

## Submission to Queensland Productivity Commission – Solar Feed-In Pricing in Queensland

### Introduction

This submission is provided to assist the Queensland Productivity Commission (QPC) in its inquiry into determining a fair price for the solar energy generated by “small customers” which is exported to the Queensland electricity grid. In doing so, the submission will respond to various points raised in the QPC’s Issues Paper.

### Page 1 of QPC Issues Paper

The Issues Paper acknowledged that total installed solar PV capacity is equivalent to the fourth largest generator in Queensland. This contribution by solar panel owners provides the community with an overall service by helping to reduce pressure on the network during periods of peak demand such as the height of summer. This means that additional capacity does not have to be built which reduces costs for everyone including people without solar panels.<sup>1</sup> For example, I understand that the total solar energy exported to the grid in 2012 was 356,000 megawatt hours. This led to the deferral of the need to build additional base load power stations in Queensland. The savings involved would be many millions of dollars. However, the value contributed by solar panel owners in this regard does not appear to be acknowledged by the Issues Paper, nor was it recognised by the former LNP Government.

The former LNP Government was overt in its support for the coal mining industry, even to the point of supporting non-viable coal mining projects.<sup>2</sup> Yet under the former government electricity costs in Queensland soared.<sup>3</sup> In response the former government frequently portrayed solar panel owners, especially those who received the 44c Feed in Tariff (FiT), as a major contributing factor in the rising costs of electricity.<sup>4</sup> Former Treasurer Tim Nicholls even characterised those who had invested in the

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<sup>1</sup> <<http://www.news.com.au/money/cost-of-living/research-by-energy-supply-association-of-australia-reveals-hidden-costs-of-solar-panels/story-fnagkbpv-1226645936534>>;  
 <<http://www.abc.net.au/news/2014-10-13/newman-accused-of-demonising-solar-to-boost-asset-privatisation/5809212?section=qld>>;  
 <<http://www.abc.net.au/environment/articles/2015/03/05/4191229.htm>>;  
 <<http://www.abc.net.au/news/2013-08-05/new-report-shows-rapid-take-up-of-solar-panels/4864954>>;  
 <<http://statements.qld.gov.au/Statement/2015/3/6/electricity-demand-reaches-record-high>>;  
 <<http://www.solarchoice.net.au/blog/queensland-solar-bonus-feed-in-tariff-reduction-reactions/>>;  
 <<http://www.couriermail.com.au/news/queensland/solar-panels-turn-suburban-homes-into-queenslands-fourth-biggest-power-station/story-fnihsrf2-1226779235364>>  
<sup>2</sup> <<http://www.brisbanetimes.com.au/queensland/queensland-wedded-to-coal-and-proud-campbell-newman-20140923-10l39c.html>>;  
 <<http://www.brisbanetimes.com.au/queensland/well-do-what-it-takes-in-galilee-basin-seeney-20141117-11o6zb.html>>;  
 <<http://www.brisbanetimes.com.au/business/mining-and-resources/adanis-carmichael-mine-is-unbankable-says-queensland-treasury-20150630-gi1l37.html>>;  
 <<http://www.abc.net.au/news/2015-07-01/senior-qld-bureaucrats-suspicious-about-adani-deal/6585028>>  
<sup>3</sup> <<http://www.brisbanetimes.com.au/queensland/electric-shock-power-bills-to-soar-up-to-23-per-cent-20130222-2ex2z.html>>;  
 <<http://www.couriermail.com.au/news/power-prices-in-queensland-set-to-soar-more-than-predicted-government-gazette-reveals/comments-e6freon6-1226654417980>>;  
 <<http://www.brisbanetimes.com.au/queensland/solar-users-lose-guaranteed-8-cent-tariff-20140522-zrko8.html>>;  
 <<http://www.brisbanetimes.com.au/queensland/electricity-bills-set-to-rise-about-200-a-year-20140530-zrjlc.html>>;  
 <<http://www.brisbanetimes.com.au/queensland/queensland-can-expect-electricity-prices-to-increase-over-next-few-years-20141211-125b24.html>>  
<sup>4</sup> E.g., <<http://www.couriermail.com.au/news/queensland/campbell-newman-sorry-for-soaring-power-prices-wants-debate-over-solar-bonus-feed-in-tariff/story-e6freoof-1226655448771>>;  
 <<http://www.couriermail.com.au/news/queensland/electricity-bill-shock/story-e6freoof-1226583094724>>;  
 <<http://www.brisbanetimes.com.au/queensland/premier-rules-out-statewide-electricity-rebates-20130602-2njz.html>>;  
 <<http://www.brisbanetimes.com.au/queensland/solar-users-the-champagne-and-latte-sipping-set-tim-nicholls-20140605-zrz9f.html>>;  
 <<http://www.abc.net.au/news/2014-10-13/newman-accused-of-demonising-solar-to-boost-asset-privatisation/5809212?section=qld>>;  
 <<http://www.news.com.au/national/breaking-news/qls-solar-bonus-funding-plan-announced/story-e6frku9-1227087902643>>;  
 <<http://www.abc.net.au/news/2014-10-12/Inp-vows-electricity-price-relief-if-reelected-in-queensland/5807494?section=qld>>  
 <<http://www.brisbanetimes.com.au/queensland/solar-tariff-scheme-bigger-bungle-than-health-payroll-newman-20141012-1152wu.html>>;

solar feed-in tariff scheme as “*champagne sippers and the latte set*” and recipients of “*middle class welfare*.”<sup>5</sup> The former Treasurer’s attitude was that solar panel owners who received the 44c FiT unfairly penalised other people “*who could least afford to install solar power*.”<sup>6</sup>

