



12 December 2016

Dr Ron Ben-David
Distributed Generation Inquiry
Essential Services Commission
Level 37, 2 Lonsdale Street
Melbourne VIC 3000
Lodged by email: DGInquiry@esc.vic.gov.au

Dear Dr Ben-David,

The Network Value of Distributed Generation—Distributed Generation Inquiry Stage 2, Draft Report

Origin Energy (Origin) welcomes the opportunity to provide a response to the Essential Services Commission of Victoria's (the Commission) Draft Report into the Network Value of Distributed Generation.

As the Commission appreciates, this stage of the Inquiry is more applicable to the functions of Distribution Network Service Providers (DNSPs) than retailers. Origin's response will be confined to matters of direct interest to Origin.

Origin agrees with Draft Finding 8 that a broad based feed-in tariff is inappropriate for compensating small-scale distributed generation. As the Commission states, the degree of complexity and granularity involved in designing systems to implement such a tariff would be disproportionate to its benefits. Similarly, the averaging of benefits across a geographical zone is too blunt and risks not compensating distributed generation for the actual benefits it has contributed.

Origin also agrees with the Commission's view that firm distributed generation may provide a non-network service that will enable DNSPs to defer augmentation where congestion exists in the network. Despite this, the opportunities for a grid services market in Victoria are presently limited because:

- there is an absence of a significant need to defer augmentation; and
- there is an insufficient supply of firm small-scale distributed generation.

The Commission's own analysis demonstrates that the opportunities for augmentation are slight in the Victorian market—as little as \$3 million in 2017 and closer to \$6 million in 2020, with the value fluctuating each year.¹ Given that networks spend on average around \$2 billion in total a year in Victoria, this represents a small amount of value to the network; it is likely that the absence of a market for small scale distributed generation partly reflects the lack of any need for one at present rather than a market failure.

The other reason a market has not yet formed is the lack of 'firmness' in existing distributed generation technology. Origin agrees that falls in the cost of batteries, along with new products and services offered by retailers, will lead to an increase in dispatchable distributed generation. However, it is difficult to ascertain how long it will take for battery systems to reach a meaningful market penetration. In Origin's view, the Commission's recommendation should be that establishing a market for grid services is premature until there is a reasonable need to defer augmentation and sufficient dispatchable small-scale distributed generation capacity.

¹ Essential Services Commission of Victoria, *Network Value of Distributed Generation*, Draft Report, October 2016, pp. 37 and 54.

Origin also believes that regulatory solutions to problems involving DNSPs, and the potential design of a market for grid services, are best resolved by national regulators. The Australian Energy Market Commission (AEMC) is presently examining distribution market design options that may be available to harness the opportunities presented by distributed energy while addressing any technical impacts as they arise.² Following this Inquiry, the AEMC may consider whether market design and regulatory frameworks need to be modified to better align individual decisions with the long-term interests of consumers more generally. Additionally, the AEMC has recently made a preferable Rule that will create a mechanism for informing the market about where system limitations exist in the network and the value of deferral to DNSPs. The Commission believes that this will create an incentive for the use of distributed generation because it allows non-network solutions to make proposals that would defer network augmentation.³ To facilitate this, a transparent platform will need to be established, so that prices are known in advance. In Origin's view, it is preferable for the Commission to allow the AEMC's rule change to be implemented, and its *Distribution Market Model* Inquiry to conclude, before determining whether a market for grid services is appropriate.

We support the Commission explicitly asking stakeholders for feedback on both the best principles for designing a market for grid services in Victoria and what measures might be implemented to achieve this. However, a Draft Report will typically contain a proposal that a regulator will seek comment on. This is absent from the Commission's Draft Report. We believe it would be better for the Commission to release an Interim Draft Report containing its regulatory proposals, and seeking comment from stakeholders, prior to issuing a Final Report to the Government. This will allow the Commission to develop a proposal for Government that will have incorporated stakeholder feedback. We appreciate that the Commission is under a tight timeline and suggest they consider asking the Government for an extension of time to facilitate this.

Should you have any questions or wish to discuss this information further, please contact Timothy Wilson, Regulatory Analyst,

Yours sincerely

Keith Robertson
Manager, Wholesale and Retail Regulatory Policy

² Australian Energy Market Commission, *Distribution Market Model*, Approach paper, 1 December 2016, Sydney.

³ Australian Energy Market Commission, *Local Generation Network Credits*, Draft Rule Determination, 22 September 2016, Sydney, p. 17.