



Comment

on the

**Feed-in Tariff
Discussion Paper
and the
Electricity Feed-
in (Solar Tariff)
Bill 2007**

February 2008

Introduction

ACTCOSS acknowledges that Canberra is built on the traditional lands of the Ngunnawal people. We pay our respects to their elders and recognise the displacement and disadvantage they have suffered since European settlement. ACTCOSS celebrates the Ngunnawal's living culture and valuable contribution to the ACT community.

The ACT Council of Social Service Inc. (ACTCOSS) is the peak representative body for not-for-profit community organisations, people living with disadvantage, and low-income citizens of the Territory. ACTCOSS is a member of the nationwide COSS network, made up of each of the state Councils and the national body, the Australian Council of Social Service (ACOSS).

ACTCOSS' objectives are representation of people living with disadvantage, the promotion of equitable social policy, and the development of a dynamic, collaborative and sustainable community sector.

The membership of the Council includes the majority of community based service providers in the social welfare area, a range of community associations and networks, self-help and consumer groups and interested individuals.

ACTCOSS receives funding from the Community Services Program (CSP) which is funded by the ACT Government.

ACTCOSS advises that this document may be publicly distributed, including by placing a copy on our website.

Foreword

ACTCOSS welcomes this opportunity to comment on proposals to introduce a renewable energy feed-in tariff by the ACT Government and Legislative Assembly. This comment responds to both the ACT Government's Feed-in Tariff Discussion Paper (the Discussion Paper) and Mr Mick Gentleman MLA's Exposure Draft of the *Electricity Feed-in (Solar Tariff) Bill 2007* (the Bill), noting that the consultation periods for both conclude at approximately the same time.

Social Impact of Climate Change

As a general principle, ACTCOSS supports measures to combat climate changes through reducing our society's dependence on fossil fuels and reducing carbon emissions into the earth's atmosphere. We particularly recognise that people living with poverty and disadvantage are likely to be disproportionately impacted by climate change, both internationally and in Australia.

At an international level, poor nations are more likely to be affected by sea level rises, with most of the world's coastal population living outside the world's rich, 'developed' nations. Similarly, changes to climate will disproportionately affect agricultural communities, who overwhelmingly live in the 'developing' world. The likelihood of more frequent extreme weather events are amplified in the tropics, which are almost exclusively inhabited by poorer nations.

Unlike Western nations, the world's poor have few resources with which to 'adapt' to climate change, and without significant reductions in carbon emissions to avoid dangerous climate change, there are likely to be very large displacements of people, including "climate refugees" in our own region, as well as large disruptions and changes to food production and water supplies, potentially leading to famine in many parts of the globe.

In Australia, climate change is also likely to disproportionately affect people living on low-incomes or experiencing disadvantage. The negative health effects of greater climate variability and hotter temperatures are likely to be amplified among vulnerable citizens, including older people, people with disabilities and chronic health conditions, and children. These groups are similarly more vulnerable to contagious diseases, which may change in their distribution due to an extension of the range of animal vectors. The economic impacts of climate change, including changes in prices and employment markets are also likely to disproportionately affect disadvantaged households, who have less ability to alter their expenditure patterns, and few and less transportable skills to compete in a changing employment environment.

Combating Climate Change Equitably

A second general principle ACTCOSS would propose is that actions to address climate change should be progressive – that is, the costs of mitigating climate change should be borne by those with the greatest ability to pay. In practice, this means that the costs associated with mitigating climate change should be borne by government, particularly where financed by progressive taxation, or by commercial enterprises and average-to-high income households. From our perspective, it seems somewhat counter-intuitive to protect those people most vulnerable to the impacts of climate change by disproportionately burdening them with the costs of doing so, thereby replacing one potential source of disadvantage with another.

ACTCOSS strongly advocates that the relative cost impacts on people experiencing disadvantage are examined in all proposals to mitigate climate change, and that proposals with regressive impacts should be rejected.

Feed-in Tariffs

ACTCOSS supports in principle the adoption of a feed-in tariff in the ACT, but qualifies this support by stating that any such scheme must be designed so that the costs are not disproportionately borne by low-income and disadvantaged households.

ACTCOSS notes that a feed-in tariff is a positive response to climate change that not only encourages greater production of renewable energy, but also locates this production locally, potentially reducing transmission loss and encouraging local control of energy production. We also note that the feed-in tariff is a specific Territory initiative that while having some complex issues to be considered in its design, is a mechanism that can be locally introduced to combat climate change relatively quickly. ACTCOSS notes that the Discussion Paper produces estimates that the scheme will cost approximately \$200 for each tonne of carbon saved, a figure much higher than others supplied for alternative methods of reducing carbon emissions. ACTCOSS notes this is an important consideration, although understands that the estimates may be lower depending on the form of modelling used, and also that it is unclear that the alternatives would be implemented if the feed-in tariff did not proceed.

Price Impacts on Low Income Households

ACTCOSS understands that in order to combat climate change there will be increases to the price of electricity in order to support the high cost of generating renewable energy, at least in the short-to-medium term (although we understand that, depending on the evolution and capabilities of new technologies, renewable energy may eventually be cost competitive with carbon-emitting generation in the long term). However, we believe that it is essential that in constructing changes to energy policy, Governments must ensure that the price impacts on small users and low-income households are

minimised and that the burden of price changes fall on those most capable of paying.

While many of the commentators on Feed-in Tariff systems are primarily concerned with the perspective of producers and their needs and incentives to participate in renewable energy generation, ACTCOSS is more concerned with the effects on consumers, and how the costs of those incentives are distributed.

