The Big Back-End Price Tag on Texas Wind Power Growth

By Alan Lammey

Here we are in early 2016, and many businesses in the Lone Star State are feeling the financial pinch of the downturn in the Texas energy industry. The energy-industry slump affects multitudes of local and regional industries that are either directly or indirectly tied to the energy complex.

One sector of the energy industry still thumping along with business as usual, however, is wind power. The reasons behind the blithe demeanor of this niche of the energy market are rather controversial.

It's no secret that the Texas oil and gas industry is coping with some of the leanest financial times seen in decades, as oil prices remain under $40 a barrel and natural-gas prices are well under $2 per million British thermal units (MMBtu)—lows not seen since the mid- to late 1990s. Meanwhile, a large percentage of power generators throughout the state are also stressed by the reality of thin revenue and profit margins. Yet Texans may still notice the frequent chain of 18-wheeler long wind turbine blades that big-rig trucks continually carry to rural destinations on the various highways of the state. How can business expansion for a majority of the Texas energy industry have come to a screeching halt, while the Texas wind power industry continues to thrive?

Presently, as electricity consumers, we actually PAY FOR ELECTRICITY TWICE: once through our MONTHLY ELECTRICITY BILL and a second time through taxes that FINANCE MASSIVE SUBSIDIES for inefficient wind and other renewable energy producers.

The answer: federal government subsidies.

Texas' wind-energy industry niche is the culmination of the placement of years of government policy and steady wind energy development—but it also resulted from billions of dollars in U.S. federal subsidies pouring into the renewable energy sector to meet clean air standards combating so-called "global warming" and/or "climate change." Texas is, no doubt, a pro-fossil-energy state; it is also the second state after Iowa to pass a renewable portfolio standard, a policy requiring that a certain amount of electricity derive from renewable sources. Furthermore, in 2008, Texas invested billions in high-voltage power lines linking Texas cities to windy west Texas. The Competitive Renewable Energy Zones (CREZ) wind-energy transmission project is among the key reasons Texas maintains a lead in wind energy today, with over double the wind generation capacity of any other state.

Consumers Unknowingly Pay for Electricity Twice

Because Congress recently extended the wind energy production

tax credit for an additional couple of years, the wind power industry is pressing the state's grid operator to continue to integrate wind and other renewables. However, this continued growth, like so many other government subsidized initiatives, comes with a price tag that will eventually hit consumers where it hurts the most: in the pocketbook. Presently, as electricity consumers, we actually pay for electricity twice: once through our monthly electricity bill and a second time through taxes that finance massive subsidies for inefficient wind and other renewable energy producers.

Most cost estimates for wind power disregard the heavy burden of these subsidies on U.S. taxpayers. But if Americans, and particularly Texans, really understood the full cost of generating energy from wind power, they might be less willing to foot the bill—it's far more expensive than most people realize.

Over the past three and half decades, wind energy (which supplied just over 4 percent of U.S. electricity in 2015) has received over $30 billion in U.S. federal subsidies and grants. Unfortunately, these subsidies mask the unpleasant truth about just how much wind power actually costs and transfer money from average taxpayers to wind farm owners, many of which are units of foreign companies.

While some studies estimate the cost of generating a megawatt-hour (MWh) of electricity from wind as between $37 and $81 (or 3.7˘ to 8.1˘ per kilowatt hour), the true price tag is significantly higher. Furthermore, these subsidies make the U.S. energy infrastructure less stable because artificially cheap electricity prices push more reliable producers, such as natural gas power generators (needed as back-up), out of the market. As we rely more on inherently unreliable wind for our power, the risk of blackouts grows. If that happens, the cost for power can really skyrocket.

Billions in Wind Power Subsidies Go to Foreign Companies

The top five recipients of U.S. federal grants and tax credits since 2000 are Iberdrola, NextEra Energy, NRG Energy, Southern Company, and Summit Power, all of which have taken in more than $1 billion in federal benefits. Iberdrola Renewables, a Spanish-owned utility, has alone collected well in excess of $2 billion in federal grants and allocated tax credits over the past 15 years. That's equivalent of over 6 percent of the Iberdrola's parent company's 2014 revenue of $33 billion.

In the name of battling climate change, Congress has enacted 82 policies, overseen by nine different agencies, to support wind power. What's more, President Obama's proposed 2016 budget extends the biggest federal subsidy for wind power, the Production Tax Credit (PTC), ensuring that large foreign companies continue to reap most of the taxpayer-funded benefits for wind. The PTC is a federal subsidy that pays wind farm owners $23 per megawatt-hour through the first ten years of a turbine's operation.

Depending on what factors are included, estimates for the real cost of wind power vary notably. The Center for Energy Commerce at Texas Tech University suggests that the real price tag on wind power is closer to $149/MWh (or 14.9 cents per kilowatt hour)—excessively high for a whole power price. Then comes the operations and maintenance (O&M) costs of wind turbines, which can add $9.8 to $21 per megawatt-hour. Add it all up, and wind power is a very expensive source of energy.

When the Subsidies End, Power Rates Will Blow Away Consumers

Many estimates, however, don't include costs related to the inherent unreliability of wind power and government subsidies and mandates. Since we can't ensure that the wind always blows, or mandate how strongly, coal and natural gas plants must be kept on as backup to compensate when it's calm. This practice is known as "baseload cycling," and its cost ranges from $2 to $23 per megawatt-hour.

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The thing is, federal dollars encourage wind farm owners to produce power even when prices are low, flooding the market with cheap electricity—not a bad thing for the consumer, for now. But this situation makes it harder for more reliable producers, such as nuclear and natural gas-fired power plants that remain economically viable, which don't receive hefty subsidies to stay in business.

As more reliable sources are forced to close their facilities (because their margins are being squeezed into

oblivion) and wind power takes their place, consumers are left with an electrical infrastructure that is less reliable and less capable of meeting demand. And when wind power subsidies do come to an eventual end in the next few years, the rates that consumers pay for power will likely skyrocket, particularly as there has been a massive pullback in drilling for natural gas in the last couple of years. This situation will send natural gas prices spiking higher at the same time that wind power subsidies may be ending, which could be a nightmare for electricity rate payers.

Because power prices are at their lowest levels in the history of the Texas deregulated electricity market, now is an ideal time for businesses and residents in the Lone Star State to lock in a multiyear fixed power rate. The economic stars are aligning to send electricity prices climbing higher in the months and years ahead, when natural gas production declines begin to set in and government subsidies for wind power cease. Bottom line: substantial savings can be had by locking in long-term fixed power rates now. **N**

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