

**Submission to Queensland Productivity Commission –
Draft Report – Solar Feed-In Pricing in Queensland**

Introduction

This submission is provided in relation to the Queensland Productivity Commission’s (QPC) draft report on its inquiry into determining a fair price/s for the solar energy generated by “small customers” that is exported to the Queensland electricity grid. The submission generally focuses on issues arising from the Overview and Findings and Recommendations sections of the draft report (pp. x-xviii). However, the comments made in response to these sections also apply to the relevant broader discussions on these matters that are raised later in the draft report.

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The draft report states that:

Solar PV has wide-ranging impacts. It supplies a renewable source of electricity, allows households and businesses to offset electricity costs, brings new technologies and products to consumers and increases competitive pressures in the electricity supply industry. It also represents a large investment for many small customers.

The draft report also states:

Solar PV growth in Queensland has been exponential — growing from less than 1000 residential installations in 2007 to almost 400,000 systems in 2015. Queensland today has amongst the highest penetration of small-scale solar PV in the world.

Later in the draft report it is said that the “... total installed solar PV capacity is 1328 MW, equivalent to the fourth largest generator in Queensland.” (p. 1)

However, the draft report goes on to say:

The price paid for electricity generated by solar PV and fed into the grid (solar exports) is important to not only to the owners of solar PV, but also to other residential and business electricity consumers — particularly where solar exports affect electricity prices, either directly or indirectly. There are mixed and strong views on a fair price for solar exports. This has been driven by the history of solar feed-in pricing in Queensland, coupled with concerns about escalating electricity bills.

Later, the draft report similarly states that the Solar PV feed-in tariff “... will increase electricity costs for other businesses and households (including vulnerable consumers) ...” (p. xii)

It would thus appear that the draft report’s start-up underlying premise is that the price of Solar PV exports is a major factor driving up the costs of electricity. However, what the draft report does not appear to acknowledge is the value of exported Solar PV and its contribution in actually reducing overall electricity costs for consumers including those who do not have solar panels.¹ Evidence

¹ See:

<<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/>>;

provided by submitters to the QPC's Solar Feed-in Pricing Inquiry confirms this point.² Furthermore, as to “concerns about escalating electricity bills”, a significant contributor to rising electricity costs over recent years was the decision by the former LNP State Government to freeze and then unfreeze the tariff 11 charge.³ On this, however, the draft report did not include any mention.

Consideration needs to be given to revising the draft report on these matters to provide a more informed and balanced perspective.

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The draft report has proposed that a “fair” price for solar electricity exports:

... is one that is fair for all Queenslanders. Fairness applies not only for solar PV owners or electricity businesses, but for all electricity customers, the Queensland economy and the environment. We have proposed that a price for solar exports will be fair when solar PV owners are receiving an efficient price for the energy they generate — and remaining electricity consumers are not paying more (or less) than they should for solar PV generated energy.

However, this proposed description of a “fair” price for solar electricity exports does not recognise or take account of the contribution of Solar PV exports in reducing the overall costs of electricity including for those consumers who do not have solar panels.⁴ Under the proposed definition, the price of solar electricity exports would simply be costs that should be minimised without the significant benefits derived from such exports being recognised.

To ensure Solar PV owners are fairly compensated for the benefits they provide, a “fair” price for solar electricity exports needs to acknowledge the contribution of Solar PV in reducing electricity costs for everyone, including those without solar panels.

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Here and elsewhere in the draft report, reference is made to “vulnerable” customers. Sometimes the term “disadvantaged” is used. However, nowhere in the report is either term defined nor is there an analysis of how many customers are in either category. As these terms are not defined, they will be perceived and interpreted according to the preconceptions of the reader. Indeed, it could even be that the problem of the “vulnerable customer” is not as great as is suggested by the draft report once it is known exactly who is in view. To ensure clarity of understanding the draft report needs to be revised on this point to include relevant definitions and analysis.

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

² For example, the Australian Solar Council & Energy Storage Council noted the “... beneficial impact of household PV in reducing network losses and by effectively augmenting capacity by pushing electricity back into the grid” and “avoidance of the need to build additional power plant capacity to meet peak energy needs” (p. 2) (<http://www.qpc.qld.gov.au/files/uploads/2015/11/Solar-Inquiry-Submission_Australian-Solar-Council-Energy-Storage-Council.pdf>)

³ <<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>>

⁴ See footnote 1

The draft report proposed the following formula for determining a “fair” price for Solar PV exports:

As views on a 'fair' price for solar are subjective, we have adopted a community-wide approach that a 'fair' price is one that is fair for all Queenslanders. Fairness applies not only for solar PV owners or electricity businesses, but for all electricity customers, the Queensland economy and the environment.

