



**EnergyAustralia**

**EnergyAustralia Pty Ltd**

ABN 99 086 014 968  
Level 33  
385 Bourke Street  
Melbourne Victoria 3000

Phone +61 3 8628 1000  
Facsimile +61 3 8628 1050

enq@energyaustralia.com.au  
energyaustralia.com.au

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Dr Ron Ben-David  
Chairperson  
Essential Services Commission  
Level 37, 2 Lonsdale Street  
Melbourne 3000

Dear Dr Ben-David

**Response to the Draft Decision on Minimum Electricity Feed-in Tariffs (for application from 1 Jan 2014 to 31 Dec 2014)**

EnergyAustralia welcomes the opportunity to provide input on the Draft Decision released by the Essential Services Commission (ESC) on the Victorian minimum electricity feed-in tariff for 2014.

**1. Timetable and consultation**

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The legislation requires the Victorian minimum feed-in tariff (FiT) for the next calendar year to be published by the ESC by the 31<sup>st</sup> August each year. This is a suitable timeframe as it allows retailers to make any required changes to their systems before the changes take effect. The ESC has provided time from the 5<sup>th</sup> July 2013 for consultation with stakeholders.

While we appreciate the chance to provide input into this review, we have found it hard to comment on some aspects of calculation of the minimum FiT value as the ESC has not provided enough details on how the regional reference node prices and generation profile were forecast. We discuss the particular issues in more detail in section 3. It's important to us that the minimum FiT value is set with regard to principles of economic efficiency and that the consultation is conducted transparently with reference to verifiable data. Given the details provided in the Draft Decision, we have not been able to satisfy ourselves that the FiT is set at an appropriate level and to provide the level of feedback that we would have liked.

**2. The form of the feed-in tariff**

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***Time-varying FiT***

We agree with the ESC that it is too soon to contemplate a FiT that has more than one time period per day. As outlined by the ESC, this would take additional time to set appropriately and be

administratively more complex. In our view, it is more sensible to consider this option after flexible (time-varying) electricity prices are implemented in Victoria later in 2013.

### **3. Method of calculating the FiT rate**

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#### ***General method***

We accept the elements that contribute to the value of the FiT as recommended by the Victorian Competition and Efficiency Commission (VCEC); particularly, that it is made up of the value of wholesale electricity and line losses.

The ESC has appropriately stated that:

*"the avoided cost for the retailer of embedded generation (value of electricity exported) is:*  
*- the wholesale spot price in each half hour multiplied by the quantities of embedded generation exports of that retailer's customers in each corresponding half-hour period."*<sup>1</sup>

Beyond the high level method, we do have some concerns about parts of the approach used by the ESC to determine the draft minimum FiT for 2014. These are discussed below.

#### ***Embedded generation export forecast***

We are not sure why the ESC states:

*"The aggregate profile of net exports is required, but this information is not available for Victoria, and therefore a profile needs to be adopted that provides the best approximation to that profile."*<sup>2</sup>

With the smart meter rollout in Victoria being quite advanced, we understand that half-hourly data is available for approximately 60–70% of all small Victorian sites. Even taking into account the fact that a smaller proportion of customers will have solar panels installed or have 12 months or more of half-hourly data available, there is still ample data available to calculate an accurate half-hourly generation profile for solar exports in Victoria.<sup>3</sup>

The ESC demonstrates with Sydney data that the typical Sydney production profile is closer in shape to the actual solar photovoltaic (PV) net export profile for the Ausgrid network area.<sup>4</sup> Whether it is appropriate to apply this result to the Victorian situation is not clear.

We note that Sydney customers at the time (2011–12) were more likely to have had an incentive to export their own generation rather than use it as most customers were on the Solar Bonus Scheme FiT of 60c/kWh and this rate was higher than the value of imported electricity available from the customers' retailer. This effect could have led to the Sydney net export profile being closer in shape to the gross PV production profile.

