

The Back-door Btu Tax

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Many people in the “traditional” energy industries (especially representatives in Washington) relish the recollection of the stinging defeat in 1993 of the hated Clinton-Gore “Btu Tax.”

However, some of these same people seem to have forgotten that political leaders who are committed to a particular point of view do not give up when their ideas are defeated. Instead, they wait for a new opportunity. That is exactly what has happened with the Btu tax.

The term “Back-door Btu tax,” was selected because the Btu tax is back—less ambitious, well-disguised, and sneaking in through the back door.

“RENEWABLE PORTFOLIO STANDARDS” (RPS) = BTU TAX

Apparently few have recognized it, but the practical effects of a national Renewable Portfolio Standards (RPS), combined with a renewable credit trading system, would be nearly identical to the Btu tax proposed in 1993. That is, it would force upward the price of electricity produced from coal, oil, natural gas, nuclear energy and hydropower. A national RPS and renewable credit trading scheme were proposed to the Congress last year, in the Administration’s “Comprehensive Electricity Competition Act.”

Are you skeptical? Then think about the following.

- **The “Broad Based Energy Tax” or “Btu tax”** proposed in 1993 would have imposed a tax—ranging from \$.257 to \$.599 per million Btu on coal, oil, natural gas, nuclear energy and electricity from hydropower. The tax would have been imposed at some stage in

the energy production, transformation, or distribution system. The tax would not have been imposed on non-hydro renewable energy sources.

The purpose of the tax was to force upward the price of the “undesirable” forms of energy targeted by the tax. The tax would have been passed along to consumers as a part of retail prices. All energy users—consumers, business, industry and institutions—would face a price increase but many would not recognize that a new tax was the cause of the increase.

- **The proposed national Renewable Portfolio Standards** would mandate that certain percentages of all the electricity that is offered for sale must come from non-hydro renewable energy sources. These qualifying sources are geothermal, biomass (including biomass used in coal-fired plants), solar thermal, solar photovoltaic, wind, and the biomass portion of municipal solid wastes. Since costs generally are higher when electricity is produced from these “favored” energy sources, the Administration produced a scheme that would force electricity sellers to “include” electricity from non-hydro renewable sources in their product mix.” This “forcing” would occur in a two-step process:
 - First, organizations producing electricity from the higher cost but favored non-hydro renewable energy sources would be given “tradable credits” for each kilowatt-hour (kWh) of electricity produced.
 - Second, electricity sellers would be required to include a specified percentage of electricity from non-hydro renewable energy sources in the mix of electricity they sell. Minimums would be 2.4% from 2000 to 2004 and then increase to 7.5% by 2010. Electricity suppliers could meet the minimums in any of the following four ways:
 - Produce some electricity from the high cost non-hydro renewable energy sources.
 - Buy electricity produced from non-hydro renewable energy sources from organizations that are using such sources.

- Buy “tradable credits” from organizations that produced electricity from non-hydro renewable energy sources that are willing to sell the credits.
- Buy “credits” from the US Department of Energy at a cost of \$0.015 per kWh. (The availability of credits from DOE at \$0.015 per kWh is intended to put a cap on the “market” price for the renewable credit.)

In one of these ways, electricity sellers would be forced to incur the higher cost of electricity produced from non-hydro renewable sources. That higher cost is, in effect, a “tax” imposed on electricity sellers. Without doubt, electricity sellers would pass the higher cost of the electricity produced from non-hydro renewable energy (either the directly incurred cost or the cost of the “credits”) to their customers.

The higher cost of the “green” electricity would be spread over all kWh sold by the electricity seller—except in those cases where some electric customers volunteer to pay a premium price cost for so-called “green” electricity. (Some users are making this choice.)

Where the higher cost is spread to all electricity, it becomes, in effect, a “tax” on electricity produced from the “undesirable” energy sources; i.e., natural gas, oil, coal, nuclear energy and hydropower.

The added costs of meeting the RPS that would be passed along to consumers is quite small when spread over all the electricity sold. It would be about \$.0012 per kWh for a producer buying only enough 1.5 cent credits to meet the 7.5% minimum requirement. The \$.0012 per kWh is roughly equal to \$.12 per million Btu—a little less than half the \$.257 per million Btu tax proposed in 1993 for coal, natural gas, nuclear energy, hydropower and some oil products.

Advocates of a RPS probably assume that such a small “tax” wouldn’t be noticed in monthly electricity bills—and the “back-door Btu tax” would have its “foot in the back door.”

ABOUT THE AUTHOR

Glenn R. Schleede is president of Energy Market and Policy Analysis, Inc. (EWA), a consulting practice providing analysis, advice, and assistance to organizations in industry and government on energy and related environmental and economic matters.

Prior to forming EMPA in 1992, Schleede was vice president of New England Electric System (NEES) and president of its fuels subsidiary, New England Energy Incorporated, with responsibilities including procurement and transportation of fuels for NEES facilities, NEEI's oil and gas exploration and coal shipping venture, and NEES economic planning and budgeting functions (1982-1992).

Previously, Schleede was executive associate director of the U.S. Office of Management and Budget (1981), senior vice president of the National Coal Association in Washington (1977-1981) and associate director (Energy and Science) of the White House Domestic Council (1973-1977). He also held career service positions in the U.S. Office of Management and Budget and the U.S. Atomic Energy Commission. Mr. Schleede has a bachelor's degree from Gustavus Adolphus College and a master's degree from the University of Minnesota. He is also a graduate of the Advanced Management Program of the Harvard Business School.