

**WACOSS Submission to
Sustainable Energy Development Office**

**Western Australian
Feed-in Tariff Discussion Paper**



wacoss

Western Australian
Council of Social Service Inc

*Ways to make
a difference*

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EXECUTIVE SUMMARY

In 2008 the State Government committed \$13.5 million for a feed-in tariff (FIT) for WA home owners. The government originally committed to a gross FIT, however due to high demand and a large system uptake rate, the Government has amended the scheme, with a new net FIT to commence on 1st July 2010.¹

The Office of Energy's Sustainable Energy Development Office (SEDO) has released a Consultation Paper – *Western Australian Feed-In Tariff Discussion Paper* – and is seeking feedback from stakeholders regarding the design of the scheme.²

WACOSS will be providing comment on the WA feed-in tariff discussion paper with respect to low income and vulnerable consumers who will be affected by the design of the scheme. WACOSS's comments refer mostly to the method of funding a FIT scheme, and recommends that the State Government fund the WA FIT scheme through consolidated revenue.

WACOSS asserts that this is the most appropriate way of funding a FIT scheme for WA. This method of funding minimises the impact on low income consumers. It is not appropriate for the Government to fund the FIT scheme through imposing a levy on electricity consumers due to the disproportionate impact it will have on low income customers, who are already struggling with increased electricity tariffs.

This submission also recommends that the State Government consider the implementation of an Inclining Block Tariff (IBT) for electricity in order to mitigate the significant social impact of rising electricity tariffs.

WACOSS's policy position with respect to rebates and concessions is also outlined in this submission. WACOSS argues that if the State Government decides to fund a FIT scheme through a levy on electricity consumers, and does not provide an exemption to pension and concession card holders, that it must increase rebates and concession available to those consumers.

In our Pre-Budget Submission to the WA State Government WACOSS recommended that the Government provide funding for the formation of a Centralised Rebates and Concessions Unit for WA.³ WACOSS provides detail of this recommendation later in this submission.

For further information regarding this submission, please contact Misty Hayden, Senior Policy Officer – Consumer Essentials Project on 08 9420 7222 or misty@wacoss.org.au.

¹ Government of Western Australia. Sustainable Energy Development Office (SEDO). *Western Australian Feed-In Tariff Discussion Paper*. October 2009.

² Ibid.

³ WACOSS. *WACOSS Pre-Budget Consultation Report (companion document for the WACOSS Pre-Budget Submission)*. *Putting People First – Investing for the Social Advantage of Western Australian*. October 2009.

INTRODUCTION

The Western Australian Council of Social Service Incorporated (WACOSS) is the peak body of the community services sector across Western Australia. Since 1956, WACOSS has been developing and strengthening the non-government community services sector's capacity to assist all Western Australians. With over 350 members, WACOSS has strong relationships with the community services sector and seeks to represent their interests, and those of the disadvantaged individuals and families they assist at a service level. Given this relationship, WACOSS is in a unique position to comment on issues in our society that socially impact upon disadvantaged members of the community.

WACOSS is respected within both government and non-government arenas as being an authoritative voice for consumers with regard to energy market reform in Western Australia. WACOSS has developed a strong network with utility policy workers across Australia, as a part of the National Energy Consumers Roundtable, which provides us with information and expert opinion on these issues. From January 2005 through to October 2009, WACOSS operated the Consumer Utilities Project. This project built upon the utility and essential service policy work WACOSS had undertaken over the previous four years. WACOSS continues to work with consumers and representative organisations to achieve better outcomes in the provision of essential services such as energy and water.

In identifying the needs of consumers, WACOSS has direct access to the issues of disadvantaged consumers who are living on low incomes through various Reference Group, which includes representatives from the Emergency Relief sector, Unions, Tenants Advocates, Financial Counsellors and Community Legal Centres. These agencies provide us with policy information and direction in relation to our work and look to us to represent the interests of their clients with regard to utility issues. WACOSS has had to adopt the role of advocating in regards to essential service provision in Western Australia. This has been due to the level and severity of the utility issues being raised by community agencies and the absence of any resourced body in Western Australia representing these consumer issues.

WACOSS thanks the Sustainable Energy Development Office for the opportunity to respond to its Western Australian Feed-in Tariff Discussion Paper. It is important that the Government recognise the potential impact a WA FIT can have on low income and vulnerable consumers and takes this into consideration when making decisions regarding the scheme design.

