

3 June 2016

Dr Ron Ben-David
Chairperson
Essential Services Commission
Level 37, 2 Lonsdale St
MELBOURNE, VIC 3000

By electronic lodgement

Dear Dr Ben-David

THE ENERGY VALUE OF DISTRIBUTED GENERATION: RESPONSE TO STAGE 1 DRAFT REPORT

CitiPower and Powercor welcome the opportunity to respond to the Essential Services Commission of Victoria's (ESCV) draft report on the energy value of distributed generation (**Draft Report**).

As outlined in our response to the ESCV's proposed approach paper, it is critical the outcome of the ESCV's final position does not result in further distortions to energy and/or network charges. In this context, the introduction of a locational component to the determination of feed-in-tariffs is a step in the right direction. We expect the ESCV will apply the same logic when determining the network value of distributed generation.

The Draft Report's recommendations on the environmental value of distributed generation however do not provide an efficient investment signal. In particular, the recommendations result in differential treatment of environmental benefits from distributed generation compared to demand management practices. We also maintain that any Victorian Government policies to drive environmental benefits should be transparently applied, and not enacted through network tariffs.

These views are discussed in detail below.

Location is a key determinant of the value of distributed generation

We support the principle of a locational component contained in the ESCV's decision on energy value, and expect the principle will be adopted in determination of network value.

For example, the draft report appears to recognise the importance of efficient investment signals on p.29:

In determining the FiT, the Commission is therefore compelled to satisfy itself, with confidence, that the benefits it identifies are material and that paying for them is not imposing an unsubstantiated burden on those customers. If this were not the case, we would be compelling retail electricity customers to contribute towards payments to investors in distributed generation even though the true value of benefits being delivered is uncertain.

It is noted however that the level of aggregation of the locational component adopted for energy value, would not provide an efficient investment signal for the network value (e.g. unlike transmission losses, network constraints are not predictable).

Environmental benefits compensation should not distort electricity prices

Environmental policies included in the value of grid sourced energy may result in unfair social allocation of policy impacts, given disadvantaged households are less likely to have access to distributed generation. For example, apartment dwellers and renters don't have a choice to install solar PV, thus will simply end up cross subsidising those customers who can afford solar PV.

Similarly, feed-in tariff distortions may lead to the inefficient use of distributed generation. For example, distributed generators may have a choice of exporting electricity onto the grid, or using battery storage to avoid the cost of imported electricity. As the benefit of distributed generation is greater when electricity is stored and used at times when the cost of electricity supply is greatest, but customers only receive a feed-in-tariff when

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they export onto the grid, this may limit the use of battery storage even when it may be the best economic solution for society.

Further consultation

If you have any queries regarding this submission please do not hesitate to contact Jeff Anderson on

Yours sincerely,

Renate Vogt

Manager Regulation, CitiPower and Powercor