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Alternative Energy: Not Yet Ready for Prime Time

by Riazul Islam

Summary

In his 2006 Action Plan for Energy, Governor Ted Kulongoski says he wants Oregon to meet 25% of its energy needs with renewable energy by 2025. However, alternative energy technologies are not yet viable on the market and should succeed or fail on their own merits, not because government officials and lobbyists favor them.

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Over the past three decades, numerous groups and individuals, including virtually every Oregon governor and scores of politicians, have advocated widespread use of alternative energy sources such as wind, solar power and biofuels. Governor Kulongoski furthered this agenda by releasing his Action Plan for Energy in February 2006. The plan's goals are for the state to meet 25% of its energy needs with renewable energy by 2025, to introduce a renewable portfolio standard (mandating the percentage of electricity derived from renewable sources) developed by the Oregon Department of Energy, and to increase state tax incentives for alternative energy. Furthermore, in March 2006, Kulongoski declared that all state agencies would run on 100% renewable energy by 2010.

As the sixth-largest producer of wind energy in the country and a substantial investor in solar power and methane digesters (which use cow manure to produce electricity and more useful manure for fertilizer), Oregon is viewed as a leader in the alternative energy movement. A number of advocacy groups and government officials are pushing Oregon to adopt an alternative energy regime even more quickly. The current governor wants to build on Oregon's reputation as an energy leader.

"While renewable energy may seem desirable, there are a number of reasons why the state should stop mandating adoption of alternative energy sources. The most important is…that alternative energy sources are not currently viable."

While renewable energy may seem desirable, there are a number of reasons why the state should stop mandating adoption of alternative energy sources. The most important is the fact that alternative energy sources are not currently viable. Even with today's high energy prices, alternative energy is still not profitable, with the average unit of wind energy costing 12 cents/kilowatt hour (kWh) and solar energy costing 27 cents/kWh. The average national electricity cost is only 6.5 cents/kWh. Very little data on methane digesters is available, but optimistic claims assert that electricity would have to cost 8-10 cents/kWh to make methane digesters profitable. The simple fact is that alternative energy is not profitable in today's market.

After the oil crises of the 1970s, a number of companies, such as Exxon, invested heavily in alternative energy, especially wind energy, and sustained heavy losses in the process. As a result, over the past 27 years, no large energy companies have done any

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significant research on alternative energy. While companies such as BP, Chevron and Royal Dutch Shell have been promoting themselves as clean energy companies, none of them have truly pursued alternative energy as a profitable business.

Subsidies, tax credits and grants have made it very easy for individuals and companies to purchase and install their own alternative energy generators. In a recent study by *ECONorthwest*, two of the three highest factors for commercial users in purchasing solar equipment are "Return on Investment and Rebates" and "Tax Credits." In a recent *Daily Journal of Commerce* article, wind energy proponents admit that the government is necessary to build demand and to persuade consumers to purchase renewable energy. Studies on methane digesters tell the same story. Companies involved in methane digester projects, such as Portland General Electric, have decided they cannot fund these projects on their own in the future. Government aid, not the market, is the real engine driving the boom in alternative energy.

While alternative energy costs have fallen dramatically over the past thirty years, none have reached the level where any alternative energy source can compete with traditional forms of energy. Subsidies and tax breaks provide incentives to adopt alternative energy, inducing consumers to purchase goods that are simply not market-friendly. The Energy Trust of Oregon, for example, plans to spend $29.8 million subsidizing alternative energy this year. The organization is funded by a 3% sales tax on customers of Portland General Electric, Pacific Power & Light and Northwest Natural Gas and spent $53 million of taxpayer money in 2005.

A number of promising technologies are emerging in both alternative and traditional energies. The falling costs of wind and solar energy, improvements in methane digester technology, CO_2-free coal plants, third- and fourth-generation nuclear power plants with improved safety designs, and many other developments and innovations are pouring out of laboratories, universities and companies performing research and development. These technologies should succeed or fail on their own merits, not because government officials and lobbyists in Salem or Washington, D.C. favor them.

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