



EnergyAustralia

LIGHT THE WAY

17 January 2020

Minimum feed-in tariff review 2020–21
Essential Services Commission
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Dear Commissioners

Draft decision – Feed-in tariff from 1 July 2020 – 3 December 2019

EnergyAustralia is one of Australia's largest energy companies with around 2.6 million electricity and gas accounts across eastern Australia. We also own, operate and contract an energy generation portfolio across Australia, including coal, gas, battery storage, demand response, wind and solar assets, with control of over 4,500MW of generation capacity.

We appreciate the opportunity to respond to the Commission's Draft decision and hopefully have some useful observations given we currently offer a time of use (TOU) feed-in tariff (FiT) to our customers.

In terms of the Commission's methodology, we support the move to calculate the FiT on a solar-weighted basis as it more accurately reflects the value of excess solar generation that is exported back into the grid.

While out of the Commission's control, the prescribed carbon intensity factor of 1.27kg of CO_{2-e} per kWh is outdated and too high, particularly with the decommissioning of the Hazelwood power station in 2017. Including a component for the avoided social cost of carbon is a regulator-imposed cost that is taken into account when setting prices across the entire customer base. While the direct price effect for customers may be immaterial, it indirectly compounds cross subsidies as there is otherwise a greater incentive to install solar PV. 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 solar PV installations.

In terms of the Commission's estimates of underlying wholesale costs, we consider there is a material risk that increasing solar PV installation will result in prices being lower at peak solar times in the coming year, relative to recent years. In our view this decline would be beyond the reduction in minimum FiT values from 2019-20 that the Commission has currently estimated.

Our experience in offering a TOU FiT is that this is valued only by a small cohort of very engaged customers, and it may have little mass-market appeal outside this group. Our costs of implementation and administration have been relatively modest, in the context of an integrated tier one retailer, but not immaterial. Our decision to incur these costs was made on a commercial basis i.e. in the face of expected risk and returns, which heavily depend on the values and price differentials determined by the Commission.

As the Commission notes, retailers are moving into more bespoke pricing and technology arrangements which is further likely to, and better, cater for this engaged cohort. Requiring retailers to offer a further tariff may be counter-productive in the current environment. As the Commission would be well aware, we already anticipate the need to communicate a range of product changes to our customers as a result of regulatory interventions in the coming year. Customers may also be suspicious of any new pricing being introduced, particularly TOU which is less understandable.

The benefits of mandating a TOU FiT are likely to be narrow. That is, instances where customers on a flat TOU who would be materially better off under a TOU FiT are likely to be few. These customers would need to have particular usage and insulation profiles. And importantly, they would need to have a solid understanding of these factors and the means to influence their surplus PV generation.

Our view is that having a flat regulated FiT should be a sufficient requirement on the market and that retailers should be free to introduce more innovative pricing and product options that cater for more sophisticated customers. Over time we would expect that the need for any minimum FiT is reviewed, rather than seeing the Commission mandate further pricing and product decisions.

If you would like to discuss this submission, please contact me on 03 8628 1655 or Lawrence.irlam@energyaustralia.com.au.

Regards

Lawrence Irlam

Industry Regulation Lead