



11 January 2019

Submission to Energy Division
Essential Services Commission
Level 37/2 Lonsdale Street
Melbourne VIC 3000

By email: fitreview@esc.vic.gov.au

Dear Sir or Madam

Minimum electricity feed-in tariff to apply from 1 July 2019 - Draft decision

Origin Energy (Origin) welcomes the opportunity to provide a response to the Essential Services Commission's (the Commission) draft decision on the Victorian feed-in tariffs to apply from 1 July 2019.

Origin supports the Commission's draft decisions to (i) continue to allow retailers to apply a single rate tariff and (ii) adopt a 'futures price' approach to estimating energy supply costs. However, Origin is concerned that the Commission may apply a different assessment of energy supply costs in setting the Victorian Default Offer (VDO). Origin suggests that the same set of futures prices should be used to estimate energy supply costs for both the VDO and solar feed in tariff.

Structure of the feed-in tariff

The introduction of a flexible feed-in tariff was not supported by Origin during the Commission's Inquiry into the True Value of Distributed Generation (Energy Value).¹ Origin appreciates the Commission's draft decision to allow retailers to continue to apply a flat feed-in tariff from 1 July 2019.

Futures Based Approach

Origin supports the Commission's decision to change its approach to estimating wholesale electricity prices from market modelling to a 'futures price' methodology. The use of futures prices to estimate energy purchase costs is the AEMC's preferred approach² and provides stakeholders with a greater ability to understand the Commission's estimates.

Consistency with Victorian Default Offer

We note the Commission is consulting on the methodology to estimate the Victorian Default Offer (VDO), a key component of which is determining wholesale electricity supply costs. In estimating wholesale electricity costs the Commission's staff working paper³ notes that the Commission staff "propose to use the futures market method to estimate the VDO".

Origin considers that the Commission should use the same set of futures prices to determine the VDO and the solar feed-in tariff. The sample period (and any weighting) for these prices should be the same, although different load profiles and premiums for variability will be applied. This will ensure

¹ Origin Energy, *Submission to Inquiry into the True Value of Distributed Generation (Energy Value)*, 3 June 2016. Accessed here: <https://www.esc.vic.gov.au/wp-content/uploads/2016/06/Origin.pdf>

² AEMC, *Advice on a Best Practice Retail Price Regulation Methodology*, 27 September 2013

³ ESC, *Victorian Default Offer for domestic and small business electricity customers, Staff working paper*, 21 December 2018

consistency in retailer allowances for energy sales made to default customers and payments made to solar customers. Failure to do so, would create a regulated profit or loss for retailers.

Origin suggests that once the Commission has published its VDO methodology in February 2019 it should re-calculate a revised draft value for the feed-in tariff using the set of futures prices that will be used in the VDO. In early March the Commission could publish draft recommendations for the VDO and revised feed-in tariff, with final values to be published in early May 2019.

Should you have any questions or wish to discuss this information further, please contact me on

[REDACTED]

Yours sincerely



Keith Robertson
General Manager, Regulatory Policy
(02) 9503 5674
keith.robertson@originenergy.com.au