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29 January 2018

Submissions to Energy Division

Essential Services Commission
Level 37, 2 Lonsdale Street
Melbourne VIC 3000

Dear Essential Services Commission,

Minimum electricity feed-in tariffs to apply from 1 July 2018

Powershop Australia Pty Ltd (**Powershop**) thanks the Essential Services Commission (**ESC**) for the opportunity to provide comments in relation to the draft decision on the proposed minimum electricity feed-in tariffs to apply from 1 July 2018.

Powershop is a retailer with over 100,000 customers in Victoria, New South Wales and South East Queensland, and an overweight proportion of solar customers relative to the market owing to Powershop's position on solar and the environment. Since launch in 2014, Powershop has consistently advocated for solar in a number of areas, including promotion of non-discriminatory pricing for solar customers, paying a fair feed-in rate, launching the first at scale application of peer to peer solar energy, support for community solar projects, and promotion of the benefits of solar to Powershop customers.

Powershop's response to the draft decision is set out below.

1. Calculation of the time-varying feed-in rates

Powershop sees the benefit in a time-varying feed-in rate as this may provide a price signal which drives behaviours that are beneficial to consumers as a whole by (potentially) reducing the wholesale cost of electricity in peak periods. We note the draft rates are based on the Acil Allen 'Powermark' model. While Powershop is not familiar with the Powermark model, we have no particular issue with the use of this model or the use of any other model. However, like all models, the Powermark model is based on a large number of assumptions, and Powershop notes that the assumptions driving the Powermark model are not provided for comment. In the absence of this information, Powershop has used the last 12 months of spot prices (which includes the January 18th and 19th 2018 high price events and is broadly reflective of the post-Hazelwood market) to calculate the value of solar energy at the periods corresponding to the time-varying feed-in rate (see Figure 1 below).



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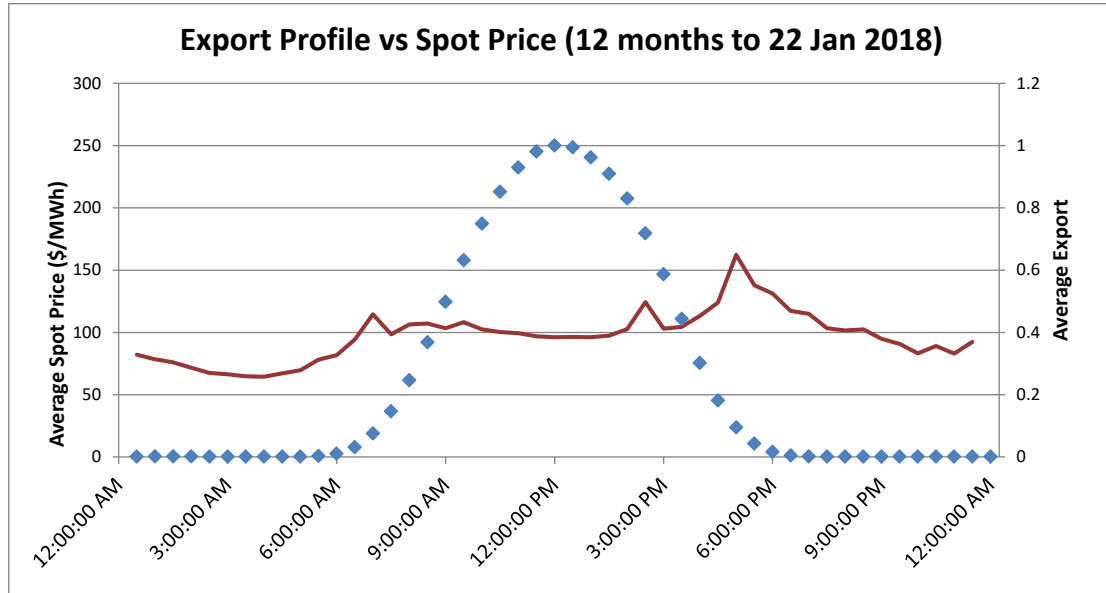


Figure 1: Average Spot Prices and Average Export Profile over 12 months to 22 January 2018

Table 1: Forecast and Historical Wholesale Electricity Pool Price

Period	Powershop analysis	ESC Table 3.3
Off Peak	9.2c	4.2
Shoulder	9.8c	7.2c
Peak	13.8c	24.7

Powershop notes that the peak value calculated by this approach is significantly lower than that set out in Table 3.3 of the draft decision paper. The values that correspond to the proposed time-varying feed-in rates are shown in Table 1 above (Powershop can make this analysis available to the ESC and other interested parties on request). In addition, the data suggests that the proposed timing of the peak period of 3pm is too early given that higher prices are not seen in the wholesale market until later in the evening. If the time-varying feed-in tariff is intended to drive certain customer behaviours, a peak period that has a tighter link to peak prices would be more beneficial. Otherwise, potential adverse impacts could be seen by increasing solar customer usage during non-daylight hours (as an alternative to self-consumption at 3pm, for example), putting further strain on the network between 7pm and 9pm.

Powershop recommends that the ESC give strong consideration to the weight it places on a model of future prices (for which we again note, the assumptions have not been made available) versus an analysis of the last 12 months of reality.

2. Social cost of carbon

Powershop recognises the societal, health and environmental benefits of solar and notes the 2.5c/kWh avoided social cost of carbon charge is designed to be reflective of these benefits. However, the combination of this charge, a time-varying feed-in rate, and the rapid uptake of



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batteries in the community creates a significant problem. Under the proposed scheme, it will be possible for Powershop customers (and customers of all retailers with an off-peak tariff) to charge their battery at off-peak rates, and discharge into the proposed feed-in rates. This will deliver a profit to the customer and has the potential to benefit the electricity system by bringing down peak wholesale electricity prices. However, combined with the 2.5c/kWh charge, this would see customers with a battery being paid for energy that is not generated from their solar system but rather sourced from the grid. One option would be to limit the 2.5c/kWh component to customers without a battery although this would seem unfair to customers with a battery who could choose to not arbitrage off-peak to peak. Further, Powershop cannot immediately think of a way that the 2.5c/kWh could be limited to solar without batteries. In conclusion, Powershop's view is that this is a problem that needs to be addressed in order to avoid all customers paying the social cost of a carbon charge for energy that is not free of carbon.

In addition, while Powershop strongly supports solar, the system must remain vigilant to ensure that non-solar customers do not end up paying, indirectly, inappropriate market value for solar energy. It should be kept in mind that there are customers who do not, and cannot, have solar due to practical reasons (renters, apartment buildings etc.) or for affordability reasons. Feed-in rates significantly above market value, or inappropriate use of the social cost of a carbon charge, will represent a significant cost to all customers, at a time of ever-increasing concern about rising electricity costs and affordability. This has the potential to give those in the community who are anti-renewables ammunition to attack the various government and community-based mechanisms, including and beyond rooftop solar, that facilitate and support the transition to a lower carbon environment in Victoria.

If you have any queries or would like to discuss please do not hesitate to contact me.

Yours Sincerely,

Ed Manus

Chief Executive Officer

Powershop Australia