On both coasts of the United States, utilities and regulators are grappling with the conflict between mandated purchases of above-market-cost renewable generation and the need to avoid further burdening consumers and businesses with higher rates in this recessionary economy.

A couple of cases illustrate the conflict. On the West Coast, the city of Los Angeles is in a dispute with its utility, the Los Angeles Department of Water and Power (LADWP), over proposed rate increases. The LADWP says it needs the rate increases to reach its goal of meeting 40 percent of all electricity demand with renewable resources. Back east, in an April 2 order, the Rhode Island Public Utility Commission rejected a proposed long-term power agreement between Deepwater Wind, LLC, and National Grid based on a finding that the contract price for wind-generated electricity was not commercially viable.

Regardless of one’s views on mandatory renewable portfolio standards—as perhaps being environmentally beneficial, helpful in reducing reliance on foreign oil, or important in creating new industries and millions of “green” jobs—regulators and politicians must address a fundamental initial trade-off between keeping costs low and increasing supplies of more expensive renewable energy. Of course, such trade-offs are not new: many environmental regulations increase costs—for example, emissions controls required under the Clean Air Act’s New Source Review, regulation of thermal discharges into bays and estuaries under the Clean Water Act, and prevention of generation resource development (renewable or otherwise) and construction of new transmission lines because of Endangered Species Act requirements.

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cost trade-offs rather than falling back on vague “motherhood and apple pie” arguments in favor of green resources.

LA FACES REALITY

In Los Angeles, Mayor Antonio Villaraigosa set a goal for the city to obtain 40 percent of its electric generation from renewable resources by the year 2020. This goal is more stringent than the 33 percent state standard imposed last year by Governor Arnold Schwarzenegger in an Executive Order. To pay for these renewables, the LADWP proposed, with the mayor’s and former Vice President Al Gore’s support, a series of four rate increases.

According to mayoral spokesperson Sarah Hamilton, the mayor’s initiative would create 16,000 new jobs for solar photovoltaic installers and 1,600 new jobs for “green doctors” who would be hired by the LADWP to tell customers whether their homes were energy-efficient. No doubt, unemployed customers struggling to pay higher electric bills, in part to pay the salaries of these “green doctors,” would be especially appreciative of advice on the energy efficiency of their homes.

RHODE ISLAND PUC LOOKS AT THE BOTTOM LINE

In Rhode Island, the facts were more concrete. Under the Long-Term Contracting Standard for Renewable Energy Act signed last year by Governor Donald L. Carcieri, National Grid was required to solicit renewable energy proposals of 10 megawatts or less that would “enhance the electric reliability and environmental quality of the Town of New Shoreham.” Duly ordered, National Grid solicited proposals and received one, from Deepwater Wind. National Grid then began negotiations with Deepwater Wind to develop a “commercially reasonable contract” as required under the act.

At the end of the contract term, the price would have been over 48 cents a kilowatt-hour. Consider this: in 2009, the price was less than 4.5 cents a kilowatt-hour.

Rather than being confronted with rate increases to acquire unspecified renewable resources in the future (like Los Angeles), the Rhode Island PUC was confronted with a specific, long-term power contract. The contract price was to start at 24.4 cents a kilowatt-hour and escalate at a 3.5 percent annual rate over the contract’s 20-year term. At the end of the contract term, the price would have been over 48 cents a kilowatt-hour. Consider this comparison: in 2009, the weighted average wholesale price of electricity in the Rhode Island zone of ISO-NE was less than 4.5 cents a kilowatt-hour.

These “real values” were indeed hard to quantify, because, as the commission’s Order noted, Nickerson failed to quantify any of them.

In David P. Nickerson’s testimony on behalf of Deepwater Wind, he testified that the above-
market cost would be offset by “real values” to Rhode Island that are “hard-to-quantify,” including direct and indirect economic benefits (i.e., green jobs) and “suppression” of electric and natural gas prices.5

The “price suppression” benefit is particularly misleading. Notwithstanding that “price suppression” might be interpreted as market manipulation and seen to be as damaging as artificially raising prices by withholding supplies, the primary result of price suppression as Nickerson used it is not to improve welfare but to simply transfer benefits from energy suppliers to consumers.6 Forcing consumers to purchase electricity at prices that are 500 percent higher than the market price and then arguing how those consumers will benefit from the “real value” of market-price suppression brought about by adding 10 megawatts of intermittent generation to the supply mix is, to be charitable, odd.

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Nickerson further testified that the project would meet the goals of the act, including stabilizing long-term energy prices, enhancing environmental quality, and creating jobs in Rhode Island by creating the opportunity for industry development. Again, it is difficult to see how adding 10 megawatts of intermittent wind generation would accomplish any of those objectives. The Rhode Island PUC agreed that the plan would not meet its expressed goals and rejected the contract between Deepwater Wind and National Grid. The PUC concluded the following:

The fundamental question in this case is whether the PPA between Deepwater and Grid is commercially reasonable, and if so, does this Project provide other direct economic benefits to Rhode Island such as job creation. Based on the evidence, upon which this Commission is legally bound to render all its decisions, the Commission must re-