POLICYTIPS

POLICY ANALYSIS FROM THE HEARTLAND INSTITUTE

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Illinois Renewable Energy Mandate

Background

In August 2007, Illinois enacted legislation (Public Act 095-0481) that led to the creation of a renewable energy portfolio mandate. The legislation required Ameren and ComEd to procure 25 percent of their electricity generation from qualified renewable sources by 2025. The measure was extended in 2009 to alternative retail electric suppliers and electric utilities that sell outside of their service territories. [1]

Within the 25 percent requirement, 75 percent must be produced from wind and 6 percent (starting in compliance year 2015–16) must be produced from solar photovoltaics. Under the compliance schedule, Illinois should have had 5 percent compliance in 2010, but data from the Energy Information Administration suggest at most 2.4 percent of electric generation qualified under the mandate. [2]

Rates are allowed to increase at a rate "no more than the greater of 2.015 % of the amount paid per kilowatt hour by [eligible retail customers] during the year ending May 31, 2007 or the incremental amount per kilowatt hour paid for these resources in 2011." According to a report by the Illinois Commerce Commission, a 2 percent rate increase would cost more than $100 million per year and would be the "equivalent of about a 1% increase in state income taxes, or about a 1.4% increase in state sales taxes, but without any corresponding increase in government services." [3]

As of June 1, 2011, utilities are, under certain circumstances, allowed to meet their renewable requirements through procurement of energy resources based in neighboring states. If no "cost-effective" resources are available in Illinois or its neighboring states, they can be purchased elsewhere.

Policy Solution

Optimally there would be an outright repeal of this standard. At minimum the state should reform the standard in a way that makes the mandates more realistic and the market more competitive. These outcomes could be attained through:

- Broadening the standard to include all next-generation energy technologies including nuclear, combined cycle natural gas, geothermal, etc.

- Adjusting the compliance schedule to provide greater flexibility through altering deadlines or percentage targets.

- Making the program voluntary and waiving all noncompliance penalties.

All of these solutions would allow utilities, and thereby consumers, to better adapt to next-generation energy technologies.

Problem

Illinois cannot meet its mandate and should be honest with consumers about the bill of goods they are actually receiving. The Renewable Energy Mandate:

• Increases costs to consumers, because the mandated renewable energy sources are more expensive and less dependable.

• Is much more restrictive than programs in other states. By setting specific percentage requirements, the standard does not even allow renewables to compete with one another on a level playing field.

• Drives down Illinois living standards and hurts economic competitiveness with other states. The average retail price of electricity in Illinois is 20 percent higher than in Indiana, 24 percent higher than in Iowa, and 25 percent higher than in Missouri. Illinois residents and businesses pay $2.1 billion per year more for electricity than they would at Indiana prices and $2.5 billion more than they would at Iowa or Missouri prices. That amounts to an extra $442 to $526 per Illinois household per year. [4]

• Illinois is not especially well positioned to produce renewable energy compared to other states. Illinois has minimal wind generation potential relative to its neighbors and little to no solar potential.

Policy Message

Point 1: Government should not be in the business of choosing winners and losers in the energy arena.

Point 2: It is impossible to know which energy technologies will be superior in the future, and policymakers should avoid pushing technologies to market before they are ready.

Point 3: Renewable energy is much more expensive per kilowatt hour than conventional fossil fuels and will continue to be so in the future. Those higher costs are being passed on to ratepayers. [5]

References

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