JOHN MAYNARD KEYNES, RENEWABLES AND US

By Rick Phelps

"… but the long run is a misleading guide to current affairs. In the long run we are all dead."

John Maynard Keynes
'A Tract on Monetary Reform' (1923)

John Maynard Keynes (whose works I actually read in a long-ago economics education), while always controversial, had some great insights that apply equally well to the early 21st Century as they did in the early 20th Century. In the long run we are all dead is quoted frequently, but the sentence that precedes it— the long run is a misleading guide to current affairs — receives little contemporary airtime. And the first sentence is never linked to renewable energy, but it should be.

Renewable energy is a long-term prospect and it promises to replace carbon-based energy with cleaner and sustainable sources. Public policy, in recent Republican and Democratic administrations, as well as in California, recognizes this and continues to develop taxpayer-funded programs to promote the development of renewable energy. Included are direct production subsidies, loan guarantees, tax credits for efficient retrofits and electric or hybrid cars, and legislative actions mandating a prescribed amount of renewables in the generation mix.

These policy initiatives have met with some success, as evidenced by solar homes, hybrid and electric cars, and the proliferation of large-scale wind and solar projects. Adoption rates have not been as optimistic as forecast, but progress is being made. However, there have also been very public failures, particularly among the high-tech battery manufacturers. Some renewable projects have also been cancelled or delayed. And California's policy goals of 33% of electric energy from renewable sources by 2020 may be a reach.

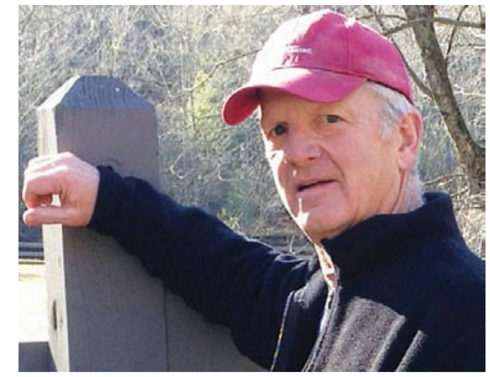
What is happening to cause seemingly good projects or policies with noble goals to fail?

Often, the justification for investment in renewable projects is the assumed extraordinary long-term benefits of a world that is free of carbon and the vagaries of climate uncertainties. This scenario is seductive, and spending short-term dollars seems like a good investment. However, long-term benefits should be adjusted to reflect the forecast risk. In analytical terms this means the higher the risk, the lower the present value of the long-term benefits, which leads back to the short term.

In the short term there are cash transactions — not just long-term non-monetary benefits. This means that materials have to be purchased, facilities rented and employees paid, etc. Additionally, sales (revenue) projections must be met. If sales exceed expenses, there's no problem, but if expenses exceed sales, as is often the case with any kind of start up, the deficit must be met or the venture fails. Realizing this, public policy decisions allocate taxpayer funds for production credit or loan guarantees or, as in the case of California, energy policy allows utilities to enter into renewable contracts with costs that will be eventually passed on to businesses and residents. These polices fill the financial gaps for renewable projects and, at both the federal and California level, provide a positive foundation for the continued growth of the renewable industry.

The only problem is that taxpayers and utility ratepayers underwrite these funding gaps for renewables and must stand ready to continue to provide funding or be prepared to see fewer projects. And what is not explicitly disclosed is that these public policy investment decisions fall on us — taxpayers and utility ratepayers — to underwrite. That's a valid decision for voters, but we are told not to worry as the long-term benefits exceed the costs and failures are part of progress.

While that logic has some appeal, it may threaten the viability of renewable development. As taxpayers and utility ratepayers are funding these initiatives, there may be a limit to their acceptance of money losing projects or continued rate increases. If that limit is reached, and we might be closer than we think, the good will get tossed out with the bad. Wouldn't it make more sense to put some analytical and management muscle on short-term success and less on a very distant future?


HSEF Executive Director, Rick Phelps

Which brings us back to John Maynard Keynes: "In the long run we are all dead" — something to think about as we contemplate the future world we are supposedly buying.

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