FERC, you complete me

Last month, the Federal Energy Regulatory Commission (FERC) issued a ruling that could have a profound effect on the amount of small and medium-sized solar energy generation that states can achieve. Called "distributed generation" or "localized generation," this type of renewable energy has tremendous potential to be generated from the rooftops of our existing buildings and infrastructure.

Probably the best policy to encourage distributed generation is the "feed-in tariff," as described by our long-lost guest blogger Ken Alex. A feed-in tariff provides small- and mid-scale energy generators with cash payments from utilities for the renewable energy they "feed" into the grid. Currently, most building owners only receive retail credit on their electricity bills for the energy they generate — not cash. This system is not great for property owners that don't consume a lot of energy on-site. Feed-in tariffs, meanwhile, have successfully spurred widespread development of distributed generation resources in countries like Spain and Italy. But not here.

So why hasn't a progressive state like California been able to develop an effective feed-in tariff? Well, one critical barrier is federal policy at FERC. Under federal law, electric utilities could only offer contracts for wholesale energy (like that which comes from distributed generation) at rates that were no greater than "avoided costs." According to prior FERC rulings, "avoided costs" meant rates equivalent to the alternative cost of providing cheap, fossil-fuel based energy. Since no small- or mid-sized renewable system could compete with a dirty power plant on price, the current feed-in tariff in California stimulated little production.

But last month, FERC redefined the term to mean the avoided costs of similarly situated types of energy production, as well as avoided environmental costs. As a result, states will have more leeway to set feed-in tariff rates that are equivalent to the comparable costs of producing small and mid-scale renewable energy elsewhere. Stephanie Wang at Pacific Environment has more details. One critical limitation of FERC's ruling, however, is that it only applies to sources that are eligible as "qualifying facilities," a classification subject to federal law and numerous regulatory requirements.

Still, the pros for California are potentially huge: an attractive feed-in tariff rate could stimulate widespread deployment of renewable resources locally, eliminate or minimize the need to build huge, ecologically destructive concentrating solar plants in the desert (with their attendant transmission lines), and help California achieve its renewable energy goals

to fight climate change — not to mention create a lot of local jobs installing and maintaining these systems. The downsides? Potentially higher electricity rates for consumers, at least in the short term, and the possibility of a boom-and-bust cycle of solar deployment, as occurred in Europe.

Overall, FERC's ruling means California has the opportunity to make better use of its vast solar resources without destroying desert ecosystems, all while spurring the innovation and demand necessary to stimulate cleaner forms of energy production. The action will now shift to the California Public Utilities Commission to see what feed-in tariff policy the agency devises in response to the ruling. So we'll stay tuned, with one major federal barrier out of the way.