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Dr Ron Ben-David
Chairman
Essential Services Commission of Victoria
Level 37, 2 Lonsdale Street
Melbourne, Victoria 3000

Submitted electronically to DGInquiry@esc.vic.gov.au

Dear Dr Ben-David

Inquiry into the True Value of Distributed Generation – Draft Report

EnergyAustralia welcomes the opportunity to comment on the Commission's Draft Report on 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 (NEM).

EnergyAustralia recognises that distributed generators provide a net benefit to the market and should be remunerated for excess generation fed into the grid. 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.

We acknowledge that reflecting temporal and locational aspects of generation in the FIT structure can better capture the true value. However, we are concerned that introducing additional complexity will lead to customer confusion and may not be justified in terms of the behavioral response it could elicit. Our strong preference is for a regime that allows retailers (and other providers) the flexibility to innovate beyond a minimum requirement and allow retailers to differentiate their FIT offers to meet customers' needs.

We consider that deregulation of FITs would be the best way to ensure that distributed generation is appropriately valued; however, we acknowledge that this issue is outside the scope of this review. Given the considerable competition in the Victorian solar market evidenced by FITs nearly three times the mandatory minimum being offered,ⁱ we are unable

to identify a market failure that warrants further regulatory intervention, particularly when minimum FIT levels are already prescribed.

Time of Use Tariffs to reflect the wholesale market value of distributed generation

EnergyAustralia agrees that the FIT should reflect the benefit that retailers derive from avoided wholesale energy purchases. While the Commission's current methodology for determining a single rate FIT is a reasonable approximation of the value that distributed generation provides, we believe retailers should be free to provide different tariff structures to distributed generation owners if both parties agree. This could include fully flexible tariffs as contemplated by the draft report, although given the range capability of retailer billing systems, we do not believe that it should be a mandatory requirement to offer anything above a single rate tariff.

Making 'benefit reflective' FITs available to customers who choose them is consistent with the Government's opt in approach for new cost reflective network tariffs which allows customers to decide based on their preference between value and simplicity. More sophisticated consumers may wish to explore the potential value that can be obtained from more complex price structures when applied to their individual usage/generation profile. However, retailers should not be obliged to offer complex FITs if this conflicts with a broader strategy of meeting customers' needs and assisting customers to simplify their energy bills.

Research undertaken by Newgate on behalf of the AEMC indicates that ..."most consumers have low levels of knowledge about how they are billed for their energy usage and the type of plan they are on".ⁱⁱ While distributed generation customers are generally more highly engaged, our experience in dealing with solar customer enquiries indicates that many customers already find it confusing and difficult to understand how to maximise the value of their solar generation. Consequently, we believe that rather than encouraging investment, over-complicating FITs may dissuade customers from investing in distributed generation. The fewer components a tariff contains, the more accessible it is to the average consumer and consequently we favor an approach where retailers are not mandated to offer time-of-use FITs.

We urge against implementing any FIT that has a seasonal or critical peak structure. Bill processing and customer enquiries increase in time and complexity where the time period structures of the network tariff, retail price and FIT differ from each other. For example, it is difficult for customers to understand the relationship between: the differing amount of solar generation produced across the day and the site usage and therefore how much solar generation is exported to the grid throughout the day. If the customer also has to take account of a variable FIT price level throughout the day (and possibly depending on season/critical peak period), then this will further increase the complexity. In time, we expect that technology and applications will be available to help customers optimise the use of their distributed generation. However a move to mandate such complex FIT structures now is premature.

Locational Benefits

EnergyAustralia agrees that taking into account the difference in network losses using a locational element will more accurately reflect the actual value to the retailer of the distributed generation. It would also reduce the minor cross subsidies that exist under the

current regime where a single loss factor is applied for the entire state. It is questionable that such a move is warranted as the additional cost to retailers may outweigh the unwinding of cross subsidies.

EnergyAustralia does not object to the concept of a locational element, however the proposal to create two zones (presumably based on postcodes) is problematic. Retailers quote customers using the Market Settlements and Transfers System (MSATS) which contains the necessary information on network tariffs and other meter-related attributes. Although retailers capture customer postcodes for billing purposes, their MSATS interfaces do not generally capture a premises' postcode as this is not currently required for quoting. This would lead to extra cost and confusion as retailers would be required to:

- Create an additional step in the quoting process, increasing time for customers to obtain an accurate quote;
- Double the number of FITs within billing systems due to the two different FIT zones; and
- Create duplicates of Product and Price Fact Sheets and data uploads to the Victorian Government's comparator site.

All of these actions would incur additional expense that (under recent amendments to the Electricity Industry Act) cannot be wholly passed on to consumers who install distributed generation and therefore must be smeared across the entire customer base. This approach is at odds with the objective of having the value of distributed generation being paid to the originating party.

It is our view that the only way in which a locational element of the FIT could most be simply implemented is if a network loss value component is applied for each distribution network zone. Retailers will be able to incorporate this variation into their quoting process without causing confusion and cost to consumers. We note however, the Commission's modelling indicates that this would not lead to desirable outcomes and consequently we don't believe a multi-zone approach is in the best interests of consumers.

