

Do we really want solar energy at any cost?

by Roger Koopman

The PSC's decision making in two recent solar energy rate cases have been so mischaracterized by ill-informed reporters and editorialists, that some Montanans actually believe the five commissioners "have it in" for solar, and are using their authority to kill solar development in our state. This is absolute balderdash, and this is one commissioner who can no longer allow this politically-motivated disinformation campaign to go unchallenged.

For the record, I am a big fan of solar, as I am of emerging technologies of all kinds. As a free market enthusiast, I cheer on all energy innovators and entrepreneurs, and firmly believe that good public policy demands that we create an even playing field for all technologies, while providing special privileges for none. As a commissioner, being prejudicial and "taking sides" is simply not an option. Why? Because I am also duty-bound to protect the Montana consumer, assuring them "just and affordable rates," irrespective of the energy source. The law requires this, and I honor it. Indeed, federal law (PURPA) explicitly demands that in the process of the PSC authorizing renewables rates and contracts, we must establish "consumer indifference", i.e., renewables rates that hold the rate-payer "harmless" relative to the least expensive energy source otherwise available.

PSC commissioners must follow this law to the letter. If you don't like it, write your congressman.

For years, the Montana Consumer Counsel has maintained that very long QF (renewables) contracts make consumer indifference impossible to achieve, given the constant state of innovation and change within the energy markets. Level, 25-year contracts may match the market on day one, but within a few years they are far removed from the actual market value of the energy being produced and purchased. Under these circumstances, the ratepayer assumes all of the risk. This hardly qualifies as "just" rate-setting or good public policy.

MCC economists have also pointed out that when wind and solar power purchase agreements have embedded in them, a "presumed" future cost of CO2 regulation (carbon taxes, etc.), they are passing on to consumers a major price hike that doesn't now – and may never – exist. Better to have shorter length contracts that can be periodically adjusted to the market, and rates that reflect CO2 penalties only after they come into existence, than be locked into 25 year contracts based on sheer guesswork and the silly assumption that markets never change.

Afraid of political repercussions, previous commissions have generally dodged these issues. But not your current commissioners. Instead, we rolled up our sleeves and went to work. Consider the PSC's recent decision to suspend the 4-year old QF-1 solar energy rates (set at approx. \$66 per MWH) until updated rates could be established. Out-of-state developers were perched at Montana's borders, ready to rush in and take advantage of these inflated rates, reaping windfall profits at consumers' expense. Using the best information available, the PSC arrived at a current

rate about one-third of the old one -- saving ratepayers an average of \$2.6 million per project, while maintaining fair and accurate profit margins for developers. Included in our decision was the removal on the non-existent carbon tax, and the shortening of contract lengths from 25 to 10 years, with a re-set every 5.

It is widely asserted that guaranteed renewables contracts of less than 25 years cannot attract financing, but no evidence has ever been supplied to the commission to support this claim. Were it true, that would only be because these projects are too risky in the first place -- in which case, the ratepayer certainly should not be on the hook, guaranteeing business profits for 25 years! Shorter wholesale contracts protect all parties, and more closely match the retail rate reviews that happen every 4-6 years in the utilities' own rate cases before the commission. Remember also that shorter contract lengths do not alter in any way, the PURPA requirement that utilities continue to purchase power from the QF renewables, from one contract to the next.

If under these more accurate and consumer-neutral rates, some solar projects struggle to justify their investments, it is certainly not because they are being discriminated against. Billions in targeted subsidies, tax credits and loan guarantees -- together with state RPS mandates -- hardly constitutes discrimination! The problem all forms of energy development are facing right now is a market characterized by surplus supply and over-built capacity, which greatly drives down wholesale prices and the prospects of a profitable project.

I suppose some of our more adamant critics will blame the PSC for that, too.