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Renewable Energy Mandate Bad for Michigan

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Michigan is three years away from concluding its first renewable energy standard and is already considering amending the state constitution to incorporate a second mandate for 2025. On the Michigan ballot this month is Proposal 3, which would constitutionally require all electricity suppliers to provide 25 percent of their electricity from renewable sources by 2025.

Though supporters promise that the proposal will generate more alternative energy and create jobs, the real impact of renewable energy mandates is higher energy costs, a slower economy, and less innovation.

Proposal 3. The Clean, Renewable and Efficient Energy Act of 2008 required that 10 percent of Michigan's electricity must come from renewable energy sources or a combination of energy efficiency and advanced clean technology credits by 2015.[1] It also set graduated price caps meant to protect consumers from the cost of compliance for utilities.

Proposal 3, or "25 x 25," would constitutionally require utilities to sell 25 percent of their electricity from wind, solar, biomass, or hydropower by 2025 without raising their rates by more than 1 percent annually. The mandate does not reward energy efficiency or other forms of electricity beyond wind, solar, biomass, and hydropower. The only elastic in the proposal is the possibility of target date extensions granted to companies in order to keep consumers' rate increases at no more than 1 percent per year.

The mandate cannot deliver on what its supporters promise: energy security and healthier air from cleaner electricity at little extra cost. What it will deliver is the same result as the 2008 mandate—but on a bigger magnitude and at a faster pace.

Higher Energy Costs. Price caps do not work, and one need look no further than Michigan for proof. Electricity prices are rising under the current 10 percent mandate and have been consistently above the national average and the highest in the Midwest. This is despite the mandate's price caps, which pertain only to the costs attributable to compliance with the mandate.[2] However, total cost is not so easily traceable: Incorporating intermittent energy makes power plants less efficient and therefore more expensive overall to run.[3]

Consumers Energy and DTE, Michigan's two biggest utilities, and Michigan State University estimate the total cost of compliance with a 25 percent mandate to be between $10 billion and $12 billion.[4] Arguing that a price cap will isolate compliance costs from consumers ignores the fact that costs must be borne somewhere, whether by utilities, consumers, or the government.

Squelching Job Growth. It is misleading to call the mandate's expense an investment that will pay returns in the form of more Michigan jobs. Mandating that 25 percent of Michigan's electricity come from renewables will not create more jobs—*new* wind and solar jobs certainly, but not *more overall*. While the government creates jobs in one area, it is shifting or killing jobs in others.[5]

Nearly every service and product depends on electricity, so when prices go up, they affect the entire economy. Though the *net* economic impacts differ in magnitude, the direction is clear: Mandating specific

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energy sources rather than introducing efficiency slows the economy. Electricity prices go up, incomes and employment go down, and the effects of a mandate escalate as the milestones built into the mandate become steeper.[6] As it is, Michigan has over 70 percent of its current mandate to accomplish, and yet prices continue to climb. Mandating renewable energy is in effect mandating higher costs and market inefficiency.

The converse has been true in North Dakota, where a pro-supply energy policy has had a positive ripple effect throughout the state's economy.[7] The U.S. Chamber of Commerce calculates that for every one of these shale energy jobs created, another three in other areas of the economy are created.[8]

Stifling Innovation. The proposed mandate disregards many energy sources popularly thought of as "renewable" (such as geothermal and municipal waste) and ignores energy efficiency and other emissions-free means of generation such as nuclear energy. Rather than mandating cleaner air, Proposal 3 smacks of special treatment for wind, solar, biomass, and hydropower companies and disincentivizes Michiganders to pursue emissions-free energy beyond what is defined by the mandate.

Michigan's renewable standard also locks these technologies into Michigan law and protects them from the very competition that would lead to lower prices and drive these technologies forward. If some other energy source not included in the renewable standard were to emerge, it could possibly drive prices down, but the renewable standard would artificially keep costs and prices high by effectively keeping this new energy source out of the market.

Harnessing current technologies to arbitrary mandate timetables disincentivizes innovation, essentially allowing inefficient technologies to have a protected share of the market rather than driving them toward greater refinement to be competitive in their own right. The result is that Michiganders would be stuck with obsolete technology that meets the mandate rather than cutting-edge energy technologies that are competitive.

