

Of Cabbages, and Kings, and Tariff Feed-ins

"The time has come," the Walrus said,
"To talk of many things:
Of shoes--and ships--and sealing-wax--
Of cabbages--and kings--
And why the sea is boiling hot--
And whether pigs have wings."

The Walrus and The Carpenter, Lewis Carroll, from *Through the Looking-Glass and What Alice Found There*, 1872

Once upon a time there was a land where cabbages were very popular. People used them for all sorts of things. There were central farms where they were grown, and distributed to supermarkets from where people bought them. The subjects in this land could buy the cabbages for about 17 cents each.

One day the King decided that it was a bad thing for the cabbages to be produced by these large farms. He said it hurt the environment to have them transported all the way to the supermarkets. He also said too much water was used on those farms.

Now, some people had already been growing their own cabbages for their own use in their own small gardens. So the King decreed that the supermarkets would now have to buy from the people any excess cabbages that the people wanted to sell to the supermarkets.

In order to encourage his subjects to do this, he set a price of 44 cents per cabbage that the supermarkets were forced to pay.

More than that, the King decreed that he would pay the initial costs for anyone wanting to set-up their own new garden to grow cabbages. Naturally, as the only money the King had came from taxes he imposed on his subjects, he had to increase those taxes. Of course, all those selling their cabbages thought this was a good thing, because it seemed to be such a small tax.

It wasn't long before the supermarkets had to put up the price of the cabbages, because they were now forced to pay 44 cents each for them, instead of less than 17 cents previously.

The garden building business boomed, and the King claimed a great jobs creation success.

This all appeared to be going so well that the King made another decision. He decreed that the supermarkets had to pay the local gardeners 44 cents for every cabbage that they grew, even for the cabbages the gardener himself used.

But soon the people realised the whole scheme was not working. Only those who were selling their cabbages, and those constructing new gardens for them, were benefiting. Everyone else had to pay higher taxes and pay more for their cabbages. People also had to pay for Garden Inspectors who ensured their gardens were properly built. A new breed of bureaucrats arose to ensure all the cabbage transactions were being done legitimately.

But the central farms started to deteriorate, because there was less demand for their cabbages. Cabbage supplies became more erratic, especially in areas where the weather was bad for the local

gardeners. When local cabbage supplies failed, the central farms could no longer supply the peak demands.

The country became poorer and poorer, but there were many special interest groups that petitioned the King to keep the scheme going, otherwise there would be major job losses. Naturally, they did not point out that it would be their jobs that would be lost, because no one was willing to voluntarily pay for their services any more.

Well, so much for the make-believe tale. It couldn't happen in real life, could it?

Unfortunately, it is happening now. I'm referring to "feed-in tariffs".

A feed-in tariff is a premium rate (that is, one higher than normal) paid to producers of renewable energy. Specifically, in this case I'm referring to photovoltaic solar panels that generate electricity for the home-owner and also feed back to the electricity grid any excess power not used by the household itself.

In Queensland, that feed-in tariff premium rate is 44c/kWh (kilowatt-hour). Other states have rates of 60c/kWh.

Typically, a consumer pays about 17c/kWh for peak grid power, and even less for off-peak. To stay in business, the electricity supplier has to buy that power for less than 17c/kWh. But with feed-in tariffs they are obliged to pay more than twice that rate for power generated by rooftop panels. No business can remain in existence if it's forced to pay more for a product than what it receives for it.

The current Queensland situation is what is called a net feed-in. That is, the home-owner is paid only for the excess power he does not use himself.

But some states either have now (ACT), or will be introducing (NSW, 2010) gross feed-in tariffs. That means the home-owner will be paid for all the power generated by his solar panel, regardless of how much he uses himself. Or to put it another way, even if he uses all the power himself, he will still be paid for what he produced! (He still pays for grid electricity consumed.)

This is a scheme whereby a few consumers with solar panels are subsidised by all other consumers of electricity.

The only way such a scheme can survive for any period is with subsidies and the transfer of wealth from one group of consumers to another.

The only place for such a scheme is in a make-believe land where pigs have wings.

Bob Long

Reference:

http://en.wikipedia.org/wiki/Feed-in_tariffs_in_Australia

Update: On October 28th 2010 the NSW government announced a reduction of the feed-in tariff from 60c to 20c for new installations. Solar panel suppliers are claiming this change will result in many bankruptcies. <http://www.smh.com.au/environment/energy-smart/solar-rate-cut-to-stop-costs-going-through-the-roof-20101027-173y5.html>