Contrary to the claims of the former LNP Government, the solar power FiT has been a minor contributor to the recent cost increases compared to other factors such as the heightened network costs which have been imposed.<sup>7</sup> In fact, a significant contributor in the higher electricity costs was the former government’s decision to freeze and then unfreeze the tariff 11 charge.<sup>8</sup> It has been reported that in the year after the tariff 11 freeze was lifted, “*... power prices jumped by about 22.6 per cent or just under \$270 with about \$70 of that attributed to the 2012-13 tariff 11 freeze*.”<sup>9</sup> As to the former Treasurer’s assertion that wealthy people primarily benefit from the 44c FiT, this ignores the fact that many solar panel owners are people on fixed incomes, people with large mortgages, and people who live in lower income suburbs.<sup>10</sup> As also noted on page 4 of the Issues Paper, the cost of solar has fallen rapidly over recent times. This price fall has put ownership of solar panels within the reach of many more people including lower income households. Thus, solar panel owners would rightly feel to have been unjustly targeted and blamed by the former government for the significant increase in electricity prices over the last three years.

On page 1 the Issues Paper also noted that almost one in four Queensland homes have solar PV and that Queensland has one of the highest levels of residential solar PV in the world. Despite the lack of support from the former LNP Government, solar power in Queensland has significantly increased in popularity.<sup>11</sup> However, this has meant that electricity utilities have come to feel threatened by the tougher competition they now face. As has been reported:

*For every person with solar panels on their roof, that's effectively one less customer for the big utilities. It's changed the time where the peak load occurs and it's also helped to cause a decrease in the overall size of the electricity market.*<sup>12</sup>

*The price of solar has just plummeted in the last five years, which is why it has become an affordable choice and that is something that continues to be attractive ... Which is why the big power companies and the [former] Queensland government are so against solar, because essentially they can see why people are finding it so attractive, and looking for other options away from the big power companies.*<sup>13</sup>

<<http://www.brisbanetimes.com.au/queensland/queensland-state-election-2015/queensland-state-election-newmans-promise-to-lower-living-costs--the-sequel-20150115-12qqam.html>>

<sup>5</sup> <<http://www.brisbanetimes.com.au/queensland/solar-users-the-champagne-and-latte-sipping-set-tim-nicholls-20140605-zrz9f.html>>

<sup>6</sup> <<http://www.brisbanetimes.com.au/queensland/solar-users-the-champagne-and-latte-sipping-set-tim-nicholls-20140605-zrz9f.html>>

<sup>7</sup> <<http://www.brisbanetimes.com.au/queensland/queensland-power-prices-to-drop-05-per-cent-20150618-ghr7mq.html>>;

<<http://www.brisbanetimes.com.au/business/sunday-explainer-why-is-electricity-so-expensive-20150925-gjvdvj.html>>;

<<https://www.ergon.com.au/community--and--our-network/future-investment/prices-explained>>;

<<http://www.smh.com.au/business/high-power-rates-its-a-poles-and-wires-story-20120611-20603.html>>

<sup>8</sup> <<http://www.brisbanetimes.com.au/queensland/electric-shock-power-bills-to-soar-up-to-23-per-cent-20130222-2ex2z.html>>;

<<http://www.couriermail.com.au/news/power-prices-in-queensland-set-to-soar-more-than-predicted-government-gazette-reveals/comments-e6freon6-1226654417980>>;

<<http://www.couriermail.com.au/news/queensland/electricity-bill-shock/story-e6freoof-1226583094724>>;

<<http://www.brisbanetimes.com.au/queensland/solar-users-lose-guaranteed-8-cent-tariff-20140522-zrko8.html>>;

<<http://www.brisbanetimes.com.au/queensland/electricity-bills-set-to-rise-about-200-a-year-20140530-zrjlc.html>>;

<<http://www.brisbanetimes.com.au/queensland/queensland-can-expect-electricity-prices-to-increase-over-next-few-years-20141211-125b24.html>>;

<<http://www.brisbanetimes.com.au/queensland/premier-rules-out-statewide-electricity-rebates-20130602-2njzk.html>>

<sup>9</sup> <<http://www.brisbanetimes.com.au/queensland/solar-users-lose-guaranteed-8-cent-tariff-20140522-zrko8.html>>

<sup>10</sup> <<http://www.abc.net.au/news/2013-08-05/new-report-shows-rapid-take-up-of-solar-panels/4864954>>;

<<http://www.brisbanetimes.com.au/queensland/solar-users-the-champagne-and-latte-sipping-set-tim-nicholls-20140605-zrz9f.html>>;

<<http://www.abc.net.au/news/2015-06-16/connor-voters-are-backing-solar-power/6548438>>

<sup>11</sup> <<http://www.abc.net.au/news/2015-06-16/connor-voters-are-backing-solar-power/6548438>>

<sup>12</sup> <<http://www.abc.net.au/news/2013-08-05/new-report-shows-rapid-take-up-of-solar-panels/4864954>>

<sup>13</sup> <<http://www.brisbanetimes.com.au/queensland/solar-users-the-champagne-and-latte-sipping-set-tim-nicholls-20140605-zrz9f.html>>

In response to the rising popularity of solar power, some in the electricity generating sector have characterised solar panel owners as free riders.<sup>14</sup> However, what the sector should be doing is not blaming solar panel owners but acknowledging that rising electricity prices have caused many people to install solar power (as the Issues Paper itself acknowledges on page 4) and making a positive contribution to finding a solution that is acceptable to all parties involved.

