



Analytics

Published by the Caesar Rodney Institute

RELEASE: CRI - Center for Economic Policy and Analysis

RE: Delaware's economy and the RPS

DATE: January 27, 2011

Delaware's Economy is Struggling: This is a poor time to experiment with new energy regulations such as the RPS (Renewable Energy Portfolio Standards). The stark reality is that Delaware's economy is in very serious straits. Delaware has fewer jobs today than it did a decade ago. Over that decade unemployment has gone from 3.3% to 8.5%. Under the best scenario it will take Delaware 3 years to regain its peak pre-recession level of employment, and it may take as long as 5 years. Nearly 19,000 discouraged workers have left Delaware's labor force.

Delaware manufacturing has plummeted from 73 thousand jobs to 26 thousand jobs. The road back for housing from the last recession remains steep. The volume of residential permits is one-third of the pre-recession peak, the value of permits 38% of the peak, and house prices 23% below peak. The unemployment rate in Delaware's construction industry is still above 20%.

Over the last decade Delaware per capita income has fallen from 5% above to equal to the nation and ground is not being regained. After decreasing for three quarters during the recession, Delaware personal income has grown at increasing rates through the three quarters of 2010. The increases of 1.4%, 2.3%, and 3.2% are well below the historic average year over year growth rate of 9.2%. Transfer payments such as unemployment insurance, Medicare and Medicaid, and Social Security, have become the major driver of Delaware personal income. Year over year transfer payments rose 8.3%, earnings only 1.5%, and dividends and interest 0.5%

Finally, as noted in the report of the Delaware Senate Energy and Transit Committee on affordable and environmentally friendly energy, the increase in electric prices from the RPS will most disadvantage low and moderate income Delaware households. The recent recession was especially harsh on such households.

Electricity Costs Will Further Constrain Delaware Economic Growth: According to Moody's Economy.com, energy (i.e., electricity) is the least competitive component of the cost of doing business in Delaware. High electricity costs are the most frequent complaint from businesses to the officials in the Delaware Economic Development Office. The cost of industrial electricity is nearly 50% above the national average and commercial electricity 17% above the nation. In a recent survey of more than 400 Delaware businesses, electricity ranked third in dissatisfaction following transportation and public education.

At the national level, analysis of government imposed targets on use of renewable energy are, under optimistic supply assumptions for renewable energy, expected to raise inflation-adjusted electric rates 90% over 25 years (Heritage Foundation, No. 2438). This would mean that after inflation the application of RPS would raise electricity prices 3.6% a year (or 2.6% at a compound rate).



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According to the literature, the short-run price elasticity of commercial demand for electricity ranges from -0.17 to -1.18. (Price elasticity is a measure of the sensitivity of quantity demanded to a change in price. In other words, what will be the percent decrease in quantity demanded from a one percent increase in price.) The Department of Energy assumed a short-run commercial elasticity of -0.25 in the models used to generate its 2010 Annual Energy Outlook. Research by the RAND Corporation demonstrates that across regions in the U.S. the commercial elasticity is highest in the South Atlantic region (including Delaware).

While the Delaware RPS exempts municipal electric companies, co-ops, and large industrial customers, the rest of the firms in Delaware will reduce their electric consumption almost 1% a year in the face of the rising costs imposed by the RPS (3.6 times 0.25 = 0.9). Since the short-run estimate of commercial price elasticity already incorporates changes in technology and cross-price sensitivities (e.g., natural gas), it is unlikely that Delaware commercial users can readily find dramatic electric savings through substitutes. Moreover, in the face of declining demand, Delaware electric utilities will be losing economies of scale, which may further drive up electric prices.

While most energy intensive manufacturing has disappeared from Delaware (e.g., chemicals), some import high energy manufacturing industries remain (e.g., food processing, poultry farming). And energy is also a notable portion of the costs in a number of Delaware's important non-manufacturing industries such as hospitals, leisure and hospitality, food service, and education.

CONCLUSION: This is a time in Delaware to do things more effectively, more efficiently, and more sensibly, and rejuvenate our state's economy. While the exact cost to Delaware's economy, firms, and citizens of the RPS experiment cannot be estimated to a decimal place, its effect on the economy is like throwing an anvil to a drowning person. The timing for such a policy experiment is poor, and at the least it requires rethinking by the legislature in the face of the facts from substantive and professional analysis.

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