Minimum feed-in tariff 2021 public information session: Questions and answers

We received a range of questions and comments prior to and during our minimum feed-in tariff information session on 28 October 2021. Most were addressed on the day. Some of these were of a similar nature and have been collated into themes and addressed below.

Q. Why is the feed-in tariff constantly going down?

A. The wholesale (or spot) price of energy. Wholesale prices have been falling consistently in recent years and this trend is expected to continue for the foreseeable future.

Under the Electricity Industry Act we are required to take wholesale electricity prices into account when setting the minimum feed-in tariff so lower wholesale prices are driving lower feed-in tariffs. For more information visit our explainer article.

Q. What are wholesale prices?

Wholesale prices are the price of electricity your energy retailer pays large-scale energy generators to supply their customers with energy. These prices are set in a competitive national market dependant on the demand for and supply of energy, not by government or a regulator. For more information, please visit our explainer article.

Q. If wholesale energy prices are falling, why don't retail electricity rates seem to go down at the same rate as the feed-in tariff?

A. When retailers provide electricity to their customers, they must cover their costs or go out of business. Costs include:

- wholesale electricity prices
- transmission and distribution (poles and wires) costs
- market fees
- retail operating costs.

Wholesale costs contribute to more than 60 per cent of the total current minimum feed-in tariff, but they only account for around a quarter of retail electricity tariffs. As a result, movements in

wholesale costs have a much smaller influence on the retail rates. For more information, please visit our explainer article.

Q. What are solar customers being paid for when they export excess energy to the grid?

A. Solar customers are electricity generators. They are paid a feed-in tariff that reflects what their energy is worth at the time they are exporting it.

Solar customers are compensated for wholesale electricity costs, avoided market fees, avoided transmission and distribution line losses and the social cost of carbon.

They have capital and maintenance costs like large-scale generators. So, like large-scale generators they are paid the wholesale price for the electricity they generate. However, they do not have the additional costs electricity retailers do, and so solar customers are not paid for these costs.

Q. Doesn't my daily supply charge cover the retailers' costs?

A. No. There is a common misconception that retail costs and transport costs are recovered through the daily supply charge. This is not the case. Details of the costs that make up the fixed (daily supply charge) and variable components (per kilowatt hour charge) can be found in our most recent decision on the Victorian Default Offer.

Q. What about my payback period for my solar panels now being longer?

A. The payback period on a solar system depends on a range of market factors.

Like any investment, installing solar panels comes with some risks and uncertainty. More Victorians are investing in solar panels so more solar energy is being generated, creating extra supply, and lowering demand. This extra supply and lower demand leads to lower wholesale prices during the day. This then lowers the value of the feed-in tariff which can affect payback periods.

Q. What is the incentive to install solar when the feed-in tariff keeps going down?

A. The Victorian Solar Homes Program and the Australian government's Small-Scale Technology Scheme provide financial incentives for solar installations through rebates. And the uptake of solar across Victoria continues to increase alongside a falling feed-in tariff.

Our role is to ensure solar customers are paid an efficient price for the energy they generate. Our decisions are made in the long-term interests of **all** Victorian consumers. This includes:

- half a million solar customers receiving an efficient price for the value of their energy
- two and a half million non-solar customers.

Solar customers' investments have led to lower wholesale prices. This is good for all consumers. There is no denying it.

Record increases in the number of homes with rooftop solar is increasing the availability of solar power. This has also decreased demand for electricity.

For solar customers this means supply is increasing significantly while demand is not. This means wholesale prices are dropping and that they are expected to continue to fall in the long-term.

For more information, please visit our explainer article.

Q. What about future solar export charges? That will reduce my solar incentives further.

A. The export charge has been designed and approved by the federal government's Australian Energy Market Commission after a public consultation process. It could be charged by distribution (poles and wires) companies from 2025.

We can't currently consider export charges when setting the minimum feed-in tariff. However, we are watching developments around the export charge closely.

Our understanding is that the Victorian Government will not allow Victorian solar customers to be impacted by export charging, unless customers choose to opt-in to such arrangements in the future or participate in trials.

Q. What about social costs of carbon and health costs?

A. 2.5 c/kWh is added to the wholesale prices for social costs of carbon – set by government, not us.

We have considered the human health costs since we started setting the minimum feed-in tariff.

How to value health costs is a contentious matter. There is no agreed methodology worldwide for measuring its impact or calculating its pricing impacts. For example, one study estimates the costs range from 0.16 to 5.2 cents per kilowatt hour (with a mid-range of 1.32).[1] Other methodologies even lead to values of $0.

We welcome and are open to receiving copies of studies that have estimated this cost.

[1] ATSE, THE HIDDEN COSTS OF ELECTRICITY: Externalities of Power Generation in Australia, p. 46 (https://www.atse.org.au/wp-content/uploads/2019/01/the-hidden-costs-of-electricity.pdf).

Q. Why does my neighbour get 60 cents per hour for their solar energy, and I get 6 cents?

A. Some people still receive what is known as the 'premium' feed-in tariff. Set at 60 cents per kilowatt hour, it was in place between 2009 and 2011. An increasingly small number of these early adopters will stay on the premium rate until 2024.

When the premium feed-in tariff was established it was the only assistance available at the time aimed at encouraging households to install solar panels, which were far more costly.

Incentives to 'go solar' are now largely the remit of the Solar Homes Program.