#### Page 2 of QPC Issues Paper

The Issues Paper states that there has been “... considerable policy debate on ... whether non-solar customers are paying more than they should for electricity due to solar PV.” However, much of this “debate” has arisen as a result of misinformation which has been disseminated about solar panel owners (e.g., that they are “champagne sippers and the latte set” and recipients of “middle class welfare” who unfairly penalise other people “who could least afford to install solar power”). As already noted, the reality is that solar panel owners actually contribute to overall lower electricity costs including for people who do not own solar panels.<sup>15</sup> In addition, far from being part of the “champagne sipping and latte set”, many solar panel owners are from lower income households.<sup>16</sup>

#### Page 3 of QPC Issues Paper

The Issues Paper states, “The 44c/kWh SBS is funded by the distribution network service providers, Energex and Ergon Energy. They are required to pay the amount of the feed-in tariff, which is then credited to the solar PV customer by the retailer. As network charges are regulated, these costs are recovered through higher network charges for all customers.” Unfortunately, the Issues Paper was silent on the reductions which should be expected in the overall costs of electricity as a result of Queensland’s high levels of solar panel ownership.<sup>17</sup> In addition, the Issues Paper did not provide any indication as to what the costs of electricity would be if Queensland did not have its current level of solar panel ownership. As a result, the Issues Paper has not conveyed all the relevant background information which would be needed to allow a reader to make an informed submission.

#### Pages 3-4 of QPC Issues Paper

The Issues Paper states, “The SBS was closed to new applications from 9 July 2012 and replaced with an interim scheme until 30 June 2014. The interim scheme reduced the feed-in tariff from 44c/kWh to

<sup>14</sup> <<http://www.brisbanetimes.com.au/business/electricity-price-reform-essential-says-united-energy-chief-executive-hugh-gleeson-20140919-10jcw.html>>

<sup>15</sup> <<http://www.news.com.au/money/cost-of-living/research-by-energy-supply-association-of-australia-reveals-hidden-costs-of-solar-panels/story-fnagkbpv-1226645936534>>;

<<http://www.abc.net.au/news/2014-10-13/newman-accused-of-demonising-solar-to-boost-asset-privatisation/5809212?section=qld>>; <<http://www.abc.net.au/environment/articles/2015/03/05/4191229.htm>>;

<<http://www.abc.net.au/news/2013-08-05/new-report-shows-rapid-take-up-of-solar-panels/4864954>>;

<<http://statements.qld.gov.au/Statement/2015/3/6/electricity-demand-reaches-record-high>>;

<<http://www.solarchoice.net.au/blog/queensland-solar-bonus-feed-in-tariff-reduction-reactions/>>;

<<http://www.couriermail.com.au/news/queensland/solar-panels-turn-suburban-homes-into-queenslands-fourth-biggest-power-station/story-fnihsrf2-1226779235364>>

<sup>16</sup> <<http://www.abc.net.au/news/2013-08-05/new-report-shows-rapid-take-up-of-solar-panels/4864954>>;

<<http://www.brisbanetimes.com.au/queensland/solar-users-the-champagne-and-latte-sipping-set-tim-nicholls-20140605-zrz9f.html>>;

<<http://www.abc.net.au/news/2015-06-16/connor-voters-are-backing-solar-power/6548438>>

<sup>17</sup> <<http://www.news.com.au/money/cost-of-living/research-by-energy-supply-association-of-australia-reveals-hidden-costs-of-solar-panels/story-fnagkbpv-1226645936534>>;

<<http://www.abc.net.au/news/2014-10-13/newman-accused-of-demonising-solar-to-boost-asset-privatisation/5809212?section=qld>>; <<http://www.abc.net.au/environment/articles/2015/03/05/4191229.htm>>;

<<http://www.abc.net.au/news/2013-08-05/new-report-shows-rapid-take-up-of-solar-panels/4864954>>;

<<http://statements.qld.gov.au/Statement/2015/3/6/electricity-demand-reaches-record-high>>;

<<http://www.solarchoice.net.au/blog/queensland-solar-bonus-feed-in-tariff-reduction-reactions/>>;

<<http://www.couriermail.com.au/news/queensland/solar-panels-turn-suburban-homes-into-queenslands-fourth-biggest-power-station/story-fnihsrf2-1226779235364>>

*8c/kWh. Participants on the 44c/kWh feed-in tariff will continue to receive this amount for the duration of the scheme (to 2028) provided they maintain their eligibility.”*

