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Energy Division
Essential Services Commission
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Dear Commissioners

ESC Draft Decision – Feed-in tariff 2019-20 – December 2018

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

We are broadly supportive of the ESC's draft minimum feed-in-tariff (FiT) rates and methodology for 2019-20.

While it still has potential shortcomings, we support the ESC using a futures market method to generate wholesale price forecasts. The prior market modelling approach lacked transparency, making it difficult to explain and undermined confidence in the resulting FiT rates. We assume the ESC's change in approach the primary reason why the peak time-of-use (TOU) rate has declined significantly from 29¢/kWh to 14.1¢/kWh, which we also support.

We are also in favour of retailers retaining the option of offering customers either a flat rate or TOU FiT depending on their circumstances and other retail product offerings. The ESC has indicated this is a transitional arrangement and is intending to impose a TOU FiT only. In time, we anticipate the ESC examining retailers' offerings for customers with distributed generation and an eventual review of the necessity of a minimum FiT in Victoria.

We are generally able to purchase electricity at a cheaper rate from the market in Victoria compared to paying our customers the FiT rate. The TOU rate is also more expensive for us to offer than the flat rate FiT. That said, we appreciate the ability to differentiate our price offerings via a TOU structure, and TOU pricing should in-principle be more cost reflective.

We consider that Frontier's wholesale price projections for 2019-20 (effectively $80/MWh for the solar-weighted flat rate) are higher than what might be recoverable for large scale PV generation, indicating the FiT may overcompensate customers for their PV exports. For example, the Victorian Government has offered contracts for difference with strike prices as low as $53/MWh for large scale PV generation. CSIRO recently estimated the levelised cost of new PV installations at around $50 to $60/MWh.[1] We acknowledge that these cases reflect lifecycle output and pricing projections and are not a single year forecast, and may reflect specific risk allocation in the case of the Victorian Government's contracts.

Our other observations on the ESC's draft minimum FiT are as follows:

- As we have noted in previous submissions, parameters relating to the carbon price component, as specified in the Victorian Order in Council, will overstate the avoided cost of carbon as Victorian power generation now has a lower carbon intensity. Further analysis of generation plant displaced during the times of solar PV export could be undertaken to provide a more accurate carbon intensity factor.

- Small scale renewable generators are also being compensated twice for carbon reductions by the avoided cost of carbon included in the FiT, as well as the value of credits under the small scale renewable energy scheme which are typically factored into the contracted price of rooftop PV installations. This may be something the ESC could raise with the Victorian Government given the concerns around the cost of environmental subsidies, including how these costs are recovered from non-solar customers.

- The requirement under the Electricity Industry Act 2000 to set FiTs for financial years creates re-pricing risk for retailers operating in Victoria, who typically amend tariffs on 1 January each year in line with the AER's electricity distribution determinations.

- The increasing penetration of solar PV is causing load profiles for these customers to become less favourable, including because of a rapid and less predictable increase in load during the evening peak. This can add to wholesale market volatility, reflected in risk premia and contracting costs incurred when serving all customers.

- As more solar PV is connected and exporting simultaneously, its value to the energy system will reduce and benefits from the FiT should follow suit. Some of this lower value will be reflected in depressed spot prices during times of export. Lower spot prices during daylight hours were noted by the ESC in setting the minimum FiT for 2018-19, where the flat rate FiT was lower than the (unweighted) wholesale price forecast.[2]

If you would like to discuss this submission, please contact Lawrence Irlam on [redacted]

Regards

Sarah Ogilvie
Industry Regulation Leader

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[1] Graham, P. et al, 2018, *GenCost 2018*, CSIRO, Australia. Figure 4-2.
[2] Essential Services Commission 2018, *Minimum electricity feed-in tariffs to apply from 1 July 2018: Final decision*, pp. 11-12