Social and Environmental Value

The Commission proposes that a Deemed Output Tariff (DOT) component is calculated to account for social and environmental value and that this would be included in the FIT. Although retailers would be responsible for implementing the DOT component in the FIT, we are concerned that the Commission might also assume that retailers should have the liability for funding the DOT component as well. There is no consideration of the funding arrangements in the draft report.

As stated earlier, the benefit of the wholesale cost of energy component accrues to retailers and that retailers should be the party providing this payment to customers. Social or environmental benefits accrue to many parties, not only retailers. Consequently, it's appropriate that any payments made under the DOT mechanism are made by Government. As the DOT is a deemed value which is not dependent on actual output, payments could be made to the consumer directly without retailer involvement. If retailers pay the DOT to customers and are reimbursed by the Government, then this creates the need for additional administration costs on both sides and this may outweigh the benefits being passed on to

customers. If the DOT proposal proceeds, then consideration should be given to implementing a very simple DOT structure to minimise administrative overheads (e.g. a flat usage or flat daily rate that applies across all Victorian customers).

More broadly than the issue of how consumers receive payments for the DOT, we are also concerned that the DOT does not meet the Commission's criteria for determining the true value of distributed generation, that is, any benefit must be identifiable, quantifiable and able to have a monetary value assigned to it.ⁱⁱⁱ The range of views in the submissions received in response to the approach paper highlight the issue of assigning a value to the emissions offset by distributed generation. The Renewable Energy (Electricity) Act includes an objective "to reduce emissions of greenhouse gases in the electricity sector".^{iv} This clearly outlines that the value of avoided emissions is already being accounted for in the Renewable Energy Target (the RET).

The RET ensures that low or no emissions energy is valued more highly than fossil fuel generated energy. Distributed generators are rewarded through the Small-scale Renewable Energy Scheme which provides payments based on the amount of centralised generation that the small scale system is projected to displace during its lifetime. In its Draft Report, the Commission found that "it is not possible to objectively apportion the value of payments under the RET between the three objectives of the RET legislation".^v Where the benefit is partially accounted for through the RET, how is it possible to value the residual environmental benefit?

Although the Commission is not proposing to set the value of a social and environmental benefit, the establishment of a mechanism to do so, namely the DOT, appears to contradict the Commission's previous assertion that the avoided generation benefit cannot be valued due to the operation of the RET.

Implementation Issues

Regardless of the outcome of this inquiry EnergyAustralia asks that any new requirements on retailers are not implemented until the finalisation of the network benefits phase of this process. Retailer systems are complex and contain dependencies which mean that piecemeal the implementation of changes is usually inefficient. We will be better placed to provide an outline of costs and timeframes once the full scope of changes is known. We also ask that the Commission keep in mind other industry changes that retailers are currently facing both in Victoria and across the NEM more broadly.^{vi}

EnergyAustralia also wishes to highlight the need for a uniform approach from Victorian distributors if network tariffs or B2B process are impacted by any of the proposed changes. Implementation by retailers is made vastly more difficult where processes differ from one distribution network to the next and we ask the Commission to engage with distributors, and if necessary compel them to the extent possible to assist retailers with implementation.

Conclusion

EnergyAustralia believes that the Commission has identified the elements which contribute to the true value of distributed generation; however, it has not identified a market failure under the current framework requiring further regulatory intervention. While we support the need for clear investment signals, we believe that the minimisation of cross subsidies through the

implementation of time and location-based FITs is not significant enough to justify the considerable expense and confusion that would result. We believe it is incumbent on the Commission to demonstrate that value would be realised from the proposed changes.

We also do not agree that the DOT component can be classified as representing the true value of distributed generation in the existence of a scheme that already recognises at least a portion of that benefit. We are further concerned there is no discussion of which party is liable for the payment of the DOT component. In our view, the responsibility for payment for the benefit should lie with the party to whom the benefit accrues. There would be many beneficiaries of any social and environmental value of distributed generation, so the DOT component should not be funded by retailers.

We ask that the Commission is mindful of lead times required to implement changes and the challenges of dealing with a multiple distributors with different processes to allow for a more efficient transition to any new arrangements which may come into force. In particular, we ask that any changes to the wholesale component of the FIT are made at the same time as any changes arising from the network side of this review.

If you require any further information on this submission, please contact me on

Yours sincerely,

Joe Kremzer

Industry Regulation Lead

ⁱ <http://diamondenergy.com.au/feed-in-credits/> accessed 30 May 2016

ⁱⁱ 2013, Newgate Research NSW Consumer and Stakeholder Research Report p2

ⁱⁱⁱ Essential Services Commission 2016, The Energy Value of Distributed Generation, Distributed Generation Inquiry Stage 1 Draft Report, April 2016.p33-34

^{iv} Renewable Energy (Electricity) Act 2000 S3(b)

^v Essential Services Commission 2016, The Energy Value of Distributed Generation, Distributed Generation Inquiry Stage 1 Draft Report, April 2016.p89

^{vi} Victorian Payment Difficulties Framework and associated compliance changes, National metering contestability developments.