

Who wants to pay more for green electricity?

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A research report in the *International Journal of Environment and Pollution* suggests that individuals prefer to be involved in a collective contribution to green electricity that involve everyone paying more, rather than having individual higher bills.

Many electricity suppliers offer so-called green tariffs. These tariffs charge a premium, which is then invested in renewable electricity generation, such as wind power and solar energy, or in other forms of carbon reduction technologies. However, Roland Menges of the University of Flensburg and Stefan Traub of the University of Bremen, Germany, wanted to know whether an individual's "willingness to pay" (WTP) for green electricity matched up with expectations or whether an alternative business model might work better.

The researchers surveyed people and offered them either a public-choice scenario or an individual-choice scenario. They pointed out in their survey that there are three different payment vehicles for the public promotion of renewable energy: direct tax (reduced income), indirect tax (tax added to bill via green tariff) and "carbon" tax. They tested to see how much free-riding would take place in each scenario. Free-riding would involve individuals paying for a standard tariff while benefiting from the development of renewable energy paid for by others with green tariffs. They also looked at how public promotion of green electricity would impinge on opinions and uptake of green tariffs. Finally, they investigated trust in the market.

The overarching conclusion of the study is that people in Germany

prefer their green electricity products to be paid for as a collective contribution rather than as higher bills for individuals who happen to opt for a green tariff. This result might be interpreted in light of the more general conclusion of political economy that voters prefer an improvement of the environment by means of regulations and prohibitions instead of market-driven activities, the researchers add.

More information: "Who should pay the bill for promoting green electricity? An experimental study on consumer preferences" in *International Journal of Environment and Pollution*, 2009, 39, 44-60

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