The Midwest Wind Surtax

The latest scheme to socialize the costs of renewable energy

You'd think poor Michigan has enough economic troubles without the Federal Energy Regulatory Commission placing a $300 million to $500 million annual surtax on the state's electric utility bills. But on December 16 FERC Chairman Jon Wellinghoff announced new rules that would essentially socialize the cost of transmission lines across 13 states in the Midwest.

That region-wide pricing scheme, according to a study commissioned by utility companies, will force Michigan to pay about 20% of as much as $20 billion in new high-voltage transmission lines—though Michigan businesses and homeowners will get little benefit. Thanks to FERC's new tariff, nearly everything in Michigan—from cars and trucks to Frosted Flakes—will be more expensive to make. Indiana will also absorb new costs, as will industrial users and utility rate payers in Illinois, Minnesota and Wisconsin.

This is another discriminatory subsidy for wind energy that will raise electricity prices on everyone, notably on those who don't rely on wind for electric power. FERC's grand vision is to build hundreds of miles of transmission lines across the Midwest, linked to windmills in Iowa and the Dakotas. Mr. Wellinghoff says this new ruling "is the next step in the evolution of its transmission and cost allocation process."

In fact, this is the first step in a FERC scheme to socialize transmission costs nationwide. In June FERC drafted a rule to create a new national transmission pricing policy that would link wind and solar energy projects to the national electricity grid. (See our November 7 editorial, "The Great Transmission Heist.") Those rules are expected to be finalized in mid-2012.

Traditionally and by law, FERC has set prices on the economically efficient and environmentally sound standard that users pay for the cost of the electricity they consume. For at least 65 years, the courts have ruled that payment by the beneficiaries is the "touchstone in any legal analysis of FERC-approved rate schemes" (as the D.C. Circuit Court of Appeals has put it). The new pricing rule departs from that principle, because FERC would establish a new category of transmission lines called "Multi-Value-Projects." This would take into account broad "public policy goals," most notably increased use of so-called clean energy to comply with renewable energy standards.

Let's be very clear on what's happening here: Mr. Wellinghoff and FERC are trying to establish by regulatory fiat a national energy policy that Congress has refused to endorse. Last summer Congress rejected the Obama Administration's renewable energy standard law because it would have inflated power costs. So the fiefdom at FERC is unilaterally moving ahead to require that industries and homeowners pay a surtax on their utility bills for a nonexistent renewable energy policy. This is similar to the EPA's initiatives to regulate carbon even after Congress rejected cap and trade.

It is true that about half the states have passed renewable portfolio standards, which require from 10% to one-third of electricity to come from wind, solar and other renewable sources. But these states have discovered that green energy is expensive and that ratepayers aren't thrilled about paying these higher costs.

For example, a 2009 study by the California Public Utilities Commission finds that to meet the state's "33% RPS by 2020 target, seven additional [transmission] lines at a cost of $12 billion would be required." By some estimates, electricity from the Cape Wind project off Massachusetts will cost about two to three times more per kilowatt hour than electricity from coal or natural gas. The wind industry has essentially conceded that without the ability to socialize the cost of multibillion dollar transmission lines, its projects can't compete with coal, natural gas and nuclear power.

The FERC pricing scheme is politically insidious, and arguably unconstitutional, because it enables states with renewable standards to export the costs of those policies to other states without these laws. Why should a factory in Pontiac, Michigan subsidize the wind energy costs of a plant in Elgin, Illinois? Michigan has a renewable energy standard, but it is already complying through instate renewables.

The governors of at least 15 Western and Northeastern states have sent a letter to Congress objecting to the socializing of costs, complaining that the pricing plans would make electricity more expensive. But Mr. Wellinghoff rebuffed Michigan's plea to exclude the state from the cost-sharing plan.

We hope that Fred Upton of Michigan, who will soon chair the House Energy and Commerce Committee, is paying attention. FERC is required under the Federal Power Act to set prices that are "just and reasonable." If Mr. Wellinghoff has his way, the people of Michigan and potentially residents and businesses in at least half of all other states are going to receive electric bills that are unjust, unreasonable and a lot more expensive.