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Essential Services Commission of Victoria
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Submission to True Value Distributed Generation Inquiry

United Energy (UE) welcomes the opportunity to make this submission to the Essential Services Commission of Victoria (ESC) consultation paper on the Inquiry into the True Value of Distributed Generation (TVDG).

The Commission's inquiry focuses on identifying the public benefit (as opposed to the private benefit) that arises from the investment in distributed generation, and determining whether and how a distributed generator is rewarded for any quantified public benefit it generates. In understanding that the benefit from e generation (DG) to the electricity market varies by time and location, the Commission is proposing to evaluate the merits of developing a methodology for calculating the economic benefit on a time-of-use and locational basis.

As the Commission rightly acknowledges, the issues this inquiry attempts to address are quite complex and as such has recommended an extended timeline to address them. This presents a welcome opportunity for all stakeholders to have their opinions acknowledged across the various issues this topic will no doubt involve.

Through this inquiry the Commission is looking to:

1. Determine the most efficient and effective methodology for identifying and calculating the energy and network values of distributed generation.
2. Determine whether the regulatory framework allows for this methodology(s) to be used to calculate a value for distributed generation and for any identified value to be realised by distributed generators.

The Commission's proposal for a methodology is predicated on the assumption that the existing electricity regulatory framework does not contain mechanisms that fully compensate DG customers. However the Commission also summarises the various mechanisms currently in place that do remunerate the DG customers.

UE believes that current mechanisms in place sufficiently compensate all DG customers.

- Feed-in-Tariffs are primarily compensate solar PV customers in UE's network through the network tariffs.
- Small Generation Aggregator Framework allow a locational portfolio of participating DG customers to sell excess energy at the prevailing market price.
- Network Support Payments act as a contract between the NSP and the DG to provide energy at agreed times for an agreed price. Additionally, the SGA framework allows for small scale providers to access these benefits.

Demand Management Incentive Schemes encourage the business to look for non-network solutions that will ultimately lead to lower electricity prices. The Demand Management Engagement Strategy and the DAPR are presented to all interested stakeholders every year on emerging opportunities in our network. This clarifies opportunities for RIT-D and non-RIT-D projects from 2 - 3 years to 5 - 7 years out. UE presented its 2015 DAPR on 8 Feb 2016. This presentation included early warnings of RIT-Ds required and non-RIT-D deferral opportunities for 2017-18 to 2022-23. UE would welcome further discussions with any interested parties to develop workable network solutions.

UE believes that if there is an additional mechanism then it needs to complement the existing framework and not lead to overcompensation. This can take the form of a double recovery to the customers and can potentially send the wrong investment signals for DG among network customers - ultimately paid for by all customers. Hence in assessing the benefit and "true value" of DG, the Commission must take into account the wider implications any outcome this inquiry will have on the market for solar and storage installation on the network.

A policy that does not create 'real' benefit, appropriately defined as a net value of the policy impact, that reduces network costs, is not an acceptable policy outcome and in the interest of the customer's long-term under the NEO.

This initial consultation sets the tone for further discussions on:

- Various forms of value
- Value as a form of both costs and benefits
- Real impact of DG on load over time
- Impact of cross subsidization in recovering this value
- Additional benefits derived in conjunction with cost reflective and capacity tariffs
- Costly, complex and administrative process of consulting on, designing, approving, implementing and maintaining the compensation amongst all the stakeholders is quite burdensome

Further details are on this submission are provided in Appendix A below.

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

Kind Regards,

Mathew Abraham
Regulatory Analyst

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Appendix A

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

- Complexity of the calculation of a formula on a locational and time basis
- Deriving an accurate future long-run marginal deferred investment costs

Additionally, the Commission has acknowledged that the AEMC is currently undertaking a consultation on the introduction of Local Generation Network Credit (LGNC) across the NEM. There are parallel issues being addressed between these two consultations and this response will include our views expressed in our response to that consultation.

Value of developing a methodology

In acknowledging the complexities of the value chain this inquiry is looking to identify, the Commission has disaggregated "value" into energy and network value provided by DG customers. The Commission proposes to develop a methodology that captures both of those values and create a mechanism that compensates the DG customer for it.

In the first instance, the Commission makes the assumption that the costs to connect DG to the networks are captured in the price review process. However UE would like the commissions to view these costs in the context of cost to connect and the costs associated to accommodating the two way flow of energy on the asset. The cost of the two-way flow on the network is being borne by all customers and increased levels of EG increases this cross-subsidy. As the penetration of DG increases these cost to accommodate also increase and hence further exacerbate the cross subsidy.

Secondly, in representing the benefit or value from the reduced expenditure required to operate the network as a consequence of reduced demand of electricity transported through it - the Commission has proposed a Local Generation Network Credit style compensation that values this benefit as the deferred long run marginal cost of network augmentation and maintenance. As the Commission has acknowledged, the AEMC is currently engaged in a consultation on this very form of compensation with the DBs and other stakeholders. UE would suggest that the Commission let the AEMC consultation take its course in assessing the viability of this or work in conjunction to arrive at a mutually agreeable approach.

Finally, the inquiry also explores the value that the DG has on the wholesale market. There is no doubt that DG has an impact on the amount of energy required from traditional sources of electricity. As such it will also have an impact on the wholesale prices. However the Commission has rightly pointed out that the current Victorian feed in tariffs are based on the timing of the wholesale price of electricity.

In response to the Commission's request of assessing the viability of identifying and calculating the costs mentioned above, UE believes that there is no clear evidence to suggest that a commensurate monetary benefit is generated from the DG. This is primarily due to any benefit on the network being a function of locational constraints on existing capacity, timing of the injection into the network and amount of DG. As noted at the round table discussion, the highest network demand day may not necessarily correlate with the highest solar generation day. Therefore any regulated credit would lead to inappropriate compensation. UE would like to suggest that the Commission include this assertion as a point of discussion in the workshops going forward.