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Queensland Competition Authority
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Brisbane QLD 40001

By e-mail: electricity@qca.org.au

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

Origin Energy (Origin) welcomes this opportunity to respond to the Queensland Competition Authority's (the Authority's) issues paper on estimating a fair and reasonable feed-in tariff (FIT).

As a major electricity retailer and seller of solar PV systems in Queensland, Origin has a strong interest in the future of FIT policy. Origin believes national consistency remains an important element of state-based FIT schemes given the costs imposed by the numerous schemes now in place across most Australian jurisdictions. As such, any future arrangements for a fair and reasonable FIT should be light-handed in nature and reflect arrangements in other jurisdictions where appropriate.

Origin believes that there is an active market for voluntary FITs in Queensland at present and does not consider there is any evidence of market failure. As such, a voluntary benchmark range of FITs (as applied in New South Wales) would be the most appropriate form of regulation. Such a mechanism would provide guidance to consumers and retailers on the value of a fair and reasonable FIT.

With respect to discussion of the sharing of the costs of the existing Solar Bonus Scheme, (SBS) Origin believes that imposing these costs on retailers will be to the detriment of consumers and therefore should not be recommended. This approach will result in additional costs on the competitive elements of the electricity supply system with the effect of reducing competition, which will harm consumers. Furthermore, this impact will be long-lasting given the SBS continues until 2028.

Origin also notes that any proposal to share retailer margin with FIT customers will likely reduce incentive for retailers to market to these customers.

We respond further to specific matters identified in the issues paper below.

Origin would welcome further discussion on the matters raised in this response. Please contact me in the first instance.

Yours sincerely

[SIGNED]

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Response to specific matters raised in the issues paper

3.1 Defining fair and reasonable

(a) How should the term fair and reasonable be interpreted? Should it be interpreted as a subsidy-free value that reflects the benefits to retailers of electricity generated from small-scale PV generators? If not, how should it be interpreted and why?

(b) Should the Authority include the benefits associated with PV exports to other parties (all customers and distribution entities) in setting the fair and reasonable value? Why?

(c) Are there any other issues that the Authority should consider in interpreting the term fair and reasonable value?

Origin agrees that the term fair and reasonable should be interpreted as a subsidy-free value reflecting the benefit of the energy exported (on a net basis) to the grid and effectively purchased by retailers.

COAG's first National Principle (set out on page 7 of the issues paper) has been misinterpreted by some, particularly with respect to:

> …require market participants to provide payment for that export which is at least equal to the value of that energy in the **relevant electricity market** and the relevant electricity network it feed in to, taking into account the time of day during which energy is exported.

"Relevant electricity market" is the key phrase in the first principle. Many stakeholders consider that fair and reasonable should be interpreted to mean the full retail cost of electricity as the basis of the FIT. As the Authority and other regulators (including IPART and ESCOSA) have recognised, the full retail tariff for electricity includes costs that cannot be recovered by retailers such as use of system charges and retail operating costs (recognised by the Authority in the issues paper). As such, these costs should not be included in a market-based value of energy. In Victoria under the standard FIT scheme, the principle of fair and reasonable was interpreted to mean that the FIT should be to the price of electricity used by a customer (a one for one tariff). As a result, the standard FIT scheme has become a costly burden for retailers, who are unable to recover the unavoidable cost that the "one for one" FIT requires.

In contrast, Origin supports the general approach taken by the Authority, in particular in assessing the "relevant electricity market" (or alternately, the elements of the electricity supply chain that are under the influence of retailers, if a fair and reasonable FIT is to funded by them).

Origin agrees with the Victorian Competition and Efficiency Commission (VCEC) assessment that ideally, a fair and reasonable market based FIT would include use of system benefits to distribution businesses also, but like the VCEC, considers inclusion of such benefits problematic.[1] Over time, such benefits are likely to be better identified and managed through assessment by the Australian Energy Regulator (AER).

[1] Queensland Competition Authority (2012), *Estimating a Fair and Reasonable Value for Feed-in Tariffs: Issues paper*, page 8.