It is noted that the former LNP Government initially attempted to retreat from its 2012 election promise to maintain the 44c FiT.<sup>18</sup> Due to the public backlash which occurred and the potential for litigation,<sup>19</sup> the former government decided to maintain the current scheme until 2028 for those registered to receive the FiT as at 9 July 2012.<sup>20</sup>

On page 4 the Issues Paper also notes that as of 30 June 2015, 67 per cent of the customers with solar PV are on the “premium” 44c/kWh scheme but that “... this number will decline slowly over time as the account holders move off the premises and thus terminate eligibility for participation in the scheme.” If this is the case then the 44c FiT should become less of a “problem”. However, the Issues Paper does not provide any indication of what this decline will mean in monetary terms for electricity retailers and those without solar panels (this may be contrasted with page 3 of the Issues Paper where it was explicitly pointed out how the 44c FiT costs are passed onto “all customers”). As a result, the Issues Paper has again not conveyed all the necessary background information which readers would need in order to make an informed submission.

#### Page 5 of QPC Issues Paper

The Issues Paper states, “*The Queensland Competition Authority (QCA) estimates that the SBS adds around \$89 to the average Queenslanders’ annual electricity bill for a residential customer on tariff 11 in 2015-16. The cost to electricity customers over the life of the scheme (until 2028) is estimated at \$4.28 billion.*” Again, the Issues Paper does not mention how Queensland’s high level of solar panel ownership offsets the overall costs of electricity.<sup>21</sup> As well, the Issues Paper again does not provide any indication as to what the costs of electricity would be if Queensland did not have its current level of solar panel ownership. As a result, the Issues Paper has not conveyed all the necessary background information which readers would need in order to make an informed submission. The Issues Paper is also silent at this point on the savings that could be expected from the decline in the number of solar panel owners who become ineligible to receive the 44c FiT (note page 4 of Issues Paper). This reduction must surely be expected to result in a decrease in the FiT costs that are to be incurred yet no mention or quantification of this is provided in the Issues Paper. To enable readers to be fully informed to write their submissions, this information should have been included.

Also on page 5 the Issues Paper states, “*Following the 2013 QCA review of solar feed-in tariffs, the Queensland Government announced that a regulated feed-in tariff would apply for regional customers only – customers in south east Queensland could access market offers from competing*

<sup>18</sup> <<http://www.couriermail.com.au/news/queensland/energy-minister-mark-mcardle-announces-changes-to-solar-bonus-scheme-despite-election-promise-to-maintain-it/story-e6freoof-1226408292697>>

<sup>19</sup> <<http://www.couriermail.com.au/news/queensland/tariff-reforms-set-to-reduce-solar-attraction-for-householders/story-e6freoof-1226656504121>>

<sup>20</sup> <<http://www.couriermail.com.au/questnews/city/costofliving-pressures-good-reason-for-families-to-stay-put-to-retain-solar-tariff-benefit/story-fni9r0jy-1226662555690>>;

<<http://www.abc.net.au/news/2013-06-05/qld-government-wont-reduce-solar-feed-in-tariff/4734902>>

<sup>21</sup> <<http://www.news.com.au/money/cost-of-living/research-by-energy-supply-association-of-australia-reveals-hidden-costs-of-solar-panels/story-fnagkbpv-1226645936534>>;

<<http://www.abc.net.au/news/2014-10-13/newman-accused-of-demonising-solar-to-boost-asset-privatisation/5809212?section=qld>>;

<<http://www.abc.net.au/environment/articles/2015/03/05/4191229.htm>>;

<<http://www.abc.net.au/news/2013-08-05/new-report-shows-rapid-take-up-of-solar-panels/4864954>>;

<<http://statements.qld.gov.au/Statement/2015/3/6/electricity-demand-reaches-record-high>>;

<<http://www.solarchoice.net.au/blog/queensland-solar-bonus-feed-in-tariff-reduction-reactions/>>;

<<http://www.couriermail.com.au/news/queensland/solar-panels-turn-suburban-homes-into-queenslands-fourth-biggest-power-station/story-fnihsrf2-1226779235364>>

*retailers. Seven retailers in south east Queensland currently offer feed-in tariffs ranging from 6 to 11c/kWh.”*

In response, the following extract provides some pertinent observations:

*... there still remains the greater, underlying issue of how solar power is perceived and valued in Australia. At present, a number of states (SA, NSW, and Victoria) have determined that the ‘actual’ generation value of solar power fed into the grid sits at around 8-10 cents. SA and NSW say that this value will rise as time goes on and after the Carbon Price comes into effect. These values have been ascribed by independent government bodies which are required to determine the value of solar power within narrowly set parameters—usually excluding the network benefits of solar. Instead, they look only at the immediate value of solar from the viewpoint of the electricity distribution companies at the point of sale. Within these limited parameters, pricing tribunals such as NSW’s IPART and the Victorian Competition & Efficiency Commission have little option but to set the value far below retail electricity rates.*

*Moreover, electricity retailers in NSW can even get away with paying nothing for solar power that is fed into the grid, as there is no minimum mandated rate for solar if customers let them. As the Australian Solar Energy Society (AuSES), said in a response to the Queensland government’s announcement [to reduce the 44cFiT to 8cFiT], “Utilities must start paying the same rate for solar that customers pay for grid electricity. Solar is poised to compete on cost with fossil fuel generated power, so it is time Governments priced solar power the same as fossil fuel power.”<sup>22</sup>*

The above extract provides advice and direction for the QPC in its current deliberations about what a “fair” feed-in tariff should be for solar power exported to the electricity grid by solar panel owners in Queensland.

