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Essential Services Commission

Level 37/2 Lonsdale St, Melbourne VIC 3000

RE: Minimum electricity feed-in tariff to apply from 1 July 2022

GloBird Energy welcomes the opportunity to provide feedback on the "Minimum feed-in tariff to apply from 1 July 2022: Draft Decision".

GloBird Energy sees a **fundamental flaw** in Frontier's methodology for projecting the wholesale price for the minimum solar Feed-in tariff, and suggest simplifying Frontier's methodology for higher accuracy, more transparency, and overall improved confidence from the public and the industry, by setting the wholesale price for Solar Minimum Feed-in tariff the exact same as the actual spot market outcome from the most recent 12-month period.

Further, GloBird agrees with the commission's view to use the more recent data available on the final decision. To provide more certainty and transparency, GloBird suggest the commission to use the most recent calendar year's data in its final decision, and lock in the same period as a standard approach for future decisions.

In detail:

1) Set the wholesale price for solar minimum feed-in tariff to be exactly the most recent 12-month spot market solar export weighted average price based on the actual Victoria wholesale spot market prices and actual solar generation data at the same time
2) Use the actual historical Victorian spot price for the proceeding calendar year, in this case, spot prices for the period of 1 Jan 2021 and 31 Dec 2021 (inclusive) and use the actual solar export data for the proceeding calendar year to calculate the historical solar export weighted wholesale price

Set the wholesale cost for the solar minimum Feed-in tariff only based on the actual solar export weighted average spot market price

In Frontier's approach, it scales the half-hourly FiT spot market prices (and price for non-Fit periods) towards the future expectations of spot prices at the same ratio, see below:

"We then scale the selected historical half-hourly Victorian spot prices to an estimate of the average spot price for 2021/22. ….. This scaling shifts the average of the historical half-hourly spot prices to reflect the contract price, without altering the underlying pattern of half-hourly spot prices"[1]

This implies that Frontier believes a strong price correlation exists between the half-hourly FiT period spot market prices and the future quarterly contract prices, that is, if the futures quarterly contract price goes higher, then the future spot market price for the FiT period would also go higher at exactly the same ratio,

but we see **NO** guarantee of such correlation to exist, that is, **a higher quarterly price does NOT guarantee a higher wholesale spot price for the FiT period**. Moreover, the wholesale price for the FiT period could still go lower (or higher) even if the quarterly price stays the same. This is because the solar generation varies by the weather and generates mostly mid-day when the sun is strongest, but a futures contract covers the whole day, including non-solar periods. In addition, as Frontier themselves report, Solar Premiums have fallen significantly in recent years[2], which is a strong indicator that the wholesale price for the solar FiT period did not move at the same ratio as the overall wholesale price, and it could even be possible that in the future, the price for the FiT solar period could move in an opposite direction compared to the flat quarterly futures market price.

Therefore, when establishing the wholesale FIT price, we should focus on the actual solar generation and the price at the time of generation. The relevance of quarterly wholesale prices is less and the two are not necessarily correlated. In other words, in today's energy market, it is quite possible that the futures market accurately projected a higher average price for the whole quarter compared to the same quarter last year, but the actual spot market outcome still turned out to be even lower when solar is generating, combined with a significantly higher evening prices when there is little solar generation, resulting in an overall higher average price for the quarter. In GloBird's view, it is fundamentally wrong to scale up the forecasted daytime spot market prices based on the increased futures forward price at the same ratio across the whole day. The same would be true even if the futures market forward price is the same or lower than the same period last year.

On the other hand, retailers are forced to buy the roof-top solar generation from customers at the price that is no less than the Minimum feed-in tariff, but there are no solar shaped wholesale contracts available in the ASX energy market for retailers to manage the roof-top solar generation risk. As a result, retailers have no choice but to take the spot market price.