In terms of other issues the Authority may consider in recommending what is meant by a fair and reasonable value, Origin would contend that the fair and reasonable value be discounted in order to accommodate the unique features of energy that is exported to the grid from small embedded generators. These features have not been considered in other reviews to date and include:

- The "must run" nature of some embedded generation (particularly solar PV) and the obligation on retailers to purchase this as the financially responsible market participant. This contrasts with the wholesale market for contracted energy where retailers can specify the source, volume and timing of contracted supply.
- The individual contract position of retailers themselves, which are unique. Given choice, some retailers may prefer to pay less than others for embedded generation based on their contract position.

These risks should be recognised when defining what is meant by fair and reasonable.

3.2 Estimating the fair and reasonable value of PV exports

(a) Has the Authority correctly determined which costs a retailer can avoid when on-selling PV exports?

(b) Is it reasonable to use cost estimates from notified prices to determine the feed-in tariff? If not, which cost estimates should the Authority consider using?

(c) What proportion of distribution losses are avoided when PV exports are on-sold?

(d) Is it reasonable to split retail margin and headroom between the retailer and the PV exporter? What are some of the considerations in providing a greater proportion of the costs to either party?

(e) Is it fair and/or reasonable to have different FIT based on geographical locations in a market with the Uniform Tariff Policy in place? What are some of the benefits or complications of creating geographically based FIT?

(f) What other issues should the Authority consider in determining the fair and reasonable value of PV exports?

With respect to part (a) of the questions contained in section 3.2 of the issues paper, Origin believes the Authority has identified the relevant costs a retailer can avoid when on-selling exports. However we do not consider that sharing of retail margin should be allocated as part of a fair and reasonable FIT. The sharing of such margin could perversely incentivise retailers to not offer FIT products (or not seek to increase penetration of FIT products) if the retail margin for these customers is less than other customers.

Origin does not object in principle to using notified prices as the basis of cost estimates for a fair and reasonable FIT range or benchmark (should that form of regulation apply), notwithstanding our comments on the retail margin above.

In response question (d) above, applying the retailer's margin to the FIT is likely to reduce the level of competition among retailers for customers with eligible generation

and the range of voluntary FITs that may be offered. This is because of the reduction in the flexibility afforded retailers when determining FIT offers, knowing that they must also share a portion of their existing retail margin.

With respect to question (e), a different FIT based on geographic location will increase retailer cost and complexity and may not be in the best interests of consumers. Origin believes that competition should determine whether geographic FITs are desirable to consumers and retailers rather than have such outcomes mandated.

4.1 Form of regulation

(a) What form of regulation should be applied when implementing a fair and reasonable feed-in tariff in Queensland? Alternatively, should the fair and reasonable tariff be determined by market competition alone, without regulatory intervention?

(b) Which regulatory approach is most appropriate to support competition in the Queensland electricity market, while recognising the need for certainty for small PV system owners?

(c) What evidence is available of the number of solar PV customers receiving voluntary feed-in tariff premiums in Queensland? Does the level of these tariffs represent a fair and reasonable value for the electricity exported by solar PV customers?

(d) What, if any specific arrangements might be required when implementing the fair and reasonable feed-in tariff in the Ergon Energy distribution area? In particular, should different forms of regulation be used in the Energy and Ergon Energy network areas?

(e) Are there any other factors (besides the competitiveness of the electricity market) that the Authority should consider in determining an appropriate form of regulation to apply in Queensland?

Origin believes with respect to question (a), that given there are voluntary offers in the market today, the case for regulation of a fair and reasonable FIT is limited as there is no evidence of market failure. Origin would recommend that the Authority allow the market to determine a fair and reasonable FIT in the first instance, monitor and review the performance of the market following a period of time.

In terms of certainty, Origin has been offering its voluntary premium FIT for more than three years and has no plans to change this. Secondly, a future fair and reasonable FIT based primarily on the value of energy will not be the primary driver of investment certainty. The principal source of uncertainty for solar PV investors has been frequent changes in policy settings (noting that this has been less of an issue in Queensland and South Australia where the FIT schemes have been more stable).

