

Queensland Government response to the Queensland Productivity Commission Solar Feed-in Pricing in Queensland Inquiry

DECEMBER 2016



In August 2015, the Queensland Government tasked the Queensland Productivity Commission (the Commission) with undertaking a public inquiry into a fair price for solar in Queensland. In undertaking the inquiry, Government asked the Commission to consider a range of issues including an assessment of public and consumer benefits from solar generated electricity, barriers or constraints to a fair price, and ensuring a fair price does not impose unreasonable network costs for non-solar users.

The Commission's final report to government contained 7 recommendations that relate to solar feed-in pricing in Queensland.

Renewable energy

The Government released its response to the Commission's inquiry into Electricity Pricing in November 2016, outlining a number of important renewable energy policy issues. The Queensland Government has a clear commitment to increasing the contribution of renewable energy to Queensland's energy mix, with a 50 per cent Renewable Energy Target (RET) by 2030. Critical to this commitment is building on Queensland's world leading uptake of solar energy.

We have set a target for one million rooftops or 3,000 megawatts (MW) of solar PV in Queensland by 2020. By including a capacity target, we will harness Queensland's potential to grow solar PV on businesses, community buildings and large commercial or industrial sites. In setting this target, Government is mindful of the potential impacts on electricity prices.

The Government is also driving the deployment of large-scale renewable energy. Our commitment at the election was to facilitate the development of 40 MW of large-scale renewables in Queensland. Since then, the Palaszczuk Government has exceeded this commitment by collaborating with the Australian Renewable Energy Agency (ARENA) as part of its 200MW auction for large-scale solar generation. Through this initiative, Government has been able to provide support for almost 150MW of large-scale solar projects in Queensland, which will help drive down the cost of large-scale solar. Importantly, this project will be supported directly through budget funding and will not impact electricity prices.

Following the success of our partnership with ARENA the Queensland Government intends to continue to move towards a renewable energy future. We established a Renewable Energy Expert Panel (the Expert Panel) comprised of independent expert energy, environmental and business leaders, to identify credible pathways to our Renewable Energy Target.

The Expert Panel released its draft report on 12 October 2016, which outlines its initial findings and options, including three credible pathways for Government to achieve a 50 per cent renewable energy target while maintaining electricity security and reliability over the next 14 years.

The Expert Panel's final report is due to Government by the end of 2016. Government will then consider the findings before providing a response.

The Government will continue to work through the Council of Australian Governments (COAG) Energy Council to advocate for integrated national energy and climate change policies. However, the Government considers that Australia's current targets and policies for emission reductions are not sufficient to meet globally-agreed targets and in that context, States have a role in driving additional action on climate change.

Government response to final report

The Government accepts, or accepts in-principle, all of the Commission's recommendations except for recommendations 9.3 and 9.4 which recommended altering the legislative mechanism to deliver a feed-in tariff via a price approval mechanism in regional Queensland.

Changing legislation to institute a price approval mechanism is unnecessary because the existing legislative regime already provides flexibility for retailers to offer innovative FiTs to regional customers. Changing the legislation would place an additional legislative burden on retailers and result in limited benefit to customers.

A time-varying feed-in tariff for regional Queensland

The Government has announced a new time-varying feed-in tariff for regional Queensland, alongside the existing flat rate feed-in tariff. The time-varying tariff will offer 'peak' and 'off-peak' rates. The peak rate will provide a higher feed-in value when energy demand is higher such as in the late afternoon and early evening, with a lower off-peak rate at other times.

Expanding regional feed-in tariff eligibility

The Government is also expanding the eligibility criteria for the regional FiTs so that more small customers are paid for their excess solar power. The eligible system size will increase from 5 kilowatts to 30 kilowatts. This will help small businesses in regional Queensland take advantage of solar power by ensuring they receive a fair price for any excess solar power they export. These changes require amendments to the Electricity Regulation 2006 and will come into effect in 2017.

Government response to specific recommendations

The following table provides a detailed response to the Commission's final report recommendations.

■ Accepted
 ■ Accepted-in-principle
 ■ Not accepted

QPC Rec	Recommendation	Government response
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.	<p><i>Accepted</i></p> <p>Queensland solar customers receive a subsidy through the Federal Government's Small Scale Renewable Energy Scheme (SRES) when they purchase their solar system. However, when the SRES subsidy begins reducing from 2017 the upfront benefit it provides will no longer fully reflect the value of the emissions avoided.</p> <p>However a feed-in tariff, which is paid for energy exported, is not the right instrument to compensate solar owners as all solar energy - exported and consumed - avoids emissions. A broader market mechanism operating alongside the Renewable Energy Target would more fairly and efficiently compensate solar owners for the emissions avoided from solar generation.</p>
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.	<p><i>Accepted in-principle</i></p> <p>The Queensland Government will give further consideration to the network value of solar PV following the finalisation of the Essential Services Commission of Victoria Distributed Generation Inquiry, and the Local Generation Network Credit rule change request to the Australian Energy Market Commission.</p>
9.1	The Queensland Government should retain voluntary arrangements for feed-in tariffs in south east Queensland.	<p><i>Accepted</i></p> <p>The south east Queensland retail electricity market has recently been deregulated and continuing with market feed-in tariff arrangements is appropriate in a deregulated market environment.</p> <p>Customers in south east Queensland looking for guidance on different feed-in tariff structures and rates can look to the QCA determined regional feed-in tariff rate(s) as an indicative benchmark price.</p>
9.2	The Queensland Government should consider including solar feed-in tariffs in the annual price monitoring arrangements for the SEQ retail electricity market.	<p><i>Accepted</i></p> <p>It is appropriate that the QCA monitor market feed-in tariffs in south east Queensland as part of its independent market monitoring role for price deregulation.</p>

QPC Rec	Recommendation	Government response
9.3	<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; and (b) submit their offers to the Queensland Competition Authority (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>	<p><i>Not accepted</i></p> <p>Government has further reviewed the regional feed-in tariff legislation and considers that the existing legislative regime already provides flexibility for retailers to offer innovative FiTs to regional customers. Changing the legislation would place an additional legislative burden on retailers and will not drive competition in the regional FiT market.</p>
9.4	<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 the potential for exercise of market power no longer exists; or (c) market conditions change materially (for example, through competition or technological change). 	<p><i>Not accepted</i></p> <p>See response for 9.3.</p>

QPC Rec	Recommendation	Government response
9.5	<p>This inquiry has not identified a case for the state government to regulate feed-in tariffs (or otherwise subsidise solar PV) outside establishing the price approval regime for regional Queensland. If the Queensland Government elects to intervene in the market to support solar PV, then any program should be designed to achieve its objective at least-cost, including by:</p> <ul style="list-style-type: none"> (a) targeting genuine additional abatement or investment, rather than redistributing income to existing solar investments or investments that would occur anyway; (b) minimising distortionary impacts on the electricity market, including on other generation technologies; (c) ensuring any program is time-bound and capped, and is monitored and subject to ongoing review; and (d) funding any program through the budget rather than recouping costs from electricity customers, to encourage better evaluation and recognition of the opportunity costs, greater transparency and accountability, and lower adverse impacts on the least well-off. 	<p><i>Accepted in-principle</i></p> <p>The cost of market intervention is an important consideration in any government policy decision. The following five strategic energy objectives have been developed to guide Queensland Government decision making on energy policy:</p> <ol style="list-style-type: none"> 1. Better functioning energy markets 2. Enhancing customer value 3. Facilitating economic growth and innovation 4. Protect the environment 5. Improving Government effectiveness

