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Global Project Finance

Japan Approves Aggressive Renewable Feed in Tariff Program

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Japan has enacted a groundbreaking renewable energy feed in tariff (FIT) that is expected to vault the nation to the forefront of renewable, and especially solar, energy development. Effective on July 1, 2012 Japanese utilities will be required to purchase energy from solar, wind and geothermal projects under 20 year FIT contracts with the following rates:

Technology	Small	Large
Solar	$.53 per kWh	$.53 per kWh
Wind	$.709/kWh (systems < 20KW)	$.284/kWh (systems => 20KW)
Geothermal	$.51/kWh (systems < 15MW)	$.335/kWh (systems =>15MW)

The Japanese solar FIT rates are robust when compared to current pricing in other feed in tariff programs:

Market	Rate	Price Difference
Japan	$.53 per kWh	--
Germany	$.24 per kWh	$.29 per kWh
China	$.17 per kWh	$.36 per kWh
California (Reverse Auction Mechanism)	$.089 per kWh (average high clearing price)	$.441 per kWh

Rates were set taking into consideration (1) the costs of installation and electricity generation, (2) the estimated amount of energy generated by renewable energy, (3) the service life of the project, and (4) a return on investment for the project developers. A **report** by Jefferies estimates that commercial and utility scale projects will achieve unlevered internal rates of return of approximately 20%.

Initial FIT rates were intentionally set at a high level to encourage developers to participate in the program early on. Rates are expected to remain high for the next 2 years, but will be reviewed and adjusted annually by an independent pricing committee. The entirety of the program is subject to review and, if necessary, revision every 3 years. A comprehensive study of the FIT program is required by March 31, 2021.

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The FIT will be funded by a surcharge on customers (currently about $1.95 per household per month), which will also be reviewed and adjusted annually. Industrial customers who have a ratio of electricity use to sales volume that exceeds 8 times the average ratio for that industry will pay a surcharge that is reduced by 80%. No surcharge will be imposed on victims of the March 11, 2011 earthquake and tsunami until April 1, 2013.

The principal objective of the FIT is to reduce Japanese dependence on nuclear and fossil power following the Fukushima Daiichi disaster. Currently only 2 of the country's 50 nuclear plants have been permitted to restart after being shut down for regular maintenance in the months following Fukushima and Japan is approximately 90% dependent on fossil plants (for which it imports 98% of the fuel). At a minimum, the tariff is expected to result in at least 3.2 GW of new capacity and $9.6 billion of new solar installations. As reported by Reuters, CLSA Asia Pacific projects that the tariff will expand Japanese installed PV capacity from 5 GW to 19 GW and wind capacity from 2.5 GW to 7.6 GW by 2016.

Detractors are fearful of the impact on rate payers and, in turn, the Japanese economy given the lofty tariff rates. Others have expressed concern that the proposed rates are unsustainable and will further propagate the boom and bust cycle that has become a renewables industry hallmark.

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