Recommended Response to the Interim Committee

Questions. Is there a reasonable way to frame energy policy around encouraging certain businesses and discouraging others, especially if they might have a negative impact on Idaho ratepayers? How might this be evaluated? Do you have any suggestions or recommendations around this issue?

Answer. If this was a simple question we could provide a simple answer. As it turns out, in all policy decisions, energy or otherwise, there are tradeoffs which most often lead to winners and losers. Below are energy policy considerations to help evaluate these issues for Idaho citizens.

1) By framing the issue around ratepayers, we may be evaluating a scope too small. For example, if a citizen decides to purchase an electric automobile (the Leaf from Nissan) they would be increasing their electricity consumption and decreasing their motor fuel consumption. This could be good for the purchaser because electricity is much lower cost per mile than either gasoline or diesel fuel. Economists would say this is an efficient economic choice. Idaho businesses providing motor fuels would purchase less motor fuel from outside the state and utility companies would make and provide more electricity. Some of the time this electricity would be produced from hydroelectric plants, other times it may be produced with natural gas imported from outside Idaho. The vehicle purchaser is a winner, which is fairly easy to see—cost per mile has been reduced and this is a rational decision. The loser would be the motor fuel supplier (less sales, less profit) and by extension the State of Idaho also would lose motor fuel tax revenue until the State figures out how to collect use fees for electric vehicles. The other electricity ratepayers would likely also be losers because the incremental cost of new electricity producing plants is higher than the average cost, thus causing “rate pressure” with overall power supply costs being higher. Energy policy to resolve these conflicts between winners and losers could be alleviated by requiring electric vehicles to pay a miles-equivalent charge for the use of Idaho public roadways. The Public Utility Commission could also implement a rate schedule for charging electric vehicles that holds other ratepayers harmless. If the road tax and rate charge were below the breakeven for the vehicle buyer, then some electric vehicles would be purchased for use in Idaho. If not, it would effectively block purchases; regardless, eliminating free rider electric vehicle use of highways and electric rate pressure will reduce electric vehicle purchases. If the public policy choice was to hold everyone harmless you would have one outcome of low sales activity. If it was to encourage electric vehicles to gain bragging rights because using electricity in a low cost state would give citizens the largest bang-for-the-buck then these charges would want to be minimized or even zero. That’s the great thing about informed public policy; the policy makers, in this case the legislature, gets to chose the path forward for all citizens of Idaho.
2) Looking again at ratepayers, especially electric but it also applies to natural gas utilities, the economics of ratemaking process takes historical cost and applies some reasonable rate of return and cost recover mechanism and regulates the retail cost of power and natural gas. Both electricity and natural gas are increasing cost industries, in that new

equipment to serve additional people or businesses costs more than the existing historical rate base. Furthermore, the replacement of old equipment with new equipment, either because it is worn out or possibly has reached the end of its safe physical live, causes retail rates for all customers to rise. The Idaho PUC reviews these matters in open public hearings, and the publically owned electricity providers have their specific public hearings and procedures. But the fact remains that population growth, especially the growth that comes from successful economic development programs which employ more workers causes regulated retail rates from utilities to increase faster than they would without the growth. Yes, the Idaho legislature could mitigate population growth coming from economic development by encouraging existing companies to automate their production processes thus reducing the number of workers required. Similarly, the State could design economic development programs to only recruit companies that employ a few workers instead of many, this putting less pressure on schools, roads, public safety and energy. But today and for the foreseeable future with unemployment rates above the comfortable level (usually around 5 percent is considered full employment) there should be little support for increasing the unemployment rate by employing public policy measures to reduce jobs. By encouraging energy manufacturers to locate in Idaho or any employer to expand in Idaho or relocate to Idaho it is inevitable that electricity and natural gas costs, not to mention water bills, school needs, police and fire and roads will cost more both in total and incrementally. Of course, Idaho could encourage the use of public transportation, but without large subsidies the evidence from around the country echoes the evidence about wind and solar that without huge Federal and State subsidies (paid for by the taxpayer, not the user) that bus and light rail ridership would be negligible at full cost paid by the rider and wind and solar would be "out of the money" when compared to other sources of electricity production.

3) The short answer to the first question is that it would be extremely difficult to determine who to encourage and who to discourage and by how much these subsidies or surcharges would be and who would pay. Empirically, economic development subsidies or surcharges work best when they have a sunset provision with a short horizon and have clearly defined ramp rates from 100% to 0% in less than 5 years. Of course, the interest of the persons receiving the subsidies is to have them be at high levels for as long as possible (permanent would be ideal) and for surcharges to have them be as short as possible (zero would be ideal.) Both responses are highly predictable because businesses always act in their self interest and only play lip service to good public policy. It's always about the money, regardless of the rhetoric. There are good cases for startup industries that can be made, and we've had a number of success stories here in Idaho. But the overall economics of subsidies and surcharges is that it usually leads to unanticipated consequences and most of those cause costs higher than benefits, even when the benefits are difficult to quantify. For the taxpayers of Idaho, trying to compete with subsidies offered by Oregon, California or Texas (either to meet or beat them) would likely lead to a retaliatory response from these states who neither have the same fiscal grounding as we have here in Idaho nor do they care about who of their citizenry pay the costs. Sometimes, "Don't just do something, stand there" is the best policy.

4) Evaluation is in all likelihood the biggest can of worms ever invented by the economics profession. Because the data are squishy (using the worm metaphor) the analysts can with great rhetoric prove almost anything has either let to a wonderful outcome or the worst nightmare imaginable. And this is with exactly the same data! Many analysts and software developers who measure benefits of various economic development programs ignore the cost side of the equation, or they count the direct costs and ignore the indirect costs. Of course, these are the advocate consultants hired by a particular special interest. The loyal opposition uses the same techniques, but often come up with unimaginable consequences with massively high mitigation costs even though those events have low likelihood. Everything we do has a risk and a cost, including walking across the parking lot to our place of work. As functioning humans, we deal with these risks all the time in an informed and logical way. The point here is that evaluation has two sides and rarely we have a referee. We would note that the Idaho PUC is a referee in the debate between PUC regulated utility companies and the general public. Many other public policy evaluations do not have nor do they want an unbiased adjudicator for obvious reasons. In the case of economic development, it would be costly to form a "PUC-like" agency to conduct evaluations, even if it was desirable, because it would have to be paid for by reducing costs elsewhere. For many of these decisions, the legislature becomes the unbiased adjudicator, but for complex issues with timelines shorter than a year or two it is problematic for the legislature to manage policy evaluation.
5) The ISEA has broad representation from the public including business, utilities and government. When these matters have come up during our meetings, a recurring theme remains that for the most part energy policy is working well in Idaho. Of course it's difficult to compete with crazy subsidies from other states because Idaho's subsidies on a comparative basis are "too low." But we believe being drawn into a crazy-subsidy framework is not good public policy for Idaho, and we realize we will lose some competitions because of it. We started our general response that present public policy has created winners and losers in Idaho. There are some new things coming up, like electric vehicles (and even natural gas powered vehicles) that need to be addressed because the impacts span from energy across to roads and other matters, for example. But in general, the present system seems to be working. The strategic policy should incorporate ISEA as a sounding board for emerging issues because of the broad range of individuals involved and the public processes we employ. Notwithstanding our critics, who for the most part have decided to avoid participation as their strategy, ISEA believes we can provide excellent advice from volunteer Idahoans to the Idaho Legislature.