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RENEWABLE ENERGY FAILURE

WHY GOVERNMENT MANDATES DON'T WORK AND WHAT THEY WILL DO TO OUR ECONOMY



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Renewable energy has long been hailed as the cure-all for Oregon's economy. "Good policy, good for economic development, good for the environment," the Oregon Department of Energy declared.¹ Sounds too good to be true doesn't it? That's because it is. Good public policy enables long-term achievement while also enabling short-term success. The reality of the energy policies coming out of the State of Oregon and the City of Portland is that they do neither.

Recent policy efforts from the City of Portland and the State of Oregon are attempting to forcibly lay the groundwork for "green" energy through adjustments to the energy market. While renewables very well could be the future, legislation that forces the use of renewable energies despite the resistance of the economy distorts the free market, reduces our freedom and raises the cost of doing business, thus endangering economic growth.

PORTLAND'S RENEWABLE ENERGY FAILURE

In April 2001 the Portland City Council under the leadership of Mayor Vera Katz approved an aggressive plan aimed to combat global warming by decreasing carbon emissions by 10% from their 1990 levels by 2010, thus making Portland an icon in the renewable energy movement. An important part of this plan mandated that the City of Portland acquire one hundred percent of its energy from renewable sources by 2010. This would be accomplished through the purchase of renewable energy certificates (RECs) from public utility companies, renewable energy

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installations at city and county facilities and the sponsorship of local renewable energy projects. Nine years later the City of Portland has demonstrated the ineffectiveness of a government-led push for renewables by utterly failing to achieve its goal of 100% renewable energy. As of 2010 only 9% of the Portland city government’s power comes from renewable energy sources.²

Following the passage of the Local Action Plan on Global Warming in 2001, the City of Portland’s Office of Sustainable Development purchased short-term three-year renewable energy certificates for \$42,500 to account for 10% of the city government’s power consumption.

Renewable energy certificates represent the environmental attributes of electricity generated from renewable sources. Portland subsequently entered into contract negotiations with PPM Energy in 2007 to purchase RECs. However, these contract negotiations eventually fell through as PPM elected to sell to Washington State and California instead of to the City of Portland. This left Portland in 2007 hardly any closer to achieving 100% renewable energy than it had been in 2001 when the goals were proposed, despite expending \$110,000 on consultants and “quite a bit of staff time.”³

According to one city official, the goals were unattainable due to a need to “balance desire for clean energy and fiscal responsibility.” The cost to purchase renewable energy certificates from public utility companies is over 100% higher than the city anticipated. The city has since conceded that to reach the goal of 100% the city will need to produce the power on its own instead of purchasing RECs. City officials claim that an overabundance of demand and lack of supply led to the unreasonable renewable energy prices; but with demand from private consumers nearly non-existent, high prices resulting from low levels of supply are hardly surprising.

Only 10.72% of Portlanders elect to purchase energy from renewable sources. Only 2% of Oregonians overall purchase renewable energy credits from public utilities through voluntary systems such as the Green Power Program administered by PGE.⁴ Predictably, this lack

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of voluntary demand resulted in an underdeveloped renewable energy supply infrastructure, and so 2010 prices for renewable energy are high. Without a significant private consumer base, energy suppliers have little incentive to develop affordable and effective sources of renewable energy, if that is even possible.

The City of Portland defines renewable energy sources to consist of solar, geothermal, wind, ocean wave and small hydroelectric (notably excluding large hydroelectric power, a backbone of Oregon’s current portfolio). These are simply not cost-effective sources of power. Wind power, even produced efficiently, costs nearly double the hydroelectric and coal combination currently used in the State of Oregon. Commissioner Erik Sten, the primary sponsor of the 2001 legislation aiming for 100% renewable energy, stated in 2005 that “Portland’s efforts refute the thesis that you can’t make progress without huge economic harm,” but this simply is not the case. Acquiring 100% of city government power is not only expensive, but unrealistic as well. The City of Portland must realize that in the interests of reliability and fiscal necessity wind and solar cannot be the primary sources of Portland’s power, but rather they must function as backups to more reliable sources of energy.

OREGON’S RENEWABLE ENERGY FAILURE

The City of Portland’s attempt is not the only example of a government-led push to adopt renewables. In 2005 Oregon Governor Ted Kulongoski established goals for all state agencies to achieve 25% of their electricity consumption from new renewable sources by 2010, thus excluding preexisting hydro projects. Apparently not fazed by the challenge of the goal, Kulongoski revised it in 2007 to be 100% of state

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“Ratepayers have begun to see increases in electricity rates due to legislative mandates forcing renewable energy onto the grid, but this is just the beginning of higher electric rates and lower economic growth.”

government power from renewable sources by 2010, despite no noticeable success in achieving the initial goal.⁵ This was a difficult task for state government, especially given that this mandate was not accompanied by additional funding to make it achievable.