To ensure the solar wholesale price is as accurately as it can be, and also to ensure all roof-top system owners are getting fairly compensated based on the true market prices that are set by AEMO, and to stop retailers passing on the loss suffered from overpaying for the solar feed-in tariff to its remaining customer base, GloBird suggest the commission consider a vastly simpler and more accurate approach in calculating the wholesale price for the minimum Feed-in tariff, which is to set the future wholesale price for the Minimum feed-in tariff to be the same as the actual solar export weighted average spot market outcome for the most recent 12-month period.

This can be easily achieved by calculating the weighted average spot price multiplied by the actual solar generation for the same settlement period as outlined in step 4[3] in Frontier's methodology, using the actual half-hourly spot market price and the actual solar generation data for the same period. There is no need for step 1 to step 3 currently implemented in Frontier's methodology. This makes the process vastly simpler and unarguably transparent. More importantly, it is based on the actual historical spot market outcome, and not subject to any human intervention, subjective judgement calls, or model inaccuracies. Both the public and retailer can feel more confident about the result because it truly reflects the actual spot market outcome, just delayed by a few months, depend on the actual calculating period used.

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Use the most recent calendar year's data only

We agree with Frontier and the commission's view that the final Minimum FIT should be recalculated based on the latest data, and we suggest using only the most recent calendar year's data for several reasons.

Firstly, the commission sets the Minimum feed-in tariff once a year for each financial year, so if the Solar Minimum Feed-in tariff is decided based on the most recent calendar year's data, retailers can be certain that the cost associated with the Solar Minimum Feed-in tariff is only delayed by 6 months compared to actual, reducing the uncertainty and risk introduced by the Minimum Solar Feed-in tariff.

Secondly, roof-top panel installation is a large and fixed investment with a life span of 15 to 20 years. Once installed, it will continue to generate power, offset customer demand, and feed in any excessive energy generation to the grid. Therefore, a roof-top solar system creates an irreversible, consistent, and long-lasting change to the overall wholesale energy supply and demand balance. On the other hand, AEMO sets the wholesale energy spot market price at every 5 minutes interval based on the real-time energy generation and demand, it is reasonable to conclude that the recent spot market price shape is more reflective of what's going to happen in the future for the wholesale solar price, which is why GloBird support using the data up to December for the price in the following financial year.

Finally, roof-top solar system installation has grown explosively over the last few years due to government incentives and technology advancement. From GloBird's experience, the average solar generation fed into the grid has grown by a factor of 15 times (on a per customer basis against our total customer base) since Financial Year 2019/2020. While this is welcome news for the environment, it creates significant changes to the wholesale energy market, which is apparent from the increased number of negative wholesale prices during the day.

When the wholesale price is negative, the seller (retailer) must pay AEMO (the spot market) for the energy generated and fed into the grid. It has become increasingly critical to use the more recent solar generation data when calculating the solar weight when calculating the wholesale price for the solar period, so that the minimum feed-in tariff is not wrongly priced compared to the actual wholesale value at the time of generation, because there is no separate mechanism where retailers are compensated when overpaying solar customers, the cost disparity has to be passed onto all customers, creating a situation where the poor are essentially subsiding the rich because low income and vulnerable customers are less likely to own roof-top solar systems due to either financial or physical constraints. Due to the fact energy consumption data is not finalised until four weeks later, for the commission to have access to the most recent and yet accurate data, we suggest using the actual solar generation data up to December.

Closing Statement

With the reasons mentioned above, GloBird believes it is more transparent, simpler, prudent, accurate and fair to all stakeholders to use the most recent calendar year's actual solar weighted spot market outcome as the wholesale energy price for the solar minimum feed-in tariff. The approach offers consistency, helps providing lasting benefit and increased confidence for the public.

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References:

1: Wholesale Price Forecasts for Calculating Minimum Feed-In Tariff, page 9, section 1.2

2: Wholesale Price Forecasts for Calculating Minimum Feed-In Tariff, page 10, section 1.3

3: Wholesale Price Forecasts for Calculating Minimum Feed-In Tariff, page 14, section 2, step 4

Any questions about this submission should be sent by email to [redacted]

Regards,

[redacted]

John McCluskey

Director