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Dear Mr Hall

## **Submission on the QCA's Draft Report – *Estimating a Fair and Reasonable Feed-in Tariff for Queensland***

Ergon Energy Corporation Limited (EECL) and Ergon Energy Queensland Pty Ltd (EEQ), collectively referred to as Ergon Energy, welcome the opportunity to provide a submission to the Queensland Competition Authority (QCA) on its *Draft Report: Estimating a Fair and Reasonable Solar Feed-in Tariff for Queensland* (the Draft Report). This submission which is available for publication 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.

Ergon Energy supports this review and has long advocated a need to consider and identify the costs associated with solar photovoltaic (PV) generation. Ergon Energy has also strongly advocated in the past for consideration about how the costs of the Solar Bonus Scheme might be more equitably shared heading into the future. Ergon Energy is supportive of the majority of the QCA's positions outlined in the Draft Report. However, there are a few matters that Ergon Energy wishes to provide additional comments on. More detail regarding these matters is provided below:

- Options for equitable sharing – Ergon Energy notes that the QCA in its Draft Report encouraged both Ergon Energy and Energex to consider implementing a new and cost reflective network tariff. Ergon Energy believes that DNSPs should have discretion to determine their own network tariff structures and set network tariffs that most efficiently reflect their cost of supply. Ergon Energy is currently undertaking a review of its Network Tariff Strategy and will investigate innovative network structures as part of this review.

However, in this regard it is noted that EECL has an obligation to satisfy the distribution pricing requirements under the National Electricity Law and the National Electricity Rules (the Rules). Clause 6.18.4(b)(4) of the Rules (which requires customers with micro-generation facilities to be treated no less favourably than customers without such facilities but with a similar load profile) may restrict the establishment of 'a new and cost reflective network tariff for PV customers'.

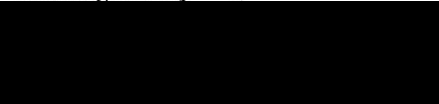
- Impact of PV generation on retail hedging costs - Ergon Energy does not agree with the QCA's view that there is a not strong argument that PV generation materially impacts hedging costs. We note that this view is based on Ergon Energy's admission that PV exports only represent 0.4% of the total energy delivered on the network and ESCOSA's view that, all else being equal, there is no reason to conclude that solar PV increases a retailer's hedging costs. Ergon Energy suggests that a different view might better highlight the increased volatility, load shape change and risk

associated with solar PV generation. The different view is to consider the impact of solar PV generation from a kW capacity view rather than the kWh volume view which is represented by the 0.4% of the total energy delivered on the network. For example, network capacity had a maximum peak of 2,285MW in January 2010 and on a 'normal' day would have a peak capacity of around 1,700 MWs. Comparing these actual peak capacity usage numbers to the total solar PV capacity in the Ergon Energy network of approximately 188 MW, the solar PV capacity represents around 10% of the actual peak capacity usage. In Ergon Energy's view, these numbers highlight the potential impact that can occur from solar PV generation with the associated risks and financial derivatives that are needed to manage the sporadic generation profile and load shape change that solar PV creates on the network. This means the 0.4% number may be misleading when compared to the peak capacity to installed solar PV capacity ratio.

- Ergon Energy National Electricity Market Zones - Ergon Energy agrees with the QCA's methodology for the calculation of loss factors for the feed-in tariff. However, while our attempts to replicate the QCA's methodology yielded similar results we did observe some inconsistency. Ergon Energy would welcome further discussion with the QCA on this issue.
- Isolated and Remote Networks – Ergon Energy notes the QCA's understanding that Ergon Energy uses a number of technologies to supply electricity to these networks. To avoid any confusion, Ergon Energy provides further clarity by confirming that we predominately supply these networks from diesel power stations. However, Ergon Energy also operates solar, wind and a geothermal power station in addition to the diesel power stations, at a few of the isolated communities.

Should you require additional information or wish to discuss any aspect of this submission, please do not hesitate to contact either myself on 07 4092 9813 or Trudy Fraser on 07 3228 2144.

Yours sincerely



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