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Essential Services Commission
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Simply Energy welcomes the opportunity to comment on the Draft Decision for the Minimum Electricity Feed-in Tariffs (Draft Decision) to apply from 1 July 2018. While the Essential Services Commission (Commission) may have chosen a path for feed-in tariffs in Victoria, Simply Energy believes that there are some unseen consequences to the method that the Commission should consider before finalising these arrangements.

Recommendations

Simply Energy considers the following components important in the development, design and execution of the price setting methodology for a time variable feed in tariff as addressed throughout the submission. Simply Energy recommends that the Commission considers:

- Determining the market value of energy which includes either a cap or market reflective price that includes factors like retailers managing their exposure to market volatility, when determining the value for energy. That the methodology should reflect the value of energy less the network value of energy (unless the value of demand response is included and passed through to the retailer as a subsidy)
- Establishing a differential value between the STC's deemed at the time the system was installed and the ex-post value of energy imported to the grid (including the differential value for different systems installed at different times) to ensure that the Social Cost of Carbon correctly reflects the value each customer is likely to receive as a return on their investment
- Determine the measurement of what is avoided energy generation and how it will distinguish the impact of small renewable generation on what the current and future energy demand is to assist with any calculation of a Social Costs of Carbon
- The inclusion of demand response mechanisms and network augmentation value where the energy value represents a market and infrastructure demand response to ensure that retailers are not paying for the benefits that the networks are receiving on their regulated returns.
- The operation and use of time variable tariffs where the customer is receiving a return on their investment via another mechanism or project that falls outside of the reach of the Commissions methodology.
- Include a flat and variable tariff offering for consumers to ensure that consumers who cannot take advantage or shift their usage are not returned a value that is commensurate to the output of their system into the market are not excluded from receiving the full range of benefits.

These recommendations are made based on the following observations of the current proposed methodology, outlined in the below submission.

Market Value

The notion that the value of energy varies at different times across the day for the market may be correct if looking at the market performance in isolation however, retailers manage the market volatility in a variety of ways with different contractual arrangements. This consideration has not been contemplated in ACIL's analysis of the value of energy in the market.

This is evidenced by the fact that the rate is not reflective of the actual value of the abated energy rather a notional spot market value. The proposed peak rate fails to account for the financial arrangements that underpin the prices today.

This means that retailers are paying customers an amount higher than they are purchasing energy for per kWh during the peak period as outlined in the Draft Decision and in some cases in excess of the combined retail and network charges, including taxes green and other scheme and operational costs. Simply Energy strongly recommends that a cap or ceiling be developed to ensure that the value never exceeds the costs regardless of the spot market forecast, as this will then reflect the value of energy not a notional market dispatch price in excess of the amount charged for the same time.

In the initial report issued by the Commission the made the statement that the prices at either wholesale and retail ends of the value chain would be equal where there are no barriers to entry¹ which is incorrect in the sense that prudent businesses would also manage their risk and exposure to price volatility through long term contracting. To that extent the peak feed-in price that has been concluded should also contain a view that the buyer would secure the generation output at a longer run marginal cost not an exposed market cost.

While Simply Energy understand that this is not readily available information for small scale generation facilities, the logic that the energy should not be sold at a rate higher than it will be purchased still prevails to the extent that the retail price less the network cost of infrastructure, renewables and a portion for operating costs would be the true value of the energy in the market.

Similar to the South Australian market reflective standing offer tariff model, the Commission should ensure that the price reflects what a prudent retailer would pay for energy through either a notional value below commonly available tariffs (i.e. those that are published on the Switched On site) or use the same methodology and subtract the network infrastructure costs for the same tariff structure and an estimate of cost for renewable scheme liability, taxes that are imposed separate to the long run marginal costs of energy

Additionality of Social Carbon Costs

Social Cost of Carbon is another issue that Simply Energy believes requires further analysis as there are a number of factors that influence the carbon offset that have not been considered. The assignment and creation of the Small-scale Technology Certificates (STC's), their value and whether that is factored into the Victorian methodology² for example.

The purpose of the STC's was, at the point of installation, so consumers could chose to assign the value of STC's to the installer for a reduction in system cost or create and sell the STC's themselves however, the STC's were intended to deliver a tradable value for each deemed MWh of electricity generated or displaced by the use of the technology.

The Social Cost of Carbon appears to operate in the same manner by determining the value of carbon abated through the use of the same technology. Therefore the assumption must be that the value of the deemed abatement created by the STC's falls short of the actual ex-post value from the energy imported to the grid. The shortcoming that Simply Energy has identified is that the methodology must first determine the differential value between the upfront STC's (received at installation) and the estimated additional abatement. This differential value would also be a variable figure based on the volume imported to the grid verses consumed within the property, and of course would all vary based on the system size and the upfront STC's and reduction in system installation costs received at the time.

