

1. Overview of the ESC Draft Decision

The Essential Services Commission (ESC) has proposed a significant reduction in Victoria's minimum electricity feed-in tariff (FiT), setting:

- **Flat minimum FiT at 0.04 cents per kWh (down from 3.3 cents per kWh in 2024–25).**
- **Time-varying FiT between 0.0 and 7.5 cents per kWh.**

This reduction is driven by:

- Increased solar generation leading to lower daytime wholesale electricity prices.
- The ESC's avoided cost methodology, which sets FiT based on market prices and avoided retailer costs.
- Consideration of the **Social Cost of Carbon (SCC)**, fixed at **2.49c/kWh** (unchanged since 2017).

2. Key Concerns with the Draft Decision

a) The FiT Reduction is Excessive and Risks Market Distortions

- A near-zero FiT discourages solar investment and fails to properly account for the long-term grid benefits of distributed solar.
- Lower returns on solar exports may slow the adoption of rooftop solar, increasing reliance on fossil fuels.
- Non-solar households are paying between 26c/kWh - 35c/kWh for electricity during the day, while retailers purchase solar exports for as little as 3.3c/kWh. This price gap raises concerns about **fairness and excessive retailer profit margins.**

b) Time-Varying FiT Needs Higher Peak Pricing

- The proposed peak FiT (5.85c–7.5c/kWh) is too low compared to actual evening wholesale prices (10c–20c/kWh).
- Recommendation: Increase peak FiT to at least 10c–15c/kWh for exports between 4 PM and 9 PM.

c) Outdated Social Cost of Carbon (SCC) Calculation

- The current SCC (2.49c/kWh) was set in 2017 and has not been adjusted for inflation or updated climate impacts.
- Using global trends and Australian carbon pricing, the SCC should be 3.5c–5.0c/kWh in 2025.
- Revised FiT Calculation (with updated SCC):
 - ESC's formula: $\text{FiT} = \text{Wholesale Price} + \text{Avoided Costs} + \text{SCC}$
 - With SCC of 3.5c–5.0c/kWh, the FiT should be 1.1c–2.6c/kWh, significantly higher than 0.04c/kWh.

3. Alternative Approaches to Improve FiT Methodology

a) Introduce a Dynamic FiT Based on Market Demand

- A real-time FiT model that adjusts based on wholesale electricity market prices.
- Higher rates during evening peak demand (4–9 PM) and lower rates midday when solar exports are excessive.

b) Implement a 'Solar Dividend' Model

- Instead of purely reducing the FiT, introduce an incentive for self-consumption and battery storage.
- Provide a bonus FiT (2c–3c/kWh) for customers who store solar energy or export during peak periods.

c) Battery and Virtual Power Plant (VPP) Incentives

- Rather than cutting FiT payments, provide financial incentives for battery adoption.
- Encourage participation in Virtual Power Plants (VPPs), allowing stored solar to be used when most valuable.

d) Adjust the FiT Methodology to Reflect a More Balanced SCC Calculation

- Update the SCC to reflect 2025 market realities, ensuring the FiT aligns with the true cost of avoided carbon emissions.
- Maintain an inflation-adjusted SCC review every 3–5 years to avoid outdated estimates.

4. Conclusion & Recommendations

The ESC's draft decision to reduce the minimum FiT to 0.04c/kWh is based on outdated carbon cost assumptions and short-term wholesale price forecasts. A better approach would be to:

1. Increase the peak FiT (4–9 PM) to 10c–15c/kWh to align with actual wholesale prices.
2. Adjust the SCC from 2.49c/kWh to 3.5–5.0c/kWh, increasing the FiT to at least 1.1c–2.6c/kWh.
3. Encourage battery storage and self-consumption incentives instead of simply lowering FiT payments.
4. Adopt a market-based dynamic FiT that reflects real-time electricity pricing, making solar exports more valuable when needed.
5. Address the pricing disparity, where non-PV households pay 26c/kWh - 35c/kWh while retailers acquire solar exports at extremely low rates.