

How a Feed-In Tariff (FIT) works

Clean Producers Sell Power to the Utility

A feed-in tariff requires utilities to purchase power from a variety of different clean electricity producers at fixed prices in long-term contracts lasting 15-25 years. A FIT allows producers of various sizes, from the small homeowner-producer to large developers, and even, in some cases, utilities, to participate. Multiple proven technologies such as solar and wind are eligible.



solar



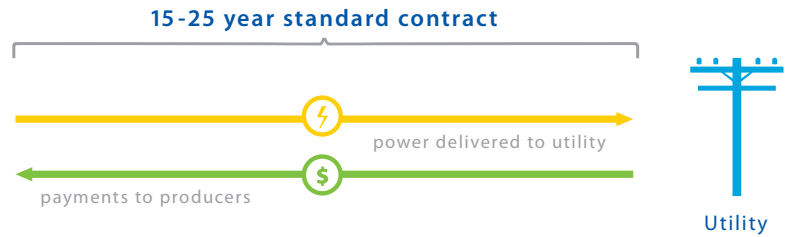
anaerobic digester



wind

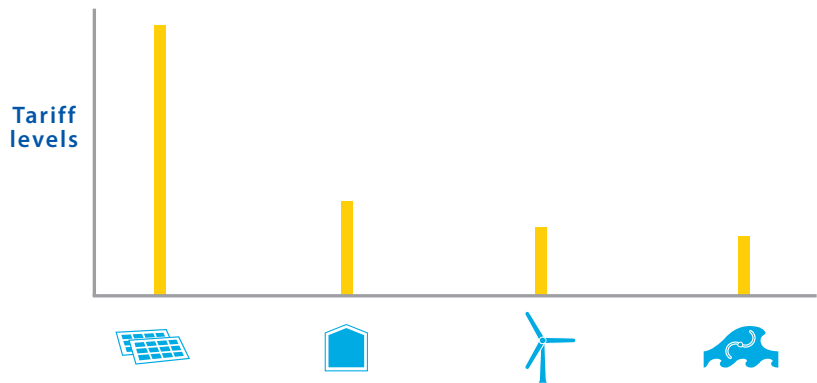


small hydro



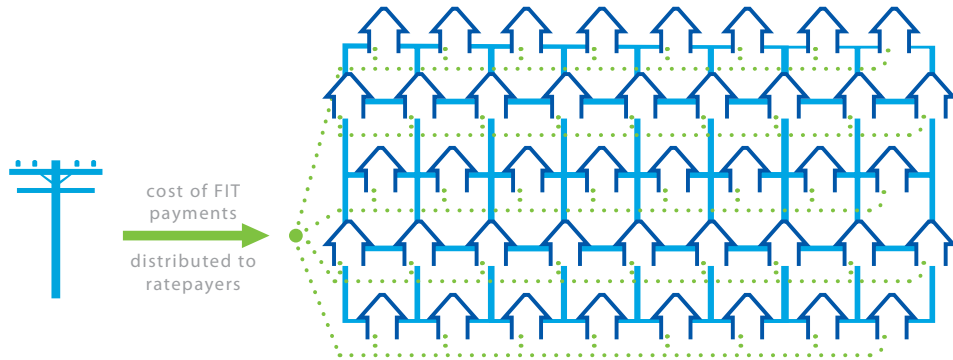
Payments vary by clean technology

Different clean technologies receive different levels of payment (or 'tariffs') for the power they produce. The payment is set at a level that is equal to what it costs the generator to produce power with a particular technology, plus a reasonable rate of return (typically 5%-10%). Therefore technology that is currently more expensive (such as solar) will receive a higher payment than a less expensive technology, (such as wind).



Costs are spread among all ratepayers

The utility passes the cost of clean power on to the rate base as a whole. Everyone bears the cost in the form of incremental rate increases. Decreased fuel importation and peak load reduction help offset rate escalation, and net growth in economic activity creates jobs and increases tax revenues - social goods enjoyed by the population as a whole. (Note: Germany's feed-in tariff, responsible for nearly 300,000 jobs, has led to a less than 5% average rate increase.)



Tariffs decline as technologies become cost-competitive

FITs are not permanent, but rather phase out as clean energy becomes cheaper. A developer who invests in clean energy today will be paid a higher fixed tariff than one who invests in later years. The FIT ultimately declines to zero. This encourages early adoption and incentivizes cost-cutting innovations throughout the supply chain. At set intervals, regulators adjust payment levels according to market prices. This review also protects ratepayers from excessive increases.