Determining whether rooftop solar, (that is not attributable to another form of value return program in Victoria) has impacted on the reduction of non-small scale renewable energy generation is a complex process of ex-post analysis of generation outputs from all generators in Victoria, all energy efficiency activities, growth in demand and a range of other factors that are not accounted for under the current

¹ The Energy Value of Distributed Generation Essential Services Commission Stage 1 Final Report – Section 2 – Context and Scope Figure 2.1, Page 22

² Order Specifying a Methodology and Factors for the Determination of the Avoided Social Cost of Carbon Order in Council S.36 21 February 2017.

modelling that Simply Energy can determine. In essence the principle is the same between the STC's and the Social Cost of Carbon however, the methodology has not factored in the value of prior contributions.

Network Demand Response

Simply Energy also views the proposed value as covering peak network demand periods for network where the value of the energy aligns to expected infrastructure constraints. For example, the times of which the peak and shoulder time blocks match the distributors demand times or the greatest load imposed on the network not the greatest generation output times and or dispatch times for the energy from small scale generation systems. This in effect means that the retailers will be paying for demand response where the network receives the benefit of avoided augmentation.

Simply Energy also considers the consumer choice in this matter to be important, as the price is likely to cause one of two responses in the consumer, being:

1. That the consumer will chase the peak price through the use of dispatchable energy, meaning that the customer will have to invest in battery technology and software or applications to control dispatch timing etc. to suit the peak price determined by the Commission (whether that has a broader impact on the network operation in terms of voltage control is not considered here) or;
2. Seek a contract with a retailer or distributor for the same allowing the third party control of the dispatch at a subsidised cost which may have built-in contractual arrangements to dispatch energy at the times of peak network demand which may or may not align to the peak price as determined by the Commission.

Simply Energy undertook an analysis of the impacts of the time variable price on generation output and determined that roughly 15% of the energy imported to the grid occurs in the Peak time, whereas the remaining 85% is at the Shoulder time. Even if this capacity changes because of the implementation of more battery storage, the likely result will not necessarily mean an increased value for customers rather a reduced demand for large scale energy.

Existing Projects

Simply Energy in researching the impacts of this also discovered that there are existing programs that are returning the quantifiable value to consumers currently operating in Victoria which would be in addition to the retailer contribution. These programs, similar to the Decentralised Energy Exchange operating on the Mornington Peninsular, where the distributor through a third party is trading on the small energy generation capacity (in some cases combined with batteries) to reduce the requirements for network augmentation.

The problem is that these programs are not excluded and retailers are licensed across the whole jurisdiction which places an obligation to pay on the retailer in addition to the value that the consumer is already receiving for their small renewable energy generation.

The Commission's decision, primarily the time variable tariff option, may have further unintended consequences undermining market trials and or existing projects that have been prefaced on certain value returns for consumers. Retailers must pass on these tariffs to consumers that qualify as this is a fundamental license condition however, where a separate value that is being provided through a secondary mechanism outside of the retailer licensing arrangements allows the same generation output to be accounted for multiple times. The methodology unfortunately remains silent on the limitations and scope where there are overlapping programs. The other aspect here is that these trials may have a single retailer as a partner to the trial that will incur the whole cost for these customers alongside the existing market trial costs.

Future Options

Simply Energy also note that a transition to a flexible feed-in tariff only limits the ability of consumer choice, where customers have little influence on when their systems generate and import to the grid. Unless the customer's solution allows for load shifting between peak and shoulder periods or has battery storage that can be dispatched to align to the peak demand, the customer investment proposition remains with the most significant portion of energy being produced during the shoulder period at a rate relative to

the existing flat feed-in tariff. There may be little value to a consumer where their usage patterns also mean that they are unable to shift their load from peak times to be able to import higher volumes to the grid.

It may also be of less value to the consumer if they are limited in their output during peak times compared to the reduced price in off peak times and the shoulder period being almost equal to the current flat rate. This may mean that the customer received a slower return on investment that what is anticipated by the proposed variable tariff.

Conclusions

Simply Energy believes that the methodology has the opportunity to incentivise investment in solar technology however, sets a somewhat unrealistic expectation of the rate of return and what investment is required to maximise the rate of return from the consumers' perspective. It is also evident that there is an unintended consequence of providing networks with a demand response, of which they have no corresponding obligation to apply value too and or pass the value they received through to the consumer, which also overlaps and potentially compromises existing projects, trials that are intended to return value to consumers for network demand responses.

The value proposition for the consumer in making the decision to invest in solar and battery technology today is with a reduced STC return as the scheme has only 13 years remaining for deemed generation outputs, and the ability to contract (for the network response) embedded generation. Add these proposed tariffs into that equation, and consumers' will shift to more advanced applications where they can focus on getting better return on their investment by chasing the preverbal carrot which requires a greater investment.

If there are any questions regarding this material and or the Commission would like to discuss these matters further please feel free to contact [REDACTED]

Regards,

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