

Wind Rent: Possibilities

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Introduction

The idea of understanding certain assets as public and part of 'The Commons' in order to then extract value for the public in terms of public revenue and conservation is gaining recognition in policy discussions, as the syllabus for PA 395/NR 385-Valuing Common Assets for Public Finance in Vermont states. Quantitative research on the value of common assets is needed to provide policy makers with the details needed for policy discussions.

In my last paper, I described the current state of the wind industry and the existing and proposed wind facilities in the state of Vermont. I found that public revenue is generated primarily in the form of property tax payments based on the value of the land and equipment. A new bill has been signed that will change the way that taxes are calculated on the wind industry (for new facilities). Under the new model the tax is based on the Kilowatt hours produced. In this paper, I will explore alternative methods for capturing public revenue based on the economic rent earned by the wind industry.

With the high startup costs typical of a new industry, with oil prices still relatively low, and with the existence of government price caps, there may not currently be a large profit margin in the wind industry. However, oil prices could quickly go up, laws, taxes, regulations and incentives could change to make wind energy more lucrative, or conceivably other types of events or disasters could occur which could lead to an increased demand and thus higher prices for energy produced by wind. Since there is a limited amount of oil, it is quite likely that at some point in the future, wind

energy will become more valuable. Therefore, Vermont should be prepared to be in a position to take advantage of that when the time comes.

Philosophical Justification

Before turning to possible approaches to collecting 'rent' from the wind industry, it is important to discuss the justification for such a proposal. First, 'economic rent' is defined as "the financial surplus created by the exploitation of natural resources, over and above the costs of exploitation (which include 'normal' profits).¹ Under the democratic theory of rent, governments should maximize their collection of rent to benefit the public, who own the resources.² However, under the liberal theory of rent, public resources should be made private and rent should remain in private hands.³ Wind is a naturally produced asset, since no human can claim to have produced it. Likewise, ridgelines and viewsapes could be considered common assets to be shared by all, even if not owned publically. Wind flowing across or above land is comparable to water in a river or stream flowing across land, and surface water is already considered a public asset. Finally, wind is an asset that can be used to produce energy, just like oil, and if Alaska can take royalties on oil profits, taking royalties on wind profits would be analogous. Finally, if we take the analogy to an extreme, if wind energy were the only source of energy for electricity production and thus the demand was very high and all the profits went to the wind-power producers, they would be in a similar position as the oil industry is now in, where they are able to make huge profits based on the usage of common resources, which seems rather unfair. In sum, conceptually the idea of capturing economic

¹ Selling the Family Silver: Oil and Gas Royalties, Corporate Profits and the Disregarded Public.

² Ibid.

³ Ibid.