

8 January 2021

Mr Jonathan Roberts
Project Manager
Essential Services Commission
Level 8, 570 Bourke Street
MELBOURNE VIC 3000

Submitted via Engage Victoria

Dear Mr Roberts

Re: Minimum electricity feed-in tariff to apply from 1 July 2021

Tango Energy welcomes the opportunity to provide its feedback and views on the Essential Services Commission's (ESC) draft decision on the minimum feed-in tariff to apply from 1 July 2021.

Tango Energy is a rapidly emerging player in Australia's retail energy market, supplying over 92,000 customer accounts across the National Electricity Market. As a growing retailer, Tango Energy is committed to providing energy consumers competitively priced products that are simple and easy to understand.

Tango Energy's emergence in Australia has been supported by its parent company, Pacific Hydro. Pacific Hydro owns a diversified portfolio of renewable energy generation assets in Australia with an installed capacity of 665 MW. While Pacific Hydro and Tango Energy are committed to investing in Victoria's future energy needs, it is vital that this investment is underpinned by a competitive retail market that facilitates innovation.

In facilitating competition and innovation, energy retailers must be given the flexibility to set feed-in tariff rates in line with the actual value that they derive from distributed energy resources. With this in mind, the following submission:

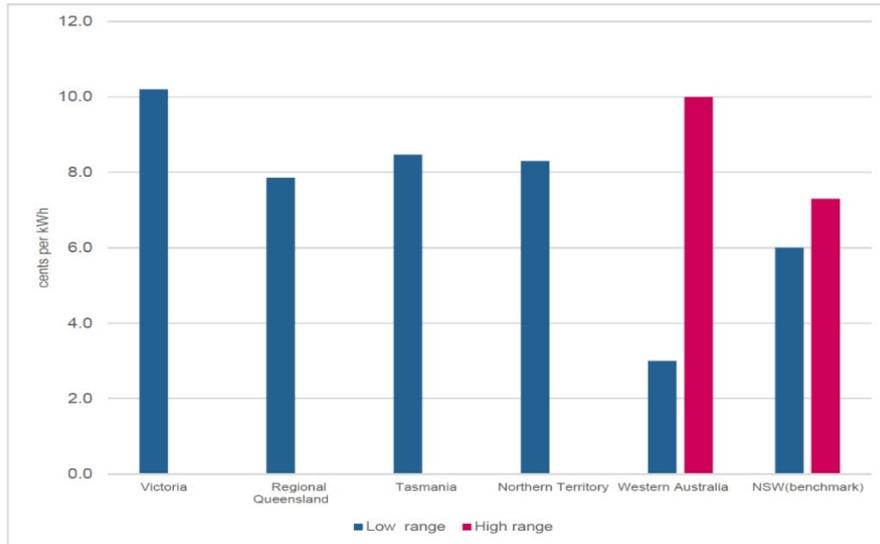
- 1) evaluates the ESC's proposed methodology for setting the minimum solar feed-in rate;
- 2) proposes reforms to the legislative framework to optimise economic efficiency and reduce cross subsidisation; and
- 3) sets out the reasons why Tango Energy supports the ESC's proposal for retailers to provide timely notices of changes to feed-in tariff rates.

1. Methodology

Tango Energy is broadly supportive of the ESC's proposed approach for setting the minimum feed-in tariff for 2021 financial year, including the ESC's proposal to provide retailers with the discretion to offer either a flat or time varying feed-in tariff.

In saying that, Tango Energy is concerned that the minimum feed-in tariff rate remains overstated, primarily owing to the allowance provided for the avoided social cost of carbon. The avoided social cost of carbon adds an additional 2.5 cents per kilowatt hour to the regulated minimum feed-in tariff rate. As shown in Figure 1 below, this additional cost is driving the regulated feed-in tariff rate in Victoria to be over 25 per cent higher than other jurisdictions.

Figure 1: Regulated feed-in rates in 2020, including NSW benchmarks



Source: Essential Services Commission, '*Minimum Electricity Feed-in Tariff to Apply From 1 July 2021 – Draft Decision*', 17 November 2020, p 45.

Tango Energy is particularly concerned that the inclusion of the avoided social cost of carbon leads to double counting and a distortion in the market through a windfall and economic transfer to customers with small-scale renewable generation systems. Customers who install renewable distributed generation systems are already compensated for carbon abatement through the allocation of Small-scale Technology Certificates. As a result, the inclusion of the avoided social cost of carbon as a factor in the calculation of the minimum feed-in tariff has the effect of duplicating the compensation provided to customers who have installed small-scale renewable generation systems. This is, in turn, increasing the overall cost of electricity paid by Victorians and is disproportionately penalising those who cannot afford to install renewable energy systems.¹

This economic distortion is compounded by the methodology used to calculate the avoided social cost of carbon. The methodology is based on a carbon intensity factor that was set in 2017 at a time when there was a much higher proliferation of fossil fuel generation in Victoria. The methodology also draws a rather tenuous link between the price of Victorian Energy Efficiency Certificates created through energy efficiency upgrades and the value that renewable feed-in provides in terms of reducing carbon emissions.²

It must ultimately be kept in mind that continuing to overstate the value of feed-in is inhibiting innovation and the uptake of battery storage systems. Through setting a high minimum feed-in tariff rate, consumers are incentivised to install large generation systems and recover their financial outlay by feeding in to the grid rather than storing their excess generation for self-consumption. This is, in turn, exacerbating the need for capital investment across the distribution system, which is increasing the overall cost of energy supply for all consumers.

