Climate Policy Memo #3

Cost of the American Clean Energy and Security Act of 2009 Found to Be Small According to Government Analyses

Economic analysis by its nature is better suited to providing insights and not absolute predictions of the future and when these insights are confirmed by more than one analysis, the results are typically considered more credible. With this in mind, two recent government analyses that looked at the costs of the cap and trade portion of the American Clean Energy and Security Act of 2009 (ACES) have found that the likely impact of this portion of the bill would be fairly small. Taking into account the included cost containment provisions and that much of the revenue raised by the bill would be returned in some fashion to households, both EPA and CBO suggest that household impacts would be less than $200 per year.

The following table and bullets are intended to provide a short summary of key results from these two analyses.

Key Results from EPA and CBO Analyses of American Clean Energy and Security Act[1]

		2020	2030	2050
Allowance Price ($/tCO2e)	EPA	$16	$26-27	$69-70
	CBO	$22	n.a.	n.a.
Annual Household Cost ($)	EPA	$49-61	$99-132	$123-174
	CBO	$175	n.a.	n.a.
Annual Economy-wide Cost (billions of $)*	EPA	$100	$100-200	$500-700
	CBO	$22	n.a.	n.a.

* EPA and CBO compute net economy-wide costs using different methodologies. EPA's cost estimates reflect the change in GDP from business-as-usual levels and are computed using general equilibrium models. CBO's cost estimate includes international offsets, production cost of domestic offsets, resource costs, and allowance value going overseas, and does not capture the entire impact on GDP nor certain general equilibrium effects.

Other Results

- EPA results highlight the relatively small carbon price impacts on future gasoline prices ($0.13 in 2015, $0.25 in 2030, and $0.69 in 2050). For context, EIA reports that in the past year alone, gasoline prices have swung over $2 per gallon.2 EPA also reports that that these small price impacts are not sufficient to significantly change consumer driving or vehicle choice behavior.

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- EPA results suggest that with the energy efficiency provisions, allocation to local electricity distribution companies (LDC's) and rebates to energy intensive manufacturers, electricity prices will be unchanged in 2020 but will increase 13% by 2030. EPA also notes however, that if allocating to LDC's shields consumers from all price impacts, the cost of the cap-and-trade policy will be more costly since other sectors of the economy will need to achieve greater emission reductions.

- CBO looked at how ACES would impact different household income groups. They found that households in the lowest income quintile would see an average net benefit of $40 in 2020 from the program. Households in the middle and top income quintiles would see a net cost of $235 and $245, respectively. These net impacts reflect the cost of higher energy and goods prices and the share of allowance value returned to households in their roles as consumers, workers, and investors.

- CBO has also estimated the budgetary impacts of Waxman-Markey. For the cumulative period 2010-2019, the increase in estimated revenues would be $845.6 billion. The increase in direct spending would be $821.2 for the same period. The net impact for this period would therefore be a decrease in the deficit of $24.4 billion. These changes in revenues and direct spending stem mainly from the process of auctioning and freely distributing allowances. CBO also estimated that discretionary federal spending would increase by $49.9 billion over this period.

- In these analyses all assessments of the cost of cap and trade, deployment of low carbon technology is critical. Greater expansion of nuclear power, renewable generation, biofuels and carbon capture and storage capacity reduces the program costs.

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[1] EPA's recent analysis of ACES can be found at http://www.epa.gov/climatechange/economics/pdfs/HR2454_Analysis.pdf and CBO's recent analysis can be found at http://www.cbo.gov/ftpdocs/103xx/doc10327/06-19-CapTradeCosts.htm.

[2] EIA's analysis of gasoline price movements is available at http://tonto.eia.doe.gov/oog/info/gdu/gasdiesel.asp.

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