



29 January 2018

Mr Aaron Yuen
Victorian feed-in tariff rates to apply from 1 July 2018 - Draft Decision
Essential Services Commission
Level 37/2 Lonsdale Street
Melbourne VIC 3000
Lodged online

Dear Mr Yuen,

Victorian feed-in tariff rates to apply from 1 July 2018 - Draft decision

Origin Energy (Origin) welcomes the opportunity to provide a response to the Essential Services Commission of Victoria's (the Commission) Draft Decision on the Victorian feed-in tariffs to apply from 1 July 2018.

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 Nevertheless, the Commission has completed its inquiry and the Government has accepted its recommendations about the structure of a flexible feed-in tariff. Origin therefore accepts the structure that the Commission has chosen to use as its basis for a flexible feed-in tariff.

Origin appreciates the Commission's proposal to set both a flat and flexible feed-in tariff as a transitional measure during the next feed-in tariff period. Given the breadth of regulatory change in Victoria and other jurisdictions, it helps retailers to have the additional time to implement necessary system and process changes. In future determinations, we believe it would be preferable for the Commission to continue this practice of setting both a flexible and flat feed-in tariff, with retailers offering customers a choice between both. The ability to make these decisions is consistent with customers choosing which retail tariff they prefer. In this way, a customer will be able to choose their preferred tariff structure. A customer who is not able to shift their demand may prefer a flat tariff over a flexible one. The Commission puts the case effectively in its Draft Decision:

Allowing retailers to choose between tariffs will give them the opportunity to differentiate their service offerings, promoting competition in the retail market. This will benefit consumers as they can choose the retailer whose offering best fits their needs, while still ensuring they receive a regulated minimum regardless of which tariff structure they are on.²

The alternative is, in effect, automatically assigning flat feed-in tariff customers onto flexible feed-in tariffs from 1 July 2019. The Victorian Government has supported opt-in tariffs for network tariff reform; we believe a consistent approach to choosing time-varying feed-in tariffs is appropriate. Origin expects that some customers will not appreciate being assigned on to a flexible feed-in tariff they did not choose and may not have preferred.

In the past the Commission has suggested that retailers could still offer a flat tariff by setting it at the peak value at all times. A comparison between the proposed flat rate (9.9 cents per kWh) and the peak rate (29 cents per kWh), indicates that there is a disincentive for offering a flat tariff in the absence of the Commission setting one. However, as the 29 cents per kWh peak rate demonstrates, this would be

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>

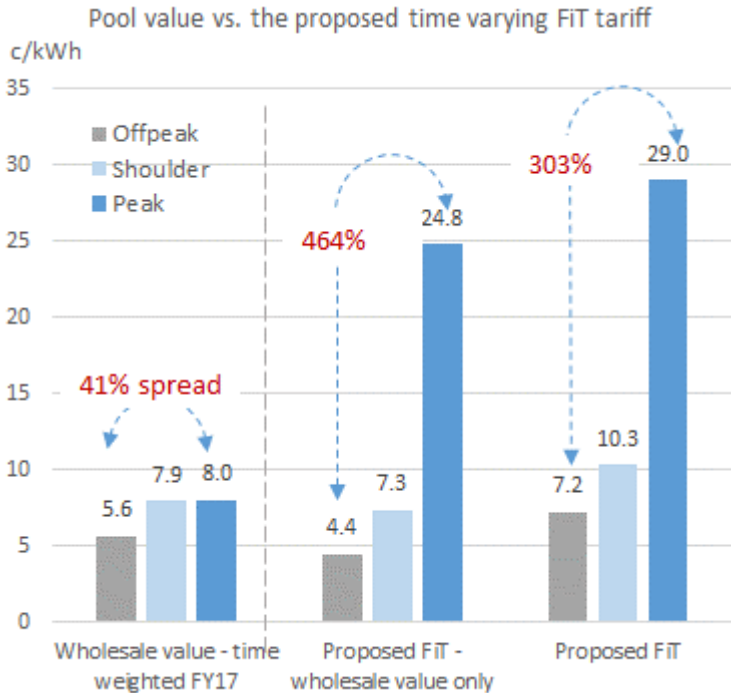
² ESCV, Minimum electricity feed-in tariffs to apply from 1 July 2018: Draft Decision, 19 December 2017. P. 6.

a costly exercise for retailers and would result in other customers cross subsidising solar PV. Governments closed premium feed-in tariff schemes in part to limit their cost to other customers.

We note that the Commission will consider critical peak pricing next year. Consistent with Origin’s submission to the Inquiry into the True Value of Distributed Generation (Energy Value), we do not support the introduction of critical peak pricing.³ As the Commission notes in its Draft Decision, it will be complicated for retailers to introduce this component of the feed-in tariff. It is also apparent that the Government has not explicitly committed to a critical peak price.⁴ We will address these issues further in the next round of consultations.

Feed-in tariff values

Origin agrees with the Commission that prices are likely to be lower during the midday hours when solar PV units are producing most of their energy; accordingly, those hours where solar is producing least results in a higher price for dispatchable energy (including distributed generation sources with storage). Whilst acknowledging that the peak price will be sharper than the shoulder, Origin was surprised by the finding of 24.7 cents per kWh average price for that period. The chart below compares 2017 pool prices in the peak, shoulder, off-peak price bands with the proposed feed in tariffs. As the chart illustrates, in 2017 the time averaged pool price in a peak period was 41% higher than in off-peak periods; however, the proposed feed-in tariff peak rate (wholesale value only) is 464% higher than the proposed off peak rate.



³ Ibid, p. 7.

⁴ Victorian Government, Response to the Inquiry into the True Value of Distributed Generation. Accessed here: <https://www.energy.vic.gov.au/renewable-energy/victorian-feed-in-tariff/esc-inquiry-into-energy-value-of-distributed-generation>

If the underlying wholesale peak value exceeds the likely time-weighted value of energy in the market it will create cross-subsidies.⁵ An overstated peak feed in tariff will undermine the dynamic efficiency of the flexible feed-in tariff and create a misplaced incentive for consumers to shift consumption, install west-facing solar panels, or purchase batteries.⁶ The costs of funding regulated tariffs that exceed market prices will, in the long term, need to be recouped from other customers – a situation that is not dissimilar to the problems caused by some State Government solar feed in programs. Origin suggests that the Commission further consider the price differentials in its proposed flexible feed in tariff.

In the absence of transparency about the actual pricing inputs that ACIL Allen's *PowerMark* model uses, it is difficult to subject regulatory pricing determination to scrutiny. This underscores a potential hazard of regulated pricing determinations: stakeholders are consulted about the determination but cannot give meaningful feedback about their outcomes because they depend on unknown input assumptions.

Should you have any questions or wish to discuss this information further, please contact [REDACTED].

Yours sincerely



Keith Robertson
General Manager, Regulatory Policy

⁵ This cross-subsidy is compounded by the additional social cost of carbon, which is separately set by the Victorian Government.

⁶ Origin is not opposed to customers shifting their panels to the west, installing batteries or changing their consumption patterns—as long as these decisions reflect efficient price signals.