¹ Victorian Default Offer 2021 made an allowance of \$10.85 ex GST per customer to cover the social cost of carbon component of the Victorian feed-in tariff. See Essential Services Commission, '*Victorian Default Offer 2021 – Final Decision*', 25 November 2020, p 69.

² See Victorian Government, '*Order Specifying a Methodology and Factors for the Determination of the Avoided Social Cost of Carbon*', Gazette No. S 36 Tuesday 21 February 2017.

2. Reforms

As highlighted above, the legislative regime in its current form requires the ESC to make assumptions and take into account cost factors that may not necessarily lead to pricing outcomes that reflect the fair and reasonable social and economic value stemming from renewable energy feed-in.³

This, in turn, raises broader policy questions around whether continuing to regulate feed-in tariff rates is in the long term interests of Victorian energy consumers. Energy retailers and owners of distributed energy system are continually looking into ways to optimise distributed generation output at both an individual and aggregate level. In view of this, Tango Energy is strongly of the view that competitive markets are better placed than regulated pricing to efficiently serve the needs of Victorian energy consumers.

Tango Energy accepts that this is ultimately a matter that needs to be considered by the state government and cannot be addressed without legislative amendments taking place. That said, Tango Energy would encourage the ESC to work closely with the Department of Environment, Land, Water and Planning to initiate a review of the feed-in tariff regime to ensure that greater economic efficiency is achieved.⁴

If the ESC and state government form the view that there is a need to ensure that renewable energy customers receive a fair return on their feed-in, then consideration should be given to mandating the minimum solar feed-in as part of the Victorian Default Offer rather than applying a universal non-discrimination requirement on all retail offers.⁵ This approach would ensure that small-scale renewable energy customers remain protected, while allowing retailers to innovate and tailor their product offerings to meet the continually evolving needs of individual consumer segments.⁶

3. Consumer notifications

In respect of more short term regulatory reforms, Tango Energy is encouraged and supportive of the ESC's proposal to prescribe minimum criteria for informing customers about changes to their feed-in tariff rates. Tango Energy has observed that many customers are confused about the ESC's role in setting the minimum feed-in tariff and that there is often miscommunication across the industry about upcoming changes in feed-in tariff rates. Tango Energy, therefore, considers that the proposed changes to customer communications, including imposing express obligations on energy retailers to provide clear advice about feed-in agreements, will help alleviate this confusion.

Closing remarks

Tango Energy considers that the ESC's proposed reductions in the Victoria's minimum feed-in tariff are necessary to reflect recent reductions in wholesale electricity prices. Tango Energy is, nevertheless, concerned that the minimum feed-in price in Victoria remains overstated owing to the mandated factors that the ESC is required to take into account in accordance with requirements set out under the *Electricity Industry Act 2000* (VIC). Tango Energy, therefore, encourages the ESC to work with Victorian Government to evaluate the application of the minimum feed-in tariff to ensure that the regime operates in the long-term interests of energy consumers.

³ Section 40FBB of the *Electricity Industry Act 2000* (VIC) requires the ESC to take into account several factors in setting the minimum solar feed-in rate, including the avoided social cost of carbon.

⁴ In performing its function and exercising its powers, the objective of the ESC is to promote the long term interests of Victorian consumers: see s 8 of the *Essential Services Commission Act 2001* (VIC).

⁵ Section 23C of the *Electricity Industry Act 2000* (VIC) requires energy retailers to offer to sell electricity to renewable energy customers based on the same tariffs and on the same terms and conditions as all other customers.

⁶ This approach aligns with two of the ESC's primary objectives under the *Electricity Industry Act 2000* (VIC), namely to promote the development of full retail competition and to promote protections for customers: see s 10.

It is Tango Energy's firm view that competitive markets are best placed to provide incentives to improve efficiency and service quality across the Victorian energy industry. To this end, regulatory intervention should be limited to providing necessary consumer safeguards and setting a framework that incentivises market innovation.

Tango Energy welcomes further discussion in relation to this submission. To arrange a discussion, please contact me via email at [REDACTED]

Yours sincerely,

[REDACTED]

[REDACTED]
Legal, Regulatory & Compliance Manager
Tango Energy