



825 Ann Street, Fortitude Valley QLD 4006
PO Box 264, Fortitude Valley QLD 4006

ergon.com.au

15 April 2016

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

Dear Mr Wood

SOLAR FEED-IN PRICING IN QUEENSLAND – DRAFT REPORT

Ergon Energy Corporation Limited (EECL) and Ergon Energy Queensland Pty Ltd (EEQ) welcome the opportunity to provide comment to the Queensland Productivity Commission (QPC) on its *Solar Feed-in Pricing in Queensland – Draft Report* (Draft Report).

This submission is provided by:

- EECL, in its capacity as a Distribution Network Service Provider (DNSP) in Queensland; and
- EEQ, in its capacity as a non-competing area retail entity in Queensland.

In this submission, EECL and EEQ are collectively referred to as 'Ergon Energy'.

Ergon Energy would like to acknowledge the QPC's effort in conducting a thorough and pragmatic inquiry in determining a fair price for solar power produced at the home or business of a small customer and exported to the electricity grid. The 5 recommendations made by the QPC demonstrate an effective and comprehensive review. In Ergon Energy's view the scope and purpose of the inquiry were thoughtfully defined and the QPC's diligent approach and depth of analysis provide a solid basis for the draft findings and recommendations. We consider that the recommendations are appropriate and reasonable given the scope of the investigation. Ergon Energy only has some minor comments, which are set out below.

Batteries and the Solar Bonus Scheme (SBS)

Ergon Energy wishes to clarify the reference in Box 18 that "customers on a SBS feed-in tariff will lose this tariff on installation of a Battery Energy Storage System (BESS), due to the potential to store energy at a cheaper rate and discharge to the grid for a higher price". Ergon Energy, allows the connection of a BESS in circumstances where an eligible premises receives the 44 cent SBS feed-in tariff, provided the connection continues to meet the requirements of section 44A of the Electricity Act 1994 (Qld).

Market power

Ergon Energy acknowledges the QPC's view that, as viewed by traditional measures EEQ possesses market power in regional Queensland¹ as it relates to the ability of customers to access feed-in-tariffs for small scale photovoltaic (PV) generation export. However, Ergon Energy views the feed-in-tariff as a single element in the broader small scale PV market and certainly not the sole determinant of the customer's decision to purchase a solar PV system.

As noted by the QPC, there is a link between retail electricity sales and solar exports². Ergon Energy's view is this link extends to the customer's decision to purchase a solar PV system, with the potential to avoid retail and network costs acting as a direct incentive for the customer. In this context EEQ is disadvantaged by the existing regulatory and policy environment which limits the ability to offer market contracts³ and participate in the broader solar PV market. Additionally, EEQ is unable to respond to the loss of revenue driven by continued uptake of solar PV. This impact is exacerbated by the introduction of new solar products⁴ which remove some of the traditional barriers to uptake, such as high upfront cost.

These factors limit the influence EEQ has in the broader solar PV market, despite supplying a vast majority of small customer loads within regional Queensland. This reinforces the QPC's position that "any impact of market power on investment in solar is unlikely to be large"⁵.

Mechanism for regulating feed-in pricing in regional Queensland

Ergon Energy notes the QPC's preferred method for regulating prices for solar exports is a "price approval" model. Ergon Energy supports the QPC's view that a mechanism which provides the greatest flexibility in pricing structures will facilitate innovation and provide customers with a broader range of options to be benefit from excess solar capacity.

EEQ believes it prudent to provide further details of any change to the existing regulated feed-in-tariff setting process. In particular, the likely costs of implementing such an arrangement and the setting of an appropriate compensation mechanism.

It may also be prudent to define specific review triggers (in addition to the discretionary approach recommended), such as the implementation of competition in metering legislation or a change to the Community Service Obligation mechanism and removal of barriers prohibiting EEQ from selling market contracts.

¹ Queensland Productivity Commission, *Draft Report Solar feed-in pricing in Queensland*, March 2016, p xiv.

² Queensland Productivity Commission, *Draft Report Solar feed-in pricing in Queensland*, March 2016, p 52.

³ Queensland Productivity Commission, *Draft Report Electricity pricing inquiry*, 3 February 2016, p 174.

⁴ For example Origin Energy's "Solar as a Service" which is currently being offered in limited areas of regional Queensland, Queensland Productivity Commission, *Draft Report Solar feed-in pricing in Queensland*, March 2016, p 57.

⁵ Queensland Productivity Commission, *Draft Report Solar feed-in pricing in Queensland*, March 2016, p 42.

We look forward to participating further in the QPC's inquiry process. Ergon Energy is available to discuss this submission or provide further detail regarding the issues raised, should the QPC require. Do not hesitate to contact Jenny Doyle, Group Manager Regulatory Affairs, on (07) 3851 6416.

Yours sincerely

A handwritten signature in black ink, appearing to read 'R. Baker', is written over a faint, light-colored rectangular background.

Roslyn Baker

ACTING CHIEF EXECUTIVE