



Submission by
Alternative Technology Association

on the

**Methodology for Assessment of Fair and Reasonable Feed-In
Tariffs and Terms and Conditions**

ESC DRAFT GUIDANCE PAPER

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For further information or enquiries contact:

Brad Shone
Energy Policy Officer
ATA – Alternative Technology Association
(03) 9415 2105
E-mail: Brad.Shone@ata.org.au

ATA comment on the *Methodology for Assessment of Fair and Reasonable Feed-In Tariffs and Terms and Conditions* Draft Guidance Paper

The Alternative Technology Association (ATA) welcomes the opportunity to provide comment on the *Methodology for Assessment of Fair and Reasonable Feed-In Tariffs and Terms and Conditions* - Draft Guidance Paper (the Paper), as released by the Essential Services Commission (ESC) in January 2008.

ATA is a not-for-profit organisation established in 1980 to empower our community to develop and share sustainable solutions for the way we live and to promote the uptake of sustainable technologies in order to protect our environment. The organisation provides service to over 4000 members, who are actively promoting sustainability in their own homes by using good building design and implementing water conservation and renewable energy technologies.

ATA advocates in both the government and industry arena for ease of access and continual improvement of these technologies, as well as the production and promotion of information and products needed to change the way we live. As Australia's peak member-based organisation representing early-adopters of renewable energy systems, ATA is in a unique position to highlight the needs and concerns of small-scale renewable energy system owners and their interaction with the retail energy market.

ATA welcomes the requirement under the *Energy Legislation Amendment Act 2007* (Amendment Act) for electricity retailers to provide fair and reasonable price, terms and conditions for the connection of small-scale renewable energy to the electricity grid. We support the role of the ESC in assessing the fairness and reasonableness of retailer offers, and welcomes the opportunity to provide comment on the proposed assessment methodology.

As Stage One of a two-stage process to establish feed-in tariffs in Victoria, the establishment of fair and reasonable terms and conditions provides greater clarity and certainty, enabling renewable energy proponents to shop around to determine the most suitable and favourable offer, and is a welcome interim step on the path to mandated tariffs.

Errors in the Draft Guidance Paper

A number of errors exist in the Guidance Paper which we feel need correcting. Firstly, page 6 of the Paper states that 'Published prices, terms and conditions come into operation two months after their publication date of 1 January 2008. Thus, customers can expect to receive feed-in tariff payments from 1 March 2008.' This fails to take into account the reality that, as yet, few retailers have published prices, terms and conditions. (At the time of writing, ATA could only find one offer published on a retailer website, as required under the Act, and a second recently published in the Victorian Government Gazette, although as yet unpublished on a website.) However, the Amendment Act states that prices, terms and conditions come into effect two months *after they are published*, with no provision within the act to bring this forward, and as such it is highly unlikely that any offers will come into effect by March 1, as stated.

ATA calls on the ESC to provide clarity on the expected timeframes for both publication and implementation of offers, given the delays experienced to date, and any penalties for retailers failing to satisfy their license requirements under the Act.

The Guidance Paper also states that 'the Amendment Act defines a small renewable generating facility to be one producing less than 100kW of electricity per annum'. This is incorrect. This should read 'the Amendment Act

defines a small renewable generating facility to be one which has an installed or name-plate generating capacity of less than 100 kilowatts'. The Act is quite clear in referring to the nameplate rating of a renewable energy system, rather than the quantity of electricity generated, and we urge the ESC to rectify this error.

Comments on Criteria

ATA provided comment on the *Draft Fair and Reasonable Criteria* in our submission to DPI on November 7 2008¹. A summary of our concerns with the Criteria, and recommendations, are included below, with title numbers referring to the headings in the Guidance Paper. Our original submission with additional details is attached for further reference.

3.1.3 Offers must include additional costs related to the feed-in contract and state whether Renewable Energy Certificates are part of the feed-in offer

We believe that all additional costs related to the feed-in contract should be open, transparent and published, not 'on request' as specified in criterion 3 (a). The purpose of the Energy Legislation Amendment Bill (2007) is to provide clear and transparent information to customers in order to enable them to make informed decisions. The requirement to only provide information 'prior to entering the contract' is insufficient, as it places no firm time constraints on the provision of this information.