#### Page 6 of QPC Issues Paper

The Issues Paper reported the 2013 QCA findings regarding “*a fair and reasonable feed-in tariff for PV exports in Queensland.*” One QCA finding was that future feed-in tariff schemes should be funded by electricity retailers “*to avoid cross-subsidies and the inequitable recovery of costs from those customers least able to afford them.*” Again, this finding reiterated and reinforced the stereotyped view that the 44cFiT primarily benefits wealthy people to the detriment of less well-off people. No data was provided in the Issues Paper as to how the QCA substantiated the number of people in the category of “*customers least able to afford them.*” In any event, such customers should be provided with a separate relief scheme such as is provided with local government rates.

The Issues Paper notes another QCA finding was that “*... there is no compelling evidence to support a regulated, mandatory minimum feed-in tariff for customers in the south east Queensland electricity market.*” While the information considered by the QCA in arriving at this finding is not reflected in the Issues Paper, there are reasons to question its validity. For instance, on page 5 the Issues Paper stated that there are seven retailers in south east Queensland that currently offer feed-in tariffs ranging from 6 to 11c/kWh. However, the extract cited above would suggest that such low tariffs would not be satisfactory.<sup>23</sup> Another reason for questioning the finding’s validity is the fact that electricity is generally acknowledged as a “natural monopoly”. Even former Premier Campbell Newman recognised that “*... electricity ‘is a natural monopoly’, implying the potential for excessive private profits at the expense of customers.*”<sup>24</sup> Subsequently, the former LNP Government strongly

<sup>22</sup> <<http://www.solarchoice.net.au/blog/queensland-solar-bonus-feed-in-tariff-reduction-reactions/>>

<sup>23</sup> Ibid

<sup>24</sup> <<http://www.couriermail.com.au/news/opinion/newmans-power-play-is-admirable/story-e6frerdf-1226632543815>>

advocated for the privatisation of Queensland's electricity assets and promised that electricity costs would reduce following the leasing of energy assets.<sup>25</sup> However, the advice of economic experts is that privatisation of energy assets has not been beneficial for consumers.<sup>26</sup> Even former Treasurer Tim Nicholls "... could not guarantee the potential change in ownership of the energy assets would improve a household's electricity bill".<sup>27</sup> Accordingly, economics commentator Ross Gittins has stated, "So whether [electricity] businesses are publicly or privately owned, the prices they charge have to be regulated to prevent them overcharging."<sup>28</sup> The same concerns arise with respect to feed-in tariffs offered by these same businesses. Therefore, some independent oversight is needed to ensure solar panel owners are not being short changed in terms of the value of the solar power they export to the electricity grid.

Yet another QCA finding mentioned by the Issues Paper was for "Government to move PV customers to a time-of-use tariff to expose them to a more cost-reflective fixed charge than they face under flat residential tariffs. This would reduce the problem of PV customers avoiding some of the true cost of their network access due to their net consumption profile, which leads to higher average variable network charges." Again, this finding did not recognise the value and contribution of solar panel owners towards reducing overall electricity costs including for those people without solar panels.<sup>29</sup>

#### Page 8 of QPC Issues Paper

The Issues Paper states, "The starting point to develop any policy framework is to identify and assess the size and scope of the policy problem the government is trying to address." In this case, the policy "problem" is one largely of perception based not only on misinformation but also on incomplete information and stereotyping. An economic solution alone will not satisfy perceptions that one side or the other is getting a better deal or that one side or the other is somehow less or more deserving. The QPC's inquiry needs to address this point.<sup>30</sup>

The Issues Paper also makes mention of the hypothetical "well-functioning market" where price regulation is generally needed only where "substantial and enduring market failures" occur. The paper notes that some of these market failures include lack of effective competition (such as in cases of natural monopoly), environmental externalities, and imperfect or asymmetric information. The paper states that the presence of such market failures provides an in-principle case for government intervention.

<sup>25</sup> <<http://www.abc.net.au/news/2014-10-12/Inp-vows-electricity-price-relief-if-reelected-in-queensland/5807494?section=qld>>

<sup>26</sup> <<http://www.brisbanetimes.com.au/queensland/energy-asset-privatisation-fails-taxpayers-economist-20140219-3316n.html>>;

<<http://www.qt.com.au/news/power-bills-unlikely-fall-if-industry-privatised-a/1847707/>>;

<<http://www.brisbanetimes.com.au/queensland/concluding-comments-in-john-quiggins-report-20140219-3316q.html?rand=1392803115108>>;

<<http://www.macrobusiness.com.au/2014/07/qld-prepares-for-asset-fire-sale/>>;

<<http://www.abc.net.au/news/2014-10-01/network-costs-and-confusing-fees-add-to-power-bill-pain/5780174>>;

<<http://www.abc.net.au/news/2014-06-04/qld-budget-assets-sales-wont-be-enough-to-restore-aaa-rating/5498774>>

