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State energy policies should reflect market realities

... and not be based on good intentions alone

– by Mark Glaess, Manager Minn. Rural Electric Ass'n

In 2007, the Minnesota Legislature passed a measure requiring every electric utility, including your electric cooperative, to buy more and more renewable energy. This year, cooperatives are required to produce 10% of the energy sold to you from renewable sources. Most of that will come from wind turbines. By 2025, every fourth kilowatt-hour (kWh) sold to you will have to come from a renewable source. Again, most of that will be generated by the wind.

The idea behind one of the nation's most ambitious clean energy mandates was to tap into Minnesota's ample wind resources and provide additional revenues and tax receipts to particularly gusty rural areas of the state. One of the key selling points was that this would create a load of green jobs. All-in-all, it was hard to argue with the intentions.

In 2009, Minnesota utilities produced 3,441,000,000 kWh by capturing wind. On average, utilities paid 4.5 cents for each kWh. This cost would be much higher if not for major Federal tax subsidies for wind energy. Since the wind tends to blow somewhat more at night when it's not all that useful, the market only paid an average of 2.7 cents for each kWh produced by wind. Sometimes there was absolutely no market for the wind and the utility had to pay another utility to take those renewable kWh off their hands.

The loss of 1.8 cents per kWh spread over 3.4 billion kWh cost Minnesotans some $62 million in 2009. Minnkota Power, which provides electricity to the relatively depressed northwest corner of the state, was forced to increase rates by 1/2 cent for every kilowatt sold.

The biggest driver of those losses is the shrinking demand for electricity across the U.S. The economy – post 2007 – has cratered. Utilities have seen double digit decreases in electric consumption.

When legislators and the Pawlenty Administration were putting together the 2007 Renewable Energy Standard, they didn't factor in a depressed economy. They expected the market to easily absorb all of the new, greener electricity. They understood that utilities would be paying more for these new energy resources, but believed that increasing demand from a growing economy would help offset those increased costs.

That hasn't happened. Instead, utilities are paying a premium for new wind resources and selling it at a dramatic loss. In 2011, that market imbalance is on track to cost Minnesotans well over $100 million. It's also making it harder for utilities to pay for new pollution-control technology for existing plants.

At a time when we need to be focusing on creating jobs and expanding business opportunities, the unanticipated extra cost of new renewable energy sources is acting as a drag on the economy. Right now, the state's unemployment rate is over 7 percent. The green jobs heralded by the 2007 renewable mandate? They haven't materialized; at least not at the level champions of the legislation said they'd reach.

Meanwhile, the increase in electric rates for additional energy we don't need and can't sell is adding to the cost of hard-pressed manufacturing plants and taking a bigger and bigger share of the family budget.

The point of all of this isn't to bash wind energy or shirk efforts to encourage cleaner, more efficient sources of electricity. The point is to remind the state's policy makers that energy policy can't be based on good intention alone. Good energy policy must also be grounded in market reality and sound economics.

Minnesota's electric cooperatives are committed to increasing the use of clean, renewable energy, particularly if it benefits hard-pressed rural areas of the state. However, we're also committed to keeping electricity both affordable and reliable. We need state energy policy makers to be a partner in all three goals, providing us with the flexibility and tools to accomplish the challenges we face in the most efficient and cost-effective way possible.