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### **Submission to Distributed Generation Inquiry Stage 1: Draft report**

United Energy (UE) welcomes the opportunity to make this submission to the Essential Services Commission of Victoria (ESC) Distributed Generation inquiry Stage 1 Draft report: Energy Value of Distributed Generation (DG).

The commission's report is a follow up to the Proposed Approach published in Dec 2015. In addressing the energy and environmental value of DG, it sets out its methodology and mechanism of a feed in tariff that varies on a time-of-use & locational basis and additionally provides a valuation for the environmental benefit as a result of avoided emissions attributed to DG.

However in it's obligation to address the issue of replacing the Transitional Feed in Tariff (TFIT) as it draws to a close, the ESC has left un-addressed in this discussion:

- The option of a demand based feed-in tariffs, using principles similar to tariffs proposed in the Tariff Structure statements (TSS).
- The issue of whether retailer or distribution businesses will be administering this tariff. UE strongly opposed to administering this tariff
- Market driven solutions to behind the meter competition.

Further details on this submission are provided in Appendix A (response) & B (answers to questions) below.

If you have any queries on our submission please contact me by email

Kind Regards,

A handwritten signature in blue ink, appearing to read 'Mathew Abraham'.

Mathew Abraham  
Regulatory Analyst

## **Appendix A: Response**

The commission's approach to a tariff mechanism aims to capture the most accurate form of realising the value of DG for the customer. Additionally the commission expects this tariff to be simple, material and sending the right signal.

This appendix provides UE's response to address the Commission's queries in the context of :

- Ignoring the opportunity of a cost reflective feed-in tariff to limit the impact of cross subsidization.
- Whether the distribution business or the retailer should be administering this tariff.
- Whether a regulator should be setting the form of compensation in competitive market space

### **Tariff Approach**

DG has an impact on the amount of energy dispatched into the network from traditional sources of electricity. As follows, it will also have an impact on the wholesale price. To this effect, the Commission has rightly pointed out that the current Victorian single-rate feed in tariffs are based on the average wholesale price of electricity at particular times.

However in saying that, the commission has decided to address the issue of compensating a DG customer by introducing a structure of compensation that provides the wrong investment signal. The structure is reflective of the current inefficient tariff structures that distribution businesses had sought to redress through the submission of the TSS.

This sort of a piecemeal solution approach fails to address the wider issue of influencing consumer behaviour on network demand. Instead, this tariff only presents opportunities for price arbitrage as DG customers know when the price of the feed-in is at its highest and with the use of storage systems, inject into the network at those times. Additionally, the locational specific element further differentiates the value of compensation which could favour inefficient over-investment uptake in areas where network constraint may not exist.

In not just assigning a value but in effect commoditising the solar generation, the commission is overlooking the opportunity to influence consumer behaviour through cost reflective tariffs that would encourage the efficient investment on the network and efficient charge on consumers thereby reducing cross subsidisation across the base.

### **Tariff Administration**

UE does not believe that it or any other distribution business should be administering this tariff. Aside from the obvious costs driven from the consultation, design, implementation and maintenance of this tariff, UE feels that any tariff that is underpinned by structured blocks predicated upon the wholesale price of electricity in the market, must be administered by the retailers.

This tariff is designed with the intention that retailers have an obligation to purchase the electricity generated by the consumer regardless of their requirements. Additionally, the issue of cross-subsidisation, unlike the current TFiT and PFiT arrangement, will be avoided if the retailers are administering this tariff as the payment credits are directly applied to the DG customer as a form of purchase by the retailer rather than collection from all customers regardless of having a DG connection or not.

Distribution businesses do not analyse, report and make decisions on tariffs relative to the value of a unit of electricity in the wholesale market. For the tariffs that distributors currently administer, the forecast of the requirement to charge and pay the consumer is made on the basis of the energy exported. The year on year true-ups from any discrepancy to the forecast is also based on the actual energy tracked. With the proposed tariff, the year on year true-ups includes the wholesale price movements. UE does not for any reason track the wholesale price movement. To hence do so for forecasting purposes would only be an administrative burden.