ACTCOSS would confirm the Discussion Paper's comment that low-income households spend a higher proportion of their income on energy, meaning that even a proportionate increase in the price of energy will disproportionately disadvantage low income households. We also agree with the statement that low-income households have less capacity to respond to price signals, as their household use of energy is often dictated by the energy efficiency of their home, which are more likely to be rental accommodation, including both private rental and public housing. As these households do not own their home, they do not benefit from any investment in the asset, they require approval from landlords to make modifications, and in any case, rarely have access to financial capital to do so.

Even where low-income households own their own homes, such as in the case of some older people receiving an age pension, they often have few financial assets and face borrowing constraints so cannot finance home alterations that would improve their energy efficiency. We would note that while we understand that low-income households, on average, use less energy than higher income households, this is not a uniform distribution. Some low income households have very high energy usage, usually dictated by poor home design and inefficient heating and cooling systems over which they have little control.

Feed-in Tariff Models

The discussion paper puts forward two models for consideration, one through regulating the distributor, and another through regulating the retailer. The Bill proposes a model that regulates the distributor.

Firstly, ACTCOSS advocates that the cost pass-through of the feed-in tariff is volumetric, not a fixed price or 'block' tariff that is the same for all consumers regardless of their use. Ensuring that the cost pass-through of the feed-in tariff is volumetric reduces some of the regressive aspects of the scheme, particularly by ensuring that large commercial users of energy bear a proportionate cost. However, we do not consider that this is sufficient to produce an equitable scheme, as low-income households spend a greater proportion of their income on energy, and will still bear a disproportionate cost compared with their incomes and capacity to pay under this system.

ACTCOSS believes a model should be chosen which allows for the exemption of low-income consumers from the price increases generated by the feed-in

tariff. While the price impact of the tariff is likely to be small initially, if the amount of energy generated becomes significant for power production, as proponents of the scheme hope, then the price impacts could become very significant.

We note that it is the retailer who has information on which customers are eligible for concession status at the moment, and would similarly be the most appropriate avenue for claiming an exemption from the pass-through of feed-in tariff costs if a broader group than current concession status was used for exemption. We understand that regulation of the retailer is the only available mechanism for ensuring that low-income households are exempted from the cost impacts of the scheme.

However, we also note that regulating through the retailer alone raises problems in that different retailers will have different consumer and producer profiles, and retail prices independently of one another, so without some central method of setting tariffs, the prices for both the feed-in tariff and the pass-through costs would be different for different retailers.

ACTCOSS considers based on this information that a scheme that regulates solely the retailer or the distributor cannot achieve both a standard feed-in tariff and price pass-through, and exempt low-income households at the same time. This leads us to the view that in order to produce a workable scheme that is also equitable, regulation of both the retailer and distributor must be involved, with some oversight of the regulator to ensure the scheme is operating fairly as intended.

While we understand that such a scheme would involve some complexity in design and regulation, it is not impossible to achieve. The design of such a scheme must be able to set a standard feed-in tariff, perhaps by the regulator or the Minister. We note the Bill suggests a tariff that is a multiple of a standard price, although an alternative to this would be to set a dollar figure that is adjusted from time-to-time or to set a price path over a longer period. This alternative would ensure that producers received the same feed-in tariff regardless of which retailer they were with.

Retailers would then need to be able to recoup the costs of the feed-in tariff. One possibility is to recoup these costs from the distributor, who can, in turn, cover the cost by a charge through the Distribution network Use Of System (DUOS) charge. We understand that the DUOS itemises the cost of components, and that the feed-in tariff costs can be represented at a standard volumetric rate, and calculated with an understanding of the number of exempt consumers. This could then be passed directly through to consumers, while not charging exempt households.

This system has some complexities, and would require additional investigation and oversight to ensure it ran smoothly. However, we believe that it is one possible solution to ensuring that the system is equitable, and

that designing an equitable system should not be dismissed as too hard. While designing an equitable system will take additional time, energy and innovative thinking, it should be a foundation of any policy proposal that is finally supported by the ACT Government and Legislative Assembly.

ACTCOSS is particularly concerned that the Bill does not address these complexities. In its current form it contains no workable mechanism to exempt low-income households from the price impacts of the tariff, in contrast to our previous understanding. ACTCOSS notes that all statements we have made in support of a solar tariff have been qualified by the fact that it must be volumetric and exempt low-income households. The current Bill does not meet these criteria and is not supported.

Exemptions

ACTCOSS raises whether the current range of exemptions, based on current concessions, is adequate to remove the regressive aspects of the scheme. ACTCOSS believes that all recipients of Commonwealth Government pensions and allowances should be eligible for an exemption at a minimum, including recipients of NewStart, Youth Allowance and people in receipt of carer's payments. Additional consideration should be given to extending exemptions to private renters and public housing tenants, as these groups cannot benefit from the tariff scheme.

Concessions

ACTCOSS notes that the Discussion Paper presents a strengthening of the energy concessions regime as a possible alternative to exempting people from the tariff. ACTCOSS observes that concessions are a useful and targeted mechanism to alleviate poverty and reduce financial stress on low-income households. However, we also note that concessions policies are rarely designed to increase with the cost of the utility, and even if the initial cost impacts of the feed-in tariff were compensated, it would be unlikely that they would keep pace as the scheme matured. Similarly, without an explicit itemised charge to consumers being recorded in the design of the scheme, it would be difficult to tell the exact financial impact of the tariff on low-income consumers.

Finally, unlike an exemption, concession schemes are generally subject to future changes in government policy rather than legislated in the design of the scheme, so even if an arrangement could be procured so that all costs of the tariff were offset for low-income consumers, this could be removed at some later time by a future government.

While ACTCOSS supports concession schemes and encourages regular reviews and strengthening of energy concessions in the ACT, we do not consider this to be a sufficient response to address equity concerns regarding the introduction of a feed-in tariff.