Senseless Energy Policy in the Land of Enchantment

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April 2025

It is important to preface this commentary by saying that climate change is happening and that humans are a significant (but not the sole) contributor. Science tells us this. Science also tells us that climate change may actually benefit some regions of the world by extending the growing season for agricultural products and reducing the number of frigid days and for other regions, adaptation may be the key.

That said, we can agree on the scientific rationale but then blunder on the necessary policies to fix the problem. Specifically, this commentary addresses those energy policies aimed at reducing carbon emissions.

Not infrequently, the policies enacted are policies propelled by the political or quasi-religious agenda of climate zealots, misinformation, and blindness to basic economic principles. Such policies are inescapably destined to jeopardize the public good to benefit special interests. Appeasing competing special interests at the expense of the general public has been the hallmark of past government-driven energy policies.

While this commentary focuses on New Mexico, its urgings apply to other jurisdictions that currently have or are considering energy policies featuring mandates, subsidies, and distrust of markets. These policies encourage consumers to transition away from fossil fuels and jeopardize the economic efficiency of the energy market. Economists correctly consider most subsidies inefficient, often politically motivated, and enduring too long.

Hard Truths

Three truths should drive energy policy in New Mexico.

The first truth is that whatever action New Mexico takes to reduce greenhouse gas (GHG) emissions has a negligible effect on climate change. Even what California does has no measurable impact. And, by the way, as noted by one analyst, "[T]he entire Paris agreement, if implemented immediately and enforced strictly, would reduce global temperatures by 0.17 degrees C by 2100, under assumptions that exaggerate the effects of reduced greenhouse gas emissions." This is what science says, verified by complex climate models. Whenever one hears from a politician or a climate advocate that New Mexico needs to act aggressively immediately to switch away from fossil fuels to mitigate in-state wildfires, droughts, and other supposed dire effects, you would do well to consider the statement either self-serving or just plain rubbish.

The reality is that any consequential effect on climate change requires international cooperation by both developed and developing countries (think of China and India). Aggravating this problem is the fact that those countries with the most to gain from controlling climate change have the least financial capacity to do so. Wealthy nations have more resources and site-specific technology to adjust to changing climate than developing countries have. Besides, there exists no easy way to induce cooperation from developing countries if they view emissions reduction as disrupting their economic growth rates. As a rule, growth-oriented (mainly developing) economies will relegate climate change to the back burner. This has been a decades-long experience so far.

Furthermore, controlling climate change in one country, state, or locality benefits other countries; this motivates individual countries to not pay for mitigation. Nobel laureate William Nordhaus considers free riding the main culprit for the lack of progress in climate policy. While free riding is not uncommon in society, it is especially prevalent for global public goods like the atmosphere. Aggravating this problem are the differences in the benefits individual countries receive from climate control, along with differences in the costs borne, making international cooperation arduous, as experience has shown.

The second truth is that New Mexico's energy policies like the Energy Transition Act (ETA) and the electric vehicle (EV) mandates, along with other state and local actions to shrink GHG emissions, inevitably drives up energy prices for New Mexicans. The ETA, which became law in March 2019, requires, among other things, that generation technologies be 50% renewable by 2030, 80% by 2040, and 100% carbon-free by mid-century.

It is understandable why environmentalists support the ETA, but be clear about why New Mexico's largest electric utility (Public Service of New Mexico or PNM) does as well. The ETA pretty much guarantees that utilities recover their stranded costs from retiring their fossil fuel plants earlier if they comply with the Act.

The losers from this bootleggers-and-Baptists coalition are energy consumers. The ETA undermines the long-standing and vital authority of the Public Regulation Commission to prohibit utilities from passing through imprudent costs to their customers. This shift toward cost-plus regulation has the detrimental effect of diminishing a utility's incentive to economize on its costs. With mitigated regulatory oversight afforded by prudence review, the utility's incentive to be disciplined in cost management (for both operating and capital costs) weakens. The ETA has, in effect, created a "moral hazard" environment: a utility faces no financial risk for complying with costs imposed by the law.

One can then portray the ETA as a Faustian bargain whereby PNM has agreed to a "renewable" energy agenda in return for the assurance of financial rewards. Of course, the losers are PNM's customers.

