



Robin Scott MP

Minister for Finance  
Minister for Multicultural Affairs

1 Macarthur Street  
Melbourne Victoria 3002

Dr Ron Ben-David  
Chairperson  
Essential Services Commission  
Level 37 / 2 Lonsdale Street  
MELBOURNE VIC 3000

24 DEC 2015

Dear Dr Ben-David,

**AMENDMENTS TO THE TERMS OF REFERENCE FOR THE INQUIRY ON THE TRUE VALUE OF DISTRIBUTED GENERATION TO VICTORIAN CONSUMERS**

Thank you for your letter of 22 December 2015 seeking my endorsement of amendments to the Terms of Reference for the Inquiry into the true value of distributed generation to Victorian consumers (the Inquiry).

In accordance with my powers under section 41 of the *Essential Services Commission Act 2001*, I confirm my approval of the amended Terms of Reference (see Attachment A).

I note that the Minister for Energy and Resources has supported the proposed amendments.

If you have any queries on this matter, please contact Daniel Wilson-Otto, Assistant Director (acting), Economic Policy in the Department of Treasury and Finance on 9651 2593.

Yours sincerely

**Robin Scott MP**

Minister for Finance  
Minister for Multicultural Affairs

cc: The Hon Liliana D'Ambrosio MP, Minister for Energy and Resource

## **Terms of Reference – Inquiry into the true value of distributed generation to Victorian consumers**

The Andrews Labor Government recognises the importance of renewable energy for Victoria. We acknowledge sustainable sources of energy can deliver economic, environmental and social benefits to the State, including jobs for regional Victoria.

The Labor Government is acting to support the growth of renewable energy in Victoria through a suite of policy measures. These include:

- Establishing a renewable energy target of no less than 20 per cent by 2020.
- Using the government's electricity purchasing power to support the creation of hundreds of renewable energy jobs.
- Ending unfair discrimination for solar customers.
- Helping communities to transition to a clean energy future.
- Improving access to the grid for solar customers.
- Developing a Renewable Energy Action Plan.
- Supporting clean energy jobs through the \$20 million New Energy Jobs Fund.

An important source of renewable energy for Victoria is distributed generation, such as household solar systems. In Victoria, there are over 245,000 solar systems installed across the State, with a total generation capacity of over 700 megawatts.

The Labor Government believes Victorians with small-scale renewable energy generation should be fairly compensated for the value their generation provides. In Opposition, we committed to undertake an inquiry into the true value of distributed generation. In Government, we are getting on with it, and asking the Essential Services Commission to commence this inquiry.

The inquiry will seek to ascertain the true value of distributed generation, including determining what value distributed generation provides to the electricity market and the network. The Essential Services Commission will also be asked to consider the environmental and social value of distributed generation.

The findings of the inquiry will help inform the design of the feed-in-tariff arrangements in Victoria and assess current frameworks for the compensation of network value of distributed generation by relevant Victorian Electricity Industry Guidelines and the National Electricity Rules.

### **Scope of the Inquiry**

The inquiry will:

1. Examine the value of distributed generation including: the value of distributed generation for the wholesale electricity market; the value of distributed generation for the planning, investment and operation of the electricity network; and the environmental and social value of distributed generation.
2. Assess the adequacy of the current policy and regulatory frameworks governing the remuneration of distributed generation for the identified value it provides.
3. Make recommendations for any policy and or regulatory reform required to ensure effective compensation of the value of distributed generation in Victoria. These recommendations should have regard to the most appropriate policy and regulatory mechanisms for

compensating different benefits of distributed generation, including considering their practicality and costs.

The inquiry will not consider the policy and regulatory frameworks governing the costs of connecting distributed generation to the network. The inquiry will also not consider whether the feed-in-tariff should be deregulated.

The inquiry should have regard to reviews and reports completed in Victoria and other jurisdictions which may be relevant to the objectives of this inquiry.

The inquiry will involve extensive consultation with industry, environmental organisations and consumer advocacy groups.

### **Structure of the Inquiry**

#### **PART 1. THE TRUE ENERGY VALUE OF DISTRIBUTED GENERATION**

This part of the inquiry will examine the social, environmental, locational and temporal value of energy produced by distributed generation. The analysis will be completed in time to inform the next FiT decision in August 2016 (for effect in calendar year 2017).

The outputs of this part of the inquiry are:

- Output 1: Approach Paper

This Paper should be presented to Government by the end of 2015.

- Output 2: Draft Part 1 Report into the true energy value of distributed generation

This Report should be presented to Government by April 2016.

- Output 3: Final Part 1 Report

This Report should be presented to Government by August 2016.

#### **PART 2. THE TRUE NETWORK VALUE OF DISTRIBUTED GENERATION**

This part of the inquiry will seek to account for the impact on the network of investment in distributed generation.

The outputs of this part of the inquiry are:

- Output 4: Discussion Paper on network value of distributed generation

This Paper should be presented to Government in the first half of 2016.

- Output 5: Draft Part 2 Report (methodology) on network value of distributed generation

This Report should be presented to Government by October 2016.

- Output 6: Final Part 2 Report (methodology) and on network value of distributed generation

This Report should be presented to Government by February 2017.