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Backgrounder

CLEAN Cities

A municipal financing option for supporting local renewable energy

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At a glance

Many cities across North America are in a unique position to support local renewable energy development and recover the costs from energy consumption. Utility franchise fees can be used to enable cities to develop local CLEAN contracts, the world's most successful renewable energy policies.

Fit for cities

Municipalities often lead in policies to harness local renewable energy opportunities and to reduce energy consumption. Many cities in North America have the authority to realize both integral energy strategies with one policy. The key is to use incremental franchise fee revenue to top up state or provincial net-metering programs, thereby creating an effective municipal CLEAN contract.

Clean Local Energy Available Now (CLEAN) contracts are widely regarded as the most successful policy in facilitating low-impact renewable energy quickly and, often, at lowest cost. CLEAN contracts, also known as at feed-in tariffs, are common across Europe.

CLEAN contracts pay a set price for renewably produced energy that covers the cost of generation and a reasonable profit.[1] This provides investment certainty and helps to attract financing options for interested residents, businesses and community groups.

Municipalities in North America are looking for ways to become local leaders in developing renewable energy. Gainesville, Florida, along with California cities San Antonio and Sacramento, are among many who have implemented or are developing municipal CLEAN contract programs.[2]

Using franchise fees

Not every municipality owns its local utility. To support renewable energy, a city could use general tax revenues, but franchise fees offer an opportunity to avoid general tax increases and also encourage energy efficiency.

Franchise fees are simply the price that utilities pay to cities annually for the right to serve the city's businesses and citizens and in lieu of property taxes on their equipment.

Many cities in North America, in regulated and deregulated electricity systems, can charge franchise fees to electric utilities for using city property, even where they do not own electric utilities. So long as local law also allows small

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[1] Renewable Energy Sources and Climate Change Mitigation (2011). Special report to the International Panel on Climate Change. http://srren.ipcc-wg3.de/report

[2] *Renewable Energy: FIT for Cities* (The Pembina Institute, 2010). www.pembina.org/pub/2133

electricity generating systems to feed electricity into the grid, like a net-metering system, a city can create its own CLEAN contract program using franchise fees.

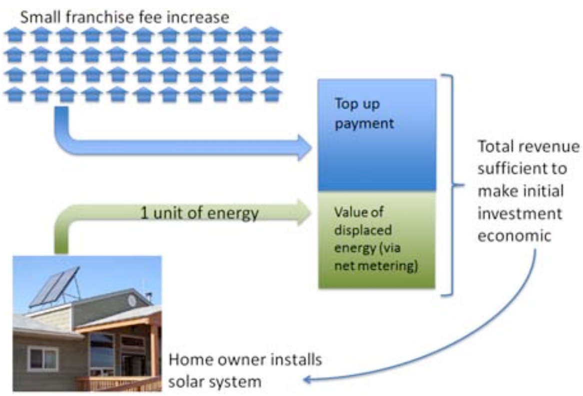

Figure 1: Using franchise fees to create a municipal CLEAN contract

The premise of a CLEAN contract is that a long-term (often 20 years) price is paid for the renewable energy that is produced, and is paid for by energy consumers. This is established for three reasons:

- The value of clean energy projects is actual energy that they produce, so it is most effective and accountable to link supporting mechanisms directly to long-term production.
- Most of the costs for renewable energy systems are up front, and so it is easy to determine what long-term price is needed to make such systems economic.
- Having energy consumers pay for the program costs ensures they are not subject to annual budgetary cycles. This creates long-term investment stability and ensures equitable distribution of costs.

Most states and provinces in North America have some sort of net metering policy, which allows individuals and businesses to install renewable energy systems and receive compensation for the electricity based on the value of the grid electricity that their system displaces. This does not recognize the true value of clean energy technologies, which do not cause the health and environmental costs of other electricity sources, and is rarely adequate to make such investments economic. Cities can "top-up" this price by incrementally increasing franchise fees, where possible, to fund a CLEAN contract program.

A city's authority to set its franchise fees varies by state and province. Often, cities can base the fee on the amount of electricity that the utility delivers to consumers, which the utility company then collects from customers. Some cities can impose this unilaterally while others negotiate the fee with the local utility. In either case, the city has the upper hand: the utility needs to use city property.

Cities are free to use their franchise fee revenue as they see fit. Often, they lump it into their general budget. But what more appropriate use is there for charges on energy use than funding local renewable energy to help meet that energy usage?

Implementing a CLEAN contract program

To implement a CLEAN contract program, cities should:

- Choose the types and sizes of renewable energy systems to support
- Choose a target for the amount of renewable energy systems to support
- Determine the level of incentive sufficient to encourage the target amount of systems
- Raise the franchise fee enough to fund the incentives, and set aside the funds
- Set up the meter-reading system to determine the amounts generated
- Start, perhaps, with a pilot program to initiate the program and gain key learning
- Advertise the program and engage the public on its roll-out and operation
- Review the program's targets for measured growth in subsequent phases

- Review and gradually lower payment rates as technology costs decrease

Cities as renewable energy pioneers

It was a municipality — Aachen, Germany — that implemented the first feed-in tariff program in 1993. Germany adopted the basic program design as a nationwide policy, setting it apart as a renewable energy leader among nations. The policy then spread around the world. This is just one example of a city as a renewable energy policy pioneer. It speaks to the vision and initiative of municipalities and their capacity to set trends for broader society and lead energy transitions.

Can we do it?

Many states in various stages of deregulation allow for franchise fees, including California, Florida, Illinois, Indiana, Michigan, Minnesota, Ohio, Texas, and others. Some municipalities have not yet exercised their powers to use franchise fees. Some that have already base the charges on energy usage, including cities in Illinois and Texas. A select, visionary few already use them for renewable energy programs. Two interesting examples:

- Some municipalities in Illinois devote a franchise fee charge to renewable energy and clean coal technology development.
- In 1999, Ann Arbor, Michigan, used its franchise fee power to implement a municipal renewable portfolio standard, requiring any electric utility company to use at least 3% renewable energy sources for the electricity that it delivers, with increases over the life of the program.

No cities have used franchise fees to set up a CLEAN contract program yet. However, the City of Edmonton, Alberta, has shown in a policy paper developed as part of its Renewable Energy Task Force[3] that such a program could be set up for less than $1 per residence per month.

Figure 2: CLEAN contracts can be developed for both solar photovoltaic and solar hot water systems (Photo: Gordon Howell).

More information

The Pembina Institute, *Renewable Energy: FIT for Cities*
www.pembina.org/pub/2133

The Pembina Institute — contacts, updates on the City of Edmonton's progress, and further information:
www.pembina.org/re

This document was made possible by the generous support of the World Future Council: **www.worldfuturecouncil.org**

[3] City of Edmonton, "Renewable Energy Task Force," www.edmonton.ca/environmental/planning/renewable-energy-task-force.aspx