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Feed-In Tariff Strategy Presented At CVEP Roundtable



At the January Coachella Valley Economic Partnership (CVEP) Roundtable, in front of a capacity crowd, **Jim Ferguson**, attorney, former mayor and councilman of Palm Desert, explained his passion for roof top solar and a feed-in-tariff (FIT). A key proponent of the popular state AB 811 city program to help fund rooftop solar & energy efficient upgrades,

Ferguson is poised to take on Fannie Mae, Freddie Mac and anyone else who wants to stand in the way of putting solar on rooftops across the United States.

After a brief history lesson in California energy deregulation and the workings of power purchase agreements, Ferguson explained some of the motivations behind pushing for the original passage of AB 811. As former Mayor of Palm Desert, he was able to spearhead a drive to reduce the city's energy consumption by 20% "with very little effort." But once the crunch from statewide blackouts passed, the city energy usage returned to what it was before. Inspired to do even more, and reduce the city's consumption by 30%, Ferguson and a handful of others realized that in order to meet the goal it would require replacing old, pre-Title 24 air conditioning units and promoting rooftop solar. The biggest hurdle to accomplish those dual requirements was in the financing. That was, according to Ferguson, "the mother of invention that caused AB 811 to be born."

AB 811 (or PACE—Property Assessed Clean Energy) is a finance mechanism that allows people to borrow against the equity in their home to purchase energy saving air conditioners or energy generating rooftop solar. As Ferguson says, "Utility is not an option here (in the desert) as I told the legislature in California – it's a life decision. When the power goes out here, we don't just get a little sweaty – people die." In Ferguson's eyes, because energy is "a lifeline" here in the Coachella Valley, AB 811/PACE financing is critical and "a public necessity." Unfortunately, even though PACE has become a popular "nationwide phenomenon," a new glitch has developed. Due to increased federal home-financing regulations, specifically from secondary mortgage markets Fannie Mae and Freddie Mac, the PACE type-financing structure has been disallowed. Ferguson is now part of a lawsuit to reinstate such financing, but meanwhile further progress has come, "to a grinding halt" until national mortgage regulations can be modified to accept the program.

In the meantime Ferguson says, "What is really needed is

a national feed-in-tariff, or, if nothing else, a California state feed-in-tariff." What is a feed-in-tariff (FIT)? FIT is a program that requires local energy companies under some formula to buy the excess energy produced by rooftop solar. Presently, local energy companies merely offer an annual credit for any excess energy produced that resets every anniversary. In contrast, some European countries like Germany, with far less usable sunlight, offer their citizens up to 50 cents per kilowatt for excess energy generated. This is a huge boost to solar development and a lucrative incentive to every one who goes solar.

Ferguson is certain that energy costs will rise considerably in the future, but he admits, "If you make that investment (rooftop solar) now, it's going to cost you a little bit of money." Still, he goes on to say, "But in a short amount of time, say two to three years, you're going to hit the crossing point on the x/y axis where you're going to start saving a ton of money on what you would pay the utilities given future rate increases over the useful life of your capitalized equipment." By Ferguson's calculations, your rooftop solar will bring your electric rates to approximately 23.5 cents per kilowatt and then with rebates and other incentives, you can probably push it down to 15 cents.

The problem with existing rebates and incentives is that lenders tend to want to lend on things they can calculate, and there are too many unknowns with rebates and incentives for them to feel completely confident. That is why FIT offers such a viable solution. Ferguson is convinced that California, and hopefully the entire U.S., could become the premier example of how to make FIT work by developing "an investment grade tariff" that guarantees an investor a set 20-year return for roof top mounted solar. Once that number is benchmarked, lenders will lend and investors will invest.

Why isn't it happening now? According to Ferguson, "People are deathly afraid of feed-in-tariff." That is likely because many of the current examples in the European countries are very socialist and flawed. Instead, Ferguson's investment-grade-tariff appears much more viable. As Robert Hargreaves from Best, Best & Krieger LLP said following the presentation, "One of the biggest obstacles to a rapid build out of solar in the Coachella Valley is lack of a sufficient, guaranteed income stream. Jim's proposed feed-in-tariff would provide that much needed boost."

Interestingly enough, some Europeans are confused about the United States reluctance to support a FIT. Ferguson was recently asked by a member of the Berlin Energy Agency, "Why is it that the American's don't believe in the free market?" When Ferguson asked the man what he meant, the man explained, "You're the capitalist. Why don't you have a feed-in-tariff that lets the private sector come in and build your solar infrastructure, which would reduce your carbon footprint, take away your dependence on foreign oil, and provide you with a diversified energy source far into the

future?" Why indeed?

Jim Ferguson believes the most exciting aspect of FIT is the potential it offers our state and country. He is convinced that if all of California shaved 20% off its energy usage (like Palm Desert did several years earlier) that the amounts saved would be equivalent to that produced by 12 nuclear power plants, or all the oil now drilled in the Alaska Wildlife Refuge. Even better, Ferguson believes that if our country had a national FIT program, the United States would serve as an example for the world, be more energy independent, greatly reduce our carbon footprint, keep more jobs at home and provide a better national energy policy than ever before.

What's the next step to seeing such a program become a reality? According to Ferguson a test demonstration area is critical. The good news is that PG&E in Northern California is onboard with a plan. Unfortunately, SCE has been less interested but appears moving in that direction. Once a city or region can demonstrate the boon to solar development and the economic benefit to homeowners, plans can move forward. As Ferguson said, "How can we say it won't work and not even try it?"

When asked, a number of local business people expressed enthusiasm for such an idea. Kay Hazen, president of Kay Hazen & Company said, "We know from experience that policies can change the flow of investment in very real ways. Under Jim's leadership in Palm Desert, the AB811 program and policies delivered both investment and jobs for that community in very visible ways. I see the potential for a feed-in-tariff for the Coachella Valley to be an incredible economic development vehicle – incentivizing even the small user to maximize energy production and bring additional benefits including lower cost, encouraging small local production and local investment and creating jobs."

Michele Mician, Sustainability Manager for the City of Palm Springs said, "Jim's presentation was both inspiring and provided hope for the future of renewable energy projects in the Coachella Valley. As Jim reflected on his past experiences it reminded me that we at the local government level must continue to work diligently to assist in providing affordable and realistic solutions for our commercial and residential sector energy reductions, even if we are faced with challenges like the blow to our PACE programs. We can press on, get creative and find ways to reach our goals."

Regardless of what happens next with a statewide or national FIT, it is clear that the plans presented by Jim Ferguson are closer to becoming a reality every day. Wesley Ahlgren, COO of CVEP said, "I think the audience was impressed with the knowledge and efforts of Jim (Ferguson) and the City of Palm Desert to lead the way in development of a state pilot program in our region for a feed-in-tariff." Ahlgren concluded by saying, "This is another example of our region leading the way in renewable energy and a component of the total sustainability picture."

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