

Good Policy Makes Good Business

Barry Cinnamon

California Solar Energy Industry Association
605 University Ave, Los Gatos, California, barry@akeena.net

ABSTRACT

In rapidly emerging industries like Clean Technology, lawmakers are challenged to come up with good public policy that will accomplish society's goals. Two notable new, well-funded policies such as the \$3.2 billion California Solar Initiative (CSI) and the proposed "Securing America's Energy Independence Act (HR550)" -- which would provide a \$3,000 per kilowatt federal tax credit for solar installations, are great for business.

For example, California's CSI will cost ratepayers \$3.2 billion, but will provide over \$6 billion in incremental savings by avoiding electrical infrastructure costs. The Governor's desire to achieve the results of this program within ten years - a short time frame for such an ambitious project is wise. Delay simply reduces the benefits available to Californians and dilutes the impact the state can have on cost-effectively improving its energy infrastructure, the environment, and the economy. As the timeframe for program implementation stretches out, the lost opportunity costs, in the form of infrastructure costs incurred, pollution not abated, and jobs not established, increase substantially.

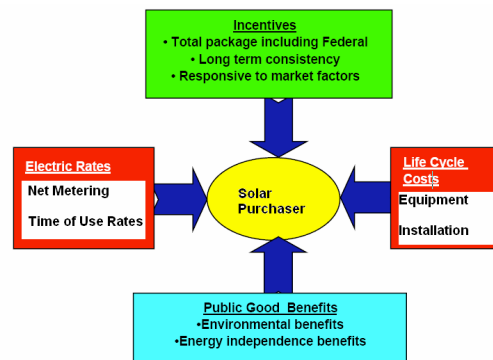
Moreover, designing a long-term program provides certainty for the necessary manufacturing and installation infrastructure to meet these goals. If the experience of Japan is any indication, at the end of this ten-year period there will be a sustainable solar industry in the state that will no longer require incentives and will continue to provide the benefits outlined in this paper for future years and will be unlike any other in the U.S.

In summary, there is a set of guiding principles which will ensure the development and implementation of an effective, cost- and time-efficient solar systems program that will deliver the benefits envisioned by the Governor's Office. These principles are:

- Include and quantify all of the benefits and costs of solar power when evaluating the program
- Create dynamic, market-based incentives that drive end-customer behavior
- Base analyses on actual market data to ensure effectiveness

- Retain the 10-year timeframe to provide assurances for long-term industry investment

The true drivers of the solar market are end-customers making purchase decisions in each segment. Although there is a great deal of political support for solar power among various segments of the population, at the end of the day these purchase decisions are economic decisions in which the customer roughly calculates his/her own net benefit from adopting a solar technology.



As shown in the above chart, the customer calculus includes all of the factors driving the cost of the solar system and comparing those to the potential savings the system can provide plus any "public good" factors (e.g., contributing to improving the environment). The current lack of a sufficiently adequate economic payback for many potential customers is a plausible explanation of why adoption rates are still relatively low, even though very high levels of support has been expressed towards reusable energy.

For consumers, while the public good benefits of solar are often what may motivate a customer to investigate solar in the first place, it is important to note that the purely economic equation must work for a purchase decision to be made. A recent survey of photovoltaic dealers regarding their customers' characteristics indicates that those consumers who make decisions purely or even mostly on environmental grounds are a small percentage of total purchasers, and in fact, an increasing proportion of new

customers were motivated primarily or exclusively by economic factors.

Commercial customers are entirely motivated by the economic benefits achievable through solar adoption, which include near-term savings, insulation from future electric rate increases, and promoting their own businesses through solar use.

Government customers are often similarly motivated, with some exceptions where the government entity wants to set an example by adopting solar.

Obviously, programs like CSI and HR 550 are great for business since they help to jump-start an entire industry. In addition, they are terrific for the environment. As a result, it's going to be a green light for investments in the solar industry with these policies in effect.

CSI and HR550 are examples of successful policies, but Cleantech companies should not stand on the sidelines waiting for the policy pendulum to swing their way. If a company or industry has solutions that, when fully implemented, are good public policies, then by all means these companies could actively advocate for favorable policies. Companies should indeed consider where their technologies are most beneficial, and then advocate for public policy that would accelerate their market adoption. Policies can be created by businesses.

REFERENCES

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