

15 April 2016

Queensland Productivity Commission
PO Box 12112
George Street
BRISBANE QLD 4003

Queensland Futures Institute Submission on Solar Feed-in Pricing in Queensland

Please find enclosed the Queensland Futures Institute's recommendations on the Queensland Productivity Commission Draft Report on Solar Feed-in Pricing in Queensland.

Please don't hesitate to contact me on 0488 721 156 if you have any further queries.

Yours faithfully,



Steve Greenwood
Chief Executive Officer

<i>A framework for assessing a fair price for solar exports</i>		<i>Comments</i>
Draft finding 3.1	For this inquiry, we have proposed that a price for solar exports will be fair when solar PV owners are receiving an efficient price for the energy they generate — and remaining electricity consumers are not paying more (or less) than they should for solar PV generated energy.	Endorsed.
Draft finding 3.2	<p>Solar export pricing arrangements should be assessed against the following principles to determine whether they are fair:</p> <ul style="list-style-type: none"> (a) Efficiency — Are the pricing arrangements consistent with achieving economic efficiency? Efficiency is broadly defined to ensure resources are allocated to their highest valued use (including accounting for environmental externalities), output is produced at minimum cost and new processes, systems and services are introduced in a timely way. (b) Equity — Do the pricing arrangements avoid cross-subsidies? If a subsidy is proposed, is there a well-developed rationale? If so, how should it be funded? (c) Policy governance and practice — Where prices are regulated, is the regulatory framework transparent and robust? Is it as simple as possible and appropriately balances efficiency versus simplicity where there is a trade-off? Are policies and regulation technology-neutral? 	Endorsed in principle, but quantum of export needs to be considered subject to robustness of grid.
<i>Electricity export market: Competition assessment</i>		
Draft finding 4.1	In south east Queensland, multiple retailers are competing for solar PV customers, which promotes fair pricing for solar electricity exports. Based on the available information, the competition assessment does not suggest there is a case to mandate feed-in tariffs to address market power.	Endorsed.
Draft finding 4.2	In regional areas, Ergon Energy (Retail) possesses significant market power, which provides a basis for some form of continued regulation.	Endorsed
<i>Environmental benefits: Assessment</i>		
Draft finding 5.1	Investors in solar PV systems receive a subsidy from the Small-scale Renewable Energy Scheme (SRES) to reflect emissions reduction.	Endorsed.

Draft finding 5.2	An additional subsidy paid through a feed-in tariff for emissions reduction beyond that achieved through the SRES would be poorly targeted and result in a high cost of abatement, as well as large cross-subsidies between electricity consumers.	Endorsed.
Draft finding 5.3	Better and fairer policy options are available to achieve carbon abatement at a lower cost than can be achieved by subsidising electricity exports from small-scale solar PV generation. Efficient national and international policies should be used to address global problems.	Endorsed.
Draft recommendation 5.1	The Queensland Government should not increase feed-in tariffs to pay solar investors for reducing carbon emissions. Investors already receive a subsidy from the SRES for emissions reduction.	Endorsed.
<i>Other rationales: Assessment</i>		
Draft finding 6.1	<p>We have not identified a case to increase solar feed-in tariffs for other reasons. Specifically:</p> <ul style="list-style-type: none"> (a) Solar PV industry development and employment that are achieved through mandated feed-in tariffs are paid for by other consumers and businesses — subsidising solar exports for these reasons will increase electricity costs for other businesses and households (including vulnerable consumers) and is likely to have an overall negative impact. (b) There is no case to pay solar PV owners for any impact of solar PV on wholesale prices. Governments do not reward generators for reducing the wholesale price, just as suppliers in other markets are not paid for increasing supply. Paying solar PV owners for any reduction in wholesale market prices would likely result in overall higher electricity prices for Queensland consumers. (c) Where network benefits exist, they are best harnessed through mechanisms that can efficiently and effectively target these benefits, rather than paying all solar PV owners a uniform feed-in tariff unrelated to network impacts. A number of mechanisms exist and the Australian Energy Market Commission is considering whether any additional mechanisms are required. (d) We have not identified specific social benefits from solar PV exports that would warrant an increase in the feed-in tariff. 	Endorsed.

Draft recommendation 6.1	The Queensland Government should not increase feed-in tariffs to induce industry development, wholesale market and network infrastructure effects or other social impacts. The evidence suggests that such a policy would come at a net cost overall, and would not be fair.	Endorsed.
<i>Equity considerations</i>		
Draft finding 7.1	<p>The distributional impact of subsidies to solar PV is to transfer income from non-solar households to solar households, and to raise the cost of living for those on the lowest incomes:</p> <ul style="list-style-type: none"> (a) Subsidies to solar exports result in a large and growing transfer of income from non- solar households to solar households. The larger the subsidy per kilowatt hour exported, the larger the aggregate transfer in incomes. (b) In considering the distributional consequences of a subsidy policy, if the focus is on the least well-off, then the policy is regressive. On equity grounds, such a policy is demonstrably unfair. 	Endorsed.
<i>Barriers to a well-functioning solar market</i>		
Draft finding 8.1	<p>There is no evidence of widespread or major barriers to solar PV investment and solar export pricing. That said, some factors can affect the competitiveness of the market:</p> <ul style="list-style-type: none"> (a) Trading of solar exports is generally tied to the purchase of retail electricity. (b) Metering, settlement and tariff structures can limit efficient solar export pricing based on the time of export. (c) Information problems may inhibit consumer decision-making. (d) Policy design issues can distort efficient investment and impede the uptake of solar PV in regional Queensland. <p>The Queensland Productivity Commission is seeking evidence from stakeholders on the impacts of these impediments, or any other barriers to a well-functioning solar export market.</p>	Endorsed.
Draft finding 8.2	<p>There is no evidence that Ergon Energy and Energex are using their market power to systematically prevent embedded generation from connecting to the network. Nevertheless, there is a case for the connection of larger embedded generators to occur in a more transparent and reasonable timeframe.</p>	Endorsed.

<i>Regulatory options for solar feed-in pricing</i>		
Draft finding 9.1	In south east Queensland, if evidence demonstrated that competition was not effective in delivering a fair price for solar exports, then a number of options could be considered. For the Draft Report, we have outlined options from voluntary benchmark pricing through to a mandated minimum feed-in tariff. We are seeking stakeholder comments on the options prior to the Final Report.	Endorsed.
Draft recommendation 9.1	The Queensland Government should retain mandatory solar export pricing in regional Queensland.	Endorsed.
Draft recommendation 9.2	<p>The Queensland Government should implement price approval regulation for solar exports from small customers in regional Queensland. Under the price approval process, regional retailers would be required to:</p> <ul style="list-style-type: none"> (a) purchase solar exports from small customers; (b) submit their offers to the QCA for approval on an annual basis. <p>The QCA must approve the offers unless they are materially inconsistent with efficient pricing principles. If the regulator does not approve the offers, it can request retailers submit revised offers for approval.</p>	QCA should set a floor based on energy losses methodology. Retail prices must exceed the floor as it is a market constraint to go through a regulatory body and inhibits innovation.
Draft recommendation 9.3	<p>The Queensland Government should review the price approval regime if:</p> <ul style="list-style-type: none"> (a) the QCA identifies a sustained market power problem which continues despite the price approval regime in place; (b) the QCA identifies that market power is no longer a significant problem; or (c) market conditions change materially (for example, through competition or technological change). 	See comments above in 9.2