There are no apparent reasons why there should be any variable costs for the retail contract component of the connection agreement. Whilst it is acknowledged that there may be differing connection and metering costs related to connection with the distribution network, these costs are standard within each of the five distribution regions in Victoria, and indeed the distribution businesses readily publish these costs on their websites. Given that these should be the only variable components of the cost for grid connection, there appears no reason why each retailer could not publish all prices, with five variants for different district in the state corresponding to the distribution regions, where variation in costs exists.

Further, ATA believes it is completely unacceptable that the ownership of Renewable Energy Certificates (RECs) should be in any way tied to the feed-in contract. Whilst we acknowledge that the intention of this provision was to create clarity on the issue of RECs, we firmly believe that opening the door to the possibility of linking RECs with the purchase of electricity from small renewable generators creates significant potential to disadvantage renewable energy proponents.

The decision to surrender, sell or hold on to the RECs created by Small Generation Units (SGU), as defined by the Office of the Renewable Energy Regulator (ORER), is a personal decision for individual households. A considerable number of ATA members decide to not claim the available RECs from their system in order to obtain the full greenhouse benefit from their system. In the absence of a decent feed-in tariff for micro-generation, the majority of individuals installing small renewable energy systems are doing so for the environmental benefits. However, by surrendering or selling the RECs from a system, the system owner is effectively offering the avoided greenhouse gas emission to a third party, typically for a price or a reduced cost on system installation. Many of ATA's members choose not to do this, wishing to retain the credit for avoided greenhouse gas emissions themselves.

In addition, many renewable energy system providers offer discounts on the purchase price of an installation, via claiming and retaining the deemed RECs from that system upon installation, as a means of marketing differentiation. For people happy to surrender the RECs in order to receive the lowest price possible for a

¹ *ATA submission to the Draft DPI 'Fair and Reasonable' Criteria*, attached.

system, this provides an avenue to slightly reduce the large upfront investment costs – a small financial benefit available to proponents in the absence of a mandated feed-in tariff.

It would be fair to say that the majority of current renewable energy system owners would fall into one of these two categories – those either having surrendered RECs for a discount on their installation, or those not willing to surrender their RECs for ethical reasons. By allowing retailers to link the surrender of RECs to buy-back offers, these system owners may be excluded from taking up those offers which contain this requirement, and as such they could potentially become severely disadvantaged in the market.

Linking the surrender of RECs to a feed-in tariff offer severely limits the ability of individuals to either retain the greenhouse benefit of their renewable energy system, or to obtain the best price for the installation of a renewable energy system. This is neither fair nor reasonable. We strongly oppose any linking of RECs with contract offers and urge the guidelines to be re-written to prohibit any requirement to surrender RECs with feed-in offers applicable under this law.

3.1.4 Retailers must credit a customer’s account for electricity supplied by the customer under a feed-in contract, at a rate not less than the rate a customer pays to buy electricity from the retailer (i.e. “1 for 1 pricing”)

As proposed, there is no indication in the draft criteria as to whether the retailer is able to link the buyback contract to a specific purchase agreement or market offer. That is, will a customer wishing to take up a buy-back offer under the legislation be forced on to an unfavourable retail contract or fixed-term market contract? Or, alternatively, will these provisions apply to the full range of retail contracts, including the regulated standing offer and all market contracts electricity retailers have available?

We firmly believe that, for a customer to receive the benefit of the feed-in offer covered by this legislation, that customer must still have access to the range of retail electricity products available, and should not be forced to accept a specific market contract or fixed term. This needs to be specified in the fair and reasonable criteria. The absence of this provision will mean that small renewable energy generators will be significantly disadvantaged in relation to other retail electricity customers.

In addition, the use of inflated up-front supply charges as a way of increasing the costs to low consumption households is well-known. This practice also unfairly disadvantages renewable energy system owners, as the introduction of tariff structures with lower consumption charges and increased supply charges reduces the ability of a system owner to capture the full value of their investment, as the electricity fed back into the grid is further devalued.

