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ABN 91 618 201 004
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Our ref: 03213-Discover Energy

2 November 2017

Ms Melissa Kulenicz
Project Officer
Australian Energy Regulator
Sent by email

Dear Melissa,

We refer to your email attaching a copy of a letter written by Mr Stanley. We submit this response for and on behalf of Discover Energy Pty Ltd.

Discover Energy welcomes this opportunity to confirm its commitment to renewable energy, noting that renewable energy makes good economic, environmental, and business sense.

Incorrect and insufficient basis of argument

Mr Stanley's letter references the closure of two retailers as evidence of the dangers of a high feed-in tariff. The closure of two retailers is not relevant to Discover Energy's decision to offer a feed-in tariff.

Mr Stanley provides no evidence that either retailer offered a high feed-in tariff, nor that this had any impact on their profitability. We note that both retailers are reported to have struggled with significant wholesale price fluctuations.

The value of distributed renewable energy

Mr Stanley's central proposition is that a retailer offering a high feed-in tariff cannot be profitable. This is incorrect.

Successful retailers offer a feed-in tariff

Momentarily leaving aside the value of offering a feed-in tariff, we note that most of the successful small, second tier and top tier energy retailers offer feed-in tariffs. Those retailers have gradually increased their feed-in tariff in response to the removal of state-based schemes, increased consumer demand, and increased value realised by a high wholesale price of electricity.

Direct value recognised in a feed-in tariff

Offering a product that includes a feed-in tariff makes good business sense for an energy retailer. There are a range of components that make up the value of a feed-in tariff.

The Queensland Competition Authority in its *2016–2017 Solar feed-in tariff report* finds that:

Most retailers in SEQ pay solar customers a set amount in cents for every kilowatt-hour (c/kWh) that solar customers export into the network. Retailers make these payments because the electricity exported by solar customers is consumed by other electricity customers, which reduces the amount of electricity retailers must buy on the wholesale market. SEQ retailers set the amount they are willing to pay solar customers for their exports when competing for these customers.

The Victorian minimum feed-in tariff was set by the Essential Services Commission (**ESC**). The current minimum feed-in tariff in Victoria is 11.3 c/kWh. In determining this value, the ESC used the average pool price from the PowerMark model of $77.22/MWh. The ESC then examined the weighting of relevant export time intervals, settling on a forecast solar weighted average pool price of $81.30/MWh for 2017–18. The ESC subsequently applied a loss factor of 1.074, added 0.1 c/kWh for avoided ancillary service charges and market fees, and applied a social cost of carbon of $0.025/kWh.

Direct value from distributed renewable energy is realised from its wholesale value, avoided loss factors, avoided ancillary service charges and market fees, other network benefits, and lastly avoided environmental and social costs. The ESC was unable to quantify certain components including the network value of distributed generation, the social and other environmental value resulting from reductions in pollution. The inability of the ESC to quantify those components was a result of either a lack of data or a finding that a single value could not be assigned (as that value would be a function of time and location).

We make two observations about the ESC determination. Firstly, the average wholesale electricity pool price used in the calculation is lower than recently observed wholesale electricity pool prices. Secondly, there are additional elements of value that were not included in the calculation.

Further value of offering a feed-in tariff

A new retailer provides consumers with additional choice. Discover Energy's products will increase competition with respect to offers that include a feed-in tariff. The need for competition in the energy market at the retail level was identified by the Australian Competition and Consumer Commission's preliminary report in its Retail Electricity Pricing Inquiry:

AGL, Origin, and EnergyAustralia have at least 70 per cent of residential customers across the NEM (as well as in each of NSW, South Australia and south east Queensland). Even in the most mature de-regulated market, Victoria, the big three have over 60 per cent of residential customers.

Attracting new customers is a cost of operating a retailer. As a result of offering a feed-in tariff, Discover Energy's cost of acquisition of new customers will be reduced. Their own market research has confirmed that there is a clear desire by consumers to take an electricity offer that includes a generous feed-in tariff.

Continued focus on customers, compliance, and products incorporating feed-in tariffs also results in lower churn. Customers who are receiving a good feed-in tariff are less likely to switch if they are happy with their existing offer. Churn represents a significant cost to an operating retailer. From a financial perspective, it makes sense to structure products that continue to be attractive to existing customers, for Discover Energy this will include a feed-in tariff.

Conclusion

Above we have explained the value of distributed generation in the context of a feed-in tariff. Operating an energy retailer requires a solid operational and financial basis. Discover Energy has the operational and financial resources required to operate a successful retailer. This is clearly explained in our application and letter from Discover Energy's financial institution.

We trust that this response is sufficient. Please contact the author if you have any questions or require any further information.

Yours Sincerely,

C.L. James

Connor James
COMPLIANCE QUARTER
E. connor@compliancequarter.com.au