

15th April 2016

Queensland Productivity Commission
PO Box 12112
George Street QLD 4003
Via email: enquiry@qpc.qld.gov.au

Draft Report – Solar Feed-In Pricing in Queensland

Dear Sir/Madam,

APA Group is pleased to have an opportunity to provide comments to the Queensland Productivity Commission, in relation to the "*Draft Report - Solar Feed-In Pricing in Queensland*" (*draft report*) and commends the Queensland Productivity Commission for preparing the paper and inviting public comment. APA understands that the Queensland Productivity Commission will provide its final report to the Queensland Government by June 2016.

About APA Group

APA Group (APA) is Australia's largest natural gas infrastructure business, owning and/or operating approximately \$19 billion of energy assets.

Its gas transmission pipelines span every state and territory in mainland Australia, delivering approximately half of the nation's gas usage. APA has direct management and operational control over its assets and investments.

APA also has an ownership interest in, and operates the Allgas gas distribution network as well as operating the Australian Gas Networks (formerly Envestra Limited). Together the two networks have approximately 28,600 kilometres of gas mains and approximately 1.3 million gas customers, with well over 180,000 customers in Queensland. APA also owns other energy infrastructure assets such as gas storage facilities and a wind farm.

In addition to the Allgas Distribution Network, APA also has equity interests in a number of energy infrastructure assets, including SEA Gas Pipeline, Energy Infrastructure Investments (EII2) and the Ethane Pipeline Income Fund. APA is listed on ASX and is included in the S&P ASX 50 Index.

Please contact either Josh Hankey (07 3215 6632) or myself (08) 8113 9197, if you would like to discuss the matters raised in this submission.

Yours sincerely



Peter Gayen
Manager – Networks Commercial - APA Group

Summary of APA's recommendations

APA recommends that the QPC advocates for:

- the current FIT scheme to be broadened to include low emission fuels or technologies, based on their ability to provide emission reduction at the lowest cost per unit of reduction – and not on a 'picking winners' basis.
- FIT schemes that are national in design, thus increasing the likelihood that the schemes provide lower cost of emission reduction outcomes, when compared with otherwise equivalent state schemes.
- APA recommends that the QPC advocates that future Solar PV FIT 'style' schemes do not have their costs allocated to non-participating households.

Introduction

*The future of solar PV in Queensland is generally positive with installed capacity expected to reach 3000 MW by 2022 without any changes in current policy. The industry is expected to continue growing through new products and services and the falling prices of batteries.*¹

The Queensland Productivity Commission's (QPC) draft report provides an optimistic outlook for the growth of solar Photo-Voltaic (PV) installations in Queensland. The QPC, however, also raises some issues concerning the current the solar PV Feed-in Tariff (FIT) policy settings, established to achieve the Queensland government's 3000 MW small scale solar target. In APA's response, we will discuss some of the same issues raised by QPC.

- 1) *Technology neutrality*
- 2) *Lowest cost emissions reduction and National energy policy*
- 3) *Cost allocation to non-solar customers*

1) **Technology Neutrality**

"Evidence presented to this inquiry suggests the Queensland Government should ensure:"

*"Future policy design does not provide rooftop solar PV with an unfavourable advantage over other sources of generation including, but not limited to, commercial and large-scale solar/renewables, community solar and other low-emissions technologies, such as gas"*²

APA believes that the current policy design for the solar PV FIT in Queensland provides solar with an unfavourable advantage over other low emissions fuels such as natural gas. APA believes however, that by including low emission fuels in an amended FIT scheme, fairness and equity could be restored.

APA encourages the Commission to continue to advocate for technology-neutral policy that does not adversely impact on other low emission technologies. Importantly, APA considers that an alternative low emission fuel such as natural gas (with the potential to generate low emission electricity via a residential fuel cell, gas micro-turbine or similar), performs the same task as a solar PV installation. Although both fuels/technologies are low emission in nature (compared with alternatives like coal), a key challenge is that non-solar PV low emission technologies are not eligible for a FIT under the current Queensland scheme.

APA also highlights that in addition to incentives available under the Queensland solar PV FIT, solar PV appliances are also eligible to receive Small Technology Certificates under the Small Scale Renewable Energy Scheme (SRES). The SRES is a part of the Federal Government's Renewable Energy Target scheme, but once again low emissions technologies such as natural gas are not eligible for incentives under the SRES. Therefore, the favourable advantage accruing to solar PV

¹ Draft Report – SOLAR FEED-IN PRICING IN QUEENSLAND – Queensland Productivity Commission - page 26

² Ibid – page xiii

appliances, under both the Queensland government's solar PV FIT scheme and the Federal government's SRES scheme, is substantial.

This technology-biased policy also creates competitive distortion in the appliance market where solar appliances are provided with a competitive advantage through the provision of a financial benefit to consumers, whereas low emission technologies are not. This outcome is not in the long term interests of energy customers.

"Neutrality ensures the focus is on the long-term interests of consumers and not the industry or the development of a specific technology."³

APA supports the application of the principle of technology-neutrality in relation to the further development of the government's current FIT scheme. Further, although discussed more in the next section, APA also encourages the QPC to support the changes to the current FIT scheme eligibility that is based on rewarding the lowest cost per unit of emissions reduction, irrespective of the fuel or technology.

In summary, APA recommends that the QPC advocates for the current FIT scheme to be broadened to include other low emissions fuels or technologies, based on their ability to provide emission reduction at the lowest cost per unit of reduction – and not on a 'picking winners' basis.

2) Lowest cost emissions reduction and National energy policy

"National policy instruments are better suited to achieving CO2 reductions at least cost than are state and territory policies, particularly where national policies are undertaken within an internationally agreed and binding approach to emissions reductions".⁴

Consistent with the previous section regarding Technology Neutrality, the above comments from the draft report effectively summarise APA's views in regard to emissions reduction measures. APA believes that energy policy should be undertaken on a national basis to ensure international alignment and state consistency, as well as cost effectiveness.

With specific reference to the cost of emissions under a Queensland solar PV FIT, APA notes that the draft report provides a number of estimates from different sources regarding the cost of emissions reduction under the Queensland solar PV FIT schemes.

"Wood, Blower and Chisholm found that the economic cost of emissions to 2030 due to solar PV is more than \$175 per tonne of CO2."⁵ "ACIL ALLEN produced estimates of the cost of the SRES component of the RET of \$164-\$191 per tonne of CO2 abatement."⁶

Notably, comparative emission reduction costs also provided in the draft report are much lower than the estimated costs provided above i.e. recent ERF auction rates of \$13.95 and \$12.25 per tonne abated; Australian Treasury modelling rates of \$20-\$24 per tonne (2012-13); etc.

APA therefore recommends that the QPC advocates for FIT schemes that are national in design, thus increasing the likelihood that the schemes provide lower cost of emission reduction outcomes, when compared with otherwise equivalent state schemes.

3) Cost allocation to non-solar customers

"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"⁷

Given that energy policy should be designed to provide long term benefits for all energy users, the above quote from the draft report is concerning. APA believes that it is fundamental that costs of such schemes should not be allocated to those

³ Ibid – page 35

⁴ Ibid – page 84

⁵ Ibid – page 79

⁶ Ibid – page 79

⁷ Ibid – page 125

who don't participate or benefit from such schemes. This principle is particularly pertinent to hardship households, which often cannot afford to participate in such schemes.

APA recommends that the QPC advocates that future Solar PV FIT 'style' schemes do not have their costs allocated to non-participating households.