State Constitution Not the Best Venue. Proposal 3 would make Michigan the only state with a renewable mandate entrenched in its constitution. Considering how long it took the Michigan legislature to write the 2008 legislation for the current mandate and its system of credits, price caps, and interim targets, writing energy policy into a constitution is exactly how *not* to deal with the complexity and volatility of both energy and policy. The purpose of a constitution is to lay

1. The act defines renewable energy as solar, landfill gas, wind, biomass, existing hydroelectric, geothermal, municipal solid waste, tidal energy, and wave energy. See U.S. Department of Energy, Database of State Incentives for Renewables and Efficiency, Michigan Incentives/Policies for Renewables and Efficiency, March 6, 2012, http://www.dsireusa.org/incentives/incentive.cfm?Incentive_Code=MI16R&re=0&ee=0 (accessed October 24, 2012).
2. See U.S. Department of Energy, Energy Information Administration, "Michigan Electricity Profile 2010," Table 8: Retail Sales, Revenue, and Average Retail Price by Sector, 1990 Through 2010, http://www.eia.gov/electricity/state/michigan/xls/sept08mi.xls (accessed November 1, 2012); Energy Information Administration, "Electric Power Monthly July 2012," Table 5.6.A: Average Retail Price of Electricity to Ultimate Consumer by End-Use Sector, by State, July 2012 and 2011, http://www.eia.gov/electricity/monthly/epm_table_grapher.cfm?t=epmt_5_6_a (accessed October 24, 2012); and Consumer Choice Coalition, "Rates in Michigan," http://www.customerchoicecoalition.org/ (accessed October 24, 2012).
3. Bentek Energy LLC, "How Less Became More: Wind, Power and Unintended Consequences in the Colorado Energy Market," April 16, 2010, chapter 3, http://www.bentekenergy.com/documents/bentek_how_less_became_more_100420-319.pdf (accessed October 24, 2012).
4. Consumers Energy, "Proposal 3: Bad for Customers, Bad for Michigan," http://www.consumersenergy.com/content.aspx?id=5775 (accessed November 1, 2012); news release, "MSU Study: At Least 74,495 Jobs Will Be Created by Clean Energy Ballot Proposal; More Than $10 Billion in New Investment on the Line," Michigan Environmental Council, http://www.environmentalcouncil.org/newsroom/pressRelease.php?x=95 (accessed November 1, 2012).
5. For example, for every "green" job created in Spain, an estimated 2.2 jobs were destroyed elsewhere despite heavy government subsidizing of green jobs. Gabriel Calzada Alvarez, "Study of the Effects on Employment of Public Aid to Renewable Energy Sources," Universidad Rey Juan Carlos, March 2009, p. 2, http://www.juandemariana.org/pdf/090327-employment-public-aid-renewable.pdf (accessed November 1, 2012).
6. A Heritage Foundation study shows the choking net economic effects of a national renewable energy standard. David Kreutzer, Karen Campbell, William Beach, Ben Lieberman, and Nicolas Loris, "A Renewable Electricity Standard: What It Will Really Cost Americans," May 5, 2010, http://www.heritage.org/research/reports/2010/05/a-renewable-electricity-standard-what-it-will-really-cost-americans. Though limited, a study by the Mackinac Center and Beacon Hill Institute shows the potential cost of a mandate in Michigan compared to a Michigan without any mandate. Mackinac Center for Public Policy, "Proposal 3: The '25 x 25' Renewable Energy Standard: Mackinac Center Analysis Indicates This Proposal Would Do the Following," http://www.mackinac.org/17346 (accessed October 24, 2012).
7. North Dakotans have the highest median household income outside of Washington, D.C. See The Heritage Foundation, "North Dakota: More Jobs and Better-Paying Jobs," June 27, 2012, http://www.heritage.org/multimedia/infographic/2012/06/north-dakota-household-income (accessed October 24, 2012).
8. U.S. Chamber of Commerce, Institute for 21st Century Energy, "Shale Energy: An Economic Success Story in the Making," http://www.energyxxi.org/sites/default/files/economic_overview.pdf (accessed October 24, 2012).

down the foundational principles and structures of governing. Policy and legislation, on the other hand, should remain nimble and responsive to changes.

For example, it was just a few years ago that experts were projecting natural gas shortages and price hikes. Today, because of hydraulic fracturing, America is enjoying ever cheaper natural gas and is in the midst of a jobs-creating energy production renaissance. Long before the federal government ever took notice, states adopted regulations—not constitutional amendments—that have left people to drill safely and profitably.

In contrast, Proposal 3 would implement one of the most restrictive renewable energy mandates while leaving open a multitude of regulatory questions. Government cannot anticipate technological innovations, and locking people into certain technologies that often do not make economic sense today, much less in 2025, is bad policy and an even worse constitutional amendment.

The Better Choice. The simplest and best answer to these and other remaining questions would be to not have a mandate at all. By mandating certain technologies, renewable or otherwise, the government attempts to determine for consumers what type of energy they will use.

Michigan should instead work to increase consumer choice by increasing access to Michigan's resources and allowing producers and consumers to respond as they wish to respond. Competition among energy sources and choice are good, but mandating the use of certain sources favors some at the expense of others.

If renewable energy resources add value to Michigan's energy portfolio (or for any other reason are preferred by customers), the Michigan government would not need to mandate its use. The market would respond and reflect that desire—so long as it is free of government distortions and crutches.

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