

Questions of cost cloud renewable energy

[Bill Peacock](#)

Special to Houston Business Journal

The new year started out very well for the renewable energy industry in Texas.

First, Austin-based Whole Foods announced on Jan. 10 it would purchase enough renewable energy credits (RECs) from wind farms to offset 100 percent of the supermarket chain's electricity use.

Two days later, the City of Austin announced that customers of the Green Power program will pay lower rates than those who use electricity produced from conventional sources.

These events are a tremendous boon for proponents of renewable energy. However, the benefits to consumers and taxpayers are less clear.

To understand why, it must be remembered that the renewable energy industry also did quite well last year, with Congress and the Texas Legislature doling out large subsidies.

The link between this year and last shouldn't be overlooked. When fully implemented, the subsidies could provide as much as \$826 million a year to businesses producing renewable energy.

So while profits and favorable public relations may be increasing in the renewable energy industry, it is not because consumers and taxpayers, who are paying for the subsidies, are benefiting from cheaper, cleaner energy.

Renewable energy production in Texas is subsidized in many ways, including a federal 1.9-cent-per-kilowatt-hour (kWh) subsidy for wind production, the state's program for RECs (up to 2 cents per kWh) and reduced transmission costs. Thus, the subsidy for renewable energy could be 3.9 cents per kWh or higher.

With the price of renewable energy from Austin Energy only 0.13 cents per kWh less than conventional energy, it is easy to see that the cost of renewable energy is still higher than conventional energy. The subsidies merely shift the higher costs from producers to taxpayers and consumers of conventional energy.

These higher costs are even more apparent when it is understood that over the life of the Green Power program, the cost of renewable energy had risen more rapidly than that of conventional energy.

If not for Hurricanes Katrina and Rita, this would still be the case. In fact, Austin Energy warns that the future price of Green Power will probably increase, to a price that will likely top that of conventional energy.

Just like the true cost of renewable energy, the benefit of Whole Foods' purchase of RECs is difficult to discern, despite the claim that the purchase will avoid more than 700 million pounds of carbon dioxide pollution this year. Whole Foods is one of a growing number of businesses to take this step.

The purchase of RECs does nothing to change a company's use of conventional energy, or lessen the associated pollution. In most cases, all the purchase of RECs amounts to is a subsidy for renewable energy that has already been produced and used by someone else. It does not stop any pollutants from entering the atmosphere.

The subsidies for renewable energy through RECs brings us back full circle to the critical question: "Why are we subsidizing the high cost of renewable energy?"

There are two possible answers, both of which show the folly of our current renewable energy policy.

The first answer is that since renewable energy costs more to produce, policymakers have decided its benefits, i.e. reduced emissions and lower long-term costs, make the subsidies worthwhile. Unfortunately, these "benefits" are significantly overstated by renewable energy advocates.

Wind power often cannot produce electricity when needed because the wind isn't blowing. This intermittency problem means fossil fuel power stations must continually run as a backup.

Combining this with the pollutants emitted in the manufacture and maintenance of wind towers and their associated infrastructure means that substituting wind power for fossil fuels provides limited improvements in air quality.

Plus, as we have already seen, there is no indication that the price of renewable energy is trending below that of conventional energy. In fact, it is quite likely that the price of renewable energy is following the price of natural gas.

This should surprise no one. No matter how it is produced, electricity is a commodity that producers can easily sell at the market price.

This leads to the second answer: Renewable energy costs about the same to produce as conventional energy. Taxpayers and consumers are simply subsidizing the profits of renewable energy producers.

Both answers make it clear that the current focus on renewable energy is doing little to meet the energy challenges Americans face today.

A better approach would be providing for a consumer-driven energy market that efficiently allocates resources while reducing the burdensome regulations that hinder exploration of new energy reserves and development of nuclear energy.

This policy would promote a long-term, abundant supply of energy, at stable prices, with environmental and economic benefits that all of us could enjoy.

Bill Peacock is director of the Center for Economic Freedom at the Texas Public Policy Foundation, an Austin-based research institute.