

Executive Summary

Ryohei Moriguchi

“Implementing feed-in tariffs: Lessons from willingness to pay studies and customer research”

Feed-in tariffs are policy schemes that have been very effective in countries such as Germany or Spain that have achieved considerable increases in renewable electricity capacity. The successes of feed-in tariffs are mainly attributed to their ability to guarantee future revenues of renewable electricity projects, thereby allowing developers to obtain financing at a lower cost. Compared to such legislative efforts in European countries, the policy framework in the United States has largely been insufficient in inducing the generation of renewable electricity. Considering that the U.S is well endowed with sources of renewable electricity, the country has fallen far behind.

In this report, I evaluate the political feasibility of implementing a feed-in tariff scheme in the U.S. In particular, I examine the claim made by several experts that a feed-in tariff would have difficulty achieving public support in the U.S since it is a non-market based approach in which the government sets the price of electricity generated from renewables.

The study results from the past willingness to pay studies suggest that in fact, Americans are likely to be favorable to a nation-wide feed-in tariff implementation. The dollar values of WTP across studies were found to be at a level high enough to fund an effective feed-in tariff model, based on a comparative analysis with the German feed-in tariff. Specifically, the German FIT resulted in an average household electricity price hike ranging from 2.32% to 7.46% of the total cost, whereas average American consumers are willing to pay 1.5% to 10% more on electricity to support renewable electricity. The willingness to pay values were observed to be different between types of sources of renewables, indicating the possibility of implementing a compensation system which pays different electricity prices. Also, customer market research results indicated encouraging preference patterns. Rather than a voluntary approach, the majority of Americans preferred to support renewables through a mechanism which distributes the cost with the entire population. In addition, significant portion of research participants indicated the

desire to stabilize electricity cost, which can be achieved under a feed-in tariff regime. Lastly, the patterns of willingness to pay and market research responses shifted much favorably towards feed-in tariff implementation when participants of the studies gained further understanding of the importance of encouraging renewable electricity production.