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Stimulus Package Recharges Renewable Energy

The 2009 economic stimulus package has changed the ground rules for investors. Projects considered unthinkable a year ago are now underway.



PPM ENERGY (BIG HORN WIND POWER PROJECT NEAR BICKELTON, WASHINGTON)

MUCH HAS BEEN WRITTEN about how the American Recovery and Investment Act of 2009—the economic stimulus package—will create green jobs, particularly in the renewable energy sector. Whether that happens remains to be seen. Clearly, when the government provides an economic incentive that closes the cost gap between renewable and conventional energy, the use of renewable energy grows. Germany’s solar industry offers a good example.

Germany is hardly the sunniest place in the world. Yet in 2005, it overtook Japan as the world’s leading producer of photovoltaic (PV) electricity, with 39 percent of global capacity, compared with Japan’s 38 percent. Germany also became the fastest-growing market for PV products, like PV cells. Its PV industry generates more than 10,000 jobs in production, distribution, and installation. How did this happen?

In 2000, Germany passed legislation requiring grid system operators to buy renewable energy at a fixed fee for 20 years from people who produce energy in their own homes. Although this “feed-in tariff” was designed to accelerate all forms of renewable energy, the solar power industry is by far the biggest beneficiary. Given the promise of a guaranteed return on their investment, tens of thousands of homeowners and businesses installed PV cells. As a result, demand for the cells climbed dramatically and margins on PV production costs dropped. Consequently, the cost per kilowatt of solar energy can compete favorably with conventional power.

The 2009 stimulus package does not contain a feed-in tariff provision, but it does contain significant incentives to stimulate the growth and cost-competitiveness of renewable energy. For example, the legislation:

- ▷ Establishes a 30 percent *investment* tax credit for projects that reequip, expand, or create a facility manufacturing equipment used in generating renewable energy, such as solar panels and wind turbines.
- ▷ Renews the *production* tax credit, which provides a 2.1-cents-per-kilowatt-hour benefit for the first ten years of a renewable energy

facility’s operation. Project developers can use this or the 30 percent investment tax credit or they can forgo these tax credits and apply for a Treasury Department grant representing 30 percent of the cost of eligible energy projects.

- ▷ Authorizes \$1.6 billion in clean renewable energy bonds to finance facilities that generate electricity from various specified sources of renewable energy.
- ▷ Establishes a \$6 billion loan guarantee program for leading-edge biofuels projects that use pilot or demonstration-scale technologies to produce fuels with reduced life-cycle greenhouse gas emissions compared with conventional transportation fuels.
- ▷ Funnel \$3.2 billion to states and local governments for energy efficiency and conservation block grants to fund projects to develop, implement, and install renewable energy technology, such as for solar energy, in government buildings.

Whether these incentives lead to the kind of growth in renewable energy in the United States that Germany experienced remains to be seen, but the new sources of funding can only help.

Last year, dozens of U.S. renewable energy projects were shelved as liquidity reserves dried up and many institutional investors left the sector for more lucrative investment opportunities. Project developers were unable to use the attractive tax credits because they lacked profits against which to apply them. The stimulus package has changed the ground rules for investors. Projects considered unthinkable a year ago are now underway. For example, in April, Invenergy LLC and GE Energy announced a wind project in LaSalle County, Illinois, using stimulus funds. GE Energy is supplying 74 1.5-megawatt wind turbines to begin the Grand Ridge Energy Center expansion, which, when completed, will increase the country’s wind power capacity by over 110 megawatts—enough clean energy to power 30,000 U.S. households.

More renewable energy projects are sure to follow. No disrespect to Gordon Gecko’s credo from the 1987 film *Wall Street*, “Greed is good,” but perhaps the new slogan on Wall Street should be “Green is good.” **UL**

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