



25 July 2013

Essential Services Commission of Victoria  
Level 37  
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Melbourne VIC 3000

Lodged by email: [fitreview@esc.vic.gov.au](mailto:fitreview@esc.vic.gov.au)

### **ESC Draft decision on minimum feed-in tariffs in Victoria for 2014**

The Energy Supply Association of Australia (esaa) welcomes the opportunity to make a submission to the Victorian Essential Services Commission's (ESC) draft decision on minimum feed-in tariffs (FIT) for 2014.

The esaa is the peak industry body for the stationary energy sector in Australia and represents the policy positions of the Chief Executives of 36 electricity and downstream natural gas businesses. These businesses own and operate some \$120 billion in assets, employ more than 51,000 people and contribute \$16.5 billion directly to the nation's Gross Domestic Product.

The esaa made a submission to the Victorian Competition and Efficiency Commission's inquiry into FITs arguing that the market was best placed to determine fair and reasonable value for generation from small-scale renewable energy systems. While it is therefore unfortunate that a minimum FIT is to be regulated, we acknowledge that this will transition to a market-determined rate after 2016.

In the interim, it is important that the ESC sets a minimum FIT that balances the value of small-scale embedded energy with the need for a well-functioning, competitive retail electricity market.

The ESC's draft decision largely bases the minimum FIT on the wholesale value of electricity. There are inherent uncertainties in estimating future wholesale electricity market prices. In particular, the future of carbon pricing, which makes up a significant proportion of the wholesale price of electricity in Victoria, is unclear. As a result, the esaa considers that the ESC should be conservative in estimating the wholesale cost of electricity for the purposes of determining a minimum FIT.

We note that the ESC has estimated the value of small-scale embedded energy at 7.6c/kWh. It is therefore puzzling as to why the ESC would decide to set the minimum FIT above this rate just so it matches the current FIT of 8c/kWh. The ESC argues that the uncertainties in assessing the value of embedded generation justify leaving the FIT at 8c/kWh.

The esaa considers that because of this very uncertainty the FIT should be set on the lower side of the ESC's estimate of the value of exported electricity. The ESC is setting a *minimum* FIT. The risks involved in setting a minimum FIT are highly asymmetric. A low figure will have little impact as the Victorian retail market is competitive and this competition will tend to drive market offers towards the efficient rate if this is higher than the regulated minimum. But if the minimum FIT is set higher than what turns out to be a competitive market rate, it will distort competition by making solar customers unattractive to retailers because they are required to overpay for those customers' electricity exports. Given that Victoria has one of the most competitive retail electricity markets in the world this would be an unfortunate and potentially damaging outcome.

Any questions about our submission should be addressed to Ben Pryor, by email to [ben.pryor@esaa.com.au](mailto:ben.pryor@esaa.com.au) or by telephone on (03) 9205 3103.

Yours sincerely

A handwritten signature in blue ink that reads "Kieran Donoghue". The signature is written in a cursive, flowing style.

**Kieran Donoghue**  
General Manager, Policy