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The Midwest Consumer Utilities Release Study Demonstrating Economic Impacts of Climate Change Legislation on Midwestern Consumers

Study Shows Cap and Trade Program Design Could Devastate Midwestern Electric Consumers

The Midwest Consumer Utilities today released a study that demonstrates Midwestern consumers can expect significantly higher energy costs under a federal greenhouse gas (GHG) cap and trade regime, and could face alarming economic impacts under some program designs, particularly those relying on full auctions. The utilities include Indiana Municipal Power Agency, Madison Gas and Electric Company, Missouri Joint Municipal Electric Utility Commission, Missouri River Energy Services, Southern Minnesota Municipal Power Agency and WPPI Energy.

The study projects the potential rate impact of various legislative approaches on the Midwest Consumer Utilities' customers, including businesses and industry, and on the economies in their respective states. It shows that depending on the auction price of allowances the average rate increases for consumers in the seven Midwestern states studied could be up to 79 percent from 2012 to 2030 under a cap and trade program that employs a 100 percent auction method that does not refund auction revenues back to those customers. It is important to note that some states will experience even larger annual average increases. Even if the cap and trade program were designed using a method that allocates 100 percent of allowances at no cost for rate mitigation purposes, rates could still rise an average of up to 37 percent for this same period.

"Under any new carbon legislation, a no-cost allocation process with a cap on total emissions is the best way to keep electricity cost increases to a minimum and to limit greenhouse gas emissions," said Raj Rao, CEO of Indiana Municipal Power Agency. "An auction or carbon tax will cause electricity prices to go up significantly and hurt all customers in the Midwest region."

"Congress is about to embark on an important national debate," said Roy Thilly, CEO of WPPI Energy. "We hope the sober results we present today help guide the outcome."

The study shows that the implementation details of a cap and trade program are critical. The method chosen to distribute allowances and recycle auction revenues will dramatically affect the cost of compliance borne by consumers and the general economy, particularly in coal intensive states in the Midwest. The results may be much more extreme if cost effective new technologies do not materialize or are delayed.

"Unless new electric technologies can be deployed first, the Midwest is where cap and trade will really turn out the lights on the job market," said Duncan Kinchloe, General Manager and CEO of Missouri Joint Municipal Electric Utility Commission.

Cap and trade programs limit the amount of pollutant emissions produced by some sectors of the national economy, while offering flexibility in how those targets are met. In theory, they are intended to achieve emissions targets in the least cost manner and mitigate substantial wealth transfers, between and among customers and regions, that can accompany the introduction of GHG reduction strategies.

It is important to note that whether allowances are allocated or auctioned will not affect a given policy's ability to achieve emission reduction goals. But auctions could result in significantly higher electricity prices for consumers and substantially harm Midwest states with energy intensive industries in global competition. The no cost allocation of allowances is essential to help those states that face the greatest challenges in moving to a low carbon economy.

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