



EnergyAustralia

LIGHT THE WAY

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Dear Commissioners

2018 – ESC – Feed-in tariff 2018-19 draft decision

EnergyAustralia is one of Australia's largest energy companies with over 2.6 million electricity and gas accounts in NSW, Victoria, Queensland, South Australia, and the Australian Capital Territory. We also own and operate a multi-billion dollar energy generation portfolio across Australia, including coal, gas, and wind assets with control of over 4,500MW of generation in the National Electricity Market (NEM).

EnergyAustralia supports the overall approach to incorporate cost reflective tariff structures but query some details of the modelling methodology and whether the outcomes are sensible.

The technology assumptions underlying the calculation of the flat tariff and time of use tariff appear inconsistent which leads to a counter-intuitive difference in rates. While the methodologies appear logical in isolation and the ESC has provided commentary on the reasonableness of each tariff's draft rates, no assessment is provided on the relative differences between the tariff rates and whether these outcomes are sensible. The flat tariff uses a solar output weighting on the basis that this provides a more accurate reflection of the value of energy likely to be provided to the grid under this tariff. However, the shoulder and peak components of the TOU tariff do not include a solar output weighting and are only time weighted. This inconsistency leads to a counter-intuitive difference in the rates of the two tariffs structures. Under this method, the morning price peak is fully captured in the shoulder rate but actual solar output at this time is low which is more accurately reflected in the approach use for the flat tariff calculation. In other words, one approach takes the solar profile into account when calculating price but the other does not.

Second, we query the accuracy of the social cost of carbon component. These costs are based on the calculation specified in the Victorian Government's Order in Council (OIC)¹ published 21 February 2017. The OIC specifies various numerical values that must be utilised in calculations and does not allow for these values to change over time without an update to the OIC. This could lead to a misrepresentation of the costs of carbon. For

¹ Victorian Government 2017, Victoria Government Gazette No. S 36, Tuesday 21 February 2017, Order specifying a methodology and factors for the determination of the avoided social cost of carbon (Order in Council)

example, the volume factor for calculating avoided emissions continues to utilise a coefficient factor of 1.27 despite Hazelwood withdrawing from the market in March 2017, which would have reduced the volume of carbon produced per kwh of electricity generated. As the OIC specifies values to be used for calculations, the instrument is not flexible and does not capture changes in the volume and value of carbon as the proportion of non-carbon related energy sources changes over time. We suggest that the ESC explore ways in which a more accurate cost can be calculated and incorporated in the tariffs.

Finally, we would like to further understand the ESC's plans for future Feed-in Tariff structures. The draft paper refers to this arrangement as being a transitional arrangement but it is unclear where tariffs are being transitioned to. EnergyAustralia is supportive of this approach being adopted permanently as providing two alternative tariff structures provides greater choice for customers and increases market competition between retailers.

If you would like to discuss this submission, please contact [REDACTED]
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Regards

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Industry Regulation Leader