



Energy Retailers Association
of Australia Limited

23 July 2010

Low Emissions Consultation
Energy Sector Development Division
Department of Primary Industries
GPO Box 440
Melbourne VIC 3001

By email: Lowemissions.consultation@dpi.vic.gov.au

Dear Sir/Madam

Re: Review into the expansion of feed-in tariffs to include low emissions technologies

The ERAA welcomes the opportunity to comment on the Department of Primary Industry's review into the expansion of feed-in tariffs to include low emissions technologies.

The ERAA is the peak body representing the core of Australia's energy retail organisations. Membership is comprised of businesses operating in the electricity and gas markets throughout the National Electricity Market (NEM), as well as the Northern Territory and Western Australia. These businesses collectively provide electricity to over 98% of customers in the NEM and are the first point of contact for end-use customers of both electricity and gas.

The ERAA does not have a particular view as to which technologies should be included under a feed-in-tariff (FiT). However, there needs to be a clear rationale for why certain technologies are included under the FiT and this must be backed by an accurate cost-benefit analysis and extensive stakeholder consultation. If the Victorian Government is to expand the FiT, there should be a predetermined timeframe and it must be frequently reviewed as the market evolves and other policies overlap with the FiT.

To minimise costs for retailers, there needs to be sufficient lead time given to implement the policy and it should be consistent with the already existing FiT. This is important because FiTs place considerable administrative costs on retailers. Consumer expectations also need to be carefully managed because customer complaints can result in significant costs to retailers through ombudsman complaints and service centre calls; this is especially unjust in situations where the retailer is not at fault and the complaint is resulting from inaccurate consumer expectations.

A greater uptake of the FiT will ultimately result in higher electricity prices for consumers. By the nature of the FiT, those without the technology are essentially subsidising those with the technology via the FiT. FiTs are difficult to administer for retailers and if more technologies are included under the FiT then this adds to administrative and compliance costs for retailers, which adds further pressure to electricity prices. In a time when electricity prices are already expected to rise, the impact on prices from the FiT and the consequential impact on consumers must be carefully considered. If due to the upfront cost of installing these technologies only the wealthier demographic of consumers benefit from the FiT, then it needs to be noted that FiTs are inherently regressive.

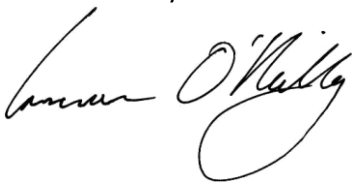
The ERAA has long held the position that Government policies and incentives should be transparent, on-budget and should directly address market failures. It is questionable therefore whether the FiT is the right policy to support the uptake of low-emissions technologies, such as fuel cells and electric vehicle batteries. A FiT sets an above market rate for the electricity fed into the grid from certain technologies and it is not clear whether this directly addresses any market failures. For low-emissions technologies, more apparent market failures could be in the upfront cost of capital, information asymmetries, or knowledge spillovers where early producers/installers have a disincentive if later market entrants benefit from their production-based learning. While FiTs might indirectly help to alleviate these market failures, they do not address them by the most efficient means and are therefore most likely to be an inefficient and expensive policy to promote an efficient uptake of low-emissions technologies.

If the FiT is intended to address the overarching market failure of the negative externality of pollution on the environment, then FiTs should only be seen as perhaps a third-best policy. Once there is a price on carbon and a level playing ground for renewables and low-emissions technologies to compete with greenhouse gas emitting technologies, then the ERAA questions whether FiTs should continue to operate in the market.

In Victoria, deregulated prices allow retailers to pass on the costs of these policies. However, in every other State and Territory retailers are limited by regulated tariffs and the uncertainty that regulators might not fully pass on these costs through cost-reflective tariffs. The ERAA is concerned that expanding the FiT in Victoria will set the precedent for other jurisdictions to follow suit and this will be correspondingly detrimental for energy retail markets outside Victoria. For this reason, the preferred policy approach to support low-emissions technologies is, once again, for transparent on-budget policies that directly address market failures, rather than a FiT that relies on the liable party to recoup the costs of the policy through higher electricity prices.

Should you wish to discuss the details of this submission further, please contact me on (02) 9241 6556 and I can facilitate such discussions with my member companies.

Yours sincerely



Cameron O'Reilly
Executive Director
Energy Retailers Association of Australia