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THE SURGE

BY THE COMPETITIVE ENTERPRISE INSTITUTE

Welcome to the latest edition of *The Surge*!

- The Department of Housing and Urban Development has recently issued new requirements that will drive up housing costs, worsening affordability issues for new homebuyers.
- Taxation without representation is widely rejected. But what about regulation without representation?
- Federal subsidies for wind and solar are already massive and the IRA is going to dramatically increase the handouts.
- The Department of Energy is proposing to use new methodology that would make its anti-consumer home appliance regulations even worse now and in the future.
- Despite government subsidies, American consumers are not flocking towards EVs, with even many EV owners considering a return to gas-powered vehicles.

These are just some of the issues covered below. Please let others know about *The Surge* and they can subscribe here.

Best,

CEI's Energy and Environment Team

TOP OF THE AGENDA

Regulatory Relief, Not Subsidies, Can Make Housing More Affordable

Housing affordability has become a major issue – and for good reason given skyrocketing home prices and high mortgage rates coming at a time when many aspiring homeowners are struggling just to make rent. Vice President Kamala Harris has suggested a number of new subsidies to remedy these problems, including providing $25,000 in down payment assistance to first-time homebuyers.

But there is a much better approach than simply handing out checks, and that is to reconsider the federal climate change regulations that are contributing to rising home prices.

Recently, the Department of Housing and Urban Development (HUD) has imposed ultra-stringent building efficiency standards on any new homes qualifying for federally-backed mortgages. Though championed by climate change activists, these new standards are very bad news from a housing affordability standpoint. According to a study from the National Association of Home Builders, they could raise the cost of a new home by up to $31,000.

Even a fraction of that estimate would be enough to make housing prohibitively expensive for many more would-be homebuyers. Adding insult to injury, the claimed energy savings from this ill- advised measure are likely far too minimal to justify the higher up-front cost.

IN THE SPOTLIGHT

Congress Needs to End Regulation without Representation

Taxation without representation is the antithesis of freedom and runs counter to the basic principles guiding our nation. So why is regulation without representation not considered an equal threat to freedom?

Federal agencies constantly issue regulations that fail to reflect the will of lawmakers who represent the people.

There's a new legislative idea to address regulation without representation by expressly prohibiting agencies from issuing various types of rules that, by their nature, ignore the will of Congress.

For example, is it reasonable to think Congress, without saying so directly, would want agencies to issue regulations that expressly or in effect force businesses to shut down or ban goods or services? Or that it would want agencies to issue regulations that are outside their expertise or that would reshape or change the nature of an entire industry?

Of course not. Such rules should be prohibited without clear authority from Congress.

Congress should reform the law governing the regulatory process, the Administrative Procedure Act of 1946. The APA was supposed to provide protections for those affected by regulations and has been referred to as a "bill of rights" for regulated parties. But this law has been a failure in large part because it fails to address regulations without representation. This needs to change.

If we are concerned with taxation without representation, then we should be equally concerned with regulation without representation and, for that matter, with any law created outside the bounds of our representative form of government.

Junk Science Behind Federal Appliance Regs About to Get Junkier

The Biden-Harris administration has embarked on a wave of anti-consumer home appliance regulations over the last several years. Each was justified in part by overblown claims of climate change benefits. And now, the Department of Energy (DOE) has proposed using a new methodology that would further inflate these hypothetical benefits to justify even worse regulations in the years ahead.

DOE is in the process of creating new energy use limits for stoves, dishwashers, furnaces, washing machines, water heaters, ceiling fans, refrigerators, and more. The agency always asserts that consumers experience net gains from these regulations, but CEI has filed comments highly critical of these rosy assumptions. In reality, such rules often raise the up-front costs of appliances more than is likely to be earned back in the form of energy savings. Some rules also compromise appliance choice, performance, and reliability.

But DOE's fictitious consumer benefits are only part of the problem. CEI has also taken issue with the agency's assertions that these regulations deliver quantifiable climate change benefits. For example, DOE's costly 2023 final rule for residential furnaces was estimated by the agency to provide $16.2 billion worth of such benefits.

The agency arrives at this figure by calculating the reduced energy use attributable to the efficiency standards and then estimating the amount of greenhouse gas emissions avoided as a result – mostly carbon dioxide emitted to produce electricity at coal or natural gas-fired power plants. Then it multiplies the tons of emissions avoided by the calculated per unit dollar cost to society of such emissions.

Until now, DOE has relied upon the 2021 Interagency Working Group on the Social Cost of Greenhouse Gases (IWG 2021). IWG 2021 provides the agency with the per ton Social Cost of Greenhouse Gases (SC-GHG) values.

Relying on IWG 2021 was bad enough, but in its most recent proposed rule for commercial refrigeration equipment DOE is switching to an updated 2023 version of SC-GHG provided by the Environmental Protection Agency.

