The Oil Drum: Europe
DISCUSSIONS ABOUT ENERGY AND OUR FUTURE

Wind's latest problem: it . . . makes power too cheap

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Bloomberg has a somewhat confusing article about the newest complaint about wind power, but the gist of it is that wind power is an issue for the industry because it brings their revenues down:

> After years of getting government incentives to install windmills, operators in Europe may have become their own worst enemy, reducing the total price paid for electricity in Germany, Europe's biggest power market, by as much as 5 billion euros some years, according to a study this week by Poeyry, a Helsinki-based industry consultant.

Implicit in the article, and the headline (which focuses on lower revenues for RWE) is the worry that wind power will bring down the stock market value of the big utilities - which is what the readers of Bloomberg et al. care about.

But despite the generally negative tone of the article, it's actually a useful one, because it brings out in the open a key bit of information: *wind power actually brings electricity prices down!*

> windmills (...) operators in Europe may have become their own worst enemy, **reducing the total price paid for electricity** in Germany, Europe's biggest power market, by as much as 5 billion euros some years

> The wind-energy boom in Europe and parts of Texas has begun to **reduce bills for consumers**.

> Spanish **power prices fell an annual 26 percent** in the first quarter **because of the surge in supplies from wind** and hydroelectric production

This tidbit of information, which will hopefully begin to contradict the usual lies about the need for hefty subsidies for the wind sector, has been publicised by EWEA, the European Wind Energy Association in a report on the merit order effect (PDF). This is the name for what happens when you inject a lot of capital-intensive, low-marginal-cost supply into a marginalist price-setting market mechanism with low short term demand elasticity - or, in simpler words: when you have more wind, there is less need to pay to burn more gas to provide the requisite additional power at a given moment.

I've long argued that this was one of the strongest arguments for wind (see my article on The cost of wind, the price of wind, the value of wind from last year), and I've pushed the EWEA people to use it more - so this study (which I was not involved in) is most welcome.

The key thing here is that we are beginning to unveil what I've labelled the dirty secret of wind: utilities don't like wind not because it's not competitive, but because it brings prices down for their existing assets, thus lowering their revenues and their profits. Thus the permanent propaganda campaign against wind. But now that this "secret" is out in the open, it's hopefully going to make one of the traditional arguments against wind (the one about its supposed need subsidies) much more difficult to use... The argument remains true for solar, and to a lesser extent for offshore wind, but the utilities are going to complain much less about offshore wind given that they are investing so much capital in that sector right now. The reality is that wind power brings prices down for consumers, even taking into account the cost of feed-in tariffs or other regulatory support mechanisms, which means that these regulatory schemes are not subsidies, but rather smart corrections of market inefficiencies for the public good.

Ironically, wind provides "utility-like" returns to investors, that is low, stable single-digit returns, as befits a regulated strategic infrastructure activity required for the common good. Utilities and investors should love the sector; but they have been spoiled by market deregulation, which has allowed companies to seek higher returns by under-investing, building merchant gas-fired plants, going for M&A games, and playing on market price volatility and trading - in other words, by behaving as perfect clients for investment banks...

As I've noted many times, the energy sector is one of the best examples of how the financialisation of the economy has brought results that are bad for everybody except the investment bankers and top management; it's also, thankfully, one where reality can most objectively re-assert itself.

And the reality is that you get cheaper electricity with wind - and oh by the way, wind requires no imports of fast-depleting fuels from unstable countries, spews no carbon and provides lots more domestic jobs. And it's a perfect investment for our pension needs - safe, low risk, stable, decent long term returns...

Part of my Wind power series.
Full disclosure: I advise wind developers on their financing needs.