

Protect Electricity Consumers and Existing State Renewable Power Programs: Congress Should Oppose a Mandatory Federal Renewable Portfolio Standard

Electric utilities support the development and greater use of cost-effective renewable technologies for electricity generation. Promoting renewable energy resources, through tax credits and increased funding for research and development, in addition to renewable energy programs in the states, will help expand the use of renewables as part of our nation's diverse fuel mix and reliable electricity supply.

However, an amendment that may be offered to the energy bill on the House floor to impose a mandatory federal renewable portfolio standard (RPS) of up to 20 percent by 2020 raises major concerns, and we urge Congress to oppose it. Under a federal RPS mandate, utilities would be required to meet a certain percentage of their electricity sales each year with electricity produced from a limited list of renewable resources or through the purchase of renewable credits from other renewable generators or the Department of Energy.

A 20 percent federal RPS mandate would raise electricity prices for many consumers; upset ongoing renewable energy programs in the states; create winners and losers among states, electricity generators and electricity suppliers; and impose new burdens on electric reliability. Moreover, a federal RPS mandate is not a solution to achieving energy independence, nor is it a cost-effective means of reducing greenhouse gases.

Concerns about a Mandatory Federal RPS:

Economically affordable renewable and alternative fuel sources play an important role in preserving fuel diversity in the generation of electricity and in reducing emissions. But, federally mandating fuel choices for electricity generation in the 1970s raised electricity prices for consumers and distorted electricity markets; a federal RPS mandate would repeat these past mistakes.

States already are encouraging the development of renewable energy resources, based on their own unique circumstances and available resources. To date, 24 states and the District of Columbia have adopted renewable energy portfolio standards, based on their available renewable energy resources. In addition, more than 90 electric companies in over 30 states have implemented or announced green pricing programs to support investment in renewable energy technologies. Forty-eight states support programs that offer incentives, grants, loans or rebates to consumers using renewable energy resources. And, electricity suppliers in nine states with competitive retail markets are offering green power products to consumers. States are moving forward to promote renewable resources where the resources are available and it makes economic sense for consumers. The federal government should not force an RPS mandate on consumers and suppliers where it does not make economic sense.

Because of the diversity of state RPS plans, any federal RPS mandate could undercut or preempt those efforts. Each state RPS plan includes carefully considered timetables and targets based on what makes sense in that particular state. Imposing different targets and timetables through a federal RPS on top of those state programs could undercut or preempt those efforts. For instance, 11 of the 25 existing state plans would not meet a federal RPS target of 20 percent by the year 2020; 10 of the 25 would not meet even a 15 percent target.

Any one-size-fits-all federal mandate would create uncertainty and drive up the cost of meeting renewable mandates even further for consumers and electricity suppliers in those states.

A one-size-fits-all federal RPS mandate ignores the available energy resources and economic needs of the individual states. There are significant regional differences in availability, amount and types of renewable and other energy resources, resulting in different regions of the country relying on different fuel mixes. Among states that have an RPS, all have chosen to add technologies that are not included in federal RPS proposals. Many include hydropower and fuel cells, as well as alternative means of compliance such as energy efficiency programs. A federal RPS mandate that does not include these technologies would further undercut the states' efforts and drive up the cost to consumers of paying for two different RPS programs.

An RPS mandate is not the path to energy independence. Much of the public debate about energy policy is focused on efforts to wean our nation from its dependence on foreign oil. However, RPS proposals are virtually irrelevant to that debate. For example, based on EIA estimates, a ten percent RPS mandate would save the equivalent of less than one gallon of gasoline per household per year! That's because less than three percent of the electricity generated nationwide comes from oil, so the electricity industry is not a significant contributor to our oil dependence problem. The vast majority of electricity is generated using domestic regional resources. On the other hand, plug-in hybrid vehicles and other electric transportation technologies should be part of our solution to foreign oil dependence since they can directly offset the demand for petroleum products.

A federal RPS requirement could cost electricity consumers billions of dollars in higher electricity prices, but with no guarantee that additional renewable generation will actually be developed. Because many retail electric suppliers will not be able to meet an RPS requirement through their own generation, they will be required to purchase higher cost renewable energy from other suppliers or purchase renewable energy credits. Thus a nationwide RPS mandate will mean a massive wealth transfer from electric consumers in states with little or no renewable resources to the federal government or states where renewables happen to be more abundant.

An RPS mandate will also require additional indirect costs. New high-voltage transmission lines often must be built in order to move electricity from renewable energy facilities, especially wind turbines, which are usually located in remote areas, across long distances to populated areas where the power is needed. These transmission expansions can cost approximately \$1 million to \$3 million per mile to build, often taking years to complete due to red-tape delays (especially when involving federal lands, which are particularly common in western states) and "Not In My Back Yard" (NIMBY) public concerns. The adequacy, siting, financing and construction of transmission infrastructure have proven to be among the most significant challenges to promoting growth in renewable generation across the country.

The cost of most renewable energy resources or credits will be in addition to —not a substitute for—the cost of building reliable, dispatchable baseload and peaking generating facilities. Consumers depend on reliable electricity being there when they need it. But, Mother Nature would not be subject to a federal RPS mandate. Many renewable energy resources are intermittent, do not operate consistently, and can not be dispatched. Thus they

do not contribute significantly to electric capacity or reliability. Retail electricity suppliers cannot tell consumers that they will receive electricity only when the wind blows or the sun shines. Utilities will still need to build generating facilities using conventional fuels—most likely natural gas—to meet consumers' needs for reliable power on short notice, as well as to back up their intermittent renewable energy resources. The intermittent nature of wind and solar resources also can have costly impacts on the electric grid related to generation interconnection and integration, transmission planning, and system and market operations, all of which must be taken into account by utility planners.

RPS costs will be imposed concurrently with massive environmental costs. Congress is considering a variety of proposals to address climate concerns that would require electric utilities to invest billions of additional dollars to develop, demonstrate, and deploy new technologies needed to reduce greenhouse gases in the coming decades. Furthermore, power generators are expected to incur new environmental compliance costs approaching \$3 billion annually through 2020 to deal with air quality requirements related to ozone, particulate matter, mercury and other issues. Imposing a multi-billion dollar RPS mandate on top of that, during roughly the same time frame, would be a serious financial blow to a critical sector of our nation's economy and its consumers.

Long-term extension and expansion of renewable tax incentives is the single most effective thing Congress can do to promote renewables. Unlike a federal RPS mandate, tax incentives for renewables are the most direct and efficient way for the federal government to spur the development of renewable energy resources. The renewables production tax credit (PTC) and the investment tax credit (ITC) for solar and geothermal energy are proven means of actually getting renewable generation built and brought online. EEI supports a five-year extension of the PTC, which is due to expire on December 31, 2008. EEI also supports extending, expanding, and revising the ITC for eight years, and eliminating the utility exclusion for the solar ITC. In the past, the short-term, start-and-stop nature of renewable tax credits has dissuaded utilities, developers, manufacturers and investors from maximizing the potential of renewable technologies and resources, where they are available. A long-term extension of these credits will give the private sector the stability necessary to plan and finance renewable energy projects.

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July 25, 2007*