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Victoria

The Essential Services Commission  
Melbourne  
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17 November 2016

Dear Sir or Madam

**Submission in response to the network value of distributed generation inquiry Stage 2  
Draft Report**

I read your report with interest and commend the Essential Services Commission (ESC) for the thorough and thoughtful approach. I am writing this submission in my private capacity to put into the public domain an issue that interested parties and the ESC might wish to consider further.

The Draft Report considers whether distributed generation will reduce future expenditure by distribution networks. It concludes that compensation to distributed generation for avoided network expenditure can not be justified since, in essence, the capacity surpluses on distribution networks mean that little augmentation expenditure is required and so there is little to be gained from distributed generation in reducing network demand.

But the evidence from the five distributors in Victoria is that their time-of-use network tariffs have significant peak/off-peak price differentials, typically in the ratio of 4 to 1. The peak prices typically apply from 8am to 8pm on weekdays or even on weekends in some cases<sup>1</sup>. To cite a specific example, in one of its time-of-use tariffs, Ausnet Services charges 17.3 cents per kWh consumed from 8am to 8pm, and 4.3 cents per kWh consumed between 8pm and 8am.

The ESC's conclusions on avoidable expenditure and the evidence of large price differentials in network time-of-use tariffs seems to be mutually inconsistent. Specifically, how can consumers be asked to pay prices for network services that are four times higher for electricity consumed during peak periods than during off-peak periods, and yet distributed generation is deemed to not offer any value in reducing demand during those same high priced peak periods?<sup>2</sup>

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<sup>1</sup> For the "flexible" tariffs with shoulder charges the peak rates applies for a shorter period, but the uptake of flexible networks is inconsequentially small in Victoria.

<sup>2</sup> To be precise, the small consumers (household and small business on non-demand tariffs) considered here do not pay directly for the network services but pay retail prices. We calculated the average differential in peak and off-peak rates in all 258 time of use retail offers in the Ausnet Services area currently available is 1.56. Evidently the peak/off-peak differential in retail offers is considerably smaller than the differential in network tariffs.

The ESC's assessment of pervasive network capacity surpluses amongst Victoria's distributors may be difficult to dispute. But perhaps the distributors think this capacity surplus will diminish in future more quickly than the ESC does. Or, perhaps they (and the regulators that approve their prices) think differently about the construction of their prices than the ESC has thought about the value of distributed generation.

Might it be argued that the evidence of the price differences in time of use network tariffs should be weighed more heavily in the ESC's consideration of the network value of distributed generation? The prices in the distributors' time of use tariffs – which they have long promoted - tell consumers (via their retailers) that those distributors would be willing provide their services at night for a quarter of the price they charge during the day. Is this not sufficiently compelling to suggest that distributed generation, by injecting power back into the grid at the point of use and thereby reducing demands on the grid during the day, has value that distributors (or to be more precise their captive customers) could be expected to compensate?

Yours faithfully,

Bruce Mountain