RESOURCE SUPPLY MANAGEMENT

Energy Procurement Energy Management

Renewable Energy Mandates

By Jim Clarkson

Legislation for federal energy policy has been a series of defeats for the anti-fossil-fuel environmental lobby. Sure, just like every energy group, they get subsidies for their pet technologies. What they did not get was a national mandate for utilities to buy renewable power and engage in expensive conservation and efficiency programs. As a result, the environmental lobby continues to focus on the states seeking what they have not obtained federally.

The environmental activist agenda—already achieved in many states — is to have each state mandate a "Renewable Portfolio Standard" (RPS), and to require utilities to engage in "Demand Side Management" (DSM). On the federal level, renewable mandates are called Renewable Electricity Standard (RES). The environmental lobby is also pushing a Clean Energy Standard (CES) which would include nuclear production.

RPS is the name for state laws that require electric utilities to purchase or produce a certain percentage of their electrical supply from wind, solar, and biomass generation. The mandate reflects the fact that such energy is usually more expensive than conventional sources, and often of lesser reliability owing to its intermittent availability. A DSM program doles out rebates and other incentives for high-efficiency appliances and such practices as weather stripping. The program involves significant cross subsidies between utility ratepayers. It also drives up overall costs, which are passed on to customers.

Consumer surveys find that about 75 percent of Americans say they support renewable power and are willing to pay modest premiums. However, when a local utility offers "green power" as a voluntary program, complete with the necessary surcharge, only about 2 to 3 percent of the customers actually buy it. Thus, the environmental lobby wants everyone to pay super-premium prices for power whether customers wish to or not.

Moreover, renewable generation programs have a sorry track record. The Carter Administration's Public Utility Regulatory Policies Act of 1978 (PURPA) required utilities to buy power from renewable generators and co-generators at prices set by state regulators. Expecting the price of conventional electricity to go ever higher; the more aggressive states, such as New York and California, set the price for renewables very high, to encourage their development. These utilities' resulting long-term contracts with renewable generators became a serious problem when lower-cost technologies developed, utilities greatly improved the efficiency of existing plants, and fuel prices returned to normal levels. Indeed, the high-cost legacy of mandated prices for renewable generation and co-generation remain in many states even today.

Demand Side Management became a fad among state utility regulators after the financially troubled nuclear programs of the 1970s and 1980s. Billions were spent on these conservation and efficiency programs. However, conservation and efficiency measures failed to stop the growing demand for energy. It turns out the more efficiently energy was used, the more energy was consumed. The assertion that conservation will reduce the economy's overall energy use is just wrong. Take the example of the typical household. If money is saved in the monthly budget from efficient appliances, the family has more money to spend on other things. Improved efficiency is a good thing when it is economical and raises our standard of living, but it will not stop the growing demand for energy. This phenomenon is inadequately recognized by many public policymakers.

We have been down this road of state energy mandates before. In the 1990s, state and federal lawmakers became enamored with the idea of allowing retail electricity users to have a choice of suppliers. What was imposed, though, was not a true market where government gets out of the way and lets arrangements between buyers and seller evolve naturally. Market participation was prescriptive and strictly constrained. Inevitably, it failed, at least on the retail level.

Nonetheless, at the time, the *threat* of competition made most utilities anxious to get rid of their above-market-priced supply contracts and expensive conservation programs. Fearing that new competitors without the burden of heavy-handed regulatory costs would take their customers, utilities (with the encouragement of regulators) began buying out and otherwise mitigating high-cost supply contracts. The nation's utilities also began eliminating wasteful programs, including DSM. Just the *hint* of competition led to vast improvements and cost cutting in the utility industry and reduced customer bills.

During this period of market rationalization, the environmentalists showed their true colors. The power that matters to them is political power. They know mandatory subsidies of renewable generation and conservation measures can only be accomplished in a centrally planned and regulated market where the political machinery exists to impose costs without consumer consent.

Environmentalists are staunch supporters of central planning, even when it does not promote conservation; and they oppose any moves toward competition, even when it benefits the consumer. That renewable power is expensive and conservation programs do little to reduce the need for new generation does not matter to these true believers. The stated goal of the program is more important than its achievement.

Utility executives and many state regulators know that, while imposing no real cost on the utility, mandated renewables and utility-run conservation programs are losers for consumers. Nonetheless, seeing the green writing on the political wall, both are ready to again pass on the costs of politically fashionable yet uneconomical programs for the sake of good press releases. Certainly, in a market setting there will always be a sensible amount of renewables and conservation as a part of our energy mix. The purpose of state-mandated RPS and DSM policies is to go beyond what the market decides and increase the application of these technologies much further than consumers want.

When consumers reject what the environmentalists want, they call it "market failure." But, what we actually have is government failure. Rather than protecting the property and liberty of the American people, state policymakers are caving in to a few zealots to reduce our standard of living. The regulatory premium we pay on the cost of electricity is going up.