



Getting Alternative Energy Without Raising Prices

“But to truly transform our economy, protect our security, and save our planet from the ravages of climate change, we need to ultimately make clean, renewable energy the profitable kind of energy.”ⁱ

- President Barack Obama

Proponents of cap-and-trade have a laudable goal of making alternative and renewable energy profitable. There are two ways to make a product profitable (or more profitable): lower marginal costs or increase price. While some parts of the American Clean Energy and Security Act (ACESA) aim at lowering costs by increasing research or subsidizing alternative energy, the cap-and-trade portion of the bill is designed to enable expensive alternative energy to be competitive by raising energy prices overall. Instead legislation should focus on reducing the costs of low or no emissions energy.

The idea behind cap-and-trade is to make conventional energy – including coal and natural gas that provide 68 percent of energy for electricity generationⁱⁱ – more expensive so that alternative energy becomes competitive in price (and thus, profitable). Without technological breakthroughs, wind and solar will likely continue to be more expensive and less available than conventional sources, at least in some areas.

Proponents of cap-and-trade have been frank about raising the price of electricity, even noting that it is a necessary or essential part of reducing carbon emissions. President Obama said “[U]nder my plan of a cap and trade system, electricity rates would necessarily skyrocket...whatever the plants were, whatever the industry was, they would have to retrofit their operations. That will cost money. They will pass that money on to consumers.”ⁱⁱⁱ Congressman Henry Waxman, a sponsor of ACESA, has also acknowledged that energy prices will go up if we reduce carbon emissions.^{iv} Treasury Secretary Timothy Geithner testified that “cap-and-trade would increase the cost of energy for those types of energy that’s particularly carbon-intensive. It does increase the cost of energy, and that’s necessary if you’re going to change how people use energy...”^v Office of Management and Budget Director Peter Orszag testified (as head of the Congressional Budget Office) that “price increases would be essential to the success of a cap-and-trade program because they would be the most important mechanism through which businesses and households would be encouraged to make investments and behavioral changes that reduced CO₂ emissions.”^{vi}

Instead of increasing the price of energy, legislation could focus on reducing emissions by lowering the cost of renewables through aggressive research and supporting an increased role for nuclear power. Internationally, author Bjorn Lomborg has recommended a path whereby all nations would devote a portion of their GDP (so burdens are shared equally) to research non-carbon-emitting energy technologies, including nuclear, fusion, carbon storage, conservation or other ideas most appropriate for each nation. If the costs of carbon-free sources were reduced enough to make them competitive, then they likely would be adopted more widely around the globe. Foreign countries, which generally act in their own self interest, would adopt the alternative technology much sooner than they would agree to carbon caps that would cripple their growing, often carbon-intensive, economies by raising the price of all energy.

ⁱ Remarks to Joint Session of Congress, 2/24/09. http://www.whitehouse.gov/the_press_office/Remarks-of-President-Barack-Obama-Address-to-Joint-Session-of-Congress/.

ⁱⁱ See Energy Information Agency, Annual Energy Review 2007.

ⁱⁱⁱ Interview with the San Francisco Chronicle, January 2008. <http://www.breitbart.tv/?p=211663&comments=1>.

^{iv} “If we raise the price of energy, which will happen if we're reducing the amount of carbon emissions...” Tavis Smiley show interview, 4/13/09. http://www.pbs.org/kcet/tavissmiley/archive/200904/20090413_waxman.html.

^v Testimony before Senate Finance Committee, 3/4/09.

^{vi} Testimony before the Senate Finance Committee, 4/24/08. http://www.cbo.gov/ftpdocs/91xx/doc9134/04-24-Cap_Trade_Testimony.pdf.