The new methodology takes several already-dubious assumptions in IWG 2021 and stretches them further. For one category of commercial refrigeration equipment covered in the proposed rule, DOE calculates the climate benefits of $48-$320 million dollars under IWG 2021 but a whopping $564-$1,713 million under the new way. That's around 5-10 times higher.

Wind and Solar are Raking in the Subsidies, and the IRA will Make Things Worse

A new paper from the Energy Alliance highlights one of the biggest causes of rising unreliability on the electricity grid: subsidies. The report's author, Bill Peacock, spells out the myriad problems that federal electricity subsidies have created.

Subsidies for unreliable power sources, namely wind and solar, often make it more profitable to build facilities that have few benefits for the grid rather than the dispatchable capacity that is direly needed. Another issue with these subsidies is that they give the federal government significant control over the makeup of regional power grids by allowing them to shift the economics of power production in favor of their preferred technologies.

The gap between government subsidies for wind and solar and those for reliable thermal power units like natural gas, nuclear, and coal is massive, and thanks to the Inflation Reduction Act (IRA), it's growing.

According to the paper, from 2010 to 2019 federal subsidies for wind and solar were more than $36.7 and more than $34.3 billion, respectively. Subsidies for natural gas and oil together, coal, and nuclear were $25 billion, $12.8 billion, and $15.4 billion.

As though this subsidy situation weren't already bad enough, enter the IRA. The IRA inflates the subsidies for wind and solar by an incredible degree. According to the paper, before the IRA, federal wind and solar subsidies were expected to be $7.4 billion in 2023, after the IRA that figure nearly doubled to $14.6 billion. Over the period from 2023 to 2029 the IRA is expected to "inflate" wind and solar subsidies from $66 billion to more than $108 billion. This will inevitably further shift the economics of power generation.

In the perfect world, no energy sources would receive government subsidies, federal or otherwise. These subsidies create false incentives in the market and cause facilities that would otherwise not be financially workable to be built in place of more reliable ones.

Will Big Nuclear Make a Comeback?

Following Georgia Power Plant Vogtle Unit 4's completion and coming online earlier this year, there aren't any outstanding large nuclear reactors under construction in the United States. But that could change soon.

A new startup, The Nuclear Company, plans to build new nuclear reactors in the US. What sets it apart from other companies developing reactors is its focus on building large reactors. While other companies working on new nuclear plants are focused on small modular reactor designs or new advanced non-light water reactors, The Nuclear Company plans to pursue more traditional large reactors.

The company has identified a weakness in the US nuclear industry: iteration.

The first time a company builds a particular reactor design it tends to be incredibly expensive. Recently, companies have stopped after the first or second reactor and failed to realize the monetary benefits of iteration, which allows for economies of scale. As you build more of the same design, costs per unit should decrease, making the overall operation more profitable.

Regardless of whether this endeavor is ultimately successful, it's encouraging to see an emerging private firm that wants to do big things and shake up the energy market in the process.

Americans Are Rejecting EVs Despite Government Meddling

Some policymakers across the country continue to try and get American drivers out of gas-powered cars and into electric vehicles (EVs), using a mix of subsidies and regulations (in effect, mandates) to force a transition.

The need for these policies demonstrates that consumers are not voluntarily choosing to buy EVs at a level desired by these policymakers. Not surprisingly, there had been an increase in new EV sales due to all the government meddling. But new EV sales are still a small percentage of all new vehicle sales, at just about 7 percent. And the bump that the meddling provided is faltering, with sales slowing and even declining in the first quarter of 2024.

Recent numbers suggest that car buyers are growing less interested in EVs. A 2024 Gallup Poll found:

[F]ewer Americans — 35%, down from 43% in 2023 — say they might consider buying an EV in the future...Overall, less than half of adults, 44%, now say they are either seriously considering or might consider buying an EV in the future, down from 55% in 2023, while the proportion not intending to buy one has increased from 41% to 48%.

Even existing EV owners are having second thoughts about EVs. A new McKinsey & Co. survey reveals that nearly half of American EV owners are considering a return to traditional gasoline or diesel vehicles.

American taxpayers and car buyers deserve better than to be guinea pigs for impractical and costly EV experiments. Instead of government meddling, policymakers should let the market drive innovation in the transportation industry. If EVs truly are desired by Americans, consumers will choose them without government intervention.

FEATURING OUR FRIENDS

The PROVE IT Act Would Threaten U.S. Agriculture, Institute for Energy Research.

Don't Ditch Your AC to Be Environmentally Friendly, Gabriella Hoffman, Independent Women's Forum.

County Board Doubles Down on Opposition to Xcel Power Line, Tom Steward, Center of the American Experiment.

A Not-So-Happy Two-Year Anniversary of the IRA, Kristen Walker, The American Consumer Institute.

Stealing the Future with Green Steel, Vijay Jayaraj, CO2 Coalition.

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