stanwell

17 September 2012

Mr Brian Parmenter
Chairperson
Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4001

Dear Mr Parmenter

Re: Solar Feed-in Tariff Review

Stanwell Corporation Limited (Stanwell) welcomes the opportunity to comment on the Queensland Competition Authority (the Authority) Issues Paper, Estimating a Fair and Reasonable Solar Feed-in Tariff (FiT) for Queensland.

As background, Stanwell is a Queensland Government owned generator, with the capacity to supply more than 45 per cent of the State's peak power needs. We are a diversified energy company, with an energy portfolio comprising coal, gas, diesel and hydro power generation facilities geographically dispersed across Queensland.

Stanwell recognises the introduction of the Solar Bonus Scheme (the Scheme) in 2008 was intended to provide an incentive for electricity customers to install solar Photovoltaic (PV) systems, on the basis that a feed-in tariff would be paid for surplus electricity fed back into the network by the PV system. As a major player in the energy, resources and carbon markets, the impacts of the Scheme on retail and wholesale electricity market outcomes are of keen interest to Stanwell.

Stanwell notes the recent decision of the Queensland Government to reduce the solar feed-in tariff from 44 cents to 8 cents per kilowatt hour for new applicants, which has resulted in the new tariff being more cost reflective. This new tariff will be legislated until 1 July 2014 and the outcomes of this review will be considered by the Government in its review of the 8 cents per kilowatt FiT. In determining a fair and reasonable value for the solar feed-in tariff, Stanwell supports the following key principles:

- **Cost-reflectivity/market value (i.e. no subsidy)** – the feed-in tariff should reflect the benefit to retailers of electricity exported by PV customers to the grid;
- **Consistency of methodology** – Stanwell supports the use of a similar methodology to that applied by the Authority to determine notified prices; and
- **National consistency** – any approach should be consistent with a national framework for feed-in tariffs, provided there is consistency in terms of a methodology rather than specific values.

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We also note the terms of reference require the QCA to consider appropriate mechanisms and timeframes for future reviews of the fair and reasonable feed-in value. We are supportive of a multi-year review period as it appropriately balances the issue of providing sufficient certainty to investors in solar PV systems and ensuring the FiT remains cost reflective.

While not specifically identified in the Issues Paper, Stanwell recommends that as part of these review processes consideration is given to the payback period of solar PV systems and recommend any necessary adjustments to eligibility timeframes. A continued decline in the cost of small-scale solar technology has resulted in the potential payback period being greatly reduced. Under the current arrangements, all solar PV systems are entitled to receive the FiT until finalisation of the Scheme in 2028, which is likely to result in over investment and flow-on impacts for the wholesale electricity market.

Stanwell's response to a number of the specific questions identified in the Issues Paper is set out below. We welcome the opportunity to discuss the matters contained our submission in more detail.

Fair and Reasonable Value for PV Exports

How should the term fair and reasonable be interpreted? Should it be interpreted as a subsidy-free value that reflects the benefits to retailers of electricity generated from small-scale PV generators? If not, how should it be interpreted and why?

Stanwell considers that the value of the solar feed-in tariff should reflect market value to ensure it does not result in flow-on distortions in the wholesale energy market. A fair and reasonable value would therefore be a value that reflects the benefit to retailers for electricity exported by solar PV customers to the grid.

In the context of a broader approach to national consistency for solar feed-in tariffs, Stanwell notes that the value to retailers approach identified in the Issues Paper is consistent with interpretations adopted by regulators in New South Wales, Victoria and South Australia.

Is it reasonable to use cost estimates from notified prices to determine the feed-in tariff? If not, which cost estimates should the Authority consider using?

As per our comments on the Authority's Draft Determination on regulated retail electricity prices for 2012-13, Stanwell believes that, in the main, the Authority's proposed methodology for the determination of notified prices provides a cost-reflective, unbiased estimate of energy purchase costs. Consistent with this position, Stanwell supports the use of a similar methodology for estimating a fair and reasonable value for solar PV exports. We consider the same level of rigour and consultation as applies to setting notified prices should also pertain to FiTs. This includes estimates of wholesale electricity costs as well other included costs.

Is it fair and/or reasonable to have different FiT based on geographical locations in a market with the Uniform Tariff Policy in place? What are some of the benefits or complications of creating geographically based FiT?

Consistent with our position above, Stanwell supports a feed-in tariff that is reflective of market value. Stanwell supports a FiT that takes into account both the generation and network costs associated with solar PV systems, including any potential cost savings to the network due to the installation of solar PV systems. A feed-in tariff should be provided where there is a clear overall benefit to the market from such a system which may be relevant in Regional Queensland.

Is a net or gross metering arrangement most appropriate in Queensland, and why?

Stanwell notes that, in Queensland, solar PV generation output is currently measured on a net basis. Stanwell considers that such an approach results in some customers having a materially lower liability for volume based network charges than other customers in the some tariff class, resulting in these customers not paying the true cost of their supply from the network. Consistent with out position on cost-reflectivity, Stanwell supports the transition to a gross metering arrangement, which ensures that all customers pay a network charge for all of their consumption (fixed and variable components), regardless of whether they export electricity to the grid.

How often should the fair and reasonable value be reviewed and updated?

Should the Authority recommend a flexible review mechanism which allows updating the value in response to relevant changes and developments?

Stanwell supports a multi-year approach to the review of fair and reasonable values, as this approach provides greater certainty for market participants and reduces the potential administrative burden. While supportive of a fixed path for the fair and reasonable value, Stanwell recognises the need for flexibility to respond to significant changes, and therefore supports the provision of suitable criteria to enable a review to be undertaken in the intervening period should circumstances materially change. It is imperative that the criterion is set through a transparent and comprehensive consultation process with stakeholders.

What are the implications for the current review of a potential transition to a national feed-in tariff established through COAG processes?

Stanwell is supportive of a transition to a national feed-in tariff scheme (or at least a consistent methodology), as is being considered by the Standing Council on Energy and Resources. A nationally consistent approach will assist in promoting market confidence and signalling efficient new investment.

While supportive of a national framework for FiT, Stanwell notes the material differences in the generation, transmission and distribution of electricity throughout Australia. To ensure these complexities are effectively captured, Stanwell supports the adoption of a nationally consistent methodology for determining a reasonable and fair value. It is entirely reasonable that the solar FiT itself varies in different parts of Australia depending on the specific considerations for that area. The critical factor is a transparent, consistent approach to determining the value.

If you wish to discuss any of these issues further please do not hesitate to contact me on (07) 3228 4352 or Ms Erin Bledsoe, Manager Regulatory Strategy, on (07) 3228 4529.

Yours sincerely

[redacted]

Tanya Mills
General Manager Portfolio Trading