



Testimony to Joint Committee on Energy and the Environment

Cost of Renewable Energy Standards in Kansas

November 20, 2012

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Mr. Chairman and esteemed members of the Committee:

It is a distinct honor to appear before you today and present testimony on the cost of Kansas' Renewable Energy Standard. We appreciate the invitation to appear and commend the Committee for its leadership in revisiting a program implemented in 2009, which requires utility companies to purchase varying amounts of renewable energy.

Before getting into specifics of this mandate, I would like you to think about a couple of hypothetical mandates.

Imagine that Kansas had a mandate saying that Kansans must have a meat-free diet three days per week. Some people believe eating too much meat is not healthy and might justify the mandate as a public health issue. Others might cite environmental justifications, believing bovine methane to be a serious issue.

Or imagine that technology advances to the point where wind energy, even without subsidies, is by far the cheapest form of energy available. Now imagine how Kansans would feel if the state forced utility companies to buy higher-priced electricity generated by fossil fuels.

How do you think Kansans would feel about having their freedom restricted by these mandates? My guess is they would probably be pretty upset.

Yet here we are today talking about a mandate that requires Kansans to pay higher electricity rates.

Earlier this 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 be range from 13% to 72% higher than would otherwise occur by 2020, with a realistic average increase of 45%.¹

We are not opposed to the development of alternative energy. If electric utilities can purchase renewable energy at better prices, more power to them. There is no dispute that wind and other sources of renewable energy are more expensive than fossil fuels. There is some disagreement over

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.

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how much more expensive renewables are, but even wind producers acknowledge that wind is more expensive.

That may not always be the case. Technological advances may one day make wind or some other forms of energy the low cost alternative without taxpayer subsidies, so there would be no need to mandate its use. But today, government mandates the purchase of renewable energy to force consumption of a higher-cost product.

There is plenty of time for technology to evolve. According to the U.S. Energy Information Administration, "Proved reserves of U.S. oil and natural gas in 2010 rose by the highest amounts ever recorded since the U.S. Energy Information Administration (EIA) began publishing proved reserves estimates in 1977."² In fact, proved reserves of oil and natural gas increased by 6% and 66%, respectively, between 2001 and 2010.³ The jump in proved natural gas reserves is particularly noteworthy as it is driven by technological advancements more so than exploration.

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 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.

It is the legislative policy of Kansas that residential utilities are exempt from sales tax, presumably because legislators understand the negative economic consequences inflicted on citizens. This renewable energy mandate, which forces consumers to pay higher prices, functions the same as a utility tax. The consequences, however, are much direr because of the larger price increase.

A new report from Site Selection Magazine underscores just how important utility prices are to large employers. Their 2012 survey of site selectors put Utility Infrastructure As their third greatest concern, right behind the State and Local Tax Scheme and Transportation Infrastructure.

² "U.S. Crude Oil, Natural Gas, and Natural Gas Liquids Proved Reserves, 2010," page 1, U.S. Energy Information Administration, August 2012; available at <http://www.eia.gov/naturalgas/crudeoilreserves/pdf/uscrudeoil.pdf>

³ Ibid, using data provided in Table 4, page 19.

The economics are important but the loss of freedom resulting from government mandates of this nature is of equal concern.

Legislators and citizens were likely unaware of the negative economic consequences of The Kansas Renewable Energy Standard when it was passed in 2009 because the State does not use comprehensive dynamic analysis to prepare fiscal notes. But now that the real costs are known and even more natural resource reserves are available, we believe Kansans would be best served by repealing the mandate.