We have proposed that a price for solar exports will be fair when solar PV owners are receiving an efficient price for the energy they generate — and remaining electricity consumers are not paying more (or less) than they should for solar PV generated energy.

However, as mentioned earlier, the proposed formula does not acknowledge or make provision for the actual value of exported Solar PV in contributing to a reduction in the overall cost of electricity for consumers, including those who do not have solar panels.⁵ The proposed formula for a “fair” price for exported Solar PV needs to be reconsidered to incorporate recognition of such factors.

As well, the draft report states that currently in SEQ, nine retailers compete for solar export customers through a feed-in tariff, with offers from 4c/kWh to 11c/kWh. The draft report notes that the two large retailers are offering 6 and 8c/kWh. In response to the draft report’s comments, the price paid for solar PV-generated electricity that is fed into the grid needs to more appropriately take account of the actual value of exported solar power including its contribution in reducing overall electricity costs for all consumers including those who do not have solar panels.⁶ At the moment it is questionable whether the current feed-in tariffs are adequate. As noted from the following extract:

... 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 [then] 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.”⁷

Thus, it remains to be established whether the feed-in tariffs that are currently on offer in SEQ are genuinely fair to Solar PV exporters and adequately recognise the actual value of the Solar PV that is exported to the electricity grid.

⁵ See footnote 1

⁶ See footnote 1

⁷ <<http://www.solarchoice.net.au/blog/queensland-solar-bonus-feed-in-tariff-reduction-reactions/>>

Pages xii-xiii of QPC draft Report

The draft report states, “... *If solar PV generates environmental benefits that are not being recognised through existing programs, then solar PV owners will not be fairly compensated for the benefits they provide.*” I would agree with this assessment. The same reasoning can also be used with respect to other benefits generated by exported Solar PV, such as its contribution to the overall reduction in electricity costs for all customers including those without solar panels.⁸ However, the draft report fails to make this particular connection. Indeed, the draft report states:

We have considered other benefits put forward to be reflected in a fair price for solar, including solar industry development and employment creation, lower wholesale electricity prices and network expenditure, and social benefits. While solar PV has many direct and indirect positive impacts (as well as costs), we have not concluded that this creates a case for higher (or lower) feed-in tariffs. Specifically:

- *Solar PV industry development and employment that are achieved through mandated feed-in tariffs are paid for by other consumers and businesses — subsidising solar exports for these reasons will increase electricity costs for other businesses and households (including vulnerable consumers) and is likely to have an overall negative economic and employment impact.*
- *There is no case to pay solar PV owners for any impact of solar PV on wholesale prices. In a competitive market, generators are not paid for reducing the wholesale price, just as suppliers in other markets are not paid for increasing supply. Paying solar PV owners for any reduction in wholesale market prices would likely result in overall higher electricity prices for Queensland consumers.*
- *There may be some localised network benefits from solar PV. However, where network benefits exist, they are best harnessed through mechanisms that can efficiently and effectively target these benefits, rather than paying all solar PV owners a uniform feed-in tariff unrelated to network impacts. A number of mechanisms exist and the Australian Energy Market Commission is considering whether any additional mechanisms are required.*
- *We have not identified specific additional social benefits from solar PV exports that would warrant an increase in the feed-in tariff.*

Overall, we have concluded that Queensland solar PV owners are being fairly compensated for public and consumer benefits from solar exports from a combination of renewable energy programs, market contracts in SEQ and the regional feed-in tariff.

In making the above statements it appears that the draft report has not taken full account of the terms of reference for its inquiry that “... *wherever possible the entity receiving the benefit of exported solar energy should be the entity to pay for that benefit*” (pp. 125, 156). If all electricity customers (including those without solar panels) benefit from Queensland’s high level of solar panel ownership through lower overall electricity costs,⁹ then it is only reasonable and fair for all to share in the costs that may be associated with paying for exported Solar PV (which over the course of a whole year are quite minimal, amounting to an extra 24 cents a day¹⁰). If non-solar customers are receiving a benefit from the high levels of solar panel ownership in Queensland in terms of lower overall electricity costs, then they should rightly participate in contributing to any costs that may be involved in achieving that reduction. For any genuine cases of people struggling to meet the costs of

⁸ See footnote 1

⁹ See footnote 1

¹⁰ The draft report states that the annual cost of the Solar Bonus Scheme (i.e. the 44 cent feed-in tariff) for a residential customer over 2015-2016 is \$89 (p. 6). This equates to a little over 24 cents a day per customer. This does not seem to be an unreasonable or inordinate impost for non-solar customers to contribute for receiving the benefit of lower overall electricity costs which result from exported Solar PV.

electricity, it should be an accepted community response/obligation for them to receive appropriate support and relief with meeting their energy costs rather than penalising Solar PV exporters by not appropriately compensating them for the value of their contribution.

