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Solar power experience may cost more than firms bargained for

Icarus paid for the cost of experience with his life. He flew too close to the sun, whereupon the wax that secured his feathered wings melted. In the dash to profit from a solar gold rush, kick-started by the introduction of Japan's renewable energy feed-in tariff act (FIT) on July 1, investor-developers are in danger of failing to consider the true cost of learning the business. For many, solar is a new and unfamiliar "space." The result could be diminished project profitability or total loss.

Under the new act, utilities must buy all the energy generated by firms from renewable sources. While other forms of renewables, including wind and geothermal, are included, solar projects are the quickest to install. They are easy to maintain and there are fewer regulatory hurdles to overcome. The attraction for participants is the guarantee of a fixed income at a rate of ¥42 per kilowatt-hour for periods of up to 20 years.

Unsurprisingly, solar is the talk of the town.

Everyone wants to get on the bandwagon, especially before March 31, 2013 — after which FIT rates will likely drop year on year over the next three years the act remains in force.

The mad dash into solar is reminiscent of the rush in the early 1990s into the Internet service provider business. Then, there was more enthusiasm than real understanding of what market entry entailed. Foreigners did not understand the regulatory framework. What worked internationally did not work in Japan. Many foreign firms made poor operational and investment decisions. Companies with the deepest pockets, such as Softbank Corp., made all the money.

Likewise with solar, there is a gung-ho mentality among foreigners who, it is feared, are jumping into yet another new market ill prepared. Unlike big Japanese firms such as Kyocera Corp., Toshiba Corp. and Softbank that have deep connectivity with utilities and local governments, most foreigners must build buyer and supplier relationships from

scratch. One solar developer I talked to said: "People are focused on the numbers but not on the nuts and bolts of doing it. For foreigners, there is no access to people who have done it before — people who have actually made money doing it." Again, the big Japanese firms stand to make all the money. This is not necessarily an unfair advantage; they have been doing business in Japan for a long time. They know how to do business here.

Applicants must conclude agreements with both the Ministry of Economy, Trade and Industry and a utility. However, the regulations are hardly transparent.

Questions abound: The utilities can refuse to accept power on "justifiable grounds." What are justifiable grounds? Nobody seems to know. What will it cost to run a cable from a proposed solar plant to the utility's interconnection point? That depends on its location. As foreigners are finding, utilities do not provide information

regarding location of the interconnection point at the initial planning stage of a project. When will utilities tell them? Nobody seems to know.

Need an applicant negotiate right of way permission from every landowner his feed-in transmission line traverses? Nobody seems to know. Does the applicant have a better chance of gaining approval if their proposed specifications include Japanese rather than Chinese photovoltaic modules? Again, nobody knows.

Given that market entry requires large upfront capital expenditure, failing to account for the true cost of experience could lead to serious financial loss. If you are thinking of jumping on the solar bandwagon, you better do so with eyes wide open. Otherwise, you might get more than you bargained for.

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