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Chairman
Essential Services Commission of Victoria
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Submitted Electronically to energy.submissions@esc.vic.gov.au

Dear Dr Ben-David

Inquiry into the True Value of Distributed Generation – Proposed Approach Paper,

EnergyAustralia welcomes the opportunity to comments the Commission's approach paper for the Inquiry into the True Value of Distributed Generation. We are one of Australia's largest energy companies, with over 2.5 million household and business customer accounts in NSW, Victoria, Queensland, South Australia and the Australian Capital Territory. We also own and operate a multi-billion dollar portfolio of energy generation facilities across Australia, including coal, gas and wind assets with control of over 4,500MW of generation in the National Electricity Market.

EnergyAustralia recognises that distributed generators provide a net benefit to the market and should be commensurately remunerated for the benefit they confer. We consider that appropriately capturing the value of distributed generation can ensure that the right investment signals are sent so that the market can respond in the most efficient manner.

Whilst acknowledging distributed generation's benefits, we believe that the Commission's definition of 'true value' may not necessarily be appropriate for determining efficient outcomes because it does not appear to explicitly consider costs. If the true value does not also consider negative impacts, this will lead to overinvestment in distributed generation and unnecessarily high costs borne by Victorian consumers. Although the approach paper does refer to costs on occasion, we believe that the definition of "true value" should make it explicit that the total **net** benefit is being considered. It is also worth noting that compensating the distributed generator for any public benefits will lead to higher costs to all consumers (assuming that the payment is made by whichever element of the supply chain receives the benefit), ultimately diluting the benefit. For this reason, the only appropriate definition of true value must consider costs imposed on the wider community.

EnergyAustralia is comfortable that the Commission has understood the potential for costs to arise as a result of connecting additional distributed generation to the network. In stating that "these costs, once approved by the Australian Energy Regulator (AER), are recovered from customers[1]" it acknowledges that the overall public benefit is diminished. It is inequitable to suggest that all customers should bear the public cost of connecting distributed generation while the owner of the installation receives the full private benefits, a share of the public benefit and is additionally compensated for the remainder of the public benefit.

Similarly, we believe that discussion of private benefits is important, as failure to consider these can lead to "double dipping" whereby the distributed generator is compensated twice. If the value of a private benefit can be matched against any public benefit, the overall cost to consumers is reduced. The distributed generation owner may, for example, receive utility from contributing to positive environmental outcomes. This benefit, although largely intangible, would be additional to the financial return on investment that the owner receives and consequently should be considered as part of the owner's compensation and a factor in their investment decision. It is also worth noting that as a member of society, the distributed generation owner will already share in the public benefits which accrue.

Provided that costs and private benefits are considered, we agree with the Commission's categorisation of the benefits of EG as economic, environmental or social, however we consider that principles of materiality, simplicity and behavioral response dictate that it is only the economic benefit resulting from offsetting centralized generation. This is the only benefit that can be:

- readily quantified;
- does not vary according to locational elements;
- can be passed through directly from the party receiving the benefit (the retailer) to the consumer; and
- has not been accounted for under other schemes.

Additionally, we think it is important to distinguish between real benefits and wealth transfers. For example, while EA supports the development of a vibrant industry in distributed generation manufacture and installation, it is important to recognise that these gains may come at the expense of jobs in the centralised generation sector and as such may not be a real net benefit.

We believe that the existing regulatory framework has allowed for widespread voluntary uptake of distributed generation, as evidenced by AEMO's 2015 National Electricity Forecasting Report which indicates that 1454MW of solar generation will be installed in Victoria by 2017-18[2]. Total installed output continues to grow at close to the long term average[3] which suggests that consumers are happy that they are being fairly rewarded for the benefits which their decision to install distributed generation confer on others. We would further venture that the market would be better placed to ensure the value of distributed generation is efficiently allocated however we consider that the ESC's Feed In Tariff (FIT) determinations have provided a reasonably accurate assessment of the energy benefit in recent years.

