Tasmanian Renewable Energy Alliance

PO Box 4748, Bathurst St, Hobart TAS 7000

(0407) 486-651

Initial submission to OTTER: Regulated FiT investigation

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Introduction

This brief submission to the Office of the Tasmanian Economic Regulator (OTTER) is in response to the Notice of intention to conduct a Regulated Feed-in Tariff Rate pricing investigation.

A more detailed submission will be prepared in response to the proposed draft report to be release by OTTER by 31 January 2016.

The purpose of this initial submission is to make comment on the terms of reference and the proposed process, and to identify factors which we believe should be included in the determination of a fair FiT.

Terms of reference

The "Principles to be taken into account in making feed-in tariff rate determinations" as set out in section 44H of the Electricity Supply Industry Act 1995 focus mainly on the benefits to retailers. However section 44H (c) does *require* the Regulator to take into account "the other costs, or other benefits, that ... the Regulator considers relevant, including, but not limited to including, those related to the distribution networks or transmission networks ..." In the section below we set out the additional financial benefits of distributed solar that we believe the Regulator should consider.

Cross subsidy

The Regulator is required to take into account "the principle that the feed-in tariff rate specified in the determination should not have the effect that any customer would effectively be cross-subsidising any other customer".

The electricity network is a public good which provides benefits to all users in excess of the cost of using it. We support the general principle of cost reflectivity to the extent that it leads to behaviour which supports the National Electricity Objective that the electricity market should operate for the long term interests of consumers of electricity with respect to price, quality, safety, reliability, and security of supply of electricity. We also support the COAG 2012 principle that FiTs "should not impose a disproportionate burden on other energy consumers".

Total avoidance of 'cross subsidy' between individual customers is an unobtainable goal, and is not applied in any other area of electricity pricing. For example there has never been any serious suggestion that customers in remote or hard to service locations should pay the full cost of having access to the grid. Yet the cost difference between servicing these customers and customers in urban locations is far greater than any difference between the network costs retrieved from solar and non-solar customers.

Methodology and new technology developments

The current FiT determination process is intended to set a methodology for the next three years. Many new technologies are likely to impact on the electricity industry over this period, in particular local grid-connected battery storage and the integration of electric vehicle charging into home energy management systems.

These technologies provide the potential for distributed generation to be fed into the grid when it is of most benefit, rather than just when the sun is shining. To encourage this benefit, price signals need to be sent to customers. Time of use and demand based tariffs are one way of doing this but it may also be beneficial to consider a demand or time based FiT. We suggest that the Regulator should consider this possibility and it may be desirable to add this to the FiT methodology before the end of the three year period.

Consideration should also be given to the future possibility of a location based FiT for locations where local distributed generation can increase network reliability or avoid or defer network upgrades.

Additional benefits of distributed generation

The existing FiT takes into account only benefits to retailers, network losses and avoided NEM market charges. We believe this is too narrow a view of the benefits. In fact setting the FiT only in terms of the benefit to retailers fails to meet the National Electricity Objective to "promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers ...".

The additional benefits to networks, and ultimately to consumers, include:

- the fact that distributed solar energy does not require transmission networks
- the reduced use of distribution networks
- the reduced need for investment in transmission and distribution infrastructure because load growth is reduced by distributed generation.

Currently retailers charge customers and pass on to TasNetworks transmission and distribution use of system charges for all electricity sold. A proportion of this electricity is generated by solar PV and makes limited use of the distribution network and no use of the transmission network so this charge to customers and payment to TasNetworks does not reflect the savings from distributed generation.

We are not in a position to quantify these benefits, but believe the Regulator should do so. They could be quite substantial given that network costs make up 60% of the typical household electricity bill. By reflecting these benefits in the FiT, solar owners will have an additional incentive to install solar (and to remain on the grid) and distributed generation will be encouraged which will, in the longer term, reduce the investment in networks which all customers have to pay for.

Additional benefits

In addition to the direct benefits to networks (section (c)(i) of the Notice), there are many additional benefits of distributed solar in the Tasmanian context.

We recognise that a feed-in tariff may not necessarily be the best way to reflect these benefits, but in response to section (c)(ii) of the Notice we believe the Regulator's draft report should acknowledge the existence of these benefits and quantify them where practical.

An understanding of these benefits can inform broader policy decisions on the role of distributed generation, as well as acknowledging that setting a higher FiT can benefit all Tasmanians and is not simply a cross subsidy from non-solar to solar customers.

These additional benefits include;

- **Energy literacy:** Installation of solar PV gives homeowner a strong interest and motivation to better understand and manage their energy consumption. This increased energy literacy will be an important driver of the uptake of new technologies such as local storage, demand management and integration

of electric vehicle charging which ultimately can lead to a more flexible and economical electricity system.

- **Energy security:** Increased local generation will improve Tasmania's energy self-sufficiency and security in the event of loss of Basslink or reduced rainfall. This is particularly apposite given the recent announcement that the Tamar Valley Power Station is to be recommissioned, even though it is acknowledged that its cost of operation is too high to be a viable long term option.
- **Cost savings / export opportunities:** Increased solar PV will reduce the amount of energy which needs to be purchased from the mainland in summer and free up additional water storage to support export at time of maximum financial benefit to the state.
- **Industry development and employment:** At its peak we estimate that the Tasmanian solar industry created the equivalent of around 450 full time jobs. These highly skilled jobs were located throughout the state. Since the reduction in the FiT we estimate that around half these jobs have been lost. A growing solar industry has the potential to be a significant generator of industry development and employment in Tasmania.
- **Reduced capital investment:** Solar owners invest their own money in generating electricity for both their own use and export. This reduces the need for capital investment in generation capacity by state owned energy businesses.
- **Contribution to carbon emission reduction:** More Tasmanian self-sufficiency in energy production will reduce the carbon emissions resulting from import of electricity from the mainland.