



# DAILY ENVIRONMENT



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**REPORT**

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## Energy

### **'Grim' Year Predicted for Renewables; Political, Financial Headwinds Cited**

**T**he renewable energy industry could face a "grim" year in 2011 as billions of dollars in stimulus funding formally destined for green projects dry up and a new political landscape takes shape on Capitol Hill, although industry representatives say they still see reason for optimism.

The results of the November midterm elections, in which Republicans gained six seats in the Senate and won control of the House by picking up 63 seats, does not bode well for the renewable energy industry, which by and large still relies heavily on subsidies that Republicans would like to see cut.

"It's going to be tough . . . for renewable energy companies dependent on government dollars," Kathleen McGinty, operating partner for Element Partners, a clean energy investment firm, said in an interview. "Some companies just won't make it, unfortunately."

Congressionally appropriated subsidies, such as tax credits, loan guarantees, and grants for renewable energy sources, which totaled \$19 billion in 2010, are expected to decrease dramatically in 2011, according to Kevin Book, managing director of research for Clearview Energy Partners.

"In all likelihood, this was the last big spend on clean and green," Book said in an interview. "There is less will to spend. We have a House of Representatives that is a stopper for subsidies that had been growing annually at 17 percent."

Instead, he said, Republicans are expected to reduce and reallocate subsidies to "the fuels they like better," such as ethanol and nuclear power.

**Less Money, Will to Spend.** "The big picture is grim," Book said. "There is less money to spend on all alternative and renewable subsidies and a great deal more of it will go to fuels other than historical renewables" such as wind and solar power.

In addition to subsidies, other legislative priorities of the renewable energy industry, such as a renewable electricity standard and other policy initiatives, are expected to be opposed by senior House Republicans, said McGinty, who headed the White House Council on Environmental Quality during the Clinton administration.

### **Top Renewable Energy Issues in 2011**

**T**he issues that will be at the forefront of the renewable energy agenda in 2011 include:

- a 112th Congress that is less likely to spend money on subsidies;
- lack of federal funding previously provided by the American Recovery and Reinvestment Act; and
- a possible clean energy standard that puts traditional sources of energy on par with renewables.

"I think it's reasonable to expect that its going to be tough sledding in the House from now on," she said. "Renewable energy is still a space that needs positive government policies in order to thrive and get to scale."

The shift comes as the stimulus programs funded by the American Recovery and Reinvestment Act, which the White House has said included \$80 billion in loans, tax incentives, and other spending mechanisms for clean energy projects, sunsets, taking away a sorely needed source of financing. The majority of those programs already have expired.

"We now see investment in renewables actually dropping in a variety of ways," Dan Reicher, Google's former director of Climate Change and Energy Initiatives, said during a forum held by the American Council on Renewable Energy in December. "Energy R&D spending is flattening out."

At the same time, challenges the industry battled in 2010, such as lower electricity demand and low natural gas prices, remain, making it harder for renewable electricity to compete in the marketplace.

"Depressed natural gas prices make life very challenging for renewable energy project financing," McGinty said. "The dramatic decline in gas prices has been very tough for the renewable energy industry."

**Industry Remains Hopeful.** Despite these challenges, many in the industry see reason for optimism.

"I share the perspective it's not as negative an outlook as presupposed in terms of there being legislation supporting renewables next year," Ethan Zindler, head of policy analysis at Bloomberg New Energy Finance, told BNA.

“The politics of energy have always been more regional than political, and it is possible now that everyone is all 100 percent agreed that cap-and-trade is dead,” Zindler said. “That may open up some new possibilities for a negotiated policy that is supportive of all kinds of domestic energy capacity building, including renewables.”

One bright spot in 2011 for the renewable energy industry was the inclusion of a one-year extension of a Treasury Department grant program, established under Section 1603 of the American Recovery and Reinvestment Act, that provides cash grants in lieu of tax credits for qualified renewable energy projects. The extension was included in tax legislation approved by Congress during the lame-duck session in December.

“For the solar industry, it’s huge,” Eric Hafter, senior vice president for Sharp Solar, said in an interview. “It allowed the industry to continue to grow.”

The program, which according to a White House memo has provided a total of \$18.2 billion in funding for 3,851 projects, is likely to become the subject of congressional debate again in late 2011 as the industry is expected to seek its extension until 2012.

Although Rep. Fred Upton (R-Mich.) criticized subsidies for the renewable energy industry in an editorial published during his race for the chairmanship of the House Energy and Commerce Committee, some observers have dismissed that as political bluster.

**Upton Called ‘Reasonable Person.’** “Upton has been a reasonable person in the past, so we are hoping he continues to be a reasonable person,” Steve Nadel, executive director of the American Council for an Energy-Efficient Economy, said in an interview.

Observers note that Upton, whose home state of Michigan has an unemployment rate of 12.4 percent, would not be likely to turn his back on renewable energy manufacturing jobs.

“Obviously, the change in the House was significant, but I think when we look at the landscape, we see a lot of opportunity,” said Lisa Jacobson, president of the Business Council for Sustainable Energy, which represents groups such as retailer Walmart and energy company PG&E Corp.

Others in the renewable energy arena, such as Denise Bode, chief executive officer of the American Wind Energy Association, say they plan on emphasizing to Congress that “one of the brightest spots in the economy is the growth of renewable and energy efficiency technologies.”

“Those are the real manufacturing opportunities in this country,” Bode said. While state governors “get it

that we’re all about economic growth, it’s more about having to make the case to insiders—the Washington policymakers . . . who don’t get it.”

And some Republicans might not be as opposed as they appear to renewable energy—at least not as publicly.

**‘Conservative Green Agenda.’** “We’ve had many people on both sides [of the aisle] come to us and say ‘What is a new renewable energy agenda?’ and some coming from the right side saying ‘Can you help us develop a conservative green agenda, but don’t tell anybody I asked you.’” Michael Eckhart, the president of the American Council on Renewable Energy, said during the organization’s policy forum.

While nearly all agree the chances of enacting a renewable electricity standard, such as the one introduced in the 111th Congress by Sen. Jeff Bingaman (D-N.M.), the chairman of the Senate Energy and Natural Resources Committee, to require utilities to obtain 15 percent of their power from renewable sources by 2021, is close to nil, a clean energy standard is seen as possible in the 112th Congress.

Unlike a renewable electricity standard, which would require utilities to obtain a significant portion of their power from renewable energy sources, a bill to establish a clean energy standard, such as one introduced last year by Sen. Lindsey Graham (R-S.C.), would allow nuclear, clean coal, and other sources of energy to count toward the goal.

In addition to Graham, who is expected to reintroduce a version of the legislation this year, Sen. Joseph Lieberman (I/D-Conn.) has expressed interest in such a standard, and Energy Secretary Steven Chu told attendees of a summit on nuclear energy he also supports a clean energy standard.

Many in the renewable energy industry have said their support for such a measure would depend on the details, and not everyone is completely on board.

“I do think it would be bad for the country,” said Scott Sklar, president of the Stella Group, a clean energy marketing and policy company and a member of the Commerce Department’s Renewable Energy and Energy Efficiency Advisory Committee.

“I think the brand that renewables and efficiency have of primarily zero emissions and zero waste is what the goal ought to be, and if you start bringing in every other technology there is, just in a cleaner format, you reduce the brand and the value,” Sklar said. “It may be in the end you are just subsidizing the traditional stuff.”

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