Schleede from 2000: 'The Backdoor Btu Tax"

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"The [1993] 'Broad Based Energy Tax,' or Btu tax, proposed in 1993 would have imposed a tax ranging from $0.257 to $0.599 per million Btu on coal, oil, natural gas, nuclear energy, and electricity from hydropower. The tax would not have been imposed on non-hydro renewable energy sources."

Tributes to the late Glenn R. Schleede this week (here and here) are joined by a piece published in Regulation magazine, published in 2000 by the Cato Institute. "The Backdoor Btu Tax" can apply to a variety of government interventions in the energy economy.

"Political ideas never die, however, they just come back in different forms," Schleede reminds us. And so hold on to your wallets whenever reading about and analyzing the latest about mandates and rationing schemes with oil, gas, coal, or electricity.

The piece follows:

Many people in the "traditional" energy industries relish the recollection of the stinging defeat in 1993 of the hated Clinton-Gore "Btu Tax." Political ideas never die, however, they just come back in different forms. Few have recognized it, but the national Renewable Portfolio Standards (RPS) and renewable credit trading scheme in the Clinton administration's proposed "Comprehensive Electricity Competition Act" would tax electricity produced from coal, oil, natural gas, nuclear energy, and hydropower, much like the proposed 1993 tax.

The "Broad Based Energy Tax," or Btu tax, proposed in 1993 would have imposed a tax ranging from $0.257 to $0.599 per million Btu on coal, oil, natural gas, nuclear energy, and electricity from hydropower. The tax would not have been imposed on non-hydro renewable energy sources.

The purpose of the tax was to increase the price of the "undesirable" forms of energy targeted by the tax. The proposed national RPS would require certain percentages of all electricity offered for sale to come from non-hydro renewable energy sources, including geothermal, biomass (including biomass used in coal-fired plants), solar thermal, solar photovoltaic, wind, and the biomass portion of municipal solid wastes. Because the use of these energy sources generally

results in higher cots, the Clinton administration produced a scheme that would force electricity sellers to include electricity from non-hydro renewable sources in their product mix:

First, organizations producing electricity from 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: a minimum of 2.4 percent from 2000 to 2004, increasing to a minimum of 7.5 percent by 2010.

Electricity suppliers could meet the minimums in any of the following four ways:

Produce some electricity from non-hydro renewable energy sources.

Buy electricity produced by other organizations from non-hydro renewable energy sources.

Buy “tradable credits” from organizations that produce electricity from non-hydro renewable energy sources.

Buy the credits from the U.S. 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 credits.)

In one of these ways, electricity sellers would be forced to incur higher costs because of RPS. Suppliers would, to the best of their ability, pass those higher costs to their customers by spreading the higher costs of “green” electricity across all kWh sold. In effect, the higher costs would become a “tax” on electricity produced from “undesirable” energy sources: natural gas, oil, coal, nuclear energy, and hydropower.

Suppliers would have no practical alternative, except in states where customers can volunteer to pay a premium price for more expensive “green” electricity. The added cost of meeting the Renewable Portfolio Standards may seem quite small. For example, it would be about $0.0012 per kWh for a producer buying only enough credits from DOE to meet the 7.5 percent minimum in 2010.

And $0.0012 per kWh is roughly $0.12 per million Btu—a little less than half the $0.257 per million Btu tax proposed in 1993 for coal, natural gas, nuclear energy, hydropower, and some oil products. Advocates of RPS probably assume that such a small “tax” would not be noticed in monthly electricity bills—and the “backdoor Btu tax” would have its foot in the backdoor.