<sup>27</sup> <<http://www.couriermail.com.au/news/queensland/campbell-newman-mulls-over-asset-sales-to-pay-down-debt/story-fnihsrf2-1226774600097>>

<sup>28</sup> <<http://www.brisbanetimes.com.au/business/why-electricity-prices-continue-to-shock-people-20140613-3a2va.html>>

<sup>29</sup> <<http://www.news.com.au/money/cost-of-living/research-by-energy-supply-association-of-australia-reveals-hidden-costs-of-solar-panels/story-fnagkbvp-1226645936534>>;

<<http://www.abc.net.au/news/2014-10-13/newman-accused-of-demonising-solar-to-boost-asset-privatisation/5809212?section=qld>>;

<<http://www.abc.net.au/environment/articles/2015/03/05/4191229.htm>>;

<<http://www.abc.net.au/news/2013-08-05/new-report-shows-rapid-take-up-of-solar-panels/4864954>>;

<<http://statements.qld.gov.au/Statement/2015/3/6/electricity-demand-reaches-record-high>>;

<<http://www.solarchoice.net.au/blog/queensland-solar-bonus-feed-in-tariff-reduction-reactions/>>;

<<http://www.couriermail.com.au/news/queensland/solar-panels-turn-suburban-homes-into-queenslands-fourth-biggest-power-station/story-fnihsrf2-1226779235364>>

<sup>30</sup> In doing so the QPC may wish to also review the comments of Ross Gittins (<<http://www.smh.com.au/business/comment-and-analysis/economists-propose-same-old-same-old-on-tax-reform-20151031-gknl12.html>>)

However, the Issues Paper does not mention that governments can also legitimately intervene (or not intervene) for philosophical and ideological reasons. For instance, the former LNP Government's philosophy was concerned with minimising government involvement in society<sup>31</sup> thus reducing the role of government to that of an "enabler" not a "doer".<sup>32</sup> On the other hand, the philosophy of the current Government is to take a more active role. As stated in the ALP's 2015 Policy Platform:<sup>33</sup>

*... we believe the market, left entirely to its own devices, cannot support full employment nor distribute wealth equitably to end economic disadvantage. Markets of themselves do not serve people – people serve people. If our economy is to reach its full potential and Queenslanders are to be supported during good times and bad, then there must be an ongoing role for Government as the 'do---er' in the economy, not just the enabler.*

One reason why the current Government might consider intervening in the solar power export market is to protect the interests of individual solar panel owners. As individuals, solar panel owners generally do not have sufficient bargaining power to be able to negotiate with electricity businesses on an equitable footing. As the following comments from the time when the 44cFiT was reduced to 8cFiT demonstrate:

*The LNP then cut the tariff to 8 cents and then later mandated the market could decide, forcing solar users to negotiate their own price with their electricity retailer.*<sup>34</sup>

*Solar power users will now be forced to negotiate with energy retailers to determine their feed-in-tariff, after the government passed laws flagged in March to remove the guaranteed 8 cent tariff. The change means nearly 50,000 households which installed solar panels when the government slashed the 44 cent tariff to 8 cents will again have to make adjustments, this time dealing directly with retailers to determine a price for the energy they produce. Those who locked in their price at 44 cents when the scheme was first put in place, about 205,000 households, will not be affected.*<sup>35</sup>

*They simply don't have the negotiating power. When retailers set the rules, solar owners lose.*<sup>36</sup>

#### Page 9 of QPC Issues Paper

The Issues Paper asks a number of questions including:

*Is there evidence of significant and enduring market failures in the solar export market in Queensland?*

Based on earlier observations, the answer is yes. Furthermore, these failures would be best addressed by government regulating for a minimum feed-in tariff which gives due recognition to the value contributed by the exported solar power.<sup>37</sup> This approach would also provide an effective and

<sup>31</sup> "Government operates only in areas where it can provide results that cannot be provided by the private or community sector." (Queensland Plan, 2014, p. 84)

<sup>32</sup> LNP, *Strong Choices Final Plan for State Asset Leasing*, 2014, p. 23

<sup>33</sup> ALP Policy Platform 2015, p. 9 (<[http://www.queenslandlabor.org/wp-content/uploads/2015PolicyPlatform\\_ALP\\_QLD\\_a.pdf](http://www.queenslandlabor.org/wp-content/uploads/2015PolicyPlatform_ALP_QLD_a.pdf)>)

<sup>34</sup> <<http://www.brisbanetimes.com.au/queensland/solar-power-pricing-to-be-probed-by-queensland-productivity-commission-20150903-gje78e.html>>

<sup>35</sup> <<http://www.brisbanetimes.com.au/queensland/solar-users-lose-guaranteed-8-cent-tariff-20140522-zrko8.html>>

<sup>36</sup> <<http://www.couriermail.com.au/business/queensland-government-to-axe-8cperkwh-solar-feedin-tariff-to-cut-electricity-costs/story-fnihpplr-1226846455254>>

<sup>37</sup> <<http://www.news.com.au/money/cost-of-living/research-by-energy-supply-association-of-australia-reveals-hidden-costs-of-solar-panels/story-fnagkbpv-1226645936534>>; <<http://www.abc.net.au/news/2014-10-13/newman-accused-of-demonising-solar-to-boost-asset-privatisation/5809212?section=qld>>; <<http://www.abc.net.au/environment/articles/2015/03/05/4191229.htm>>; <<http://www.abc.net.au/news/2013-08-05/new-report-shows-rapid-take-up-of-solar-panels/4864954>>; <<http://statements.qld.gov.au/Statement/2015/3/6/electricity-demand-reaches-record-high>>;

efficient means for addressing environmental externalities and recognise the pollution-reducing impacts and benefits of solar power (also note page 15 of Issues Paper).