Second, the claim is made in the above statement from the draft report that mandated feed-in tariffs for exported Solar PV “... increase electricity costs for other business and households (including vulnerable consumers) and is likely to have an overall negative economic and employment impact.”

Elsewhere, the draft report made the following generalised statements:

A government subsidy generally increases production in any assisted industry. While that may make such a subsidy outwardly attractive, it will not necessarily be beneficial for the solar PV industry in the longer term and may come at an overall cost to the Queensland community ... There may be benefits to the solar industry, but the costs to support that development are borne by other businesses and consumers, which will reduce income and employment in other sectors. (p. 88)

Where government intervention targets industry development, as opposed to market failures like pollution, then the overall impact is likely to be negative. This is because a dollar taken from households or business to support solar industry development means there is a dollar less to be spent elsewhere. Where government intervention results in a shift of resources away from higher value uses, and raises electricity prices, the overall impact on economic activity will be negative. Higher electricity prices will effect growth and employment in other sectors such as agriculture and manufacturing. (p. 89)

On balance, while regulating feed-in tariffs for job creation may influence the ‘pattern of employment’, as any increases in jobs in the solar industry are likely offset by reduced employment in other sectors, it is unlikely that there will be any ‘net increase’ in employment. In addition, where feed-in tariffs are funded through higher electricity prices, this is likely to have a dampening effect on economic activity (through higher input costs on businesses and industries) which may negatively impact on the overall level of employment. (pp. 93-94)

Whether non-solar customers having to pay an extra 24 cents a day¹¹ to receive the benefit of lower overall electricity costs as a result of exported Solar PV will have (or has actually had) the dire consequences as suggested by the draft report is questionable. No specific, empirical evidence appears to have been provided by the draft report to incontrovertibly substantiate the claims of adverse economic and employment impacts of mandated Solar feed-in tariffs nor was there recognition of the reduction of overall electricity costs as a result of exported Solar PV which should address claims about its “negative” economic impacts. As well, it appears the draft report does not contain any firm data about the extent to which the Solar feed-in tariff has adversely impacted Queensland’s current unemployment rate nor does it identify the number of businesses such as in the agriculture and manufacturing sectors that may actually be Solar PV exporters.

Nevertheless, the focus of concern for the draft report is with the perceived adverse impact of exported Solar PV on non-solar customers (particularly “vulnerable” customers). As noted earlier in this submission, people who are genuinely struggling to meet energy costs should be afforded appropriate assistance. However, the draft report’s attention on minimising the perceived adverse economic and employment impact of exported Solar PV on vulnerable customers is highly ironic given that in its electricity pricing inquiry draft report the QPC appeared not to be concerned that its recommendations might adversely affect some stakeholders such as those who would experience

¹¹ See footnote 10

financial loss and uncertainty if the Government adopted its recommendation and finalised the 44 cent solar feed-in tariff eight years ahead of schedule.¹²

Third, the above statements again do not acknowledge the value of exported Solar PV in contributing to a reduction in overall electricity costs including for non-solar customers. This value is illustrated from the following extract:

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.¹³

Consideration is needed to revising the draft report on the above points to provide a more balanced and informed perspective.

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The draft report states:

We have assessed that the combination of feed-in tariffs for solar PV energy generation and the Australian Government's SRES provides a return to solar PV owners that is, at least, fair. Setting feed-in tariffs at a higher level would not be fair for other electricity users, including vulnerable households and Queensland businesses.

The above statement appears not to take account of the terms of reference for QPC's inquiry that "... wherever possible the entity receiving the benefit of exported solar energy should be the entity to pay for that benefit" (pp. 125, 156). As noted earlier, Solar PV exporters provide a benefit for all electricity customers, including non-solar customers, in terms of overall lower electricity costs. It is not fair to Solar PV exporters if non-solar customers benefit from the lower electricity costs which result from exported Solar PV without making an appropriate contribution in return. As mentioned earlier, people who genuinely struggle to pay for electricity costs should be able to receive appropriate support and relief with meeting these costs. But this should not come at the cost of Solar PV exporters as a result of them not being duly compensated for the value of their contribution.

With respect to the draft report's claim that the combination of feed-in tariffs for Solar PV energy generation is "... at least, fair", the extract cited earlier in this submission would suggest that it remains to be established whether the feed-in tariffs that are currently on offer in SEQ are genuinely

¹² QPC draft Report, Inquiry into Electricity Pricing, pp. xx, 84, 93

¹³ <<http://www.abc.net.au/environment/articles/2015/03/05/4191229.htm>>

fair to Solar PV exporters and appropriately recognise the actual value of the Solar PV that is exported to the grid.¹⁴

The draft report went on to say:

There has been no mandated feed-in tariff in SEQ since 1 July 2014. Instead, solar PV owners can choose between electricity retailers competitive offers including the purchase of solar energy. We have assessed that the level of retail competition in SEQ appears effective in providing a range of feed-in tariffs and other options for solar PV consumers - and is providing a fair price for solar exports.

