

Friday, 15 April 2016

Principal Commissioner Kim Wood
Queensland Productivity Commission
PO Box 12112
George Street
BRISBANE QLD 4003
via email: enquiry@qpc.qld.gov.au

Dear Principal Commissioner,

Thank you for the opportunity to provide a submission to the Queensland Productivity Commission's inquiry into solar feed-in pricing in Queensland. This inquiry is focussed on an important (and fast growing) element of the final delivered cost of electricity in Queensland.

As you are aware, the QRC is the peak representative organisation of the Queensland minerals and energy sector. QRC's membership encompasses minerals and energy exploration, production, and processing companies and associated service companies. QRC works on behalf of members to ensure Queensland's resources are developed profitably and competitively, in a socially and environmentally sustainable way.

As you know, the resources sector is trade exposed and operates in highly competitive markets with a limited ability to pass additional costs onto customers. The global competitiveness of the sector is currently challenged from high structural costs, with energy intensive processing vulnerable to high domestic energy prices. Furthermore, most global resources markets are oversupplied, with subdued prices across many key commodity markets.

In this context, of enormous pressures to reduce costs, QRC members welcome the Commission's careful scrutiny of solar pricing and how best to set a fair price for solar energy. As the public debate over solar feed-in pricing continues to be highly politicised and emotive, the Commission's draft report does a commendable job of objectively setting out the history and facts around solar feed-in pricing.

The terms of reference note that the inquiry is focussed on solar export pricing for small customers. There will be a number of small customers amongst QRC's membership. With many resource operations in remote and regional areas, solar energy is often a competitive source of electricity and can also provide an important supplement to small diesel-fired generation sets for the industry's off-grid operations.

QRC endorses the Commission's definition of a fair price for solar exports as a community-wide definition of an efficient price for the electricity generated which does not affect the electricity price paid by non-solar customers. This fair price should appropriately recognise externalities such as emission abatement and other environmental benefits.

The information on the costs of solar presented in the Commission's draft report electricity pricing was also helpful in putting the role of small solar generation into the broader context of Queensland's electricity networks. It is very important that the costs of Queensland's 44 cents/kWh Solar Bonus Scheme are not misrepresented as network costs, simply because that is how the revenue is collected. Similarly, the costs of installing small-scale solar systems are often misrepresented as very low when there is an up-front subsidy of up to 50 per cent from the Australian Government's Small-Scale Renewable Energy Scheme (SRES).

This context of a substantial upfront subsidy on the installation of solar energy systems with a substantial subsidy on electricity exported from solar energy systems goes a long way to understanding how Queensland has achieved one of the highest penetration rates of small scale solar photovoltaic (PV) systems in the world, with almost 400,000 installed by 2015. The sudden change to a near ubiquitous presence of these PV systems, in under a decade, perhaps also explains the popular misconception that solar energy supplies a substantial share of Queensland's energy supply. With almost one in four Queensland homes having a PV system installed, it can be difficult to understand that this 1,328 MW of capacity represents just 9 per cent of the capacity of Queensland's total generation fleet of around 14,000 MW.

The Commission's analysis that shows that the hypothetical wholesale electricity price for a typical PV exporter would deliver 5.49 cents/kWh in 2015 is a useful finding. It highlights just how generous the solar bonus scheme tariff of 44 cents/kWh is for PV exporters. Similarly, the Commission's calculations around the level of Commonwealth (SRES) scheme to convert the upfront subsidy into the equivalent of a tariff for energy exported of 7.1 cents/kWh is also very useful.

It would be difficult to argue that when the market value of exported solar is just 5.5 cents, that a PV exporter should expect a price of 51.1 cents / kWh. An almost tenfold uplift in tariffs for PV hardly seems fair, particularly in an environment of widespread public concern about the rising cost of electricity.

The Commission's modelling of the significant cost of different scenarios of "bonus" tariff schemes for solar in table 1 is also very helpful. The costs of those scenarios and the implications for electricity prices would make instructive reading for the *Solar Citizens* who have dispatched more than 850 form email "submissions" to the Commission (as at 15 April 2016) which note that "the draft report is a dismal failure" and instead urging the Commission to award a fair price. QRC notes that 850 is a very small share of the 400,000 Queensland households who already have installed solar PV systems.

In the face of the campaign-style enthusiasm of *Solar Citizens*, it is sobering to read the Commission's analysis that a 10 cents /kWh premium over the market rate involves a \$4.4 billion dollar subsidy and would increase retail electricity prices by 8.4 percent. The submission from *Solar Citizens* in response to the issues paper includes a number of suggestions for tariffs of 40-50 cents /kWh, which would presumably require tens of billions of dollars of subsidies and deliver very steep increases in retail electricity prices.

QRC notes that *Solar Citizens* had no suggestions about how these subsidies could be funded, nor did their submission identify any areas where the principles identified by the Commission in section 3.6 have not been applied to the Commission’s analysis.

Table 1: QRC comments on selected draft findings and recommendations

Draft findings and recommendations	QRC comments
<p><i>Draft finding 3.1</i> For this inquiry, 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.</p>	<p>QRC supports this community-wide definition of a fair price for solar exports.</p>
<p><i>Draft finding 3.2</i> Solar export pricing arrangements should be assessed against the following principles to determine whether they are fair:</p> <ul style="list-style-type: none"> (a) Efficiency (b) Equity (c) Policy governance and practice 	<p>QRC supports the Commission’s application of this set of principles.</p>
<p><i>Draft finding 5.2</i> An additional subsidy paid through a feed-in tariff for emissions reduction beyond that achieved through the SRES would be poorly targeted and result in a high cost of abatement, as well as large cross-subsidies between electricity consumers.</p>	<p>QRC supports this finding that additional subsidies for solar PV systems are unlikely to produce fair pricing outcomes.</p>
<p><i>Draft finding 5.3</i> Better and fairer policy options are available to achieve carbon abatement at a lower cost than can be achieved by subsidising electricity exports from small-scale solar PV generation. Efficient national and international policies should be used to address global problems.</p>	<p>QRC supports this finding that subsidising small-scale solar PV generation is likely to be unfair and inefficient.</p>
<p>Draft recommendation 5.1 The Queensland Government should not increase feed-in tariffs to pay solar investors for reducing carbon emissions. Investors already receive a subsidy from the SRES for emissions reduction.</p>	<p>QRC supports this recommendation that solar PV feed-in tariffs do not need to be increased.</p>

Draft findings and recommendations	QRC comments
<p>Draft recommendation 6.1 The Queensland Government should not increase feed-in tariffs to induce industry development, wholesale market and network infrastructure effects or other social impacts. The evidence suggests that such a policy would come at a net cost overall, and would not be fair.</p>	<p>QRC supports this recommendation that increasing feed-in tariffs for reasons other than reducing emissions would not be fair and would come at a net cost.</p>
<p><i>Draft finding 7.1</i> 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.</p>	<p>QRC supports this finding that the subsidy of solar PV is unfair because it involves a large transfer of income from non-solar to solar households, which is regressive.</p>

Thank you again for the chance to provide comments. I can confirm that QRC's submission is not confidential and can be published on the Commission's website. If you have any questions, or would like any further information on this submission, the contact at QRC is Andrew Barger on 3316 2502 or andrewb@qrc.org.au

Yours sincerely



Greg Lane
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