

USAID/PURA/NARUC NATIONAL FORUM: NEXT STEPS IN RENEWABLE ENERGY REGULATION

BANJUL, THE GAMBIA

“Feed-In Tariffs
& Renewable Energy”

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Feed-In Tariffs

- Only a handful of U.S. states have FITs
- Lack of popularity because:
 - Negative experience with NUG contracts
 - Jurisdictional issues with central government
 - We love Markets!
- Beneficial for jump-starting a dormant market
- Decreases risk for developers because of long-term price certainty
- Must be coupled with strong interconnection rights

Price Effects of FITs

- ▣ In competitive markets, FITs may provide a sufficient amount of energy on the retail side to reduce the amount needed from wholesale markets since the electricity is purchased directly by the utility, and therefore does not enter the wholesale market.
- ▣ Although non-participants may have higher bills, these are likely to be smaller costs spread across a large ratepayer base, and may or may not be discernible when commingled with other factors.
- ▣ While retail electricity rates may increase, the resulting growth in the renewable energy market may also stimulate the economy by creating jobs to site, develop, and build the systems (this is especially true during the construction phase of capital-intensive projects)
- ▣ If the FIT payments are structured to decrease overtime, eventually the fixed payment may fall below the market price offering protection to the ratepayer though this would likely happen towards the end of the contract lifetime
- ▣ Policymakers considering the rate impacts of a FIT will need to weigh whether the potential increases in non-participant bills are outweighed by the multiple benefits to the system that come from the inclusion of new resources.

FITs in the U.S.

- ▣ US had FITs in 1978 under the Public Utility Regulatory Policies Act
- ▣ PURPA was passed to encourage energy conservation and the development of new energy resources
- ▣ PURPA required utilities to purchase electricity generated from independent power producers at their avoided cost
- ▣ The long-run estimates of electricity costs were based on the reasonable belief that oil and gas prices would increase, leading to an escalating schedule of fixed purchase prices
- ▣ When oil and gas prices plummeted in the late 1980s, the existing Standard Offer Contracts were high
- ▣ The adoption of PURPA led to significant amounts of renewable energy generation in states such as Florida and Maine
- ▣ PURPA (and by extension FITs) continues to have negative connotations in the U.S. electricity industry today

New Jersey and FITs

- While not using FITs per se, we have structured some of our solar incentives to offer same protections of a FIT
- Our Renewable Portfolio Standard obliges suppliers to deliver to consumers a portion of their electricity from renewable energy sources
- To do this, they collect green electricity certificates, which are earned for every 1 MWh of renewable energy produced
- Suppliers purchases certificates in the open market, so there is little of the long-term price certainty which developers desire
- In order to get that price certainty, we created a solicitation process that allows developers to bid in their projects and request a set certificate price for a ten year period
- Instead of selling their certificates in the spot market, developers can receive a set price for 10 years
- Last solicitation prices: \$115-225 per MWh (or \$0.115 - \$0.225 per kWh)

Questions?

NJ's Renewable Energy Incentives are found at
<http://www.njcleanenergy.com/renewable-energy/home/home>



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