Again, the above statement can be questioned on the basis of the draft report's concept of "fairness", which does not appear to take due account of the actual value of exported Solar PV in contributing to a reduction in the overall costs of electricity including for consumers who do not own solar panels.

The draft report also stated:

There are mixed stakeholder views on whether the Queensland Government has a role in setting a mandated feed-in tariff.

Retailers generally considered that consumers and business will drive further growth and innovation in the solar PV market, including providing customer choice. Retailers considered that the reintroduction of a mandated feed-in tariff will stifle competition (including for retailers that have chosen not to include a solar price in their competitive offers), and act as a barrier to innovation.

Some solar PV owners have expressed concern that the absence of a mandated minimum feed-in tariff means that solar exports are not being treated equitably, and expressed concern that solar PV price being offered by retailers is too low.

The draft report later stated that there were "many stakeholders" who "considered the level of competition in SEQ did not warrant regulation" (p. 144). The draft report then cited the following two:

CCIQ does not believe there is evidence of market failure in the South East Queensland (SEQ) retail market. Many small businesses in SEQ have successfully negotiated feed-in prices with their retailers at competitive rates... CCIQ recommends feed-in tariff prices be left to the customer and the retailer to negotiate in SEQ.

Over 70 percent of customers have entered into market contracts in South East Queensland and over a fifth of these customers have installed solar PV systems. Solar feed-in tariffs have therefore become an important part of competitive retail market offers. Origin does not support the regulation of feed-in-tariffs in South East Queensland where competition is demonstrably effective; regulation is a poor substitute for effective competition and will result in customers having diminished choices. (p. 144)

Shortly afterwards, the draft report cited from the submissions of some other industry stakeholders who were similarly unreceptive to the concept of regulation in the Solar PV export market (pp. 144-145).

¹⁴ See footnote 7

Generally, there is an imbalance in the bargaining power between retailers and electricity consumers given the relative size of retailers vis-à-vis individual customers. As was expressed at the time when the former LNP Government removed the 8 cent feed-in tariff entirely which meant that Solar PV customers had to negotiate with retailers on what they would be paid for their Solar PV exports, “...*They [customers] simply don’t have the negotiating power. When retailers set the rules, solar owners lose.*”¹⁵ Therefore, to read in the draft report that retailers and other industry stakeholders would be opposed to a mandated minimum feed-in tariff comes as no surprise since mandated tariffs level the playing field between retailers and customers by taking control away from the retailers while providing protection for Solar PV exporters.

As to the concern of some Solar PV owners that Solar PV export prices being offered by retailers are too low, there is substance to such concerns as evidenced by the extract cited earlier in this submission.¹⁶ In the drive to deregulate the Solar PV export market, more will be needed to actively ensure the protection of customer interests. It is questionable whether an annual “market monitoring” process as articulated by the draft report will be regarded by customers as sufficient (p. 65).

Consideration needs to be given to revising the draft report on these points to provide the appropriate recognition and balance of perspective.

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Draft finding 3.1 – as indicated earlier in this submission, the draft report’s proposed definition of a “fair” price for exported Solar PV does not appear to recognise or take account of the actual value of exported Solar PV in reducing overall electricity costs including for those customers without solar panels. Consequently, under the proposed definition Solar PV customers will not be fairly compensated for the Solar PV they export to the grid. Consideration needs to be given to revising the proposed definition.

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Draft finding 3.2 – with respect to paragraph (b), the drafting finding does not appear to take account of the terms of reference for this inquiry that “... *wherever possible the entity receiving the benefit of exported solar energy should be the entity to pay for that benefit*” (pp. 125, 156). If the extra cost to a customer of paying for the benefit of exported Solar PV is 24 cents a day¹⁷ then this does not seem to be an inordinate impost to contribute in order to receive the benefits of lower overall electricity costs which occur as a result of exported Solar PV. Consideration needs to be given to revising the draft finding from a more balanced perspective.

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Draft finding 4.1 – the draft report states, “*In south east Queensland, multiple retailers are competing for solar PV customers, which promotes fair pricing for solar electricity exports.*” First, use of the word “multiple” could be misinterpreted by readers as inferring quite a large number whereas the report had earlier stated that in SEQ there are actually only nine retailers competing with the two largest offering feed-in tariffs that are less than what is offered by the remaining retailers (p. xi).