The Issues Paper also states, *“Correctly specifying policy objectives is not always straightforward. It is not unusual for government policies to be underpinned by a range of objectives, and invariably there may be some tension between competing objectives.”* The paper then asks the questions: What are the objectives of a solar export pricing policy? Where objectives are in conflict, which objectives take priority and why?

With respect to the second question, it would be more appropriate for a regulator to have a transparent and defensible process for weighing up risks rather than having a rigidly prescribed hierarchy of objectives. This approach would also allow a regulator to more readily take account of changing circumstances.

#### Page 10 of QPC Issues Paper

The Issues Paper states, *“Both solar PV owners and electricity customers have expressed concerns with the fairness of solar pricing arrangements. Solar PV owners may hold the view that the price they receive for solar exports is too low, while others perceive that solar PV owners are subsidised (particularly through the premium SBS) and do not make a fair contribution towards network costs – meaning their own costs are higher than they should be.”*

As noted earlier, this is a problem of perception which cannot be solved by an economic solution alone. As well as having a pricing methodology for determining a fair feed-in tariff, people need to be better educated about solar power FiT and exports. They need to be provided with better, more balanced information about the overall benefits flowing to all customers from exported solar power including to non-solar customers.<sup>38</sup>

#### Page 11 of QPC Issues Paper

The Issues Paper states that *“economically efficient solar export pricing would send price signals to both consumers and suppliers of electricity to support efficient outcomes.”* However, to be “efficient” solar export pricing would also need to recognise that solar power exports actually contribute to the overall lowering of electricity costs including for people who do not own solar panels.<sup>39</sup> At the moment, the need in this regard does not appear to be given due recognition.

The Issues Paper also states that *“efficiency also embodies a ‘user pays’ approach, where individuals or businesses that use a good or service pay the cost of that good or service. Moving away from efficient pricing results in subsidies or cross-subsidies.”* If this is the case then that would mean that if non-solar customers are receiving a benefit in terms of lower overall electricity costs as a result of the solar power exported by solar panel owners to the electricity grid,<sup>40</sup> then they should rightly contribute to compensating solar panel owners for the value of their contribution.

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<<http://www.solarchoice.net.au/blog/queensland-solar-bonus-feed-in-tariff-reduction-reactions/>>;

<<http://www.couriermail.com.au/news/queensland/solar-panels-turn-suburban-homes-into-queenslands-fourth-biggest-power-station/story-fnihsrf2-1226779235364>>

<sup>38</sup> Ibid

<sup>39</sup> Ibid

<sup>40</sup> Ibid

Page 12 of QPC Issues Paper

The Issues Paper discusses equity considerations and states, *“Subsidies can raise equity issues, for example, if they are funded by taking a dollar from a non-solar, low income household and transferring it to a high income, solar household. Even if subsidies are paid from government revenues it also involves both winners and losers because government revenues are taken from households.”*

Two points may be made in response to this statement. First, the scenario used (a “non-solar, low income household” versus a “high income, solar household”) reinforces the misinformed stereotype about those who own solar panels. As noted previously, the reality is that many solar panel owners are not wealthy and come from lower income households.<sup>41</sup> Second, by including this statement the Issues Paper is not fairly reflecting the fact that non-solar customers are receiving a benefit in terms of overall lower electricity costs as a result of the solar power exported by solar panel owners to the electricity grid.<sup>42</sup>

Page 13 of QPC Issues Paper

The Issues Paper asks the questions: What principles should be used to guide solar export pricing policy and any regulation of feed-in tariffs? How should fairness be defined?

In response, feed-in tariffs need to appropriately take account of the true value of exported solar power.<sup>43</sup> At the moment it is questionable whether the current tariffs that are being provided do so.<sup>44</sup>

Page 16 of QPC Issues Paper

The Issues Paper outlines some of the main factors influencing the value of exported solar PV but does not mention or discuss the value that solar PV actually contributes.<sup>45</sup> This is essential in determining a fair price for exported solar power.