One energy source is left out of the discussion on clean energy in New Mexico and other states. That source is nuclear power. Nuclear power is a carbon-free energy source that can continuously produce electricity. Yet, climate activists give it short shrift. This stance is puzzling

given activists' belief that climate change is an existential threat and the fact that nuclear power can significantly reduce carbon emissions.

In the last year, though, there has been a positive movement (some labeling it a resurgence) to include nuclear power in the discussion on climate change, even from some environmentalists. This renaissance derives from the continued development of small modular nuclear reactors (SMRs), high electricity-usage data centers' interest in AI to invest in nuclear facilities and life extensions, and the reopening of some nuclear plants. For example, Constellation and Microsoft agreed in September 2024 to a 20-year power-purchase contract. The contract will provide continuous, carbon-free power (which Microsoft desired) from Three Mile Island to Microsoft's data centers. Constellation intends to spend around $1.6 billion to recommission that nuclear plant.

SMRs can mitigate the major problems that have plagued traditional, large-scale nuclear plants: massive cost overruns in construction, perceived safety issues, and prolonged time delays in plant completion. Nuclear power has the capability to deliver safe, clean, reliable, and affordable electricity to communities nationwide.

And lastly, our ***third truth*** follows from the first two: New Mexico's clean energy policy miserably fails a cost-benefit test, especially when subsidies like tax credits for EVs and mandates favoring renewable energy and specific technologies are significant features. Consequently, we should expect a decline in the state's economic growth, an unfair burden imposed on low-income households (energy costs are regressive generally), and hurting energy consumers and energy intensive commercial and business customers overall.

Specious Reasons for Promoting Unreliable Energy

New Mexico's energy policy relegates cost-benefit analysis, sensible economic principles, and sound public policy to a subordinate, if not nonexistent, role. One must then ask why New Mexico is committed to promoting unreliable and costly energy sources. More than anything, it seems that this policy descends from the quasi-religious conviction that society must reduce GHG emissions or drastically it will inescapably face future catastrophes (a "chicken little" mentality, if you will). We can accurately brand New Mexico's energy policy as a "climate first" or anti-fossil fuel agenda that subordinates energy consumers' interests to the embellished benefits of renewable but unreliable energy.

Both the public and politicians seem to act based on erroneous information from sensational reporting by the press on the severity and immediacy of damages from climate change—for example, inflated likelihood-of-catastrophe estimates in distorted media coverage of the scientific evidence, which places an excessive probability on calamitous events and assumes that the science is settled. The media seems to assign more precision to climate models and more accuracy to their predictions than warranted by the evidence; they omit that the worst-case scenarios or disastrous outcomes are not expected statistically. While science says such scenarios are conceivable, they have a much lower probability than the press, politicians, and policymakers convey to the public.

One can conclude that both the media and climate activists are misusing science to advance their separate agendas, like selling newspapers, eradicating fossil fuels, and advancing an ideology. The hysteria ("climate change is the greatest crisis our world has ever faced; we can't spend too much, too soon to mitigate this problem") triggered by this misinformation has led to misguided and highly costly energy policies throughout the world, including in New Mexico.

One glaring observation is striking: much of the active climate policies arise from what economists call rent-seeking by special interest groups who stand to benefit directly from implementing these policies. Their inherent interest encompasses only themselves—not the broader public interest. Their vision of the future entails filling their pockets or satisfying their dogma—for example, not aggressively tackling climate change is a social injustice. This seems especially true in New Mexico. Yet (in case anyone has forgotten), the job of policymakers is to balance the different interests, including energy consumers, to serve the public good.

Before adopting an energy policy, as an exercise in democracy, the state should entertain the idea of polling its citizens to find out how much they would be willing to pay to have "clean" energy. It is far less than what the energy policy will compel them to pay. A surprising feature of Kamala Harris's presidential campaign was her silence on climate change; her strategists ostensibly advised her that advocating for an aggressive and costly climate policy is a net loser: whatever benefits Americans may perceive are more than offset by the costs, which include restricting the cars they can buy, higher electricity rates, lower economic growth, lower quality of life, and job losses in major industries.

As stated by one climate expert, "Climate policy has increasingly become a lose-lose for progressive politicians. Mentioning climate policies alienates moderate voters who worry about their tremendous cost. Acknowledging these downsides, however, alienates the young voters who are enthusiastic about green ideals. They feel betrayed if you admit that net zero could be a bit unrealistic."