¹⁵ <<http://www.couriermail.com.au/business/queensland-government-to-axe-8cperkwh-solar-feedin-tariff-to-cut-electricity-costs/story-fnihpilir-1226846455254>>

¹⁶ See footnote 7

¹⁷ See footnote 10

Second, as indicated earlier in this submission, the tariffs currently offered by SEQ retailers may be inadequate compensation given the actual value of Solar PV that is exported to the grid and the benefits for all customers including those without solar panels.

Third, later in the draft report it is acknowledged that “... *In the context of feed-in tariffs, a single buyer, or small number of buyers of solar exports, may be able to set prices below competitive levels*” (p. 43). While the draft report goes on to state that “... *The degree of market power, and the extent to which it can persist, depends largely on barriers to entry and exit, and the availability to consumers of reasonably close substitutes*” (p. 43), a significant problem that would work against this in the Queensland context is that electricity consumers have generally been reluctant to change retailers.¹⁸ Contrary to the draft report’s confident predictions, this reluctance would only serve to reinforce retailers’ market power and their ability to unilaterally set feed-in tariffs rather than negotiate them with customers.

Finally, the draft report elsewhere concedes that “... *markets work well when buyers and sellers have sufficient information to make informed decisions*” (p. 134). However, the draft report accepts that in the Solar PV export market, “... *information problems may inhibit consumer decision-making*” (pp. xvii, 127, 135). It also notes that “... *pricing information alone is unlikely to be sufficient in the presence of significant market power. In addition, information may not be particularly useful — especially if the minimum information requirements imposed or quality of information are low*” (p. 141).

As the ideal “perfect market” is more myth than reality, this makes it necessary for an active independent entity to ensure that fairness actually occurs in the Solar PV export market. As acknowledged by the draft report, this already happens for regional Queensland where the Queensland Competition Authority sets feed-in tariffs without associated high compliance costs (p. 143). The draft report also identifies one scenario when government intervention in the Solar PV export market may be necessary: “... *when markets fail to provide a fair price resulting in inefficient resource allocation*” (p. 27).

Consideration needs to be given to revising the draft finding to reflect a more balanced, less utopian and idealised, perspective.

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Draft finding 6.1 – as discussed earlier in this submission, this draft finding appears not to have taken full account of the terms of reference for this inquiry that “... *wherever possible the entity receiving the benefit of exported solar energy should be the entity to pay for that benefit*” (pp. 125, 156). If all electricity customers (including those without solar panels) benefit from Queensland’s high level of solar panel ownership through lower overall electricity costs,¹⁹ then it is only reasonable and fair for all to share in the costs that may be associated with paying for exported Solar PV (which over the course of a whole year are quite minimal, amounting to an extra 24 cents a day²⁰). If non-solar customers are receiving a benefit from the high levels of solar panel ownership in Queensland in terms of lower overall electricity costs, then they should rightly participate in contributing to any costs that may be involved in achieving that reduction. For any genuine cases of people struggling to meet the costs of electricity, it should be an accepted community response/obligation for them to receive appropriate support and relief with meeting their energy costs without penalising Solar PV exporters by not appropriately compensating them for the value of their contribution.

¹⁸ <<http://www.brisbanetimes.com.au/queensland/queenslanders-reluctant-to-switch-electricity-providers-survey-20160218-gmy0i0.html>>

¹⁹ See footnote 1

²⁰ See footnote 10

Second, the draft finding claims that mandated feed-in tariffs for exported Solar PV “... increase electricity costs for other business and households (including vulnerable consumers) and is likely to have an overall negative economic and employment impact.” It was earlier noted in this submission that the draft report made several generalised statements about the alleged negative impacts in this regard (see pp. 88, 89, 93-94). Whether non-solar customers having to pay an extra 24 cents a day²¹ to receive the benefit of overall lower electricity costs as a result of exported Solar PV will have (or has actually had) the predicted dire consequences is questionable. No specific, empirical evidence appears to have been provided by the draft report to incontrovertibly substantiate the claims of adverse economic and employment impacts arising from the Solar feed-in tariff nor was there recognition of the reduction of overall electricity costs as a result of exported Solar PV which should address claims about its “negative” economic impacts. As well, the draft report did not appear to contain any firm data about the extent to which the Solar feed-in tariff has adversely impacted Queensland’s current unemployment rate nor did it identify the number of businesses such as in the agriculture and manufacturing sectors who may actually be Solar PV exporters themselves.

