

Time varying FiTs

For the ESC's "fair and reasonable" criterion to be satisfied it would seem important that time-varying minimum FiTs be implemented. This was recognised by the ESC in its 2013 report setting the FiT for 2014 and so it is surprising that this Draft Decision Report states:

"The Commission has been advised that the EIA requires the Commission to set a single FiT rate for each calendar year, precluding the use of time varying minimum FiTs." p.7

It is a pity that this Draft Decision Report does not cite the source of the advice to the Commission since it appears at odds with the relevant provisions of the EIA. Section 40FB(1) of the act defines the FiT terms and conditions as follows:

"ESC recommended general feed-in terms and conditions means prices, terms and conditions recommended, and contained in, a report under section 40J(2A)(a);"

'Price' is stated in the plural, not singular.

While it is the case that the provisions of s.40FBA refer to the "rate" in the singular, it is critical that this be read down from section 40FB(2). Section 40FB(2) states that its own provisions do not override section 40FB(1), which refers to prices, and that it relates to ***minimum*** terms and conditions only.

Further, while section titles are not themselves legal provisions, Section 40FBA is titled "*Rates for purchases of small renewable energy generation electricity*". Rates is plural, not singular.

A recent Energy Networks Association publication, *The Road to Fairer Prices*, shows that the rapid uptake of rooftop solar systems in recent years has led to a steep drop in overall power demand during the day, but little drop in the evening peak. This is a time when wholesale prices can spike sharply and so a minimum general FiT covering this period should be higher than at other times. Assuming suitable grid-interactive technologies are available, a higher FiT in the evening could potentially allow small rooftop solar owners to invest in battery storage systems and supply the grid in the evening peak, rather than during the day. In an alternative operating mode such systems could also serve to offset the evening peak consumption from the grid that the customer with the rooftop system may otherwise need to purchase. Either way, such initiatives could help defer or potentially avoid new investment in expensive peak load generating capacity.

Impact of the premium and transitional FiTs

An argument can be made that it is far from "fair and reasonable" that customers on the premium FiT or transitional FiT must revert to a lower tariff - much lower in the case of premium tariff customers - if they wish to boost their systems (within the 5kW limit) to help combat human-induced global warming. It is also not 'fair and reasonable' to non-rooftop solar customers since a general FiT system that encouraged premium and transitional FiT customers to shift to a lower tariff should place downward pressure on retail prices generally.

Accordingly, while it may be correct for the Draft Report to say that premium and transitional tariffs are out of scope, the impact of a general FiT tariff system that encouraged such customers to shift from their current higher rates is not.

One way of addressing this issue consistent with the 'fair and reasonable' criterion would be for a separate minimum general FiT to be set for rooftop customers on the higher tariffs wishing to upgrade. Setting the minimum general FiT for such customers at the TFiT rate of 25c per kWhr would be a way of doing this.

Impact on all customers of rooftop solar owners disconnecting from the grid

Together with fixed supply charges at around \$1 per day, setting the general FiT way below tariffs for grid supplied electricity provides a strong incentive for rooftop solar customers with large (~5kW) systems to go 'off-grid' via installing battery banks. The current cost of batteries makes this uneconomic but with the unit cost of batteries (and solar panels) continuing to fall a breakeven point is likely to be reached in the next few years.

Tens of thousands of small retail customers then going 'off-grid' because of this tariff disparity could have a big impact on electricity prices for remaining consumers. A minimum FiT that has a built-in tendency to bring on significant price rises in the not-too-distant future may not be seen by the wider community as 'fair and reasonable'.

One way of addressing this issue consistent with the 'fair and reasonable' criterion would be for the minimum general FiT to be set equal to the rate for grid-supplied electricity.

RECOMMENDATION

It is recommended that in its final report setting the rate for 2015 the ESC

- a) discuss the three issues set out above
- and
- b) undertake to conduct modelling to explore their impact in readiness for setting a minimum general feed-in tariff, or tariffs, for 2016.

Nick Legge
1 July 2014