

23 April 2025

Mr Charles Millsteed Chief Executive Officer Queensland Competition Authority GPO Box 2257, Brisbane Qld 4001

Web address: www.qca.org.au/submissions

Dear Mr Millsteed,

## RE: Regional Queensland feed-in tariff 2025–26 – Draft Determination

Origin Energy (Origin) appreciates the opportunity to provide a submission in response to the Queensland Competition Authority's (QCA) Draft Determination for the 2025-26 Regional Queensland feed-in tariff (FiT).

The QCA's FiT decision is important in striking a balance between setting a rate that provides consumers with a fair and reasonable price for their exported solar energy with a rate that does not act as an impediment to new market entry which would ultimately offer greater choice and consumer benefit.

Origin supports the proposed inclusion of solar export data in the QCA's wholesale energy cost (WEC) calculation. Solar PV customers are like other generators who sell electricity on the wholesale market where the value of exports is dependent on the wholesale spot prices for energy at the times of those exports. The avoided cost reflects the price the PV exports would receive if they could be sold on the wholesale market at the time they were exported.

Origin recognises that given the historical absence of smart meter technology has meant that the QCA applied an approach where the feed-in tariff has been based on an average over the day. We accept that at the time this was a fair assumption. However, there has been a growing penetration of smart meters in the Ergon network to the point where we believe there is sufficient load data to determine the value of wholesale electricity based on the wholesale spot price available to retailers at the time of export. This could be undertaken consistent with how IPART calculate feed-in tariffs in New South Wales.

The QCA's wholesale price methodology results in a price that is higher than the observable wholesale market price or that could feasibly be provided by a potential competing retailer. Setting tariffs that reflect the actual market value of energy will place all retailers on an equal footing and remove a key impediment to retailers seeking to enter the regional market.

These issues are discussed in further detail below.

## QCA feed-in tariff methodology

The Minister's direction (and terms of reference) requires the QCA to use the general 'avoided cost' methodology applied for previous tariff years from 2014-15 onwards to determine the flat rate FiT.<sup>1</sup>

Historically, the QCA has assumed that the value of any exported PV energy is equal to the financial benefit a retailer derives from on-selling electricity exported by PV customers to the network. We acknowledge that given the role of Ergon Retail as a monopoly provider, the absence of smart meter technology, and the application of regulated retail tariffs this was a fair assumption.

However, since that original decision there has been a growing penetration of smart meters in the Ergon network as well as emerging interest from retailers wanting to enter the Ergon market. For these reasons, we contend that the QCA should now focus on the avoided cost of solar PV exports to a retailer, not the financial benefit accruing to Ergon Retail.

### Avoided Cost

In practice, the value of solar exports fed into the grid is a function of wholesale spot prices for energy at the times of those exports. When solar is exported back into the grid retailers trade these exports with AEMO, receiving the wholesale spot price at the time. For this reason, the wholesale spot price is the relevant avoided energy cost in relation to the marginal unit of solar PV generation.

The WEC calculation should reflect the value that customers with small-scale solar PV would receive if they sold their exported energy into the wholesale spot market in the same way that large scheduled generators do. Failure to adjust the wholesale price for the timing of exports results in a wholesale price that does not reflect the actual price received for exports in the market and is likely to overestimate the costs a retailer can avoid due to solar exports.

In developing its FiT methodology, the QCA previously argued that it was not possible to identify each individual customer's solar PV exports for each half-hour settlement period and that AEMO settlement was constrained by the relevant NSLP.<sup>4</sup> Half-hourly solar PV export data is now available from AEMO for a significant cohort of Queensland customers. Similar to approaches in other jurisdictions, we consider the QCA can utilise this data to develop a WEC that is representative of prices when solar is exporting to the grid and therefore reflect the actual avoided WEC faced by retailers.

### Impact on Competition

The current FiT calculation deters the development of retail competition in the Ergon network. Solar exporting customers in regional Queensland are receiving a wholesale price that is likely higher than the observable wholesale market price or that could feasibly be provided by a potential competing retailer. Increased PV penetration and the growth in exports during the day mean the divergence between the QCA calculated wholesale price and the market-based wholesale price for exports will continue to grow.

A benchmark feed-in tariff that is greater than the value of solar means that customers with rooftop solar would have to be cross-subsidised by other customers since retailers would have to recover this cost somehow. Alternatively, retailers would be forced to offer solar customers market contracts with lower discounts than those offered to non-solar customers. Requiring retailers to pay more for the energy from solar exports than what they are able to acquire from the NEM represents a significant impediment to the development of retail competition.

### Regulated feed-in tariffs in other Australian jurisdictions

Feed-in tariffs are regulated in both NSW and Victoria. In NSW, IPART sets an annual benchmark range, while in Victoria, the ESC estimates a minimum annual FiT. Both use an avoided cost methodology that

<sup>&</sup>lt;sup>1</sup> Ministerial Direction to the Queensland Competition Authority - solar feed-in tariff 2025-26, 20 December 2024.

<sup>&</sup>lt;sup>4</sup> QCA, Estimating the Fair and Reasonable Value of PV Exports to the Retailer – Final Report, March 2013, p.15.

