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

The Energy Supply Association of Australia (esaa) welcomes the opportunity to make a submission to the Queensland Competition Authority's (the Authority) Draft Report 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.

The esaa made a submission to the Authority's Issues Paper welcoming the decision to assess a fair and reasonable small scale solar photovoltaic (PV) feed-in tariff (FIT) for Queensland. The significant and arbitrary premium FITs offered under the Queensland Solar Bonus Scheme (the Scheme) led to dramatically quick rates of uptake that have contributed to electricity price increases and put pressure on electricity networks to maintain voltage levels.

In its submission to the Issues Paper, the Association noted the risks of mandating specific retailer payments and the benefits of a light handed regulatory approach. To this end, the Association considers the Authority's findings with respect to determining and implementing a fair and reasonable FIT to be broadly sensible. In particular, the finding that there is no persuasive evidence to justify a regulated minimum solar FIT in South East Queensland is encouraging and evidence of the benefits of robust retail competition.

With respect to rural Queensland, the Authority advises that a lack of retail competition in the Ergon Energy distribution area was the basis for recommending mandated minimum FITs ranging from 6.07c/kWh to 12.45c/kWh. The rational for applying different FIT levels across a State that implements a Uniform Tariff Policy (UTP) is not immediately clear. In particular, it would seem there is an inherent inconsistency with mandating higher FIT payments in a region that is already heavily subsidised under the UTP. The Association considers that this issue could be alleviated to some degree by applying the Government's Community Service Obligation (CSO) payment to Ergon Energy at the distribution level, enabling retail businesses to compete for customers and removing the need for mandated FIT payments in the future.

Consistent with the Ministerial Direction, the Draft Report also gives consideration to the costs of the existing Scheme and options by which to minimise or more equitably share these costs. The Authority considers the costs of the Scheme should not be funded solely by distributors as this approach fails to recognise benefits to retailers and creates costs for the distribution businesses that are inequitably recovered through higher electricity prices for all consumers. To address these factors and ameliorate any resultant impact on electricity prices, the Authority suggests the following:

- Electricity retailers should contribute to the ongoing costs of funding the 44c/kWh and 8c/kWh FITs until their statutory end dates.

- There may be scope for distribution businesses to establish new, cost-reflective network tariffs for PV customers to ensure these customers are charged their full fixed network costs.

The decision to implement a premium solar FIT was made by the previous Queensland Government against the explicit advice of the energy industry. The most appropriate way to fund the Scheme was to take it on budget, ensuring that the Government bore the financial impact of its policy decision. Given that it decided to impose the costs on the energy sector – and thus ultimately energy customers, the least-worst option was to recover costs through regulated distribution network tariffs. This avoided imposing a direct liability on electricity supply businesses, except to the extent that distribution network businesses had to carry the costs of funding the scheme before recovering these costs through their regulated tariffs.

To the extent that the broader costs and inefficiencies of premium FIT schemes are now becoming more apparent, the esaa maintains the view that electricity retailers should not be required to bear any costs associated with this policy choice. In this respect, should the Queensland Government seek to recover a portion of the existing Scheme costs from electricity retailers, the Association agrees with the Authority's view that any retailer contribution should not exceed the real value to the retailer of the PV exports. Given that this cost sharing arrangement will likely result in voluntary market offerings being reduced or withdrawn, parties on both sides will need to be protected from any change to their current arrangements.

It is also important that distribution network businesses should not be required to bear the costs of the Scheme, but should be allowed to pass them through to customers. In the event that network charges are constrained by regulation or government intervention over and above that imposed through the Australian Energy Regulator (AER) there is a risk that they will find themselves unable to fully recover the costs of the scheme.

The esaa considers that the Authority has raised a valid point with respect to the equitable allocation of costs through more appropriate network tariffs. Though there was an immediate and public response from the Queensland Government opposing the application of a specific fixed charge for solar PV customers, there is certainly merit in giving further consideration to the appropriateness of distribution network charges more broadly. Over time, the increased penetration of distributed generation (particularly solar PV), coupled with anticipated improvements in network utilisation through time-of-use pricing, may necessitate revisions to current network tariff structures to ensure that costs are equitably recovered from all customers.

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

[redacted]

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