

24 November 2015

Mr Kim Wood  
Principal Commissioner  
Queensland Productivity Commission  
PO Box 12112  
George Street QLD 4003

Lodged online: [www.qpc.qld.gov.au](http://www.qpc.qld.gov.au)

Dear Mr Wood,

**RE: Solar feed-in pricing in Queensland**

The Energy Retailers Association of Australia (ERAA) welcomes the opportunity to provide comments in response to the Queensland Productivity Commission's (QPC) *Solar Feed-in Pricing in Queensland Issues Paper* (the Consultation Paper).

The ERAA represents the organisations providing electricity and gas to over 10 million Australian households and businesses. Our member organisations are mostly privately owned, vary in size and operate in all areas within the National Electricity Market (NEM) and are the first point of contact for end use customers of both electricity and gas.

*Should solar export prices be regulated?*

The ERAA has consistently advocated that deregulated markets are best placed to determine the most appropriate, sustainable and economic value for the electricity that is produced and exported by small-scale renewable technologies, including photovoltaic (PV) units. Just as the deregulated electricity markets in Victoria, South Australia and New South Wales provide consumers with choice in energy offers, a deregulated market for retail Feed-in Tariffs (R-FiTs) allows energy retailers to compete to purchase the electricity exported from PV units. Deregulated energy markets provide consumers with the benefits of increased competition and choice and allow energy retailers to compete for consumers who export electricity from solar PV, through retailer determined feed-in prices.

The ERAA submits that solar feed-in tariff levels should not be and are not a primary consideration for consumers with PV systems who are not eligible for the Solar Bonus Scheme tariffs. The efficient use of a PV system is when the energy generated is used to offset the electricity consumption of the customer at the time of generation, and the most efficient use occurs when 100% of the energy generated is consumed by the household. Under this efficient scenario, for every kilowatt hour (kWh) of electricity consumed the equivalent retail price per kWh is saved. Therefore the primary financial benefit that arises from having a PV system is a reduction in the consumer's electricity bill, not the opportunity to be paid for electricity exported.

This efficient method of consumption will be one of the main drivers for the installation of battery storage technologies. Electricity generated from a PV system that cannot be used at the time of generation will be able to be stored and used by the household at a later time, again allowing the consumer to offset the retail price per kWh that would otherwise be



consumed from the grid, potentially at higher cost peak times, and therefore contributing directly to bill savings.

In anticipation of the deregulation of retail energy prices in Queensland from 1 July 2016, the ERAA does not support a mandated R-FiT as it introduces an asymmetric risk into retail energy markets. Should a minimum R-FiT be set too low (or not be set at all), retailers will compete to offer customers R-FiTs that best suit their needs. Should a minimum R-FiT be set too high, retailers will be forced to purchase exported energy at higher rates than could be purchased elsewhere. This outcome would not be consistent with the long term interests of Queensland consumers, particularly solar consumers who may experience a reduction in competition and associated benefits.

The market for electricity exported by PV units in Queensland has matured over recent years, especially in the South East Queensland (SEQ) market, with retailers competing to provide consumers the offer that best suits them. The ERAA supports retailers being able to offer a range of FiTs. The range of competitive offers currently available demonstrates that there is no market failure in SEQ for electricity that is produced and exported by PV units. As the New South Wales Independent Pricing and Regulatory Tribunal stated in its recent final report on *Solar Feed-in Tariffs*:

a competitive market is the best way to provide the fair value for PV exports, and the market should determine the fair value of PV exports via competition. Customers will shop around to obtain a better deal to maximise their return on the investment for their PV exports, and retailers which do not offer competitive prices will lose customers to other retailers.

Mandating feed-in-tariffs could preclude retailers from offering different tariffs such as time-of-export tariffs, leading to fewer offers that consumers can choose from. Fixing minimum feed-in-tariffs at a certain level will provide retailers with less incentive to innovate to reduce the costs associated with solar PV customers and offer competitive prices.

#### *What factors are relevant to a solar export benchmark price?*

If the market is not allowed to establish an appropriate and unencumbered value for small-scale solar energy exported and a regulated price for solar energy exported to the grid is deemed to be required, the price should reflect the commercial value of the energy produced. Attempts to quantify the other benefits of solar should not be overly complex, but at a minimum should be subject to a full cost-benefit analysis. It is important that the fair price for solar review ensures there is no unreasonable impact on non-solar network users.

Whilst the ERAA does not oppose the investigation of a guiding benchmark for PV export tariffs, we do not believe that the publication of a mandatory benchmark is necessary. The RET provides incentives for the deployment of small-scale solar through the Small-scale Renewable Energy Scheme (SRES), and no additional financial or other support should be provided unless subject to a full cost-benefit analysis and the impact on consumer bills is assessed, understood, and accepted by consumers.

The ERAA recommends that if the Queensland Government proceeds with determining a minimum feed-in tariff level, it ensures that the data used in the methodology accurately reflects existing market conditions at the time any final decision is made. In particular, market conditions may have changed since a draft decision was released.

#### *Should retailers contribute to the costs of the Solar Bonus Scheme?*

The ERAA does not support the subsidisation of solar feed-in tariffs under the existing but closed Solar Bonus Scheme through retailers, such as occurs in New South Wales. The result of such schemes is in effect a subsidy paid for by non-solar households to help cover generous payments to solar households for putting electricity into the grid. Only last year it

was estimated by AGL (*Working Paper 45: Network tariffs: resolving rate instability and hidden subsidies*) that the cost of solar subsidies paid in SEQ alone was \$70.3 million. This finding was reinforced in the Queensland Competition Authority's *Final Determination: Regulated Retail Electricity Prices 2015-16* that found the costs of the Solar Bonus Scheme make up a significant portion of the overall network costs in Queensland. In addition, where retailers currently pay the 44 cent feed-in tariff plus an additional voluntary feed-in tariff amount reflecting the benefit associated with localised generation the result, as witnessed in NSW, is that the additional payment will be withdrawn as it will have been 'captured' by the co-contribution requirement. This means consumers who receive 44 cents plus X cents will most likely see a reduced benefit from their solar systems.

Should you wish to discuss the details of this submission, please contact me on (02) 8241 1800 and I will be happy to facilitate such discussions with my member companies.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Alex Fraser', with a horizontal line underneath.

Alex Fraser  
Interim CEO  
Energy Retailers Association of Australia