Despite this, the draft report focuses on the perceived adverse impact of exported Solar PV for non-solar customers (particularly “vulnerable” customers). As noted earlier in this submission, people who are genuinely struggling to meet energy costs should be afforded appropriate assistance. However, as also previously noted, the draft report’s concern with the perceived adverse impact of exported Solar PV on non-solar customers is highly ironic given that in its electricity pricing inquiry draft report the QPC appeared not to be concerned that its recommendations might adversely affect some stakeholders such as those who would experience financial loss and uncertainty if the Government implemented its recommendation and concluded the 44 cent solar feed-in tariff eight years ahead of schedule.²²

Third, as noted previously, the above statements again do not acknowledge the actual value of exported Solar PV in contributing to a reduction in overall electricity costs including for non-solar customers.

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Draft recommendation 6.1 – again, this recommendation does not recognise the actual value of exported Solar PV in contributing to reduce the overall costs of electricity for all consumers including those without solar panels. The recommendation would see Solar PV exporters not being fairly compensated for the value of their exported energy. While the evident intention of the draft recommendation is to benefit non-solar customers, it would disadvantage Solar PV exporters. It is noted that the draft report made generalised statements about the alleged negative impact of the Solar feed-in tariff on non-solar (including “vulnerable”) customers (e.g. pp. 88, 89, 93-94) but did not appear to provide specific, empirical data which would incontrovertibly demonstrate that these alleged negative impacts are presently occurring. It is also questionable whether the draft recommendation as it is currently worded is consistent with the terms of reference for the inquiry which is that “... wherever possible the entity receiving the benefit of exported solar energy should be the entity to pay for that benefit” (pp. 125, 156 of the draft report).

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Draft finding 7.1 – this draft finding holds that the distributional impact of subsidies to solar PV is to transfer income from non-solar households to solar households, and to raise the cost of living for those on the lowest incomes. Again, the draft finding appears not to take account of the actual value

²¹ See footnote 10

²² QPC draft Report, Inquiry into Electricity Pricing, pp. xx, 93

of exported Solar PV in contributing to reduce the overall costs of electricity for all consumers including those without solar panels. It also does not appear to factor in that the cost to a non-solar customer of benefiting from the overall reduction in electricity costs from exported Solar PV is around 24 cents a day. For people who genuinely struggle to meet electricity costs, appropriate relief and assistance should be available; however, it would be unfair to expect Solar PV exporters to suffer financial loss. Therefore, the draft finding appears at odds with the inquiry's terms of reference that "*wherever possible, the entity that receives the benefit of exported solar energy should be the entity to pay for that benefit*" (pp. 125, 156 of the draft report).

Later in the draft report the following statements are made:

Some low income households own solar PV systems, but low income households are more likely to be non-solar households (p. 110).

Low income earners bear a disproportionate share of the burden of funding any subsidy to solar exporters (p. 110).

An analysis of average income and solar PV installation data by postcode indicates that the costs of a subsidised feed-in tariff are likely to fall disproportionately on those areas with the lowest household incomes (p. 118).

Low income households are less likely to own a solar PV system both because they are income constrained — solar PV systems require a significant investment even after the major price reductions of recent years — and because they are less likely to own their homes (p. 121).

While the draft report's position is that "*low income households are more likely to be non-solar households*" and "*Low income households are less likely to own a solar PV system*", the view of then Climate Commission head, Professor Tim Flannery, was that:

... it is not wealthy people installing solar panels. "They are people on fixed incomes, particularly who don't like this idea of getting a bigger and bigger electricity bill every year, and people with large mortgages."²³

In addition, a 2014 report prepared for the REC Agents Association found that lower income families and regional communities are most likely to install solar panels: "*Families living in lower income suburbs are much more likely to install solar than families living in wealthier suburbs.*"²⁴

Importantly, the 2014 report also undertook a postcode analysis from which it concluded that there is:

... an inverse correlation between the income level of a postcode and the level of solar installations in that postcode, with solar uptake declining as income increased. A popular myth is that rich people can afford solar and are being subsidised by people on lower incomes. Our analysis shows that this is not the case.²⁵

It is suggested that consideration be given to revising draft finding 7.1, as well as relevant statements elsewhere in the draft report such as those cited above, to take account of these

²³ <<http://www.abc.net.au/news/2013-08-05/new-report-shows-rapid-take-up-of-solar-panels/4864954>>

²⁴ <<http://greenmarkets.com.au/news-events/rooftop-solar-uptake-still-highest-in-low-income-australia>>

²⁵ <<http://www.recagents.asn.au/wp-content/uploads/2014/04/GET-Postcode-report-for-RAA-April-2014.pdf>>

alternative analyses and research findings. At the very least the draft report should acknowledge that other views and conclusions have been reached on these points which differ from its own.

