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

Lodged via energy.submissions@esc.vic.gov.au

Dear Dr Ben-David,

Distribution Generation Inquiry – Release of the Stage 1 Draft Report

Simply Energy welcomes the opportunity to respond to the Essential Services Commission Victoria's (ESC) Distribution Generation Inquiry – Release of the Stage 1 Draft Report. Simply Energy is a leading tier 2 energy retailer servicing Victorian Residential customers, Small Business customers and Commercial and Industrial customers. As previously advised, Simply Energy's group includes Simply Energy Solutions Pty Ltd, which includes business lines providing DG and energy efficiency services to customers.

Simply Energy considers that this business line and the industry it operates in are best served by a competitive market driven primarily by private benefits, rather than a market driven largely by subsidies. Subsidies change in response to unpredictable political factors, and as a result lead to volatility in the industry, which is to the long term detriment of Distribution Generation (DG) consumers.

Simply Energy believes that a competitive market will deliver a fair and reasonable value for energy from distributed generation. This means that feed-in tariffs (FiTs) should be set by the market and free of regulatory requirements. This will allow a competitive market to evolve alongside innovation in solar and related services.

Mandatory assignment such as the proposed ESC compulsion of customers to a regulated FiT will not encourage the long term goal of maximising customer benefits through choice of products and services. This is because a regulated FiT impedes growth of tariff structures that suit different types of distributed generation owners. For example, a customer who consumes all or the bulk of the energy they generate would benefit from a different balance of feed-in and usage tariffs than a customer who feeds in a lot of energy.

QUESTIONS FOR RESPONSE

Wholesale market value of distributed generation exports

1. Does the proposed multi-rate feed-in tariff allow for payments to distributed generators to better reflect the market value of their exports? If not, why not?

2. Do you support the proposal to amend the FiT framework to enable multi-rate tariffs for distributed generation? If so, which of the options do you favour and why? If not, why not?

As set out above, Simply Energy does not support regulated FiTs.

Additionally, Simply Energy does not consider that the case has been made for a change from a single rate FiT to a multi-rate time-varying FiT.

A change to a multi-rate FiT significantly increases complexity and as a consequence the costs of providing customers with FiTs. Additional complexity and costs include the following:

- System costs to enable payment of time-varying FiTs to customers based on interval meter data
- Billing set up costs to include additional FiT line items, reflecting the time bands when the feed-in occurred
- Rebuild of customer offers (there are thousands of them) to incorporate time-varying FiTs
- Revision of marketing materials, including offer and contract documents, welcome packs, website content
- Retraining of sales channel staff so they can accurately explain time varying FiTs to potential customers
- Revision of customer service documents, scripts, and processes
- Retraining of customer service agents so they respond accurately to customer enquiries in relation to customer billing and FiTs
- Increased transaction costs incurred by customers to understand the more complex tariff structures

Simply Energy does not consider that a case has been made that establishes that the benefits of time-varying FiTs exceed the costs of the additional complexity.

In particular, the very low number of consumers choosing to adopt flexible usage tariffs suggests that consumer appetite for complex tariff structures is very limited. Proponents of time-varying FiTs need to establish why the low take-up of complex usage tariffs is not applicable to FiTs.

Wholesale market value of distributed generation exports

3. Are there additional data and analysis that the Commission should consider in assessing the environmental and social benefits of distributed generation, specifically in terms of identifying, quantifying and valuing those benefits of distributed generation?

Simply Energy supports the ESC's position that evidence does not support additional environmental and social benefits forming part of the tariff.

Implementation (retailers and distributors)

4. What would the implications for electricity retailers and distributors of moving to the proposed DGT framework? Specifically, what are the cost implications of implementing the DGT framework? And what evidence can be provided with regard to those costs? Are there ways these costs could be reduced?

See the response to question 2 for examples of the additional costs that the proposed framework implies.

Many of the costs identified are additional costs to existing processes and as a result it is not a straightforward task to quantify the incremental costs. Additionally, Simply Energy cannot reveal its costs in a public submission as this information is commercially sensitive. Simply Energy participated in a distributed generation workshop held by the ESC, and is happy to participate in an ESC=-led process to understand cost impacts for retailers of the proposed framework.

Batteries

5. What impact, if any, would increased deployment of electricity storage systems have on the assumptions and analysis underpinning the proposed distributed generation tariff framework outlined in this draft decision?

Simply Energy considers that increased deployment of electricity storage systems undermines the arguments that are put forward for regulation of FiTs. The proponents of regulated FiTs argue that without regulation consumers who feed energy into the grid receive inadequate compensation for it. A driver of this sentiment is the significant difference between usage tariff rates and the FiT. A consumer who has access to electricity storage has no need to feed energy into the grid, because they can store it and use it later themselves. This will enable them to obtain value from their generation equal to their avoided usage tariff. As a result their exposure to the difference between the value of energy fed into the grid, and the cost of being supplied from the grid, is eliminated or significantly reduced.

Additionally, increased deployment of electricity storage systems further challenges regulation of FiTs and provides further support for allowing competitive markets to determine fair and reasonable FiTs. Energy storage can be configured to be charged from the grid as well as from DG, and can be set up to feed into the grid in response to price signals as well as when the customer has a surplus of generated energy.

The complexity of setting regulated FiTs in a dynamic environment where consumers can respond in real time risks creating unintended perverse incentives and outcomes where costs exceed benefits. In many cases the costs will be borne by other consumers than those who obtain the benefits. In this environment the prudent approach is to allow the competitive market to determine fair and reasonable FiTs.

In conclusion

In conclusion the original terms of reference from the Minister for Finance required this inquiry to examine the social value of DG remain. Victorian consumers should not have to pay investors for the public benefits of DG unless they are clearly shown to exist and are correctly valued. This is a challenge for social benefits, which are notoriously difficult to value.

Simply Energy wishes to reiterate that any increased compensation should only be payable to future investments. This is implicit in the Commission's 'behavioural response' principle set out on page 6 of the initial Paper.

Incentives to achieve the socially optimal level of DG investment should be directed to future DG investments, because these are the investments that will close any identified gap between the current level of DG investment and the socially optimal level.

Providing increased compensation to existing DG investments will not do anything to close any identified investment gap: only additional investment can do that. If the payments made to existing DG investors are increased this will be a windfall gain to these investors at the expense of other consumers. This is a suboptimal use of the resources of other consumers, which should be used to efficiently incentivize future investments, should that be recommended.

If you have any questions concerning this submission, please contact Alan Love on 03 8807 5113.

Yours sincerely

James Barton
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