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Cost Estimate for S. 1733, the Clean Energy Jobs and American Power Act

Yesterday CBO released a cost estimate for S. 1733, the Clean Energy Jobs and American Power Act, which was ordered reported by the Senate Committee on Environment and Public Works on November 5, 2009. This legislation would make a number of changes in energy and environmental policies largely aimed at reducing emissions of gases that contribute to global warming. The bill would limit or cap the quantity of certain greenhouse gases (GHGs) emitted from facilities that generate electricity and from other industrial activities beginning in 2012.

Under the bill, the Environmental Protection Agency (EPA) would establish two separate regulatory initiatives known as cap-and-trade programs—one covering emissions of most types of GHGs and one covering hydrofluorocarbons (HFCs). EPA would issue allowances to emit those gases under the cap-and-trade programs. Some of those allowances would be auctioned by the federal government, and the remainder would be distributed at no charge. The legislation also would authorize the establishment of a Carbon Storage Research Corporation to support research and development of carbon capture and sequestration (CCS) technology. Funding for the corporation would largely be derived from assessments on utilities enforced by the federal government.

CBO and the staff of the Joint Committee on Taxation estimate that over the 2010-2019 period enacting this legislation would:

- Increase federal revenues by about $854 billion; and
- Increase direct spending by about $833 billion.

In total, those changes would reduce budget deficits (or increase future surpluses) by about $21 billion over the 2010-2019 period. In years after 2019, direct spending would be less than the net revenues attributable to the legislation in each of the 10 year periods following 2019. Therefore, CBO estimates that enacting S. 1733 would not increase the deficit in any of the four 10-year periods following 2019.

The legislation also would authorize appropriations for various programs to be operated by EPA, the Department of Energy (DOE), and other agencies. If those funds were appropriated, CBO estimates that implementing S. 1733 would increase discretionary spending by about $29 billion over the 2010-2019 period. Most of that funding would stem from spending auction proceeds associated with the HFC cap-and-trade program.

Differences Between S. 1733 and H.R. 2454, the American Clean Energy and Security Act of 2009

S. 1733 is similar to H.R. 2454, which was passed by the House, but there are some significant differences that result in lower estimates of revenues and direct spending under S. 1733. Specifically, several energy-related provisions in H.R. 2454 that CBO estimated would increase direct spending (such as the renewable-electricity standard and the establishment of a Clean Energy Deployment Administration) are not included in S. 1733. Also contributing to lower spending under the Senate bill are the different amounts of proceeds from allowance auctions that are not spent. (See CBO's cost estimate for H.R. 2454 as passed by the House on June 26. CBO and JCT estimate that over the 2010-2019 period, the House bill would increase federal revenues by about $873 billion and increase direct spending by about $864 billion, reducing budget deficits over that period by about $9 billion.)

In addition, differences between the two versions of the legislation would result in higher allowance prices under S. 1733. CBO estimates that prices for emission allowances would be about 15 percent higher under S. 1733 than under H.R. 2454, as passed by the House, because S. 1733:

- Contains a more stringent emissions cap in 2014 and between 2017 and 2029;
- Contains different allocations for distributing emission allowances and auction revenues; and
- Places greater restrictions on the amount of international offsets that can be used towards an entity's compliance obligation.

CBO's Work on Climate Change

CBO has done extensive work on issues surrounding climate change. Earlier this month, CBO's Assistant Director for Microeconomic Studies, Joseph Kile, testified on the use of agricultural offsets as part of a cap-and-trade program for reducing greenhouse gases. Last month, CBO released a brief about the economic costs of reducing greenhouse-gas emissions in the United States. That brief highlighted more than a dozen of CBO's cost estimates and publications related to the issues of climate change and legislative proposals to reduce greenhouse gases.

This entry was posted on Thursday, December 17th, 2009 at 4:40 pm and is filed under Budget Projections, Climate Change.
