Feed In Tarriffs are Needed

As Florida shifts to solar, a fight looms   Written by Julee Felinski   Saturday, 28 March 2009

By Zac Anderson
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Billions of dollars are at stake in a battle under way in Florida over who profits from the pending expansion of solar energy: Big energy companies or individuals and businesses with extra roof space.

Solar power is poised to hit the big time in Florida with the expected passage next month of a new energy law requiring power companies to generate 20 percent of their electricity from renewable sources, including the sun, by 2020. The mandate should provide a huge boost to Florida's nascent renewable energy industry.

While there are many ways to reach the goal, some business and environmental groups say lawmakers favor a system that would give windfall profits to large energy companies, cost consumers more and generate fewer local jobs and less clean energy.

The system is known as "renewable energy credits," or RECs, which would allow utilities to decide who can sell them solar energy based on a bidding process, resulting primarily in large, centralized solar developments.

Opponents of the REC system say an alternative program, called a "feed-in tariff," encourages more small-scale solar development on homes and businesses by setting a price for solar energy that makes it profitable for anyone with open land or roof space. The system also forces electric utilities to buy energy from everyone.

Few Floridians know much about these obscure energy policies. Incentives for clean energy are just starting to gain momentum in the United States.

Yet the direction Florida takes could profoundly affect the state's energy future and every state resident. Both policies would initially increase electricity prices because solar energy is more expensive than coal, oil and natural gas -- Florida's main energy sources.

But data compiled by the National Renewable Energy Laboratory, a federal research center, shows that countries with feed-in tariffs have cheaper renewable electricity than those with RECs. The tariff system is less risky, and investors are willing to accept lower profits for long-term stability.

"We deal with data and the evidence is very clear," said Toby Couture, a researcher with the lab. "Feed-in tariffs have consistently proven to be cheaper for consumers. That's the bottom line."

Despite these studies, Florida's top energy regulators have recommended the REC system over feed-in tariffs, and lawmakers have been slow to embrace the feed-in concept, characterized by opponents as too "European" and less free-market.

Florida Power & Light, the state's largest energy provider, criticizes feed-in tariffs as expensive and anti-competitive. So do representatives for large solar companies such as Maryland-based SunEdison, which has begun contracting with utilities to build big solar power plants in Florida.

The deals have stirred intense infighting in the solar industry nationwide as small local businesses are pushed aside by larger corporations. Dismissing the Renewable Energy Lab's conclusions, FPL's vice president and chief development officer, Eric Silagy, said, "Any time you get into prescriptive government-set rates, you chill innovation."

The REC system has resulted in substantially higher energy profits in places like New Jersey and the United Kingdom and much higher electricity prices for consumers than the more simplified feed-in tariff policy. Feed-ins have been adopted by 46 countries and Gainesville's municipal electric provider.

But energy reform advocates are worried that electric utilities are blocking a fair hearing on feed-in tariffs in Tallahassee this year.

"There are real concerns right now that this idea won't even get a proper discussion," said Jerry Karnas, who monitors energy issues in the Legislature for the group Environmental Defense.

Rep. Paige Kreegel, R-Punta Gorda, who heads the House Energy and Utilities Policy Committee and wants to allow discussion of the feed-in approach along with the REC system, said last week that House leaders have not yet permitted him to file an energy bill and begin hearings.

Kreegel said that legislative leaders are overwhelmed with the state budget crisis. But he acknowledged that there has also been opposition from utilities over his plan to allow a feed-in tariff debate.

"It would be a threat to their core business model," Kreegel said. "Their feeling is, 'Things are good so shut up and leave us alone,' and you can't blame them."

Jerry Paul, a former Florida lawmaker from Charlotte County and a lobbyist for Maryland's SunEdison, said RECs drive down solar prices because they require competitive bidding. "Government is not very good about picking an artificial price," said Paul, who said he was speaking for himself and not SunEdison. "The marketplace is."

But Couture said there is an obvious reason why big energy companies support the REC system. "The research shows there is the potential to make much higher profits," he said. Some people say the systems can coexist. Legislators could decide within a few weeks.

When Gov. Charlie Crist took office in 2006 he made it clear he would push for more renewable energy in Florida, which still has no major sources of solar or wind power. In 2007, Crist vetoed the Legislature's energy bill for not sufficiently promoting solar and other renewable sources.

Crist began pushing for a strict quota -- known as a "renewable portfolio standard" -- setting deadlines for power companies to generate or purchase a certain amount of electricity from renewable sources.

One Crist goal was diversifying Florida's economy and developing high-wage "green tech" businesses. Legislators approved the concept last year and Florida's big electricity companies saw the writing on the wall.

Since then, electric utilities have announced plans for large-scale solar energy projects. But they have largely contracted with big out-of-state companies for their solar energy production fields.

Early last year, FPL signed a deal with one of the largest solar companies in the United States, SunPower Corp., to build two solar power plants. The company, based in San Jose, Calif., has about 5,000 employees and global revenues of $1.43 billion, up 85 percent from 2007. The company does not have an office in Florida.

One of SunPower's main rivals, SunEdison, announced deals last year for a solar plant in Lakeland, and other plants that would be spread out across the state for the Florida Municipal Power Agency. SunEdison bills itself as "North America's largest solar services provider" and has contracts in several states, though no Florida office.

"The genius of these two companies is, they've hired more lobbyists and lawyers than the rest of the industry combined and they were smart enough to realize the money they spent on those people is tiny compared to the billions they can reap," said Lyle Rawlings, president of the New Jersey Solar Energy Industry Association, whose members engaged in a bitter battle over RECs and feed-in tariffs.

SunPower representatives did not return calls last week. Rawlings says Florida is at a crossroads. A similar battle played out in New Jersey in 2007, with the REC system prevailing.

The same solar companies seeking to prevail in Florida now dominate solar markets in Maryland, Colorado and other places with REC systems. No state has yet adopted a full scale feed-in tariff model, but Hawaii and a few others are on the verge of doing so.

Small-scale solar developers such as Sarasota engineer Raymond Kaiser say big utilities oppose feed-in tariffs because they are less profitable and threaten the utility business model.

"Their bias is towards centralized power generation," Kaiser said. "They feel very comfortable about solar power if you put it in a field somewhere in DeSoto County, but they don't want it on everybody's house."

Solar producers in states that have adopted REC policies say they have seen many small and medium-size businesses fold and fewer overall jobs, in part because of the complexity. Rawlings said New Jersey has lost perhaps three or four dozen companies in the last few years.

In Maryland, SunEdison dominates the solar market, signing a deal with the state's big electric utility to provide 60 percent of all solar energy this year.

In contrast, Germany's feed-in tariff system allows citizens to profitably develop small solar systems on homes, churches, businesses and schools because power companies are required to buy the energy back at a set rate -- calculated to cover expenses with a small profit added in -- that is well above the price for fossil fuel energy.

But REC advocates say that with credits that are traded on a commodities market, the price fluctuates based on supply and demand. If electric companies miss their solar quotas, demand for credits will rise and solar developers will respond to cash in on high prices.

The key, Paul said, is solar developers "have to compete with each other, and the utility selects the proposal with the cheapest price to the ratepayers."

That sounds good in theory, said the Renewable Energy Lab's Couture, but does not reflect reality. "All the research shows feed-in tariffs have demonstrated a higher degree of cost efficiency than REC trading models," he said. "That's not a controversial conclusion. All the evidence points to that."