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Essential Services Commission
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Minimum electricity feed-in tariff to apply from 1 July 2020

Meridian Energy Australia Pty Ltd and Powershop Australia Pty Ltd (MEA Group or Powershop) thanks the Essential Services Commission (ESC) for the opportunity to provide comments on the ESC's Minimum electricity feed-in tariff to apply from 1 July 2020 Draft Decision (the Draft Decision).

Background on the MEA Group

MEA Group is a vertically integrated generator and retailer focused entirely on renewable generation. We opened our portfolio of generation assets with the Mt Millar Wind Farm in South Australia, followed by the Mt Mercer Wind Farm in Victoria. In early 2018 we acquired the Hume, Burrinjuck and Keepit hydroelectric power stations, further expanding our modes of generation.

Powershop is an innovative retailer committed to providing lower prices for customers and which recognises the benefits to customers in transitioning to a more distributed and renewable-based energy system. Over the last five years, Powershop has introduced a number of significant, innovative and customer-centric initiatives into the Victorian market, including the first mobile app that allows customers to monitor their usage, a peer-to-peer solar trading trial and a successful customer-led demand response program. Powershop has also been active in supporting community energy initiatives, including providing operational and market services for the community-owned Hepburn Wind Farm, supporting the Warburton hydro project, and funding a large range of community and social enterprise energy projects through our Your Community Energy program.

Submission

Powershop is surprised that the ESC has initiated a draft decision in December 2019 to implement a mandatory time varying tariff by 1 July 2020, given the very limited time it allows for system development, testing and implementation and the little, to non-existent evidence of the benefit to customers, nor the demand from customers. Given the final decision is due February 2020, by the time the changes have been accurately briefed, scoped and understood - it might not be until April 2020 that retailer's development teams can start building the tariff into retailer systems.

This is an insufficient timeframe to implement such a change in a risk-free, efficient manner. The inadequate implementation timeframe could lead to billing errors, therefore potential regulatory breaches, and more importantly provide a poor customer experience. In addition to the challenging system changes required to support the implementation of this rule, the ESC also needs to consider the system impacts caused by the Clear and Fair Contracts final decision and other large industry changes, such as AEMO's timeframes for customer switching.

Powershop is concerned by the lack of evidence that a time varying Feed-in Tariff (FiT) will be beneficial for *all* Victorians. While Powershop supports the uptake of solar generation by customers, Powershop does not support regulated tariffs and pricing for solar customers. Forcing a tariff and pricing structure on retailers will limit innovation, increase risks and lead to further cross-subsidisation of Victorian customers. The more affluent homeowners who can afford a solar system are being subsidised by those customers who cannot afford or access a solar system. This is effectively regulated pricing inequality on solar vs non-solar customers. The Australian Competition and Consumer Commission (ACCC) highlighted in its November 2019 report that Victorian non-solar customers pay an extra \$474 a year compared with Victorian solar customers¹. Increased regulation and feed-in rates will further exacerbate this inequality.

Furthermore, one of the major benefits of a solar system for customers is the avoided cost of consuming electricity imported from the grid, not the FiT associated with exporting electricity to the grid. The ESC should consider whether a regulated time varying feed-in price is the most efficient way for the correct price signal to be given to customers, especially given retailers manage wholesale price risk on a portfolio basis.

Wholesale

Powershop are generally supportive of aligning the wholesale approach with that used in the determination of the Victorian Default Offer (VDO). However, Powershop believe the current methodology has the potential to expose retailers to a regulated price that is unrepresentative of the true value of customer generation entering the National Electricity Market (NEM).

It is widely known that the increased penetration of renewables is having widespread impacts on the supply, demand and pricing shapes.

Powershop suggests that some attempt be made to forecast price behaviour during the minimum FiT period due to the rapid uptake of solar and its impact. Whereas the futures prices may provide a good indication of the overall level of prices in a future period, they do not necessarily provide an informative view of what prices will be during the period of the day with solar output. There has been a notable ‘hollowing-out’ of daytime prices in the NEM, drastically diminishing the value of consumer exports. It can be definitively shown that the value of customer exports (during the times of generation) relative to the settled average quarterly prices is decreasing.

Powershop has shown this relationship below using a typical household solar shape (gross).

