Testimony to House Energy and Environment Committee

HB 2241 Renewable Energy Mandate

February 14, 2013

James Franko, Vice President and Policy Director

Chairman Hedke and members of the Committee:

We appreciate this opportunity to present testimony in support of HB 2241. Delaying the implementation of the jump from 10% to 15% mandated use of renewable energy is helpful and the outright elimination of a further move to 20% is better still.

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 to government intervention that forces utility companies to purchase more expensive renewable energy and pass those costs on to consumers.

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 levels increase to 15% and 20%.

There is no dispute that wind and other sources of renewable energy are more expensive than fossil fuels. There is some disagreement over how much more expensive renewables are, but even wind producers and utility companies acknowledge that wind costs more.

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

[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.

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

[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.

their third greatest concern, right behind the State and Local Tax Scheme and Transportation Infrastructure.

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.

A recent statewide public opinion poll shows that Kansans concur, with 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."

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.

Utility companies will freely admit that increasing the amount of renewable energy they are required to use will cost taxpayers more money. Employers will tell you that forcing them to unnecessarily pay higher electricity prices will have negative economic impacts.

Energy experts will tell you than there are ample reserves of less expensive energy available and technology is only improving that situation.

Kansans should not be forced to pay higher electricity prices and suffer economic consequences to prop up the renewable energy industry. It's simply a matter of economic freedom and we encourage you to come down on the side of citizens instead of the renewable energy industry.