

[Frank Wolak is quoted](#) in today's LA Times about the electricity price implications of California's pursuit of a 33% RPS by the year 2020. He argues that electricity prices will rise as a consequence of this regulation. At the same time that California is ratcheting up its RPS standard, the [Federal Government is winding down](#) its green subsidies for wind turbines and for big solar projects. Even if President Obama is re-elected, budget realities are such that I doubt that the DOE will be offering sweet deals in 2013.

What hasn't been discussed is the synergy between these two points. Have Federal subsidies protected electricity consumers against price hikes in states with aggressive RPS? Put bluntly, have Red States been implicitly paying for green power for Blue States? We may soon have a test of this hypothesis.

In the absence of subsidies, renewable power providers will offer power only at a higher price to electric utilities because they will not want to earn negative profits. Cost minimizing utilities will select the cheapest per kWh of these projects but the new "green supply curve" will shift up and to the left relative to the Federal subsidized "green energy supply curve". The electric utility will then turn to the PUC to pass the costs on to consumers. The extent of this pass through hinges on the elasticity of demand for electricity and the political economy of how the PUC makes decisions in fights between consumer and producer interests.

UPDATE: A thoughtful reader of the Legal Planet blog sent me a relevant email. Major California electric utilities such as SCE have argued that the price of solar generated power will continue to fall even without a full tax credit. My own research with Aparna Sawhney supports this point of view. In this [NBER Working Paper](#), we document the increased amount of exports of wind turbines and solar panels being sent from China and India to the United States. This world "supply chain" increases my optimism that the price of renewable power could fall sharply. A second point that I wasn't aware of is that the subsidies for large solar projects will actually expire in 2016. This suggests that the PUC may not face such a crucial rate hike decision.