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<sup>41</sup> <<http://www.abc.net.au/news/2013-08-05/new-report-shows-rapid-take-up-of-solar-panels/4864954>>;  
<<http://www.brisbanetimes.com.au/queensland/solar-users-the-champagne-and-latte-sipping-set-tim-nicholls-20140605-zrz9f.html>>;  
<<http://www.abc.net.au/news/2015-06-16/connor-voters-are-backing-solar-power/6548438>>

<sup>42</sup> <<http://www.news.com.au/money/cost-of-living/research-by-energy-supply-association-of-australia-reveals-hidden-costs-of-solar-panels/story-fnagkbpv-1226645936534>>;  
<<http://www.abc.net.au/news/2014-10-13/newman-accused-of-demonising-solar-to-boost-asset-privatisation/5809212?section=qld>>;  
<<http://www.abc.net.au/environment/articles/2015/03/05/4191229.htm>>;  
<<http://www.abc.net.au/news/2013-08-05/new-report-shows-rapid-take-up-of-solar-panels/4864954>>;  
<<http://statements.qld.gov.au/Statement/2015/3/6/electricity-demand-reaches-record-high>>;  
<<http://www.solarchoice.net.au/blog/queensland-solar-bonus-feed-in-tariff-reduction-reactions/>>;  
<<http://www.couriermail.com.au/news/queensland/solar-panels-turn-suburban-homes-into-queenslands-fourth-biggest-power-station/story-fnihsrf2-1226779235364>>

<sup>43</sup> Ibid

<sup>44</sup> <<http://www.solarchoice.net.au/blog/queensland-solar-bonus-feed-in-tariff-reduction-reactions/>>

<sup>45</sup> <<http://www.news.com.au/money/cost-of-living/research-by-energy-supply-association-of-australia-reveals-hidden-costs-of-solar-panels/story-fnagkbpv-1226645936534>>;  
<<http://www.abc.net.au/news/2014-10-13/newman-accused-of-demonising-solar-to-boost-asset-privatisation/5809212?section=qld>>;  
<<http://www.abc.net.au/environment/articles/2015/03/05/4191229.htm>>;  
<<http://www.abc.net.au/news/2013-08-05/new-report-shows-rapid-take-up-of-solar-panels/4864954>>;  
<<http://statements.qld.gov.au/Statement/2015/3/6/electricity-demand-reaches-record-high>>;  
<<http://www.solarchoice.net.au/blog/queensland-solar-bonus-feed-in-tariff-reduction-reactions/>>;  
<<http://www.couriermail.com.au/news/queensland/solar-panels-turn-suburban-homes-into-queenslands-fourth-biggest-power-station/story-fnihsrf2-1226779235364>>

Page 17 of QPC Issues Paper

The Issues Paper mentions the 'merit order effect'. The following extract more fully explains the impact of solar power under the 'merit order effect':

*The price we pay for our electricity is figured out in the Australian energy market using the 'merit order system'.*

*The system asks energy generators to bid to sell their energy on the market. The market operator then starts buying up energy starting at the lowest price and working up to more expensive bids until it has met everyone's demands at a particular time.*

*Solar households, meanwhile, use the energy produced on their rooftop, reducing the demand at the point of consumption, especially during daylight hours on sunny days when demand for energy tends to peak.*

*This has the same effect of 'cancelling out' some of the more expensive bids in the energy system, making all energy prices cheaper even if your household doesn't have solar panels installed.<sup>46</sup>*

Again, the role of solar power in reducing the overall costs of electricity, including for non-solar owners, needs to be fully recognised under any new fairer solar feed-in tariff.

Page 19 of QPC Issues Paper

The Issues Paper asks a series of questions including:

*What are the costs and benefits of exported solar electricity?*

Answer: The benefits of exported solar power have been identified throughout this submission.

*Where there is a case to regulate feed-in tariffs, is the existing approach to pricing solar exports appropriate? If not, what alternative approach would be the most effective and efficient way to price solar exports?*

Answer: The existing 44cFiT should remain in place for those who are eligible and who in good faith entered into an agreement with the Government until 2028. However, in general terms any new feed-in tariff should reflect the full value of the solar contribution to the electricity grid. As well, as previously indicated the feed-in tariff should be independently regulated, not negotiated by electricity businesses and individual customers.

Page 20 of QPC Issues Paper

The Issues Paper asks when and how the feed-in tariff should be reviewed or updated. At this point, pending more information being provided, I would support the suggestion in the paper to allow for updates to the estimate, either at defined intervals or in response to certain changes.

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<sup>46</sup> <<http://www.abc.net.au/environment/articles/2015/03/05/4191229.htm>>

Page 23 of QPC Issues Paper

The Issues Paper asks a series of questions about barriers to pricing solar exports. As previously indicated in relation to page 6 of the Issues Paper, one of the findings of the 2013 QCA review was for *“Government to move PV customers to a time-of-use tariff to expose them to a more cost-reflective fixed charge than they face under flat residential tariffs. This would reduce the problem of PV customers avoiding some of the true cost of their network access due to their net consumption profile, which leads to higher average variable network charges.”* However, this particular finding could prevent the true value of exported solar energy from being realised as well as acting as a disincentive to people taking up solar power.

In summary:

1. Solar panel owners, particularly those in receipt of the 44c FiT, have been unjustly blamed for the significant increases in electricity costs over recent years.
2. Solar panel owners have been unfairly stereotyped as wealthy and benefiting from middle class welfare when the reality is that many come from lower income households.
3. Solar panel owners contribute to decreasing the demand for coal fired electricity and should be appropriately recognised for the value of the solar power they export to the electricity grid.
4. The 44c FiT should remain in place for those eligible customers who in good faith entered into an agreement with the Government to be part of the scheme until 2028.
5. In general, feed-in tariffs should recognise the full value and contribution of exported solar power including to reduce overall electricity costs for non-solar customers.
6. Feed-in tariffs should be regulated by an independent body, not negotiated by electricity utilities with individual solar panel owners.