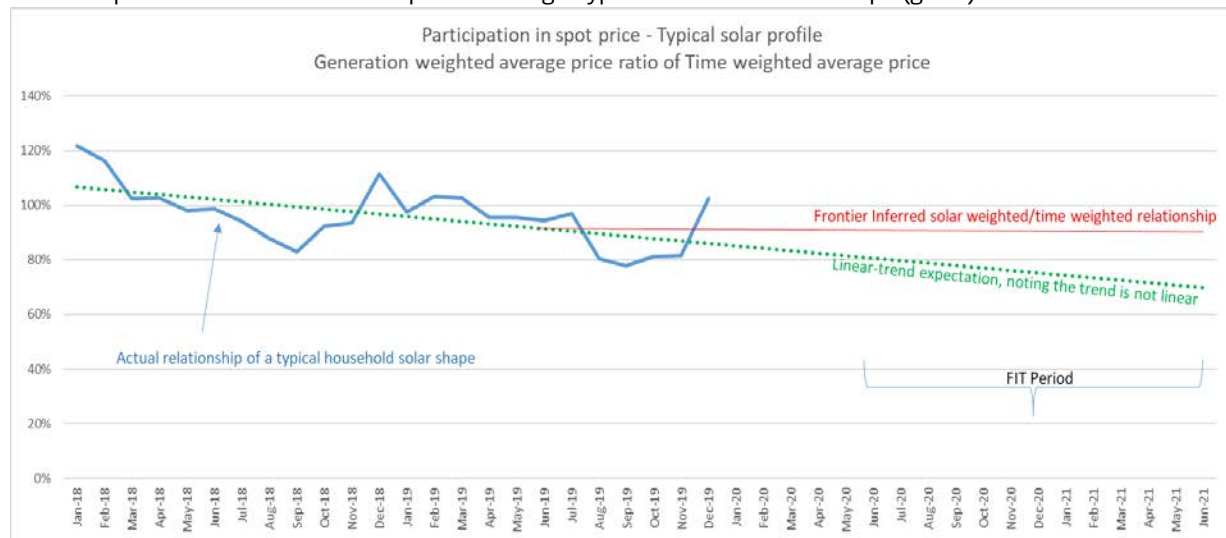


Figure 1: Linearly decreasing trend of solar generation weighted average price versus the time-weighted or ‘swap’ price.

Powershop has found there was an approximate annualised decrease of 8% between 2018 and 2019. Given the minimum FIT in question is to apply for 12 months from 1 July 2020, Powershop suggests as a minimum that the wholesale component of the FIT be revised downwards by 10% or approx. \$7/MWh in the first instance ² (as shown as the green dotted line in Figure 1 above). This should not be deemed ‘conservative’ as small additional amounts of marginal generation can have non-linear impacts on the out-turned spot price. An allowance would help better protect retailers against paying an excessively high fixed FiT whilst only ‘receiving’ a lower value of non-fixed, highly variable and highly unpredictable generation.

¹ ACCC Inquiry into the National Electricity Market—November 2019 Report, page 8, figure 4

² Frontier Economics Wholesale price forecasts for calculating minimum feed-in tariff - A draft report for the Essential Services Commission. November 2019 Report, page 2

The Frontier Economics approach ‘shifts the average of the historical half-hourly spot prices to reflect the contract price, without altering the underlying pattern of half-hourly spot prices. In this way, the relationship between weighted exports and price is maintained.’³ (as shown as the red line in Figure 1 above). Powershop disagrees with this approach and believes an exercise should be undertaken by Frontier Economics to attempt to forecast the future impact on spot prices of a continued increase in distributed PV generation. The AEMO draft 2020 Integrated System Plan (ISP) notes that ‘Residential, industrial and commercial consumers are expected to continue to invest heavily in rooftop PV’⁴ See Figure 2 below.