In regard to question (c), all of Origin's electricity customers on the $0.44/kWh FIT receive a voluntary FIT in addition to the prescribed amount. As the largest electricity retailer in Queensland, Origin believes this is clear evidence that voluntary FIT payments are widely available, at least in south-east Queensland. Origin believes that this level reflects a fair and reasonable value of the electricity exported.

Origin does not have any specific comment on question (d) in section 4.1.

Origin does not believe there are other factors to consider when determining the form of regulation of a fair and reasonable FIT outside of competition in the retail market, particularly given the voluntary FITs offered currently by retailers.

4.2 Metering arrangements

(a) Is a net or gross metering arrangement most appropriate in Queensland, and why?

(b) Are the benefits to retailers different under net and gross metering arrangements?

(c) Are there any other factors the Authority should consider when recommending an appropriate metering arrangement?

Origin believes that net metering remains the most appropriate metering solution for customers with embedded generation in Queensland. This view is based on:

- The higher cost of physically installing gross metering (direct wiring of embedded generation to a second element and the requirement for multi or two-element metering) – this could impose a cost of $500 per site;
- The fact that more than 190,000 Queensland customers are already on net metering arrangements under the existing SBS;
- The benefit of nationally consistent approaches (New South Wales does not require mandatory gross metering for their new FIT arrangements, Victoria and South Australia apply net metering); and
- The energy efficiency incentives that are built in to net metering are either absent or significantly muted under gross metering where a fair and reasonable FIT is primarily comprised of avoided energy costs.

The impact on network revenue from net metering is likely to be negligible for customers covered under the new FIT scheme in Queensland.

Moreover, it is unclear to Origin why solar PV customers alone should be required to compensate for what is fundamentally a phenomenon driven by the framework for the economic regulation of distributors. If a limited number of new net metered customers generate (a modest) increase in network under-recovery, the remedy lies in correcting the approach to network pricing, rather than singling out the need to change metering arrangements for customers with embedded generation.

To the extent network revenue is under-recovered due to customers with net metering avoiding grid-related charges on a $/kWh basis, Origin suggests the AER and the distribution businesses examine mechanisms to correct this, rather than recommend a wholesale change in the established approach to measurement of solar exports to the grid.

In terms of whether benefits to retailers differ under gross and net metering, there are a range of factors that may result in such differences:

- Under gross metering, retailers collect higher revenue relative to net metering, since the customer's generation will flow back through their consumption meter when demand in the premise exceeds output from the system;
- This applies equally to distribution businesses.

- Retailers have greater FIT obligations under gross metering.
- Retailers have lower turnover under net metering, but also face lower FIT obligations. Distributors also receive less revenue under net metering.

In recommending appropriate metering to accompany a fair and reasonable FIT, Origin would ask that the Authority have regard to the following factors:

- The additional costs of gross relative to net metering;
- The attractiveness of solar PV investment under gross and net metering to consumers; and
- Arrangements in other jurisdictions and the metering scheme applying to existing SBS customers in Queensland and if the intent of the recommendations would extend to retrospective changes to these customers also.

As discussed, if there are other concerns with respect to network recovery, these are better addressed through network rules, rather than metering rules applying to distributed generation.

4.2 Review of the fair and reasonable value

(a) How often should the fair and reasonable value be updated?

(b) Should the Authority recommend a flexible review mechanism which allows updating the value in response to relevant changes and developments?

(c) If a flexible review mechanism is recommended, what criteria should be applied when deciding if an update to the value is necessary?

(d) What are the implications for the current review of a potential transition to a national feed-in tariff established through COAG processes?

Origin agrees with the Authority's view that there are trade-offs between administrative simplicity (and a lower regulatory burden) and providing a mechanism that is flexible enough to account for changes in estimates of the fair and reasonable FIT. If a light-handed monitoring approach is applied, the Authority would have the flexibility to compare competitive market outcomes against a determination of a reasonable range of fair and reasonable FITs.

