



The Daily Dish

But It Sounds Like A Good Idea!

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Eakinomics: But It Sounds Like A Good Idea!

California's Energy Commission recently approved a mandate to require all new homes to have solar panels. This sounds like such an appealing clean, self-help way to save the planet. What could be wrong? As [laid out](#) by AAF's Philip Rossetti, sort of everything.

First, it distorts the electricity market. Yes, the rooftop supply will lower electricity prices when it is sunny. But the utilities that provide electricity the rest of the time will have reduced sales but the same capital costs for plants and transmission. They will have to raise the price of their electricity in their remaining market share (at night, for example) to recover those costs — offsetting much of the savings from solar. As Rossetti points out, California already has the most solar power of any state but among the highest electricity costs — 18 cents per kilowatt hour for residents, almost 50 percent higher than the national average.

Second, it distorts the solar panel market. At present, solar panels are an expensive way to produce electricity, and vigorous competition to get homeowners to voluntarily adopt panels could lead to the technological advances that make it cheaper. The California mandate delivers customers by government fiat and undercuts the incentives to reduce the cost of panels.

Third, it makes new housing more expensive — roughly \$9,500 per house.

Finally, all of these costs yield tiny environmental benefits. The upshot is that this new environmental policy is likely to have costs that exceed the benefits. A common view is that states are the laboratories of policy invention. If so, other states should take a close look at the California policy and cross it off their list.