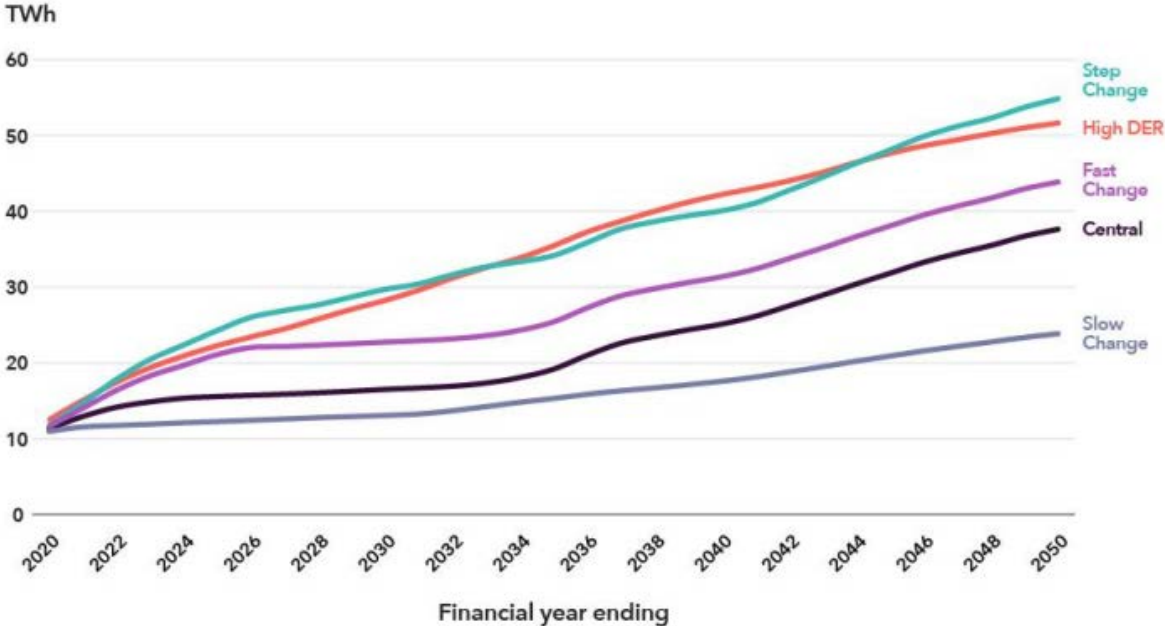


Figure 2: AEMO Draft 2020 Integrated System Plan – Distributed PV generation to 2050.⁵

In their Wholesale price forecasts report, Frontier Economics stated ‘The ratio of evening prices (intervals 35-41) to midday prices (intervals 21 to 31) has tended to increase over each financial year....We would expect this general result where there has been an increase in solar PV penetration over time’. This points to a continuously decreasing generation-weighted average price relative to the ASX forward swap price.⁶ Given the continued expected uptake of solar in the Victorian market, supported by various Victorian government policy initiatives, then it would be logical to assume that the trend will remain in the near future.

Further, Powershop would also like to draw attention to the quantity of trading intervals below \$0/MWh that have been so prevalent in the market over recent months and becoming more regular. It will be important for the ESC to consider the implications of minimum FIT regulatory enforcement in an electricity market which has a high volume of negative day time prices.

Powershop encourage the ESC to update the futures prices immediately prior to the release of the FiT to give retailers the opportunity to align their hedging timeframes to the 12-month futures market approach where appropriate. Powershop also suggests aligning the 12-month futures price period used in the VDO determination to the 12-month futures price period in determination of the minimum FIT.

Powershop continues to hold the view that a time-varying FiT in combination with the 2.5c/kWh social cost of carbon is problematic in relation to customers with batteries. As this will encourage customers to charge their batteries at off-peak rates and discharge into the proposed FiT.

³ Frontier Economics Wholesale price forecasts for calculating minimum feed-in tariff – A draft report for the Essential Services Commission. November 2019 Report, page 2
⁴ AEMO Draft 2020 Integrated System Plan – December 2019, page 9, section C
⁵ AEMO Draft 2020 Integrated System Plan – December 2019, page 38, Figure 12 ‘Distributed PV generation to 2050’
⁶ Frontier Economics Wholesale price forecasts for calculating minimum feed-in tariff – A draft report for the Essential Services Commission. November 2019 Report, page 9

While delivering a profit to the customer, combined with the 2.5c/kWh charge, this would see customers with a battery being paid a social cost of carbon premium for energy that is not generated from their solar system but rather sourced from the grid at a time of low renewable generation. This is a problem that needs to be addressed in order to avoid all customers paying the social cost of a carbon charge for energy that is not free of carbon.

The ESC should allow retailers to develop time-varying FiT tariffs and pricing, and other bespoke solar products in response to customer feedback and demand, and that suits each retailer's own customer base, underlying strategy and risk appetite. This is especially important as it will the retailer's responsibility and task to initially explain the complicated conditions and inputs of the mandatory time varying FiT tariffs and pricing and help customers to assess the right FiT and tariff plan combination that suits the individual customer.

Powershop is yet to formulate a customer notification plan regarding the new FiT, and given the timeframe we are working towards, Powershop is unlikely to have a plan in place for 1 July 2020. Powershop customers with a solar system are covered by our Market Retail Contract Terms & Conditions, plus our Feed-in Terms & Conditions.

In closing, Powershop strongly encourages the ESC to reconsider whether regulating a mandatory time varying feed-in tariff is necessary or indeed beneficial for all Victorians. If the ESC believes there is a net benefit to all Victorians, then the ESC must defer the go-live-date to 1 January 2021, so retailers can properly build the tariff into their systems and design an informative customer communication plan.

If you have any queries or would like to discuss any aspect of this submission, please do not hesitate to contact me.

Yours sincerely,



Michael Benveniste
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Meridian Energy Australia