City of Milwaukee

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Proposal to create 196.01 (5) (b) 7. and 196.374 (2) (a) 2.f.of the statutes; relating to; exempting from public utility regulation, third party-owned renewable energy systems that sell energy directly to the host customer from the definition of a public utility.

Currently, Wisconsin citizens have only two ways to purchase energy for their homes or businesses: either they buy it from the local utility or they pay to have their own alternative energy sources installed on their property. Many end users of electricity would like to use on-site photovoltaic (PV) generation to hedge against volatile electric utility bills and reduce climate change impacts. One of the largest barriers to the deployment of solar energy systems is the high up-front cost.

A potential solution to these cost challenges is a model in which a third-party owner uses a power purchase agreement (PPA) to finance an on-site PV system. Third-party financing is an increasingly preferred means of financing on-site renewable energy generation. Currently available in over 20 states, these types of arrangements allow for a building owner to host a renewable energy system that is owned and operated by a separate investor. Under a third-party financing arrangement the investor sells electricity produced by a system to the host, which could be a business, homeowner, non-profit or government agency.

Third party financing mechanisms include both power purchase agreements (PPA) and leasing arrangements. With a PPA, the host agrees to purchase all the energy produced onsite. With a leasing arrangement, the host agrees to pay a fixed monthly fee that is not directly based on the amount of on-site generation. This agreement between the building owner and system owner occurs "behind the meter," and reduces the building owner's energy bill. It is not a direct power purchase agreement with a utility. The transfer of the up-front capital costs to an entity with greater access to capital, lower cost of capital, or greater ability to utilize tax specific incentives has been critical to commercial and industrial customers adopting the technology.

In Wisconsin, there is ambiguity of how this financing mechanism is viewed by the Public Service Commission. Because third-party owners of PV systems sell power to the hosts/end-users via the PPA, the owners could be considered sellers of electricity and thus utilities. If third-party owners are deemed to act similarly, they may need to be regulated as such. Being considered a utility presents a challenge for developers wanting to use the third-party owned systems would add administrative costs and development time to projects, making this finance model less economically appealing.

Wisconsin renewable energy business community will enjoy substantial and sustained growth if allowed to use the same tools that are available in over 20 states. Excluding third-party owned renewable energy systems from the definition of a public utility, is a policy tool that allows citizens to exercise their preferences for renewable energy at no extra cost to ratepayers and taxpayers.

Benefits to Government, Businesses and Residents:

- Enables building owners to control (or lock-in) energy expenditures through long-term contracts.
- Eliminates requirement of up-front capital investment by building owners to pay for the entire system.
- Provides another tool to businesses and community for achieving sustainability goals.
- Avoids performance and maintenance risks associated with system ownership.
- Eliminates the need for customer to become subject matter experts when wanting to invest in solar.
- Enables government and other non-profits (school districts, churches, etc) to partner w/ for-profit system owners that can take advantage of tax credits, thereby lowering installation costs which can be passed along directly to customers.
- Strengthens local economies by generating work for area businesses in equipment manufacturing, project construction and post-construction operation and maintenance.
- Increases sales tax collections through for-profit ownership of equipment and related spending activity (e.g., purchases of tools and parts, lodging, and meals).

More Information:

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