

## **SOLAR ALLIANCE POSITION PAPER**

### **Feed-In Tariffs**

The Solar Alliance is dedicated to accelerating the deployment of solar energy in the United States. Our goal is to provide balanced and sound technical and policy expertise in support of the delivery of solar energy to all markets: residential, commercial, government, and utility customers. Feed-In Tariffs (FITs) – also known as Renewable Energy Payments (REPs) – are being proposed throughout the United States. FITs are often misunderstood but can be useful policy tools.

Feed-in-tariffs require payments to be made by a utility company to a vendor system that sells its power directly to the utility. The vendor does not use the solar power generated on-site. Payments are typically fixed over some period of time once the vendor system is connected to the grid. Payments are usually made for bundled energy — that is, for both the electricity and its renewable attributes, in the form of renewable energy certificates (RECs). Renewable projects developed under a FIT regime using a single meter are ineligible for net metering.

In contrast, most renewable markets in the U.S. are designed to recognize distributed generation systems connected on the customer side of the meter, displacing electricity normally purchased from the utility, and using some form of retail net metering. Any excess is exported to the grid and credited to the customer's account according to local rules. Net metering is often supplemented with a variety of other renewable energy market mechanisms or incentives. Net metering is an underpinning to a majority of distributed generation solar installations in the United States.

### **Policy Recommendations**

The Solar Alliance believes that properly designed FITs are an effective policy instrument to promote the growth of solar energy. FITs are particularly useful in supporting specific market segments that are not adequately incentivized via other policies such as renewable portfolio standards or net metering. FITs should be implemented in a manner that does not undermine effective net metering policy or other effective incentive programs.

#### **I. General Principles**

1. FIT programs can be designed to directly or indirectly respond to market maturation. Many long-term FIT and other performance-based policy mechanisms reduce incentive levels for new solar systems either in response to market penetration, as measured by solar capacity or energy, or over time.

2. FIT systems should be able to take advantage of other policy mechanisms and build upon other programs. For example, FIT-qualifying systems may take advantage of federal tax incentives. When they do, payment amounts can be lower. When they don't, the payments should be higher to achieve the same internal rate of return for the owner.
3. All consumers should have the option of becoming solar generators and using a FIT to supply the grid or using net metering to displace their own internal loads.
4. FITs can be configured for meeting on-site load (for an example see the "AB 1969" tariff in California), with the tariff paid only for the portion of power sent to the grid. In addition, a facility can accommodate two systems, one to serve on-site load and the other to feed the grid.
5. Setting the initial rate for a FIT is one of the more difficult challenges around implementing FITs. Too high a rate will overpay renewable companies, and too low a rate will stall market development. Policy makers should consider market-based metrics provided by reputable third parties (Solarbuzz, etc) in consultation with the solar industry in setting the initial price.
6. FITs can be funded from a variety of sources; funds can come from government funds, separately identified utility surcharges (to customers), or blended into rates. Policy-makers should establish long-term, sufficient funding to ensure a stable and sustainable solar industry.

## **II. Detailed Characteristics**

FITs can differ widely in details and can produce successful, cost-effective programs or something less so. The following are characteristics that should be included in any FIT:

1. Where appropriate, FITs should be offered by all utilities, including investor-owned utilities, cooperatives, publicly owned utilities, and load serving entities in restructured markets for systems up to 20MWs.
2. FITs should contain a "must take" provision, so that the utilities must offer the FIT to any project, subject to reasonable application, demonstration and audit rules, which should be developed prior to the implementation of the feed in tariff. Further, rules should be developed collaboratively by stakeholders and not unilaterally by utilities.
3. Rates should be differentiated by technology across renewable energy sources (wind, biomass, solar, etc.) and by project size, which may include residential, small commercial and large commercial, as appropriate.

4. Rates for new projects under the FIT program should diminish in response to increased volume (MWh) participating in the FIT program. The criteria for digression should be transparent, empirical and established well in advance of program implementation.
5. Rates and goals for a FIT should be reviewed when market penetration rates have been met as well as every two or three years. Alternatively, FIT programs can be designed to automatically adjust rates when goals have been met, enabling continuous market growth at a responsible cost without having to revisit rates on a calendar-based schedule.
6. FITs should feature 20-year contract lengths to support investment decisions. However, we recognize that some states may choose shorter or longer terms with accordingly revised FIT rates. If choices among terms exist, then the selection should be made by the generator rather than the utility.
7. FITs should allow for ownership of projects by both site owners and third parties. While the Solar Alliance supports utility ownership of solar generation, utility-owned projects should not be allowed to participate in the FIT. For more information, see the Solar Alliance policy paper on utility ownership.
8. In computing the amount of the FIT, RECs should be recognized and valued separately from the energy generated.
9. FITs should feature a monetary reservation guarantee that should be proportional to the size of the project and should have pre-determined milestones.