As the case of Portland illustrated, in order to reach these energy goals the state would need to begin to produce the energy on its own. This led to introduction of 2008 Senate Bill 168 (SB 168). SB 168 would have authorized state government agencies to allow the construction of renewable projects on state lands, as well as to allow for the purchase of RECs. While designed to be a cost-saving measure, even by generous estimates SB168 would cost Oregon taxpayers an additional \$208 million annually to satisfy Kulongoski’s mandate of 100% new renewables.⁶ SB 168 ultimately failed in the Senate due to fiscal and political backlash. While it is possible that SB 168 would have made 100% renewable energy for state agencies a possibility, it would have done so at great expense to taxpayers and only to satisfy a political lust for a “green” legacy.

Without any official notice to Oregonians, Governor Kulongoski and state officials realized they would never reach the 100% goal by 2010. The goal was revised in early 2010 to the original stated goal of 100% renewable energy by 2025. Fortunately for Governor Kulongoski and his staff, there will be no accountability on whether this goal will ever be reached. According to the Governor’s communications director, the goal was revised based on the “reality of the day.” “Economic challenges” played a large role in not meeting this goal. The current status of renewable energy for state government lies around one to two percent.⁷

THE STATE OF OREGON CONTINUES TO PUSH FOR RENEWABLES

Similarly, the Oregon legislature passed a bill (Senate Bill 838) in 2007 mandating that 25% of every major utility provider's portfolio be from renewable energy sources by 2025.⁸ While the Oregon Department of Energy promises this drive will result in job creation, economic development and protection from volatile fossil-fuel prices, the City of Portland and the State of Oregon's experience demonstrates that this attempt to force the adoption of renewable energy ultimately will result in little more than higher utility costs for all ratepayers if it is even achievable at all.

“ Forcing citizens to purchase renewable energy at any cost is not only unjust but is not the proper role of government, either. ”

The Oregon Department of Energy claims that SB 838 will result in job growth, as a total of 1,250 jobs are created for every \$100 million spent on renewable energy. The problem with this logic is that the increased costs, either through taxation or other costs of doing business, needed to create new jobs in the energy sector results in a loss of jobs in other sectors. This is the crucial problem with government-led job creation: The funds used to create these jobs have to come from somewhere.

The bill seeks to protect consumers from rising energy costs by stating that energy costs may rise no more than four percent annually or energy companies are exempt from the renewable energy requirement. Four percent compounded annually over 15 years (2010-2025) is about an 80% increase in the cost of energy. While some can afford that, many cannot. An 80% increase in energy costs is not conducive to economic growth, even if it does shield Oregonians from volatile fossil-fuel prices, which is debatable.

This mandate, as the City of Portland and the State of Oregon already have experienced, will lead to increased costs. Electric utilities are guaranteed a rate of return and can pass on all costs to the ratepayer.

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This means that significant economic damage will be done over the long term. Ratepayers have begun to see increases in electricity rates due to legislative mandates forcing renewable energy onto the grid, but this is just the beginning of higher electric rates and lower economic growth.

WHAT IS THE END RESULT?

It would be wise to learn from previous failures and realize that the renewable portfolio standards will be extremely costly and most likely unachievable. If Oregonians value and can afford renewable energy, there is an option. Ratepayers can support renewable energy through voluntary programs. In the end mandates force all ratepayers to pay the cost of expensive renewable energy whether ratepayers value it or not. Not only does this system destroy choice for ratepayers, but it also puts undue financial burden on citizens and businesses in the state.

Portland has spent hundreds of thousands of dollars only to realize that the goal put forth in 2001 was infeasible. Portland has again and again stated its desire to be an icon in the green energy movement, but we must not let politicians' desires trump the reality of reaching these goals.⁹ Considering the economic environment in which the City of Portland currently finds itself, there is no doubt that taxpayer funds could be allocated more effectively.

The State of Oregon's experience of pushing for renewables under Governor Kulongoski demonstrates that the establishment of energy goals is much easier than actually meeting those goals. It also shows that after enacting a goal, there is no accountability or media follow-up on whether the goal was achieved—or whether it was a good idea to begin with.

Senate Bill 838 and the City of Portland's Local Action Plan on Global Warming may be good politics, but they sure aren't good policies. Legislators need to take a step back and realize that raising energy costs for Oregonians won't be a step forward. Forcing citizens to purchase renewable energy at any cost is not only unjust but is not the proper role of government, either.

ABOUT THE AUTHORS

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ENDNOTES

¹Oregon Department of Energy, *Oregon's Renewable Energy Action Plan*, (Salem, 2005):2.

²Interview with David Tooze, Senior Energy Specialist for the City of Portland, conducted in summer of 2010.

³Ibid.

⁴Oregon Department of Energy, *Oregon's Renewable Energy Action Plan*, (Salem, 2005).

⁵Available at http://www.oregon.gov/Gov/p2006/press_031006.shtml

⁶This calculation assumes the Oregon Department of Transportation's figure of 58 cents per kWh as expected from the photovoltaic highway project that is expected to produce 112,000 kWh annually.

⁷Interview with Anna Richter Taylor, Governor Kulongoski's communications director. December 1, 2010.

⁸Oregon State Senate, *Senate Bill 838*, (Salem, 2007).

⁹City of Portland Department of Sustainable Community Development, *Local Action Plan on Global Warming*, (Portland, 2001), and City of Portland Department of Sustainable Community Development, and City of Portland Department of Sustainable Community Development, *Climate Action Plan: 2009*, (Portland 2009).