Origin does not consider that the market for voluntary FITs has failed; therefore the need to prescribe the review mechanism is unnecessary. However, should a more prescriptive form of regulation be required, a flexible and multi-year setting of the fair and reasonable value should be considered.

An update to any value should account to material changes in energy costs for retailers, noting that there is often a significant lag in such changes flowing through due to long-term contract positions.

However, in general, Origin considers that contemplating mechanisms to update a regulated (and mandated) fair and reasonable FIT are contingent on first establishing if there is or is not an effective market for FITs offered by retailers on a competitive basis.

In relation to question (d), the Authority is in a unique position to arrive at recommendations that most closely match arrangements already determined in other jurisdictions, given the current review is the last to be undertaken in the major NEM regions. As such, while Origin supports the closely consistency evident in New South Wales, South Australia and Victoria, Queensland is in a position to align closely with recent changes. Queensland and Victoria have a clear transition period and New South Wales is reviewing the fair and reasonable FIT on an annual basis. Origin believes the Authority should take the opportunity to maximise alignment with the new schemes recommended (or implemented) in other jurisdictions.

5.1 Higher than expected costs for Queensland distribution businesses

Origin cannot provide specific information on forecast new connections for solar PV systems, however as a retailer of solar PV systems, has seen clear evidence of reduced numbers of customers installing embedded generation.

5.2 Equitable sharing of scheme costs

(a) What factors should the Authority consider to ensure the costs of the Solar Bonus Scheme are equitably distributed?

(b) Is it appropriate for retailers to contribute to the ongoing costs of the existing Solar Bonus Scheme? If so, how should that contribution be estimated?

(c) Are there any other issues that the Authority should take into account in setting an appropriate retailer contribution to the Solar Bonus Scheme?

(d) What other options should the Authority consider for minimising the costs of the existing Solar Bonus Scheme?

Origin notes that the existing SBS is funded by all customers via increased network use of system charges.

In regard to the possibility of cost sharing of the SBS, Origin believes that it is not acceptable to impose these costs on retailers. The imposition of additional costs on the competitive elements of the electricity supply system will reduce competition, which is to the ultimate detriment of consumers.

With respect to question (b) in section 5.2 of the issues paper, Origin does not consider it appropriate for retailers to contribute to the ongoing costs of the existing SBS. The 44 cent per kWh net FIT legislated in Queensland was chosen as an appropriate subsidy to encourage the take up of solar PV systems. In good faith, retailers, including Origin, have added to this with voluntary premiums, reflecting the commercial value of the energy provided by our customers. In addition, customers have invested in systems on the basis that these premiums would be made available and would continue.

A new obligation on retailers to provide a mandatory contribution to the existing SBS may result in the withdrawal of voluntary premiums currently paid by a number of retailers.

As discussed elsewhere in this response, the Authority should consider the impact on competitive market outcomes for existing SBS customers. Retailers may not as actively

seek out customers where an obligation to contribute to the cost of the existing SBS is present, potentially until 2028.

A theme through the issues paper is the inadequacy of volume-based network pricing to recover actual network costs and that net metered customers with embedded generation can amplify this inadequacy. To more fairly distribute the costs of the existing SBS, the Authority should recommend that the AER and distributors examine opportunities for more efficient network pricing. This has been contemplated by the Australian Energy Market Commission (AEMC) also under its 'Power of Choice' (Demand Side Participation part 3) review.[2]

Beyond the costs of the existing SBS (as a component of distribution network use of system charges), there are broader reform opportunities to encourage more equitable outcomes for customers (based for example on their contribution to capacity constraints on the network). These issues go beyond the impact of solar PV customers on the grid and the cost of the existing SBS, whose policy parameters are outside of the control of retailers. Therefore, Origin believes that the Authority should consider opportunities to address pricing reform to meet the objectives set out in the Terms of Reference from the Minister through the current Demand Side Participation review being undertaken by the AEMC and explore the matter further with the AER in relation to feed-in energy.

[2] AEMC (2012), *Draft Report – Power of Choice – giving consumers options in the way they use electricity*, page v.