1 Essential Services Commission 2015, Inquiry into the true value of distributed generation – Proposed Approach Paper, December 2015 p7

2 AEMO 2015, Detailed Summary of 2015 Electricity Forecasts, June 2015 p72

3 Clean Energy Regulator Postcode data for small-scale installations 1 February 2016,

Environmental Benefits

While certain types of distributed generation may have a lower than average emissions intensity, any environmental benefit as a result of this is currently recognised under the *Renewable Energy (Electricity) Act 2000*. Where a particular technology is eligible to create Small-scale Technology Certificates (STCs) it has been subject to assessment and review prior to inclusion under the Act. EA considers that this is a transparent means of reflecting environmental benefit on a widely accepted basis and that no additional means to reflect environmental benefit on a Victoria specific scheme is required. Further, we do not consider that it is appropriate to develop a mechanism to reflect any potential environmental benefit for technologies which are not eligible to create STCs. The reason for this is that the basis on which this benefit would be assessed may be inconsistent with the *Renewable Energy (Electricity) Act 2000.* If a case exists that these alternative technologies create an environmental benefit, it should be prosecuted under the framework of the Renewable Energy Target scheme.

Time of Use (TOU) Feed In Tariff

Given the Commission's current approach to the calculation of single rate FITs which reflects the energy benefit gained by retailer has been successful in driving investment in embedded generation we see no need to vary this approach and contemplate the introduction of TOU FITs. The benefit of a time varying FIT is to provide a signal to embedded generators that have a choice when to export their generation that this generation is valued and therefore encouraged more during particular periods. Given that there is currently no significant benefit that can realistically be gained from distributed generators focusing the time at which they export their generation, and that many cannot alter the time at which they export, we believe that introducing a TOU FIT is unnecessary for the near future. This outlook may change in future with an increase in the uptake of new technologies and a greater variety of types and amount of distributed generation in the market.

In EnergyAustralia's opinion, the Commission's determinations have been a reasonable approximation of the value of generation purchases avoided by retailers from distributed generators.

Network Benefits

From 2017, Victorian consumers will have access to cost reflective network tariffs. EnergyAustralia considers that these tariffs will provide both net generators and consumers with the opportunity to benefit from their consumption or generation behavior. We believe that many distributed generation owners have the potential l to benefit from the introduction of cost reflective tariffs as their maximum demand could be offset by their generation during the specified demand periods. For this reason, we see no need to implement TOU FITs as the uptake of cost reflective network tariffs will accurately compensate the consumer for the network benefit that their distributed generation creates.

We understand the government's policy position that these cost reflective network tariffs be voluntary, however, we consider that consumers should be encouraged to take up these tariffs for the long term benefit of the market Furthermore, cost reflective tariffs provide a macro view of the network benefit of distributed generation. As outlined in the approach paper, the specific positive or negative network impact, may vary because of locational factors, and will not necessarily be the same for all distributed generation installations. Cost

reflective tariffs are developed by distributors in consideration of their network characteristics and requirements. For this reason, a cost reflective network tariff which allows the consumer to derive benefits from reduced network charges is a better proxy for the public benefit than a one size fits all approach assumes that distributed generation is the solution to all network constraints.

While we agree that in some instances distributed generation may be the most efficient solution to an emerging network constraint, this is not a given and other solutions to network constraints may be superior. For example, controlled load, energy efficiency or demand response or other approaches may be equally or more effective in managing network constraints and we disagree with the proposal to incentivise distributed generation over other potential solutions.

We are also concerned that seeking to capture the value of network benefits where they exist will result in the broad application of payments of this benefit to all forms of distributed generation, irrespective of reliability and whether or not it was constructed in response to a network constraint. The notion of a payment to a 'portfolio' of distributed generation, only some elements of which offer genuine and certain network benefits, creates arbitrary cross subsidies between those different elements. This concept also discriminates against consumers who create network benefits through energy efficiency measures or load shifting but are not compensated in the same manner.

EnergyAustralia is confident that the currently available FIT levels appropriately reflect the benefit attributable to distributed generation and that appropriate incentives exist to ensure efficient levels of distributed generation are deployed into the market. While some residual benefits may not always be directly captured and returned to distributed generators, we believe that these benefits are either inconsequential, impossible to identify or indirectly returned to the distributed generator through unreported private benefits. In some cases there are additional costs created by distributed generators and this can offset any benefits. With the key benefits of avoided centralised generation and associated carbon emissions already captured we do not feel that additional attempts should be made to drive investment about efficient levels.

If you require any further information with regard to this submission, please contact me

Yours sincerely,

Joe Kremzer
Industry Regulation Lead