

Information for Local Government Authorities and Renewable Energy Generators

What is Payment in Lieu of Rates?

Established under section 94(6A) of the Electricity Industry Act 2000 (EI Act), the Payment in Lieu of Rates (PiLoR) framework allows for councils and electricity generators to negotiate annual payments.

A methodology currently exists under section 94(6A) of the EI Act for estimating payments and applies to all coal, gas, hydro, and wind generators. In addition, solar has been added as a defined energy source so that councils can use the methodology to estimate payments for all solar generators coming online now and in the future.

The methodology combines a fixed charge with a variable charge based on the capacity of the power station in megawatts. The fixed charge in FY2018-19 is \$54,400 and the variable charge is \$1,225 per megawatt (MW). A 50 MW solar farm, for example, would pay \$115,650 under the methodology.

If a generator operates below 20 per cent average capacity factor in any financial year, it can receive a discount under the methodology. This could apply to some large scale solar generators as solar efficiency is close to this threshold.

If a 50 MW solar farm operated with an average capacity factor of less than 20 per cent, but greater than 10 per cent, then a discount of 25 per cent applies, and the solar farm would therefore pay \$86,738. If it operated at less than 10 per cent, for example because the generator was offline for an extended period, then a discount of 50 per cent applies, and the solar farm would therefore pay \$57,825.

A new methodology for community and commercial solar and wind generators

A new methodology has been introduced specifically for community oriented and smaller commercial solar and wind generators. A threshold of 25 MW has been set for these types of generators, whereby any solar or wind generator greater in size must use the first methodology.

The new methodology includes a new definition for community generators that is intended to be broad enough to encompass the various ways in which a community project is owned and operated for the benefit of the local community.

These projects may be developed in partnership with a commercial entity, but the community owned portion must be at least 20 per cent, and revenues from the electricity generator that are distributed to the local community must be equal to the proportion of ownership.

How the new methodology works

The PiLoR methodology sets a payment rate per megawatt hour (MWh) generated by a power station with a nameplate capacity of up to 25 MW, that is indexed to inflation. The established rates are as follows:

For a commercial solar or wind generator: \$1.12 per MWh generated, or \$7,500, whichever is greater in each year; or

For a community solar or wind generator: \$0.56 per MWh generated, or \$5,000, whichever is greater in each year.

The minimum rate of \$7,500 for a commercial generator up to 25 MW capacity, and \$5,000 for a community owned generator up to 25 MW capacity applies where actual generation is less than expected, for example in a year where a generator is offline. This ensures that councils still receive some revenue that contributes to local services.

Prior to the introduction of the new methodology, a small-scale 10 MW wind generator for example would pay \$66,650 in FY2018-19. Under the new methodology the 10 MW wind generator would pay \$33,358, about half of what it would have previously paid under the previous methodology.

How councils should use the new methodology

To calculate expected payments for a relevant generator, an estimate of generation for the year is required at the beginning of the period, which will be reconciled with actual generation that occurred that year in the calculation for the next period.

Under this approach a rates notice should only need to be issued once for each period, and it will ensure that payments will be balanced from date of commission to decommission of a generator and compensate for any periods of inactivity or lower than expected generation.

Councils should seek an estimate of generation for the period from the generator. If the generator is unable to provide one, the council can calculate an estimate using the average capacity factor of generator, or the industry average of the energy source (22 per cent for solar and 34 per cent for wind¹).

The formula for calculating an estimate of generation is:

Nameplate capacity (MW) x average capacity factor (per cent) x 8,760 (hours in a year)

The calculated generation is then multiplied by the established rate (depending on the type of ownership) to determine annual payments for the generator.

Example: Community Wind Farm

CWF Renewables has constructed a 10 MW wind farm near Ballarat. The project is 100 per cent owned by the community. The organisation wishes to use the PiLoR methodology for rate payments and advises the council accordingly. The project is scheduled for commission half way through the 2018-19 financial year, on 1 January 2019.

As a community owned project, the new methodology for community generators should be used. The community wind farm is not sure of how much electricity it will generate in the first year of operation. Ballarat City Council must therefore calculate the expected amount for the year, and does this using an average capacity factor for a typical windfarm:

10 MW x 34 per cent x 4,380 hours (1 January 2020 – 30 June 2020) = 14,892 MWh.

The council then multiplies the calculated output by the rate for community generators and issues an invoice to the generator for the following amount:

14,892 MWh x \$0.56 = \$8,340.

The above amount is paid by the generator within that financial year.

In the next year, 2019-2020, the council continues to estimate the amount to be paid using the same formula for the full year, but also needs to add or subtract any difference between estimated and actual generation that occurred in the first year of operation.

The actual generation of the wind farm in its first year was 15,700 MWh, slightly higher than the estimated 14,892 MWh. The amount that should have been paid was \$8,792, although the wind farm paid \$8,340 in that period.

The wind farm therefore owes the council \$452 for the previous period, plus the estimated amount for the current period:

10 MW x 34 per cent x 8,760 hours x \$0.56 = \$16,679; plus \$452 = \$17,131.

This approach continues every year of operation thereafter, whereby the council adds or subtracts the difference between estimated and actual generation in the previous year. Note that the rates increase each year according to Melbourne Consumer Price Index and should be applied in each year.

What generators should do

To assist councils, generators should provide an estimate of electricity generation for the financial year where possible, or at least an estimate of the efficiency (average capacity factor) of the power station. Generators are also responsible for ensuring councils are properly applying the methodology every period.

Additional assistance is available by contacting your DELWP regional engagement team:

DELWP Region	Contact name	Contact phone
Barwon South West	Ross Martin	03 5561 9901
Gippsland	Jodie Simpson	03 5152 0415
	Heather Adams	03 5152 0479
Grampians	Geoff Miller (Wimmera Southern Mallee)	0428 599 927
	Tim Hudspith (Central Highlands)	0429 963 056
Hume	Chelsea Cherry	0439 315 410
Loddon Mallee	Erin Baxter	0423 125 539
	Dona Cayetana	0436 629 698
Port Phillip	Peter Merritt	03 9210 9363

This fact sheet and additional information is available at:

<https://www.energy.vic.gov.au/renewable-energy/community-energy>

¹ Estimate based on assumptions outlined in *EY 2017, Modelling of the Victorian Renewable Energy Target scheme scenarios*, available at:

https://www.energy.vic.gov.au/data%2F_data%2Fassets%2Fpdf_file%2F0021%2F83091%2FEY-modelling-report-VRET.pdf