It is understandable why the public has become disenchanted with climate fanaticism. Behind "clean" energy policies is the belief that consumers can't be trusted to behave rationally or in a socially desirable way. The EV mandate, for example, forces consumers to do something they otherwise would not do. On November 16, 2023, the Governor's appointed Environmental Improvement Board adopted a stringent "clean" car rule that requires 82% of all new vehicles delivered to the state to be zero-emission by 2032. By reducing options for vehicle owners, driving will become more expensive in New Mexico. Also disturbing is that subsidizing EVs will disproportionately benefit middle- and upper-income households over low-income households.

Perhaps the oddest part of the state's EV agenda is that it hopes to trim the number of gasoline/diesel-powered vehicles in the state without knowing whether that is what the citizens of New Mexico want. The agenda is telling New Mexicans that the government knows better what types of vehicles New Mexicans should purchase than they do, ignoring the wishes of the citizenry in the process. Today, less than 5 percent of vehicles in New Mexico are EVs. Car

owners are, for good reason, wary of EVs for various reasons, including high upfront costs, limited range, and people's inherent skepticism of new technologies.

Both for equity and economic efficiency reasons, government inducements, whether to hasten the number of EVs or charging stations, are a flawed idea. Purchasers of EVs are primarily in the high-income category, and that will likely hold for the foreseeable future. That means that tax credits and other subsidies will benefit the well-to-do and will be paid for by less financially well-off people. One study noted that up to 90 percent of EV purchase incentives adopted by the federal government have flowed to the wealthiest one-fifth of households.

Nevertheless, EVs have a promising future. Technological advancements in batteries, other aspects of production, and charging stations will determine consumers' demand for EVs and manufacturers' profits from EVs, ultimately deciding the product's fate. Their success is more likely if the government steps out of the way and allows EV providers to address market demand to lure consumers with price reductions and better vehicle performance—not subsidies and mandates.

Subsidies for energy efficiency (EE), a major piece of the state's energy policy funded by utility customers and taxpayers, presume that energy consumers are irrational and uninformed of the benefits of EE. The idea that markets are less than perfect should not infer that intervention in the form of utility subsidies or government mandates benefits society. One of the significant errors in government actions in many areas starts with the premise that since markets aren't perfect, the government should intervene. Often, such intervention results in a higher cost to society than the benefits received.

The concept often tossed around in public policy debate is "market failure." The reality is that all markets are "imperfect" because at any given time consumers may lack perfect information or don't always process the available information rationally. It is common for those enamored of government control of markets to assume "market failure" and then without real evidence call for policy intervention.

Indeed, promoting government meddling to refashion consumer behavior could be justified in virtually all markets. For example, some EE advocates point to the lack of access to financing as a reason for underinvestment in EE. They erroneously widen the definition of market failure beyond its intended meaning. It may very well be that energy consumers prefer investing in other things, like home repairs, new cars, or college, rather than EE. And that's not because of market failure.

Another fact is that academic reviews of EE programs conclude that such programs are not the "low hanging" fruit that many people claim them to be. They show that utilities grossly overstate energy savings from EE programs because they rely on engineering estimates ("deemed savings") that fail to account for consumer behavior (the so-called "rebound effect" or price-elasticity effect) in using, say, their higher energy-efficient air conditioners and heating systems more intensively because of lower operating costs.

Studies also find "free riders" participating in EE programs. They are individuals who would have purchased lower energy-use appliances or heating and air conditioning systems without an EE subsidy. It would be wrong to count their energy savings as real benefits, which can show a program to be cost-effective when, in fact, it is not. Some studies have found that participants in utility EE programs are primarily wealthier consumers who own their own homes and are better informed about and attentive to energy costs.

The Perils of a "Clean" Energy Agenda

Government controls over GHG emissions directly affect goods and services, such as electricity and transportation, whose costs will likely escalate. The costs could be substantial if controls include banning or severely restricting fossil fuels like gasoline. Most regions in the US have an abundance of fossil fuels at affordable prices, which explains why over 80% of the world's energy still comes from fossil fuels.

This raises the question of whether states like New Mexico want to or can wean themselves from fossil fuels over the next two or three decades without suffering severe economic consequences. Studies and real-world experiences have shown that a hasty energy transition away from fossil fuels can be highly disruptive and costly to energy consumers and the general economy.