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values the cost of wholesale electricity based on the wholesale spot price at the actual times of solar exports.6

The ESC adjusts the wholesale electricity price to reflect the average wholesale price when most solar exports occur. In doing so, the ESC indicates that the minimum feed-in tariffs reflect the value of solar exports at the time they are exported to the grid. This is consistent with how other generators renewable or fossil fuel derived – operate in the NEM.<sup>7</sup> The ESC indicates that the wholesale spot price corresponds to the marginal energy purchase cost that is avoided by an electricity retailer when one of its embedded generating customers exports an additional unit of electricity into the grid.8

Similarly, from 2014, IPART adopted the wholesale market value method, which involves calculating the price the PV exports would receive if they could be sold on the NEM at the time they were exported.9 IPART previously used a combination of the direct financial benefit that retailers receive i.e. a retail market approach, and the wholesale market value reflecting the time PV exports were exported. IPART's terms of reference were revised in 2014 requiring IPART to consider only estimates derived using the wholesale market value method.<sup>10</sup> IPART indicated that the direct financial gain to retailers' method is no longer referred to because it does not estimate the value 'at the time of day of export' and therefore does not comply with the revised National Principles for Feed-in Tariff Arrangements.<sup>11</sup>

While half-hourly data was not widely available in NSW at the time of its 2014 FiT decision, IPART utilised available half-hourly PV exports for the Ausgrid network area to determine the avoided WEC. Specifically, IPART used historical PV export (from Ausgrid) and half-hourly spot price data (from AEMO) to simulate a large number of possible outcomes for the wholesale market value in 2014-15.12 In its recent 2025-26 FiT draft report, IPART use the last 3 years of solar export volume-weighted ("solarweighted") average prices to set the range for estimating the wholesale value of solar in the benchmark year.13

In recent years, the FiTs in NSW and Victoria have been substantially below the regional Queensland FiT. This primarily reflects the inclusion of the timing of PV exports in the WEC calculation, with peak solar exports occurring when wholesale electricity prices are their lowest.<sup>14</sup> The ESC predicts the value of its FiT will continue to fall as more residential solar is installed.<sup>15</sup> Table 1 provides a comparison of the regulated flat-rate FiTs in the three jurisdictions since 2020-21.

Jurisdiction	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Regional Qld	7.86	6.58	9.3	13.44	12.38	8.69*
NSW (benchmark)	6.0 – 7.3	4.6 – 5.5	6.2 – 10.4	7.7 – 9.4	4.9 - 6.3	4.9 - 7.4*
Vic (minimum)	10.2	6.7	5.2	4.9	3.3	0.04

# Table 1: Jurisdictional regulated feed-in tariffs (c/kWh)

\* Draft Decision.

<sup>&</sup>lt;sup>6</sup> Up to 2024-25, IPART apply a solar multiplier to the forecast average wholesale electricity spot price. For 2025-26, IPART proposes to use historic average solar-weighted wholesale prices The ESC weight forecast spot prices by the value of solar exports at different times of the day.

 <sup>&</sup>lt;sup>7</sup> Essential Services Commission, 'Minimum Electricity Feed-in Tariffs from 1 July 2025 – Final Decision' 27 February 2025, p.11.
<sup>8</sup> Essential Services Commission, 'Minimum Electricity Feed-in Tariffs for 2014 - Final decision', August 2013, p.1.

<sup>&</sup>lt;sup>9</sup> Independent Pricing and Regulatory Tribunal, 'Solar feed-in tariffs - The subsidy-free value of electricity from small-scale solar PV units from 1 July 2014 - Final Report', June 2014, p.2.

<sup>&</sup>lt;sup>10</sup> Minister for Resources and Energy, Special Minister of State, Terms of Reference – Investigation and Determination by IPART of a retail benefit component and benchmark range for feed-in tariffs', 25 March 2014.

<sup>&</sup>lt;sup>11</sup> Independent Pricing and Regulatory Tribunal, 'Solar feed-in tariffs - The subsidy-free value of electricity from small-scale solar PV units from 1 July 2014 - Final Report', June 2014, p.8.

<sup>&</sup>lt;sup>12</sup> Ibid., p.22.

<sup>&</sup>lt;sup>13</sup> Independent Pricing and Regulatory Tribunal, 'Solar feed-in tariff benchmark range methodology – Draft Report', February 2025,

p.6. <sup>14</sup> See for example, Essential Services Commission, 'Minimum Electricity Feed-in Tariffs from 1 July 2025 – Final Decision' 27 February 2025, p.14. <sup>15</sup> Essential Services Commission, 'Minimum Electricity Feed-in Tariffs from 1 July 2025 – Final Decision' 27 February 2025, p.18.

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#### Conclusion

By choosing not to incorporate the timing of solar exports in the QCA calculation, solar exporting customers in regional Queensland are receiving a wholesale price that is higher than the observable wholesale market price or that could feasibly be provided by a potential competing retailer. Setting tariffs that reflect the market value of energy will provide an opportunity for retailers to enter the Ergon network providing enhanced customer choice and associated benefits.

Regulated FiTs in Victoria and New South Wales adopt a true avoided cost methodology where the avoided WEC for solar exports reflects the wholesale spot price. This results in lower FiTs in these jurisdictions compared to regional Queensland. Given the availability of half-hourly solar PV export data from AEMO we consider there is no impediment to the development of a WEC estimate for the QCA's FiT that similarly reflects the value of the WEC at the time solar is exported.

To reflect the actual avoided cost faced by retailers and foster competition in regional Queensland, we consider that the QCA's FiT calculation should incorporate a WEC estimate that reflects the price of PV exports when those exports occur.

If you have any questions regarding this submission, please contact Gary Davies in the first instance at <u>gary.davies@originenergy.com.au</u>.

Yours sincerely

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