



21 December 2012

Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001

Draft Report- 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 QCA's) draft report on the estimate of fair and reasonable solar feed-in tariffs (FITs).

As a major electricity retailer in the Queensland market, Origin serves a significant number of customers with solar PV systems covered by the Solar Bonus Scheme (SBS).

While Origin is supportive of the light-handed approach to the regulation of future FIT arrangements in Queensland (the 'fair and reasonable rate'), we are concerned that retailers, who had no influence in managing the size of the scheme, will now be asked to contribute to the cost of the now closed SBS. Shifting cost recovery from increased network use of system charges to retailers will simply substitute the source of cost recovery. To the extent that a mandatory retailer contribution exceeds existing premium payments over the life of the scheme until 2028, retailers will face increased costs given that Origin considers its existing premium payments a proxy of the financial benefit of solar PV exports.

Origin accepts that determining more equitable sharing of the SBS costs was a specific element of the Terms of Reference, however, the mechanism proposed is likely to result in higher administrative costs than the current cost recovery mechanism (via distribution networks), is a result of risks that were and are beyond the control of retailers and will not reduce the overall cost of the scheme over its life, but is likely to increase it. For these reasons, Origin believes that the current cost recovery approach be retained.

While Origin does not support a mandatory retailer contribution to the SBS, to the extent a mandatory retailer contribution to the cost of the SBS is recommended and adopted by the Government, Origin would support the QCA's suggestion that this be set lower than the benchmark estimate of a fair and reasonable FIT.

Origin supports a market-based benchmark for future FITs. This light-handed approach allows the competitive market to determine fair and reasonable FITs and provides the flexibility to retailers to offer a range of innovative products in conjunction with a FIT offer associated with an electricity supply contract.

Specific comments on the position and conclusions put forward by the QCA in the draft report are set out below. We would welcome further discussion in relation to our comments. In the first instance, please contact me.

Yours sincerely

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Scheme background

Origin notes the growth in the SBS since its introduction in July 2008. The scheme had a cap of 8MW of installed capacity, which has been breached by a significant order of magnitude. A review was required once the scheme capacity had reached this level and effective monitoring of the installed capacity did not take place. Given this, Origin does not believe it is accurate to suggest that the 505MW of installed capacity was unexpected when controls and reviews should have been applied long before the scheme capacity arrived at this level.

Given this context, Origin does not believe it is equitable to now propose that retailers fund the scheme given they had no influence over its management or the magnitude by which it grew.

Defining a fair and reasonable value for PV exports

Origin agrees with a number of the conclusions drawn by the QCA in chapter 3 of the draft report, including that fair and reasonable value be considered the direct financial benefit to retailers from on-selling electricity generated by their customers.

Estimating a fair and reasonable value for PV exports

Origin supports the QCA's efforts to examine the approaches undertaken in other jurisdictions to determine the components of a fair and reasonable FIT for PV exports and generally agrees with the reasoning the QCA has applied to reach its draft decision (set out in section 4.10 of the draft report). A degree of consistency has emerged through the reviews that have been undertaken in the last 18 to 24 months as FIT policies within each jurisdiction have been re-evaluated. Origin believes the QCA has incorporated findings in other jurisdictions and applied these consistently in the context of the Queensland retail electricity market.

Implementing a fair and reasonable FIT

Origin strongly supports the QCA's position that a mandated fair and reasonable FIT is not necessary given the competitiveness of the South East Queensland electricity retail market.

Metering arrangements

Origin supports the recommendation of net metering for future FIT customers. While Origin understands the concern that net-metered customers with embedded generation avoid a proportion of network costs, this issue centres on the variable price structure recovering largely fixed distribution network assets. If solar PV generation was thought of as demand-side management, the customer is simply avoiding network costs through having lower consumption than it would have otherwise been in the absence of the activity. Origin supports a move to more cost-reflective network pricing over time in order to send appropriate signals to customers that accurately allocate their contribution to the capacity of the network. We recognise this is part of a broader discussion and is relevant to other jurisdictions also. We would also reiterate comments made previously in on page 5 of our submission to the issues paper.

Process for ongoing review

Based on review processes adopted in other jurisdictions and the reasoning put forward by the ACA on pages 41-42 of the draft report, Origin considers an annual update of a benchmark value is appropriate.

Equitably sharing the on-going cost of the Solar Bonus Scheme

Origin does not agree with the QCA's assessment in section 6.3 of the draft report that currently:

...the windfall gain retailers receive from free PV energy is not recognised.¹

While the QCA may not concur, Origin considers that the primary reason it makes voluntary additional payments at present is to reflect the commercial value of the energy exported into the grid by its customers. As noted by the QCA, different retailers ascribe a range of values to the level of the premium. Therefore, the energy provided is not "free" as the QCA puts it.

In terms of the recovery of scheme costs via distribution networks, this was a policy decision of Government at the time the SBS was introduced, and has been applied in other jurisdictions also (South Australia and Victoria). In one sense, the recovery of FIT scheme costs via network use of system charges operates as a tax on electricity network consumers. Origin believes that policy makers in a number of jurisdictions made the judgement that this mechanism should be the basis to fund a subsidy directed to recipients of FITs.

While Origin does not support a mandatory contribution, we do agree with the QCA that any mandated contribution should be set below any estimate of a fair and reasonable value of the FIT for non-SBS customers. Such an approach balances the risks of determining a regulated value against the objective of distributing the burden of scheme costs on an equitable basis.

Origin continues to hold the position that changing the scheme to require a mandatory retailer contribution is a fundamental departure from the original policy design and that revisiting this issue now is due more a lack of adequate management of the take-up rate by customers of the SBS, rather than the fact that the \$0.44/kWh rate was too high to begin with. Recognising that the Terms of Reference seek to examine the sharing of this cost, Origin believes the mandatory contribution will:

- Reduce or eliminate voluntary premiums paid in addition to the SBS FIT rate;
- Add further administrative burden to the recovery of SBS scheme costs;
- Diminish the willingness of retailers to compete for SBS customers knowing that a mandatory contribution must be made (until 2028); and
- Subsequently impact upon the competitiveness of the Queensland electricity market.

¹ QCA (2012), *Estimating a fair and reasonable solar feed-in tariff for Queensland*, page 45