



## Is One Subsidy Really Any Better?

By Jason Hayes

### Summary

The U.S. Department of Energy proposes subsidies for coal and nuclear interests, prompting protests from renewable energy and natural gas interests. The way ahead for government is to let markets figure out which energy sources to use.

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Renewable energy interests are suddenly opposed to subsidies.

In energy policy, you're often asked to choose between a few bad options. If you address one problem, you might then promote something at least as bad. The reason: Government has a habit of setting up regulations that benefit politically favored businesses, and when competing businesses feel the pinch of those unfair regulatory practices, they push back. Government officials, instead of mediating between conflicting financial interests, must stop playing the crony capitalism game and recognize that, while their actions help their friends and supporters, they harm consumers and the economy.

Recent news provides us an example. Due to regulatory and financial concerns, many utilities plan to close coal and nuclear plants in the coming years. A leaked draft of a Department of Energy proposal, responding to the closures, describes Trump administration concerns over grid resiliency, or the ability of the electrical grid to rebound after a terrorist attack or an extreme weather event. The proposal argues that closing "fuel-secure" coal and nuclear plants, which can store several weeks of fuel on-site, forces our electricity system to rely on intermittent renewables and just-in-time natural gas deliveries. In the name of staving off a national security emergency, the draft report calls for protecting struggling coal and nuclear plants by requiring grid operators and utilities to purchase electricity from these fuel-secure facilities.

But all five members of the Federal Energy Regulatory Commission, the federal panel responsible for regulating the nation's electricity grid, rejected the argument that we're facing an imminent electricity emergency. Their leader, Kevin McIntyre, clearly stated that closing coal or nuclear plants imposes "no immediate calamity or threat" to the grid. Commissioner Robert Powelson went further, warning that the DOE plan to prop up coal and nuclear plants would cause "significant rate increases without any corresponding reliability, resilience, or cyber security benefits." He also cautioned that it could "collapse ... wholesale competitive markets."

The commissioners are correct. When government intrudes into energy markets, as the draft document proposes to do, it does destabilize energy markets and corrupts normal market pricing mechanisms. Renewable and natural gas generation facilities compete directly against foundering coal and nuclear plants for shares of the electricity market. So, to the extent that the Energy Department props up coal and nuclear plants, natural gas and renewable energy lose out.

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It's not a surprise to hear gas and renewable industries criticizing the plan. But it is truly odd to hear renewable energy interests directly attacking subsidies as a destabilizing influence on energy markets. After all, they have marinated for decades in multiple billions of subsidies, credits, and market carve-outs. In fact, renewable energy received 45 percent of all federal energy subsidies in 2016 (\$6.7 billion in 2016, on top of the \$30 billion received from 2010 to 2013).

Could the protests from renewable advocates simply be cognitive dissonance? Or, could they honestly believe that no one but them should benefit from market-destabilizing government intrusion? Either way, it's difficult to take seriously their sudden concern for the primacy of free markets.

The Trump administration is right to be concerned about grid resiliency and its potential impacts on national security. It's also correct to argue that fuel diversity and fuel security are the best means of promoting grid resilience, because if one generation source fails, you still have other options. But the administration runs off the rails when it suggests that the planned closure of coal and nuclear plants is a national emergency that must be addressed with subsidies.

If coal and nuclear plants are more expensive than other options, they will go out of business. That is how markets should work. Requiring electric companies to use them skirts markets and harms customers with rising electricity prices. At the same time, it's naive to pretend massive and prolonged subsidies for renewable energy haven't had equally negative impacts on markets. They have artificially lowered the price of renewable sources and are one of the key reasons that coal and nuclear plants are currently in the red.

So, all of this brings us to the question of which is worse, subsidizing failing coal and nuclear interests, or subsidy-addicted renewable developers hypocritically complaining about subsidies keeping coal plants afloat?

The answer is: Neither. They are both awful. We should leave it all behind and go with a third option: Stop crony capitalist subsidies for all energy sources. Let them all compete on a transparent and level playing field, and may the best energy source win.

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