As starkly stated by one climate and energy expert, "The claim that green energy is cheaper relies on bogus math that measures the cost of electricity only when the sun is shining, and the wind is blowing. Modern societies need around-the-clock power, requiring backup, often powered by fossil fuels. That means we're paying for two power systems: renewables and backup. Moreover, as fossil fuels are used less, those power sources need to earn their capital costs back in fewer hours, leading to even more expensive power."

The same expert succinctly depicts the problem as premature dependency on renewable energy that requires "massive subsidies and redistributive taxes, which have driven up electricity costs in the European Union by 50 percent since 2000, now costing each person an additional $300 annually."

New Mexico has one of the highest poverty rates in the country. Most states with aggressive climate policies (largely "blue states") are wealthier. They can better afford to have their citizens pay higher energy prices and tolerate lower economic growth than a state like New Mexico. Higher energy prices in most instances are a regressive tax that places low-income households in greater financial peril.

New Mexico is already witnessing the effect of "renewable" energy mandates in PNM's rate filings, which call for increasing electricity rates partly to comply with ETA's mandates ("the chickens are coming home to roost"). To no surprise, one study has shown that states with the most significant electricity rate increases in recent years have the most active climate policies, typically including renewable-energy mandates. Although New Mexico's electricity rates today are below the national average, it will be no surprise if they soon soar above the national average.

Sound energy policy recognizes that in a "clean"-energy world, (1) *there is no free lunch* (look no further than the misadventures in California and Germany), (2) *all costs are opportunity costs* (monies spent on reducing GHG emissions could be allocated to more urgent problems such as reducing poverty and replacing outdated infrastructure), (3) *trade-offs in a world of scarcity are inevitable* (renewable energy versus reliable and low-price electricity), and (4) *benefits should exceed the costs*. One doesn't have to dig too far to see that an aggressive climate policy like New Mexico's, which some politicians and climate activists want to fast-track even more, falls short in meeting these criteria.

As an example, California has traveled down a primrose path. As reported by S&P Global, "electric rates surged 63 percent in the San Diego area, 44 percent in the San Francisco area and 39 percent in the Los Angeles area between 2020 and 2023, far outpacing the still-steep 24 percent rise in U.S. cities on average, according to data from the US Bureau of Labor Statistics." Another observer described the absurdity of the California energy market this way: "In pursuit of reaching net-zero carbon emissions by 2045, the Newsom administration has given billions in subsidies to the 'renewables' industry, at the same time it has relentlessly attacked producers of conventional energy."

California has also experienced serious electric power reliability problems, attributed by some to allocating large sums of money to achieving the state's stringent clean energy goals. New Mexico may be taking the same inane path of diminished service reliability and swelling electricity rates.

Germany's "Energiewende" program, which features an ambitious plan for renewable energy, has been described by one analyst as a risk "undermining [Germany's] long-standing position as a European economic powerhouse and global leader in manufacturing." Another observer commented, "Energiewende has contributed to a steep drop in Germany's industrial production and employment."

The Oversell of Energy Policies

A study of energy policies since the 1970s reveals that to gain political and public acceptance, advocates of a particular energy policy typically overstate the benefits and understate the costs (e.g., the "backup" cost of renewable energy for electricity generation). After all, concealing the costs obviates the need to explain the benefits.

Therefore, energy policies often communicate the fantasy that we can have everything without paying a price. New Mexico's energy policy follows this despicable tradition. In the real-world individuals, businesses and society cannot escape having to make tradeoffs.

Government-driven energy policies inherently place more faith in the implausible benevolence and infallibility of government intervention than in the choices made by consumers and other

market participants. Such policies almost surely diminish economic efficiency, lower economic growth, and increase economic inequality.

In New Mexico, the ETA and EV mandates carry risks. Mandates require policymakers to pick winners and losers, which is a highly difficult task given their limited knowledge. The problem is particularly acute for new technologies with high uncertainties over cost and performance. For example, a policy that mandates electric vehicles as a preferred technology can backfire if the price of gasoline falls sharply, or EVs fail to develop economically and technically as hoped for by advocates.

Sadly, New Mexicans face the risk of the state's energy policies driving it down this ruinous road. It is yet another example where baseless government intervention makes things worse rather than better. Other states should take note if it's not already too late.

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