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Draft finding 9.1 – the draft finding states: *“In south east Queensland, if evidence demonstrated that competition was not effective in delivering a fair price for solar exports, then a number of options could be considered. For the Draft Report, we have outlined options from voluntary benchmark pricing through to a mandated minimum feed-in tariff. We are seeking stakeholder comments on the options prior to the Final Report.”*

It appears the draft report’s basic assumption is that the SEQ Solar PV export market “... is functioning well without intervention” (p. 145). Interestingly, there is remarkable symmetry between the views of QPC in this regard and those of some industry stakeholders (see pp. 144, 145 of draft report). Nevertheless, draft report stated that “... *If evidence demonstrated that competition in SEQ was not effective, and misuse of market power was leading to detrimental outcomes, then the range of regulatory options discussed above should be considered*” (p. 143).

The particular regulatory options identified and discussed by the draft report for dealing with “ineffective competition” in the SEQ Solar PV export market are: price information, price monitoring, price approval, and price setting (pp. 29, 140-143). These options range from low regulatory intervention to high regulatory intervention with some being “... *more effective than others depending on the nature of the problem*” (p. 140).

In commenting on these options, what should be first noted is the rider that the draft report has signalled: *“We have not proposed specific regulatory measures for SEQ on the basis of the findings in Chapter 4 — that the market is functioning well without intervention. Notwithstanding this, we are interested in further consultation on these issues in preparation of the final report”* (p. 145). This comment is somewhat disappointing since it indicates that the QPC has already made up its mind on this issue (*“We have not proposed specific regulatory measures for SEQ [because] the market is functioning well without intervention”*), yet it is still allowing readers to think they might have a chance of persuading it to think otherwise.

Second, comment should be made about the statement: *“... if evidence demonstrated that competition in SEQ was not effective, and misuse of market power was leading to detrimental outcomes.”* Despite this statement, it appears that the draft report did not include any specific indicators for determining whether or not competition in the SEQ Solar PV export market was effective. It could be concluded that this was because the QPC assumed all is well in this regard so no regulatory intervention is necessary. However, the draft report earlier conceded that, *“There is a role for government in solar export pricing when markets fail to provide a fair price resulting in inefficient resource allocation”* (p. 27). So it is not necessarily the case that all may continue to go well with the SEQ Solar PV export market. Therefore, it is important for specific and objective criteria to be established that could be used to test whether or not competition was effective in delivering a fair price for solar PV exporters and if not, what type of intervention may be appropriate in the circumstances. In my view, one essential criterion for deciding to take action against ineffective competition or misuse of market power would be in the situation where the price paid to Solar PV exporters did not recognise the actual value of Solar PV exports in contributing to reduce the overall costs of electricity including for non-solar customers.

Third, each of the identified options is said by the draft report to have positives and negatives. For instance, the price setting option would not likely appeal to industry stakeholders because it involves

high regulatory intervention whereas they would find the price information option more attractive because of its low regulatory impact. However, even the price information option has its downside, particularly for consumers (pp. xiii, xvii, 30, 126, 127, 141). Indeed, if the effectiveness of the price information option can be diminished, for example, by the low quality of the information being provided (p. 141), then this would strongly suggest that even for those options involving low regulatory intervention an active independent entity is still needed to ensure consumer protection. Although retailers and industry advocacy groups hold strong deficit views regarding regulatory intervention (pp. 139, 144, 145), none of the identified regulatory options including price setting – which is the most visible form of regulatory intervention – should be excluded from consideration in the event of a competition failure. The draft report outlined the role of the Government’s Regulatory Impact Statement (RIS) process in assessing the appropriateness of options for resolving a particular issue (pp. 28-30, 140). If in dealing with “ineffective competition” in the SEQ Solar PV export market the price setting option was deemed under the RIS process to be the most appropriate response to the particular inefficient competition situation (the draft report appears to accept such a scenario [p. 27]), then this should be the approach that is adopted. Options should be considered and accepted in light of the findings of the RIS process, not according to ideological predispositions.

As already briefly touched on, it is notable that the QPC and some industry stakeholders share the same view that the SEQ Solar PV export market “*is functioning well without intervention*”. On the other hand, many Solar PV customers do not share the same confidence and are concerned that they are “... *being exploited by electricity retailers*” (p. 145). Yet despite these concerns the draft report did not propose any specific action to strengthen protection for Solar PV exporters (p. 145). While it could be said that such customers are simply motivated by self-interest, the same could also be said of the retailers and industry stakeholders who oppose any regulation of the SEQ Solar PV export market so that feed-in tariff prices are left to customers and retailers to “negotiate”. This being so, it again raises the need for an active independent entity with the full range of regulatory options and tools to ensure the interests of all are respected.

