Position Statement to House Energy and Environment Committee

HB 2241 Renewable Energy Mandate

March 19, 2013

Dave Trabert, President

Chairman Hedke and members of the Committee:

We appreciate this opportunity to provide information as you further consider a restructuring of the Renewable Energy Mandate as proposed in HB 2241.

We have no objection to production of renewable energy. Entrepreneurial freedom to create new business models not only encourages innovation, it fosters competition and creates multiple benefits for consumers. Our objection is that the mandate forces utility companies to purchase more expensive renewable energy and pass those costs on to consumers.

Indeed, if the economics were as represented by wind energy proponents there would be no need for legislation to require utility companies to purchase wind and other renewables. Utility companies would act rationally and purchase it without being required to do so. The very fact that wind energy proponents fight so hard to keep those mandates in place flies in the face of their economic claims.

Last year, Kansas Policy Institute published "The Economic Impact of the Kansas Renewable Portfolio Standard" in conjunction with The Beacon Hill Institute at Suffolk University. The dynamic model used in that study shows that electricity rate increases will range from 13% to 72% higher than would otherwise occur by 2020, with a realistic average increase of 45%.[1]

The economists who prepared this analysis found relatively small rates increases in the early years of the mandate, but much higher costs kick in as mandated usage levels increase to 15% and 20%.

[1] David G. Tuerck, Paul Bachman and Michael Head, "The Economic Impact of the Kansas Renewable Portfolio Standard," page 3; published by Kansas Policy Institute, July 2012.

Producers of renewable energy receive an economic benefit from the government mandate, but that comes at the expense of everyone else. The dynamic analysis used in the Beacon Hill study commissioned by Kansas Policy Institute shows the following net negative economic impacts:

- Reduce employment by an average of 12,110 jobs, within a range of 3,615 jobs and 19,609.
- Reduce real disposable income by $1.483 billion, within a range of $443 million and $2.402 billion.
- Decrease business investment by $191 million, within a range of $57 million and $310 million.
- Increase the average household electricity bill by $660 per year; commercial businesses by an average of $3,915 per year; and industrial businesses by an average of $25,516 per year.

Some proponents of the forced purchase of wind energy have published reports that show electricity prices will not increase nearly as much as estimated in the report we commissioned from The Beacon Hill Institute at Suffolk University (BHI). (They do, however, acknowledge that prices will increase.) The research economists at BHI examined several reports, including the one published by the Kansas Energy Information Network, and noted several important methodological factors that account for the difference between our dynamic analysis and their conclusions.

To begin with, our dynamic analysis is designed to show net consequences to the overall Kansas economy, whereas other reports are only focused on the economic benefits to the wind industry. For example, the economic benefits listed on page 16 of the KEIN report only show how the wind industry benefits; they ignore the opportunity costs and foregone economic activity that would have occurred otherwise. Investments made as a result of federal subsidies (using taxpayer money) have economic consequences, as does requiring taxpayers to purchase energy at higher prices.

The economic impacts listed above from our dynamic analysis take the benefits enjoyed by the wind energy into account but the net result to all citizens is negative.

Our dynamic analysis also takes cost factors into account that are not included in other reports, including:

- ✓ Backup generation: we include calculations to correct for the fact that wind power is intermittent and requires 'spinning reserve', leading to a decrease in the amount of conventional generation that is actually eliminated.

- ✓ Diminishing marginal returns: as larger shares of electricity comes from wind power, each addition MW of capacity will have diminishing returns, as the most ideal locations are taken.

- ✓ Our study looks at the results of the fully implemented policy under current law, which is 20% in 2020. Many other studies look at the 2010 or 2011 cost effect which moves to the relatively easy goal of 10%.

It should also be noted that our dynamic analysis does in fact take specific Kansas factors into account. For example, "EIA projects a 34.4 percent capacity factor for wind power at a national level, but, as explained below, historical data for actual wind farms in Kansas provided us with an average estimate of 38.6 percent."[2] Our study also states that "Kansas is perhaps one of the better locations for wind power. A relatively steady, strong amount of wind leads to wind farms being more productive then the national average. To account for this special case we used more localized capacity factors. We used the high, low and average capacity factor from actual average capacity factors of four wind farms in Kansas."[3]

Even if the increases in electricity prices caused by the mandate are on the low end of our dynamic analysis (13% by 2020; the mid-range estimate is 45%), the question before legislators is whether consumers and employers should be forced to pay higher prices in order to support the wind industry. The adjustments to the mandate in HB 2241 would avoid the worst of any cost increases because they are associated with the 20% mandated level.

We believe it is in Kansans best overall interests to adopt HB 2241 and avoid unnecessary rate increases. You should also know that Kansans generally agree. A recent statewide public opinion poll shows that 51% of Kansans saying legislators should not force higher electricity prices on them.

Question 9: "In 2009, the Legislature passed a law that requires utility companies to purchase electricity generated by wind and other renewable sources. This action will cause electricity rates to increase because renewable energy is more expensive. How would you respond to this statement: Legislators should promote the use of renewable energy, even if doing so causes electricity rates to increase."

[2] Ibid, page 5.
[3] Ibid, page 6.

500 Adults	All	Age				Income			Region			
Margin of Error: ±4.5%		18-34	35-49	50-64	65+	< $40K	$40K - $80k	> $80K	Western KS	Wichita Area	KC Area	Eastern KS
Strongly agree	19%	22%	16%	18%	19%	14%	20%	25%	16%	13%	22%	19%
Somewhat agree	26%	31%	28%	22%	21%	21%	27%	32%	24%	21%	27%	28%
Somewhat disagree	25%	31%	23%	21%	25%	33%	18%	21%	16%	38%	18%	26%
Strongly disagree	26%	12%	28%	36%	30%	28%	28%	21%	42%	24%	27%	22%
Not sure	4%	4%	4%	3%	5%	4%	6%	2%	2%	4%	6%	4%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Adult Composition	100%	27%	29%	27%	17%	39%	35%	26%	12%	17%	24%	47%

500 adults from the entire state of Kansas were interviewed by SurveyUSA 01/24/13 through 01/27/13, exclusively for the Kansas Policy Institute. Additional responses for this question and the entire questionnaire are available at http://www.surveyusa.com/client/PollReport.aspx?g=a7839fb7-9943-4287-9320-653841b9996b&c=214

The response of citizens with household income below $40,000 is especially noteworthy, as these are the people who will be hurt the most by forcing them to pay higher electric rates. They are understandably very opposed: 61% disagree with the policy while only35% agree.

Any economic benefit from a Renewable Energy Mandate goes to those within the wind industry and comes out of the pockets of everyone else. We hope you will come down on the side of everyone else and report HB 2241 out favorably to the full House.