Q. How do I find out if I'm eligible for a battery rebate?

A. You can view the eligibility criteria for battery rebates at www.solar.vic.gov.au/solar-battery-rebate or email enquiries@team.solar.vic.gov.au for more information.

We understand each solar customer can claim only one rebate under the Solar Homes Program (i.e., solar system rebate **or** battery rebate). This is to enable access to solar products to as many Victorians as possible.

Q. Why aren't solar customers' costs being accounted for in the feed-in tariff?

A. The feed-in tariff does. The cost of wholesale electricity accounts for the capital, operating and maintenance costs of large-scale generators (which solar customers are effectively competing against when they export electricity).

Also, in addition to the feed-in tariff solar customers can recover their maintenance and depreciation costs over time through reduced electricity bills. The more solar customers use the electricity they generate the larger their electricity bills savings, and consequently, the earlier the recovery of their investment.

Q. How is it possible for the Victorian Default Offer (VDO) to increase while wholesale prices are falling?

A. The Victorian Default Offer reduced by 10 per cent from January 2021. However, a variation was applied in September due to an increase in network costs approved by the Australian Energy Regulator. Annual bills for 2021 still remain nine per cent lower than in 2020 after that variation.

In September we released a draft decision paper proposing a five per cent reduction for residential customers starting from 1 January 2022.

Q. Why does the commission allow energy retailers to misuse their costs with poor advertising choices?

A. It is not our role to advise retailers on how they should acquire and retain customers. Our role under the pricing order is to consider modest acquisition costs in making our VDO price determination.

We have set a benchmark for customer acquisition costs since the first default offer in 2019. The benchmark is lower than retailers' actual acquisition costs.

Q. I contacted multiple energy retailers to ask for a better feed-in tariff (above the minimum), and all refused. How is this fair?

A. The feed-in tariff we set is a minimum. Retailers must offer solar customers at least the minimum feed-in tariff, but they are free to offer above this. They can decide to offer a higher or more competitive feed-in tariff. Retailers are required to offer either the flat or time-varying feed-in tariff structures to their solar customers.

Q. Is the commission accounting for the volume of energy exported as well as the time of day when setting the feed-in tariff?

A. Yes. The minimum flat feed-in tariff is solar export weighted. The minimum time varying feed-in tariffs are also set using a weighting based on solar export profiles for each of the three time blocks. See Appendix E of our final decision paper for details.

Q. Why does the commission not consider stakeholder views?

A. We consider each submission, question, and piece of feedback we receive. We may not agree with all views and statements from stakeholders, but this does not mean that we have not given them consideration. Each final decision paper we release on the minimum feed-in tariff outlines how we have considered stakeholders' submissions.

We often receive submissions that oppose a reduction in the minimum feed-in tariff. Whilst these are valid views, without supporting quantitative evidence it is difficult for us to justify changes to our methodology for calculating the feed-in tariff.

Q. Why did the commission edit the video from the 2020 forum?

A. We hosted two public forums in 2020, with identical presentations and question and answer sessions. More people attended the first forum and more of the most common consumer questions were covered so this was the one we published on our YouTube channel. To address any concerns, we have now uploaded the recording of the second session.

Q. How are distribution operation and maintenance costs and benefits considered in the feed-in tariff?

A. We account for the avoided network costs (market fees and ancillary services charges) as well as transmission and distribution losses that are avoided through solar energy generation.

We undertook an inquiry into distributed energy between 2015 and 2017 and found no single network value of distributed energy due to its characteristics being highly variable across things like time and location. We found the broad-based feed-in tariff was unsuitable for measuring network benefits.

Q. If a site charges their battery from the grid, does energy exported from the battery qualify for feed-in tariff?

A. Yes. Solar customers that install small-scale batteries as part of their current renewable energy system will continue to be eligible to receive feed-in tariffs for the electricity generated and exported by their system to their retailer.

Q. Who gets the energy sent to the grid from solar panels?

A. Your energy retailer.

The energy you generate and export to the grid is sold by your energy retailer to the national electricity market. They then receive the wholesale price for it. Your energy retailer pays you for that energy, similarly to how they pay a large energy generator through the National Energy Market.

Q. Why can't the feed-in tariff to be tied to the spot price in real time?

A. We set the feed-in tariff forward looking, the final decision for the minimum feed-in tariff is released in February to apply for the following financial year.

For this reason, we cannot tie the wholesale price component to spot prices, however our forecast methodology uses historical prices and contract prices to determine this estimate.

Q. What options are there for people wanting to go 'off-grid'?

A. Our role in setting the feed-in tariff does not include determining requirements for customer disconnections. We acknowledge it should be a customer's choice to disconnect if they feel the grid does not provide them value.

Q. Does the minimum feed-in tariff take into account the number of solar customers that will install solar photovoltaic (PV) systems and may do so with a zero-export limitation?

A. No. We do not need to consider the volume of solar energy being generated when setting the minimum feed-in tariff because we value the average kilowatt hour produced.

The number of solar customers does not directly affect this.

Q. What is the background experience and qualifications of the team setting the minimum feed-in tariff?

A. We take our role very seriously and our staff and consultants have the appropriate experience and qualifications for the tasks, projects and decisions required to be completed at the commission.

Our team includes (amongst staff from other disciplines) economists, engineers, and lawyers. Occasionally, where necessary we supplement the experience and qualifications of staff with advice from subject matter experts or consultants.