One other related point is that the draft report spoke about the importance of, and need for, good policy design in order to achieve good policy outcomes (p. 28). In this regard, post-implementation evaluation is an essential component of any good policy design process. As has been stated, “*Evaluation should be a normal part of the policy cycle.*”²⁶ Others have also stated, “*The policy cycle ends – and restarts – with evaluation ... evaluation criteria should be built into the original program design ... evaluation is the point in the cycle when the utility of policy must be questioned, and a new cycle of analysis and adjustment, confirmation or abandonment begins.*”²⁷ If the deregulation of electricity prices in SEQ proceeds from July 2016 as is anticipated by the draft report (p. 65),²⁸ then opportunity needs to be provided to subsequently evaluate and test the draft report’s assumption that “... *the [SEQ Solar PV export] market is functioning well without intervention*” (p. 145). Such a

²⁶ Freiberg, A., 2010, *The Tools of Regulation*, The Federation Press, Sydney, p. 274

²⁷ Althaus, C., Bridgman, P. & Davis, G., 2007, *The Australian Policy Handbook*, 4th Edition, Allen & Unwin, Sydney, p. 179

²⁸ For the record it should be noted that on the basis of the adverse experience with electricity pricing deregulation that has occurred elsewhere in Australia and overseas, ** there are major concerns with the proposal to deregulate SEQ electricity prices from July 2016 which have not been adequately recognised or addressed by the QPC in its draft Electricity Pricing Inquiry report.

** For example see:

<<http://www.businessspectator.com.au/article/2015/7/8/energy-markets/how-consumers-pay-more-under-our-deregulated-retail-electricity>>;

<<http://www.theage.com.au/comment/electricity-charges-for-some-victorian-households-up-to-800-more-than-they-need-to-be-20150319-1m2qtd.html>>;

<<https://grattan.edu.au/news/electricity-charges-for-some-victorian-households-up-to-800-more-than-they-need-to-be/>>

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

<<http://www.smh.com.au/business/energy-deregulation-no-benefit-to-power-consumers-study-finds-20140202-31v11.html>>

<https://www.sacoss.org.au/sites/default/files/public/documents/Reports/140516_State%20of%20the%20South%20Australian%20Retail%20Energy%20Market%202013.pdf>; p. i;

<<http://arena.org.au/a-world-gone-mad-marketisation-and-deregulation-of-electricity/>>

process would be one important way in determining whether “... *evidence demonstrated that competition was not effective in delivering a fair price for solar exports*” (p. 145). SEQ Solar PV exporters should not have to wait until a failure occurs in the Solar PV export market before any necessary corrective action is taken. Proactive assessment is needed to continue testing whether the SEQ Solar PV “*market is functioning well without intervention*”. The draft report needs to be revised to include this necessary requirement.

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In referring to my earlier submission to the QPC’s Solar Feed-In Inquiry Issues Paper the draft report stated:

Others look at postcode or statistical area data in different ways and point to the uptake of solar by households on fixed incomes, such as pensioners, to suggest subsidies do not flow to higher income earners.

I would like to make the point that at no time did my submission “... *suggest subsidies do not flow to higher income earners.*” Clearly, there are higher income solar panel-owning households who would receive the Solar PV feed-in tariff. However, what my submission was concerned with were claims that the wealthy mainly benefited from the Solar PV feed-in tariff at the expense of low income and vulnerable customers when the fact is that there are people on fixed incomes, people with large mortgages, and people who live in lower income suburbs who are also solar panel owners. The submission included a number of web links to support this statement.²⁹

To provide further substantiation for this observation I would like to reiterate a statement cited earlier in this present submission by then Climate Commission head, Professor Tim Flannery:

... it is not wealthy people installing solar panels. “They are people on fixed incomes, particularly who don’t like this idea of getting a bigger and bigger electricity bill every year, and people with large mortgages.”³⁰

Another earlier statement cited in this present submission, from the 2014 report prepared for the REC Agents Association, also confirms that lower income families and regional communities are most likely to install solar panels: “*Families living in lower income suburbs are much more likely to install solar than families living in wealthier suburbs.*”³¹ Indeed, from its postcode analysis the report found that there was:

*... an inverse correlation between the income level of a postcode and the level of solar installations in that postcode, with solar uptake declining as income increased. A popular myth is that rich people can afford solar and are being subsidised by people on lower incomes. Our analysis shows that this is not the case.*³²

It is requested that the draft report be clarified on this point to provide a more accurate summation of my submission’s intent.

²⁹ See:

<<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>>

³⁰ <<http://www.abc.net.au/news/2013-08-05/new-report-shows-rapid-take-up-of-solar-panels/4864954>>

³¹ <<http://greenmarkets.com.au/news-events/rooftop-solar-uptake-still-highest-in-low-income-australia>>

³² <<http://www.recagents.asn.au/wp-content/uploads/2014/04/GET-Postcode-report-for-RAA-April-2014.pdf>>