FEED-IN TARIFF

A feed-in tariff (FIT) is a subsidy paid to owners of renewable technology in order to provide a financial incentive for people to invest in systems such as photovoltaic (solar panels) wind and micro-hydro technologies for their electricity generation.^{4, 5}

There are two different models of a FIT. A gross FIT is a tariff that is paid on all of the electricity generated, regardless of the amount of electricity consumed. A net FIT is a tariff that is paid on surplus electricity generated, but not consumed by the household.⁶

The WA State Government will commence a net FIT scheme on July 1 2010. The State Government has identified a number of objectives to guide the design of a WA FIT scheme. These objectives are to:

- *Increase the penetration of household renewable energy systems;*
- *Increase the affordability of investment in residential renewable energy systems;*
- *Help households manage their exposure to electricity price increases;*
- *Provide transitional support to the renewable energy industries that supply systems to the residential sector; and*
- *Enable households to contribute to the achievement of national renewable energy and carbon reduction targets.⁷*

TARIFF RATE

In its discussion paper, SEDO ask the following questions regarding the tariff rate for the WA FIT scheme, and how this tariff should be funded:

SEDO Questions

1. *Should the tariff rate decline for new participants over time, to encourage efficiency and innovation?*

2. *What is an appropriate impact on domestic electricity costs to pay for a feed-in tariff for residential consumers? Within this context, respondents may wish to consider:*

- *What is an appropriate tariff rate?*
- *How long should system owners receive the tariff?*

3. *Are there any other scheme design mechanisms that encourage industry to pass through cost savings?⁸*

⁴ Government of Western Australia. SEDO. *Photovoltaic Working Group – Report to the Minister for Energy*. February 2008.

⁵ Government of Western Australia. SEDO. *Western Australian Feed-In Tariff Discussion Paper*. October 2009.

⁶ New South Wales Government. *NSW Solar Feed-In Tariff Report to Minister*. February 2009.

⁷ Government of Western Australia. SEDO. *Western Australian Feed-In Tariff Discussion Paper*. October 2009.

Given the potential significant impact of a FIT scheme on consumers, WACOSS makes a number of comments in relation to these questions and asserts that the WA State Government must make decisions that will result in the least impact on low income and vulnerable consumers.

The State Government has not yet determined how it will fund the WA Feed-in Tariff Scheme. There are a number of options being considered, however the most likely method of funding will be either a levy imposed on electricity consumers or through consolidated revenue (i.e. tax revenue).⁹

Of the two options provided in the SEDO consultation paper, WACOSS favours the use of consolidated revenue (tax) to fund a FIT scheme. This would ensure that the cost of a FIT scheme is borne by all tax payers not just electricity consumers. This is important, as the benefits of a FIT scheme accrue to the whole community.

A FIT scheme funded through consolidated revenue will also ensure that cost to consumers of funding the scheme is distributed more equitably across the whole community.

On 29th November 2008 the Council of Australian Governments (COAG) developed a set of “National Principles for Feed-In Tariff Schemes.” These principles are to be used by State and Territory Governments to guide their decision making and policy development regarding feed-in tariff scheme design. Principle 2 states:

“That any jurisdictional or cooperative decisions to legislate rights for small renewable consumers to receive more than the value of their energy must:

d) not impose a disproportionate burden on other energy consumers without small renewable generation.”¹⁰

A levy applied to all consumers equally will have a disproportionate impact on low income consumers who will be unable to participate in the scheme. Low income households spend a higher percentage of their income on energy costs than other households. They also contribute less to green house pollution concerns, which are driving the incentive to introduce more renewable energy into the energy mix, due to their comparatively lower historical consumption profiles. Therefore they should not wear the same burden of paying for a FIT scheme.

Electricity tariffs have increased significantly and will continue to increase over coming years, with the State Budget forecasting an electricity “tariff glide path” of 57.9% over four years.¹¹ Additional increases to electricity tariffs as a result of a FIT scheme will lead to increased utility hardship for low income consumers and mechanisms must be put in place to prevent any further price impacts on these customers.

⁸ Ibid.

⁹ Ibid.

¹⁰ Ibid.

¹¹ The Government of Western Australia. 2009-10 Budget – Economic and Fiscal Outlook. Budget Paper no. 3. 2009.