### **Regulating Behaviour and Value**

UE has been exploring options that target the usage behaviour through pricing (TSS) and innovative demand management solutions (UE's Summer Saver Trials). This is fundamental to the issue of managing network constraint and reducing the investment required to address the areas of constraints i.e. maintaining reliability with the existing infrastructure at the least cost.

The commission's report makes reference to the company Reposit Power whose software allows customer's DG & storage coupled system to release energy into the wholesale market when the price of energy is at its highest. This software enables the DG customer to bank a pure market reflective compensation utilising real time information. Additionally it is not underpinned by network costs and thresholds relating to the price of the wholesale value of electricity. Instead it is a reflection of the best price a new entrant into any market could sell their product for – the price of energy in the market, when demand is at its highest. The Small Generator Aggregator Framework is an existing market mechanism that further advances this for the average customer's ability to gain exposure and leverage the potential financial windfall. The commission's approach requires at least a 1.5 year lag to administer and implement this tariff. Hence the proposed tariff fundamentally misses the point of rewarding customers for the wholesale price movement in real time.

### **Conclusion**

UE believes that the proposed tariff, setting aside the environmental charge, does not materially change the reward that the customer would earn moving from a single to multi-rate tariff. In essence, this approach will neither encourage the uptake of DG & storage systems nor adequately reflect a reward that the customer could earn from the market.

This of course is reflective in the ESC's own example contained in Table 6.4 on page 115. The difference between the application of the current single rate tariff and the proposed multi-rate approach is between \$3.00 to \$5.00.

Below is a table that shows the costs borne by all consumers to fund the feed in tariffs currently administered by UE and the average amount that customers with DG recover dependent on the FiT scheme that they are under:



Feed In Tariff Type	Charge Amount per customer (CY2016)	Recovery Amount per DG customer (FY2015)	% of UE's DG cust. (April 2016)
PFIT (UE data)	\$32.28 pa.	\$735 pa avg.	2.7%
TFIT (UE data)		\$485 pa avg.	1.6%
MFIT	Retailer administered	\$86.30	4.0%
New FIT (exc. DOT)	Not enough info.	\$88.90	1.6 – 5.6%

The table clearly shows that the existing TFIT who will be rolled onto the commission's new tariff, regardless of them accounting for only 1.6% of the UE customer base, will have a minimal benefit in credits to their annual bill if they instead just were just rolled onto a single-rate tariff.

Taking this into account, the commission's proposed approach neither makes a material impact to the customer nor presents itself as a simple mechanism to calculate, implement and administer.

## Appendix B. Questions to be answered as part of the inquiry

### Wholesale market value of distributed generation exports:

The proposed multi-rate tariff is intended to make payments to distributed generators better reflect the 'market value' of the generator's exports. To achieve this outcome, the multi-rate structure includes payments that vary according to time and location.

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

The tariff does not better reflect market value of the exports as it is an average and is applied after a 1.5 to 2 yr lag.

- *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?*

UE does not support a multi-rate FiT. From the commission's example there is a minimal difference in compensation from a multi-rate and single tariff.

The commission is better off just rolling TFIT customers on to the MFIT as it is too complex a construct that generates the same benefit.

### Environmental and social value of distributed generation electricity:

Our analysis of the environmental and social value of distributed generation focused on establishing that a given benefit could be reliably linked to a given unit of output from distributed generation.

- *Are there additional data and analyses 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?*

UE does not have any additional information for the commission to consider.

### Implementation (retailers and distributors):

Implementing the proposed distributed generation tariff (DGT) framework would impose administrative costs on retailers and distributors.

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

Please see UE's submission on the administration of this tariff.

### Batteries:

Electricity storage (batteries) products are becoming more widely available in the Australian market.

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



The more appropriate question to ask, at this stage at least is, what impact on the deployment of storage systems would the proposed tariffs have?