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Estimating a Fair and Reasonable Solar Feed-in Tariff for Queensland – Issues Paper

The Energy Supply Association of Australia (esaa) welcomes the opportunity to make a submission to the Queensland Competition Authority's (the Authority) Issues Paper on estimating a fair and reasonable solar feed-in tariff for Queensland.

The esaa is the peak industry body for the stationary energy sector in Australia and represents the policy positions of the Chief Executives of 36 electricity and downstream natural gas businesses. These businesses own and operate some $120 billion in assets, employ more than 51,000 people and contribute $16.5 billion directly to the nation's Gross Domestic Product.

Being fuel and technology neutral, the Association has consistently argued against the introduction of feed-in tariffs (FITs) that provide a significant and arbitrary premium over the economic value of the energy supplied after accounting for any avoided costs. These excessive rates have led to dramatically quick rates of uptake that has contributed to electricity price increases and put pressure on electricity networks to maintain voltage levels. We welcome the decision to assess a fair and reasonable solar FIT for Queensland.

Determining a fair and reasonable solar FIT

As outlined in the Issues Paper, determining a fair and reasonable value for energy generated by small scale solar photovoltaic (PV) systems and exported to the Queensland electricity grid presents some its challenges. The esaa notes that the Issues Paper makes reference to the first COAG principle on FITs: "Micro renewable generation (is) to receive fair and reasonable value for exported energy." It is crucial, therefore, that the results of this review produce a "fair and reasonable value" and consequently avoid the problems that have plagued premium solar FITs across Australia.

The Authority suggests that a fair and reasonable value of PV exports should be interpreted as the value that reflects the benefit to a retailer of electricity exported by its PV customers to the grid. The method proposed to value this benefit – by assessing the difference between the price that a retailer can charge for the on-sold electricity and the costs that it cannot avoid – appears to be a sensible approach.

Benefits of a light-handed approach to regulation

In addition to determining a fair and reasonable value for electricity generated by small-scale solar PV, the Authority has also been tasked with investigating and reporting on an appropriate means of implementing the fair and reasonable FIT in Queensland. The Association considers that this is a necessary step in order to ensure an orderly transition for retailers, networks and consumers as they adjust to a new pricing regime for solar PV. This approach should allow for a variety of mechanisms to be considered before introducing a policy which may have wide-ranging impacts on the electricity industry. The end result should be a policy that is more sustainable for all parties in the long-term.

Competitive markets naturally give rise to the most efficient pricing structures and encourage competition in the development of alternative products and levels of service. This is evidenced by a number of electricity retailers in Queensland voluntarily offering a discount, or premium tariff – in addition to the Solar Bonus Scheme FIT – to customers who export surplus PV electricity. Accordingly, the esaa contends that a fair and reasonable value of PV energy exports is best determined and implemented by the market with no regulatory intervention.

To this end, the Association considers that a light-handed approach to implementing FITs for customers should be taken. Of the regulatory measures identified by the Authority, publishing a non-mandatory benchmark range of values for electricity generated by small-scale solar PV in Queensland appears to be the most appropriate. The benchmark range would serve as a guide to allow customers and retailers the opportunity to negotiate a fair and reasonable tariff. Furthermore, such an approach would also mitigate the inherent risks of publishing a single benchmark value, namely that a high benchmark would create unrealistic expectations in customers while a low benchmark would favour retailers.

In any case, the risks under the benchmarking approach are far less than the risks of a heavy-handed approach where a mandatory FIT set too high could result in retailers paying far more than is necessary for solar PV-generated electricity. This could disadvantage those retailers with a higher proportion than the average of customers with solar PV. It would also discourage retailers from competing vigorously for customers who have PV installed and would thus undermine retail competition.

However, the Association recognises that the current lack of retail competition in the Ergon Energy distribution area may require the Authority to satisfy itself that a voluntary FIT offered by Ergon is at a level consistent with that which would prevail under competitive outcomes.

The Authority also asks how often the price should be updated. The esaa argues that another advantage of a light-handed approach is that the market will update prices as regularly as it needs to, without waiting for the intervention of an external agency. Periodic reviews every few years may be all that is required if customers and retailers can freely negotiate prices themselves rather than await the outcome of a review process. This would minimise the administrative costs of reviews, costs which will ultimately be borne by customers.

Sharing scheme costs

The decision to implement a FIT was made by the Queensland Government against the explicit advice of the energy industry. The Association therefore considers that retailers should not be required to pay for the outcomes of this policy choice – at the expense of consumers. As identified by the Authority, if a retailer contribution to the existing Scheme was made mandatory, it is likely that any voluntary market offering would be reduced or withdrawn.

However, should the Queensland Government seek to recover a portion of the Solar Bonus Scheme costs from retailers, parties on both sides will need to be protected from any change to their current arrangements, which may have damaging effects. This could be solved by allowing time for contracts to end before changes are made and by only requiring retailers to contribute to the cost of the Scheme for their customers on the current 44c/kWh or 8c/kWh FITs.

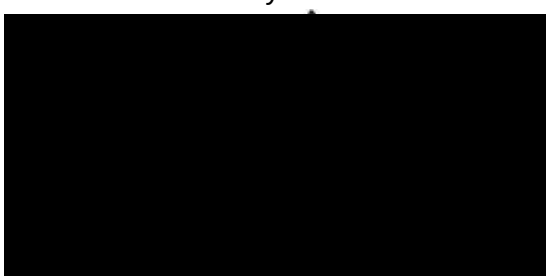
Conclusion

The Authority's proposed approach to assessing a fair and reasonable value of PV exports – by assessing the difference between the price that a retailer can charge for the on-sold electricity and the costs that it cannot avoid – is a sensible approach. It allows for a FIT to be determined that is reflective of COAG principles and is likely to avoid repeating the mistakes of excessive premium FITs that have been implemented by many states and territories.

While quantifying the value of solar PV is important, the manner in which this price is implemented will be critical to avoiding any further market distortions and extra burdens on participants. To this end, the esaa considers that a light-handed approach that allows the market to determine the fair and reasonable value for energy supplied from small scale solar PV, is appropriate. This would allow for the development of competition in the sector and avoid the deleterious impacts of heavy-handed regulatory approach.

Any questions about our submission should be addressed to Kieran Donoghue, by email to kieran.donoghue@esaa.com.au or by telephone on (03) 9205 3116.

Yours sincerely



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