WACOSS does not support a levy being imposed on electricity consumers to fund the FIT scheme. There are a number of alternative options that should be considered by Government.

WACOSS suggests that the Government consider using funds accumulated through the Goods and Services Tax (GST) applied to electricity tariffs. The GST amount increases as tariffs increase. It is appropriate for money gained from customers through electricity prices to be put back into schemes such as a FIT scheme.

WACOSS asserts that if the Government does decide to impose a levy on electricity consumers, it is appropriate that they provide an exemption for all pension and concession card holders from the FIT scheme. However, an exemption of pension and concession card holders from the scheme will increase costs for other consumers.

WACOSS is concerned about consumers who may not be in receipt of a pension or concession card, but are experiencing payment difficulties or financial hardship. These consumers will still be impacted on by increased costs as a result of a FIT scheme. Consolidated revenue is the most appropriate option for funding a FT scheme.

WACOSS Recommendation

That the WA FIT scheme is funded through consolidated revenue to ensure that low income and vulnerable consumers are not disproportionately impacted on by the scheme design.

INCLINING BLOCK TARIFF

In its *Electricity Retail Market Review – Draft Recommendation Report: Review of Electricity Tariff Arrangements* the Office of Energy recommended that the current structure for A1/A2 and L1/L2 tariffs should be retained until such time as cost-reflectivity is achieved in those tariff classes.¹² Electricity tariffs have increased significantly and will continue to increase over the next four years in order to become more cost reflective.

A levy on electricity consumers to fund a FIT scheme will further increase costs for individuals and families who will struggle to meet these costs. WACOSS suggests that the negative social impact of further increases to electricity costs may be partly mitigated through the use of an Inclining Block Tariff (IBT) structure.

Mr Gavin Dufty, Manager of Policy and Research, St Vincent de Paul Society Victoria, authored a policy paper describing a “lifeline” approach to IBT’s. This tariff structure is designed to accommodate a number of policy considerations such as allowing room for retail competition margins and environmental costs, while ensuring that social policy objectives are met in the delivery of essential services.¹³

¹² Government of Western Australia. Office of Energy. *Electricity Retail Market Review – Draft Recommendations Report: Review of Electricity Tariff Arrangements*. 2008.

¹³ Dufty, G. *Electricity Pricing – Delivering Social Justice and Environmental Equity*. St Vincent de Paul Society Victoria. 2007.

The key principle of this structure is the 'household' cap on daily electricity consumption at a fixed price per kWh. Additional charges and levies, such as those which may result from competition and carbon pricing would be included in consumption blocks above the household 'lifeline' price cap. That is the level of consumption that equates to the minimum household usage necessary for lighting, refrigeration, cooking, water heating and space cooling/heating.¹⁴

WACOSS Recommendation

The State Government undertake a review to model inclining block tariff structures to consider the potential social costs and benefits of the implementation of an IBT.

CENTRALISED REBATES AND CONCESSIONS UNIT

WACOSS asserts that if a levy is imposed on electricity consumers, and an exemption is not provided to customers in receipt of a pension or concession card, the Government must increase the rebates and concessions available to these customers. Synergy and Horizon have the details of eligible customers who currently receive rebates/concessions; however WACOSS argues that a more accurate and effective way of administering electricity rebates and concessions is through a Centralised Rebates and Concessions Unit.

Rebates and concessions are a vital component in the provision of support services to disadvantaged individuals and families. However, significant variations in concession policy exist between the States and Territories.

Currently, there is no cohesive policy framework within which state concessions and rebates are formulated or administered. Effectively, this has meant that there is no clear, consistent, stated purpose for the existence and objectives of these concessions and rebates. The lack of flexibility in targeting potential concession recipients has also meant that the availability of State Government concessions has not been effective in addressing or responding to the changing needs of people living in Western Australia.

Currently, concessions are managed and administered across several different government departments. The process of locating and applying for concessions is often onerous and difficult for consumers. This process is further complicated by the existence of other challenges to social participation such as physical and mental health status, lack of transport, old age and language skills.

WACOSS recommends holistic policy coordination in the administration, planning and management of social and other concessions. A centralised rebates and concessions unit would allow consumers to access all their relevant entitlements through one simple application process, rather than having to apply to a number of different government departments. Under this arrangement a consumer could complete one application form containing all the details required by Government in order for them to be assessed as to their eligibility for all current rebates and concessions.

