

COMMENTARY

Renewable energy's real cost

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

First, Austin-based Whole Foods announced on Jan. 10 that it would purchase enough renewable energy credits from wind farms to offset 100 percent of its electricity use. Then, two days later, the City of Austin announced that customers of its 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. But 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 they are getting more profits and favorable public relations, 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 renewable energy credits (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 renewable energy credits 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 these credits does nothing to change a business's use of conventional energy, or lessen the associated pollution. In most cases, all the purchase amounts to is a subsidy for renewable energy that has already been produced and used by someone else.

The subsidies for renewable energy through such credits brings us back to the critical question, "Why are we subsidizing the high cost of renewable energy?" There are two possible answers. The first 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.

Wind power often cannot produce electricity when needed because the wind isn't blowing. This 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 seen, there is no indication that the price of renewable energy is heading 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.

A better approach to meeting our energy needs would be to provide for a consumer-driven market that efficiently allocates resources while reducing the 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 for all of us.

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