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<sup>1</sup> ESC, Minimum electricity feed-in tariffs for application from 1 January 2014 to 31 December 2014, Draft Decision (Draft Decision), July 2013, page 21

<sup>2</sup> ESC, Draft Decision, page 23

<sup>3</sup> A significant portion of these customers will be on a net FiT rate that is lower than their electricity rate. Ideally, this is the customer group for which generation data should be analysed for the purpose of setting the minimum FiT as they have an incentive to use the electricity they generate and are more likely to have a net export profile that differs from the theoretical solar generation profile.

<sup>4</sup> ESC, Draft Decision, figure 4.2, page 24

However, the ESC is relying on this Sydney data and applying the findings to calculate the minimum FiT in Victoria. This is not necessarily appropriate as the Victorian (net) FiT is currently set at 8c/kWh and provides customers an incentive to use the electricity they generate rather than export it to the grid. If the generation profile is not correct, then the FiT value may also be incorrectly calculated.

We therefore request that the ESC publish the generation profile being used to calculate the minimum FiT in Victoria so that stakeholders can satisfy themselves of the validity of the approach taken. If this is not possible in the current review, then perhaps this could be accommodated in the next review.

### ***Spot price forecasts***

From the discussion in the Draft Decision, it appears that the ESC has obtained recently updated wholesale spot prices for the 2014 year using the same model and approach used by ACIL-Allen Consulting (ACIL) in their response to VCEC in 2012.<sup>5</sup> As noted by the ESC,<sup>6</sup> spot price forecasts are sensitive to the underlying demand forecasts, however, no details or references are provided to allow stakeholders any real insight into how the outputs were generated and if they are satisfactory. We request that further details be published in future reports to allow stakeholders to assess the methodology used.

However, given the drop in wholesale prices in Victoria in recent months and market uncertainty on the carbon price in 2014, the finding that the spot price forecasts produced by ACIL are “on average lower than the forecast [they] produced in 2012”<sup>7</sup> is in accord with our expectations.

### **Losses**

The method used by the ESC to calculate losses is appropriate for the minimum FiT.

### ***Rounding of the draft FiT***

It is unusual that the ESC has decided to round up the initially calculated minimum FiT by 0.4c/kWh to allow for the sensitivity of the forecast electricity spot prices and demand forecasts.

It would have been helpful if the ESC had published the details of the analysis, any relevant ACIL data and some high level outputs such as the Victorian load weighted average price<sup>8</sup> for 2014 for each of the different generation profiles to demonstrate the sensitivity and justify that a rounding up is appropriate. A value of 0.4c/kWh is equal to \$4/MWh and in terms of how regulated prices are set this is not negligible.

We are not totally opposed to rounding of the minimum FiT, particularly where this would help provide better continuity for customers and help us avoid the need to update our systems. However, we would like to see further analysis on the need for rounding and the direction of the rounding.

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<sup>5</sup> VCEC, Inquiry into Feed-in Tariffs & Barriers to Distributed Generation, <http://www.vcec.vic.gov.au/CA256EAF001C7B21/pages/vcec-inquiries-current-inquiry-into-feed-in-tariffs---barriers-to-distributed-generation>

<sup>6</sup> ESC, Draft Decision, page 27

<sup>7</sup> ESC, Draft Decision, pages 26-27

<sup>8</sup> For example, see ACIL Tasman, Modelling feed-in tariffs, Final Report prepared for VCEC, May 2012, table 6, page 80

#### 4. Summary

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We acknowledge that this review of the minimum FiT review is due to be complete in the next month and have restricted our comments to matters that relate to the matters outlined in the Draft Decision. The high level 'wholesale price plus' method recommended by VCEC used by the ESC is a suitable approach and aligns well with the approach used by other state regulators.

In making the final decision, we believe it's important for the ESC to consider:

- If the generation profile used to calculate the FiT rate is appropriate for Victoria
- The appropriateness of rounding the FiT rate up from 7.6c/kWh to 8c/kWh

In future reviews, we would value the opportunity to review the method and inputs relied on by the ESC to calculate the minimum FiT. A regulated rate is seen as a benchmark price and it is important that is developed in a transparent way and is set at an efficient level. To not apply these principles has a detrimental effect on regulatory certainty and competition in the distributed generation market respectively.

If you would like to contact me about this submission, please call me on (03) 8628 1242.

Yours sincerely

**Melinda Green**

Regulatory Manager - Pricing