¹⁴ Ibid.

A Centralised Rebates and Concessions Unit should have a well resourced policy development capacity. This model has the advantage of allowing policy to be developed with the advantage of information, data and expertise being utilised from a wide range of sources which may not be available to an individual department. Additionally, guidance from a centralised unit with the responsibility of maintaining a broad overview of various departmental policies, as well as their interaction with demography and the cost of living will increase the efficiency of the current system of policy development in this area.

Policy within the unit should also be informed by consumers themselves. It is important for the Centralised Rebates and Concessions Unit to collect and collate data; however it is just as important for the unit to learn from consumers who are experiencing financial hardship or other forms of vulnerability. This will enable the unit to compare whether the data that is being collected accurately reflects the lived experience of consumers. A Centralised Rebates and Concessions Unit is well placed to do this given it already has contact with consumers through the administration of rebates and concessions.

A range of benefits are provided through the use of a centralised rebates and concessions unit for both Government and consumers. As previously mentioned, the current process of applying for rebates and concessions can be quite difficult and onerous for consumers. Quite often consumers are unaware of their entitlements and are thus unable to access them. A centralised rebates and concessions unit would streamline the application process for consumers and will ensure that consumers are accessing all their relevant entitlements. This application process will also reduce pressure and anxiety for consumers who may be faced with other challenges to social participation such as physical and mental health status, lack of transport and language skills.

A centralised rebates and concession unit would allow for the collection of statistical data to be conducted by one Government department, rather than a number of departments. As the collation of statistical data would be confined to the one department, there would only be the need to develop reports from a single location. This will also make it easier for Government to become aware of the needs of consumers accessing rebates and concessions and whether the current rebates and concessions are appropriate in meeting the needs of these consumers.

A centralised unit would reduce Government costs through condensing the number of documents required to promote and provide information regarding rebates. It would also reduce the number of Telephone Interpreter Services, graphic designers, and public relations staff currently required under the fragmented system.

As the experiences of people living in Western Australia change over time so will the requirements of a State-based social concessions and rebates scheme. WACOSS recommends that the State Government invest in the formation of a centralised unit within government to coordinate the management and administration of social concessions and rebates. The costs associated with essential services, accommodation, transport and food all impact significantly on the capacity of people to participate in our society to an acceptable degree. Because of this, social concessions and rebates should

be designed in such a way that allows customers the flexibility to meet future challenges.¹⁵

WACOSS Recommendation

If the State Government decide to fund the WA FIT scheme through imposing a levy on all electricity customers, without providing an exemption to pension and concession card holders, they must increase the rebates and concessions available to eligible customers.

WACOSS Recommendation

Rebates and Concessions should be administered through a centralised rebates and concessions unit as detailed above.

¹⁵ WACOSS. *WACOSS Pre-Budget Consultation Report (companion document for the WACOSS Pre-Budget Submission). Putting People First – Investing for the Social Advantage of Western Australian.* October 2009.

CONCLUSION

While WACOSS supports the State Governments policy objectives for a WA feed-in tariff, there are a number of consumer protection issues that must be addressed first. WACOSS has made a number of recommendations in this submission that would help to address consumer protection issues in the design of a FIT scheme.

WACOSS strongly opposes the use of a levy on electricity consumers to fund the WA FIT scheme. WACOSS has recommended that a FIT scheme in WA be funded through consolidated revenue to ensure that the price impact is distributed equitably amongst WA citizens and so that low income and vulnerable consumers are not disproportionately impacted upon.

WACOSS also recommended that the State Government review electricity tariff design to model the potential social costs and benefits of the implementation of an inclining block tariff for electricity.

WACOSS argued that if the Government decides to use a levy on electricity consumers to fund the FIT scheme that pension and concession card holders must be exempt and if they were not provided with an exemption that electricity rebates and concessions must be increased to alleviate the price impact a FIT will have on low income consumers.

WACOSS has outlined its policy position on the administration of rebates and concessions in WA and argues that electricity rebates and concessions can be administered for accurately and efficiently through a centralised rebates and concessions unit.

WACOSS would like to thank SEDO for the opportunity to provide comment on its Western Australian Feed-in Tariff Discussion Paper. WACOSS would like to stay involved in the WA Feed-In Tariff scheme design process and looks forward to the release of the draft report.

REFERENCES

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