



28 July 2015

Kerri Heron
Feed-in-Tariff Review 2015
Essential Services Commission
Level 37/2 Lonsdale Street
Melbourne VIC 3000

Via online lodgement: fitreview@esc.vic.gov.au

Dear Ms Herron,

Draft Decision: Minimum Electricity Feed-in-Tariff to apply from 1 January 2016

Origin Energy (Origin) welcomes this opportunity to respond to the Essential Service Commission's (the Commission) draft decision on the *Minimum Electricity Feed-in-Tariff to Apply from 1 January 2016*.

Methodological issues

In Origin's view, the Commission's approach to the estimation of the value of solar power in the Victorian market has produced a forecast wholesale electricity price that is materially inconsistent with prices currently prevailing in the market as well as the ICAP forward curve price for 2016.

To determine the forecast electricity price, the Commission has relied on modelling analysis undertaken by its consultants ACIL Allen. ACIL Allen has generated its forecasts using a proprietary model of the national electricity market (NEM). As a result, it is difficult for stakeholders to fully understand how ACIL Allen has generated its modelling outputs.

Notwithstanding, Origin understands that the approach involves multiple steps. The first is the projection of a time weighted average spot price for the 2016 calendar year (the base price). This represents the outcomes from a single modelling simulation. ACIL Allen then runs multiple simulations to account for demand, weather and outages to produce a price distribution of possible price outcomes for a given year. From this distribution, the mean is taken as the average forecast wholesale price for 2016.

ACIL Allen has applied a base price for 2016 of \$36.66/MWh. The mean from its distribution of simulations produces a forecast wholesale electricity price of \$40.19/MWh, which is then used to derive the feed in tariff.

We believe the ACIL Allen method has a tendency to overstate forecast wholesale prices. For example, as part of its updated projections for 2016, ACIL has revised its projections for 2015 downward by \$11.09/MWh to \$33.41/MWh, a reduction of 24.92%.

We also note that the average NEM regional reference price (RRP) for Victoria for 2014-15 was \$30.35/MWh and the 2015 calendar year to date average daily price was \$29.55/MWh.¹

¹ <http://www.aemo.com.au/Electricity/Data/Price-and-Demand/Average-Price-Tables>

In terms of the forward looking prices, the ICAP 2016 forward curve price as at July 2015 was \$33.15/MWh compared to the ACIL forecast wholesale price of \$40.19/MWh, a 21.24% difference.

In each instance, ACIL Allen have overstated their projections and, with respect to the 2016 forecasts, have proposed prices that do not align with prevailing price signals in the market.

Given these differences, we believe there is a case for ACIL Allen to revisit potential biases in their modelling that are producing outputs that are consistently incompatible with market outcomes. Otherwise, there is a risk that retailers will be forced to offer customers feed-in-tariffs in excess of their market value.

Mandating minimum feed-in-tariffs

In our view, the market is sufficiently mature not to require a mandated minimum feed-in-tariff. Rather than mandating a minimum price, we believe that publishing a pricing guide (as is the case in New South Wales) would better support market-based outcomes. With the advent of alternative energy sellers, and the increasing likelihood of new technologies (like batteries) being offered to the market, mandated minimum feed-in-tariffs also risk stifling product innovation. By mandating a minimum price it may constrain products that these new businesses offer and limit competition both among alternative energy sellers and with retailers. As the NSW Independent Pricing and Regulatory Tribunal stated in a previous solar feed-in-tariff determination:²

“In our view, a competitive market is the best way to provide the fair value for PV exports, and the market should determine the fair value of PV exports through competition. We consider that mandating minimum feed-in-tariffs will lead to fewer offers that consumers can choose from and less incentive for retailers to innovate.... Mandating minimum feed-in tariffs will also not guarantee that PV customers will be better off ... because feed-in tariffs are only one component of a retailer’s market offer.”

Origin would be pleased to discuss any matters raised within this response further with the Commission. Please contact Timothy Wilson (Retail Regulatory Analyst) in the first instance on ([REDACTED])

Yours sincerely



Keith Robertson
Manager, Wholesale and Retail Regulatory Policy
[REDACTED]

² Independent Pricing and Regulatory Tribunal, *Final report- Solar feed-in-tariffs- The subsidy free value of electricity from small scale solar PV units from 1 July 2014*, 16 June 2014, p. 9.