It must also be remembered that, with increasing deregulation of retail tariffs, the types of tariff structures available to retail customers may become significantly more varied than those presently available, and as such, limiting buy-back to a single market contract could potentially significantly disadvantage renewable energy proponents.

3.2 Commission’s Additional Criteria for Assessing the Fairness and Reasonableness of Feed-in Tariff Offers

ATA supports all aspects of the Additional Criteria for Assessing Fairness and Reasonableness of Feed-in Tariff Offers as proposed by the ESC. This includes the five principles of cost of service provision; cost allocation; cost differentials; and simplicity; as well as the ability for the Commission to request retailers to provide detailed information on the range of cost, charges, terms and conditions and requirements proposed by retailers and a full justification of these.

It is essential for the integrity of the Amendment Act that consumers are assured that any additional costs or charges, all terms and conditions, and any requirements on them are fully justified. Prior to the introduction of the Amendment Act small-scale renewable energy proponents have faced significant barriers within the retail electricity market, ranging from costs and onerous requirements to lack of certainty and information asymmetries, and this Act goes some what to addressing these impediments.

The final impediments – the cost to consumers – can be successfully addressed by the introduction of a progressive mandated feed-in tariff in the second stage of this process. We look forward to continued work in this area in the coming months.

Concerns with the Process to Date

Whilst we acknowledge that the process of establishing the Victorian Government's Fair and Reasonable Criteria was undertaken by the Department of Primary Industries (DPI), not the Essential Services Commission, ATA would like to express some concern with the consultation on, and the implementation of, the Criteria.

On November 7 2007 ATA submitted comment on the Draft Fair and Reasonable Criteria to DPI. No comment on or evaluation of the submission was received by the end of the year and, upon returning to work early in 2008, it was realised that there was still no release of the final Fair and Reasonable Criteria nor a response to our submission. Further, with the Amendment Act coming into operation on the 1st of January, there was yet to be a single retailer publishing offers, as required under the Act.

Following repeated enquiries to DPI, the final Fair and Reasonable Criteria was published on the DPI website on January 7, two months after the close of submissions on the criteria. No comment or feedback was provided to stakeholders on the consideration of views or why certain points were accepted or rejected. Further, no-one at either DPI or ESC could give a date by which retailers would have to comply with the Amendment Act, more than six weeks since the Act came into operation. At the time of writing, ATA could find only one retailer with a published offer, as required by the Act, and a second with an offer in the state Government Gazette.

Concerns with ECS Consultation Process

Finally, ATA would like to express disappointment with not receiving any notification of the issuing of this Guidance Paper. We feel that there should have been an effort to ensure that all stakeholders who have had input into the development of feed-in tariffs in Victoria, and, *at a minimum*, those who provided a submission to the development of the Fair and Reasonable Criteria, should have been notified of this Paper.

Being the peak body representing owners of small-scale renewable energy systems in Australia, ATA believes we have a valuable insight into the assessment criteria from the perspective of renewable energy system owners. Further, having been involved in the discussion and debate since the Government's announcement to introduce feed-in tariffs in the lead up to the last Victorian state election, ATA has a large interest in this issue and an important perspective to be offered.

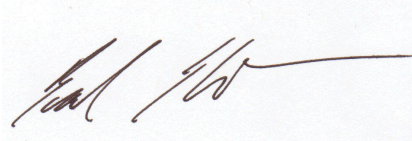
ATA has for some time been signed up to ESC email updates on Energy issues, and as such would have expected to be notified of any developments to do with feed-in tariffs. (We have since added the 'What's New' and 'For Consumers' topics for future email updates to ensure a broader coverage in the future.) ATA recommends the ESC makes an attempt to consult with all stakeholders in relation to feed-in tariff issues, and include any further consultation or discussion on this topic in the 'Energy' email updates in the future.

Further Contact

ATA commends the ESC for examining the methodology to be used in assessing fair and reasonable feed-in tariffs and terms and conditions and would welcome the opportunity to discuss any aspect of this submission further.

Please direct any questions or further correspondence to Brad Shone, Energy Policy Manager, on 9631 5406 or via email: Brad.Shone@ata.org.au

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Brad Shone', is written over a light grey rectangular background.

Brad Shone
Energy Policy Manager
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