scheme is compounded by the ICRC's recent draft finding that the premium rate provides excessive returns to residents with solar PV installations and should be reduced by 13.05 cents per kilowatt hour, or more than one-quarter in 2010-11.

Inequity in the FiT scheme is acknowledged in the discussion paper and addressed through a number of proposed options that could enable greater, more equitable access to the benefits of the scheme, including:

- Expanding eligibility of the FiT scheme to include ACT Housing, the benefits of which would presumably accrue to the low-income ACT residents occupying government housing premises; and
- Establishing a community ownership program, whereby ACT residents could purchase shared entitlements to premium payment dividends generated from a renewable energy generation facility.

Notwithstanding the merits, or otherwise, of the above proposals, the peculiarity of the Government's intentions to remove inequity from the FiT scheme, while virtuous, is that, if it were completely successful, every ACT resident would be required to pay, through higher electricity bills, the exact cost of the subsidy that was offered to convince them to invest in renewable energy. Taken together, there would be no net benefit to any individual resident from a perfectly equitable FiT scheme and so it follows that the only way such a scheme can benefit one resident is if it disadvantages another.

Energy efficiency under the ACT Feed-in Tariff scheme

A gross FiT scheme appears contrary to measures that are designed to encourage energy efficiency by accurately reflecting the cost of energy supply in the price of retail energy prices. Because residents with solar PV installations are paid a premium rate of more than eight times the notional value of electricity for every kilowatt hour of renewable electricity they generate, regardless of whether they consume it or send it back to the grid, the incentives they face to conserve energy are significantly reduced as compared with a net FiT scheme.

Conclusion

esaa does not support the ACT FiT scheme or the proposal for its expansion. The scheme represents an unfortunate and regrettable combination of bad economic, environment and social policy. The Association urges the Government to sunset the scheme via a downward transition in the premium rate and move funding for outstanding contractual obligations on-budget.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Brad Page', with a stylized flourish at the end.

Brad Page
Chief Executive Officer