VERMONT

DEPARTMENT OF PUBLIC SERVICE

David J. O'Brien
Commissioner

For Immediate Release
January 25, 2010
Contact: Stephen Wark
(802) 828-4021

Report: Feed-In Tariff Will Hurt Economy

Analysis shows renewables legislation will result in higher energy prices, token job gains

Montpelier, VT – Today the Vermont Department of Public Service released a whitepaper that examines the recently modified SPEED renewable energy program a/k/a the standard offer or Feed-In-Tariff (FIT) - and its expected effect on electric ratepayers and the Vermont economy.

The analysis in the whitepaper concluded that the new law will cause Vermont households and employers to pay more for renewable electricity than they would have had to with only nominal gains in long tern employment. These outcomes contradict the intention of the legislation – to spur the economy through the creation of "green jobs".

In the 2009 legislative session, the General Assembly passed Act 45, "The Vermont Energy Act of 2009", that established specific mandatory price setting requirements for 50 MW of renewable energy technologies. Act 45 was a significant deviation from "least-cost" planning principles that have governed electric supply decisions of Vermont utilities since they were enumerated in state law in the early 1980's. Least cost planning mandates just that – utilities are to acquire power at the lowest cost for their customers. The FIT is a dramatic contradiction in that it dictates that utilities acquire more expensive sources of renewable power, thus raising electric rates charged to consumers beyond what is necessary to provide service in conformance with these principals.

Moreover, FIT locks in higher than market energy prices for up to 25 years – at a time when current weak economic conditions are pushing electricity prices downward.

This type of policy had been unsuccessfully tried in the past. In the 1980's, Vermont utilities were required to enter into contracts with in-state generators under a similar program known as PURPA. As a result of changes in the power market, it is estimated that these contracts have cost Vermonters $400 million above what ratepayers would have paid for market based alternatives.   Rates for the Feed in Tariff are based on the expected costs for the targeted renewable systems and the tariff targets the most expensive segment of the renewable technologies.

The analysis used in the whitepaper relied on economic modeling and incorporated the effects of 1) new renewable capital investments, 2) long-term maintenance and ongoing costs, and 3) changes in electric rates as a result of the higher than market prices Vermonters will pay. The following conclusions were included in the report:

- Electric rates as a result of the renewable energy projects will be higher than market prices. This increases the cost of doing business in Vermont and discourages job creation.

- Total costs for electricity resulting form the renewable projects will be higher otherwise, as much as 3% higher, at least until after 2024. The token economic benefits from FIT will have little or no impact on reducing unemployment.

- FIT is expected to promote approximately $228 million in renewable capital spending which includes an estimated $75 million from within Vermont – However, the Report did not address the economic loss of diverting investment away from more productive sectors.

- Initial renewable capital construction would create the equivalent of over 500 jobs for one year.

- Once construction on the projects conclude , the employment outlook changes and only 13 permanent jobs remain, mostly for maintenance;

- The above-market costs will create jobs in one sector (renewable energy) at the expense of other sectors where, for example, tourism based industries lose jobs as a result of the higher cost of doing business;

- The above-market prices will force households to spend more on their electric bill and less on all other items.

- The white paper raises the prospect that the FIT program may actually decrease penetration of renewable energy in the New England marketplace.

David Lamont, Director of Energy Planning at DPS, drew parallels between Vermont's feed in tariff and Spain's experience with higher than market prices through their own feed-in-tariff program. "While Spain's policy of offering above-market prices for renewables resulted in initial employment gains, the long term impact was higher energy prices and economic losses. Spain eventually abandoned this path because they simply could no longer afford the high energy prices and its effect on their national economy," said Lamont.

"A standard offer type tariff can be an effective policy tool if it is properly structured to reflect competitive market prices designed to encourage the development of cost efficient renewable systems. The restrictions on the design and timing of the current program did not allow development of a structure to the program that would produce a least cost mix of renewable projects", Lamont said.

David O'Brien, Commissioner of the Department of Public Service said, "While this experience does not detract from our view that renewable energy is an important part of our energy present and future, we must assure all consumers that we are buying renewables at the lowest possible price. As we strongly cautioned during the legislative discussion last year, it is self defeating to increase the cost of energy to Vermont employers in order to encourage investment in renewable energy that will have long term inconsequential benefits."

A copy of the report can be found at www.publicservice.vermont.gov

112 State Street ▪ Montpelier, Vermont 05620-2601
Telephone (802) 828-2811 ▪ FAX: (802)-828-2342 ▪ TTY (VT) 1-800-724-8390 ▪ E-mail: Stephen.wark@state.vt.us