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ALEC

Energy Affordability REPORT

A Snapshot of Electricity Prices and Energy Policies by State

ALEC American Legislative Exchange Council
LIMITED GOVERNMENT • FREE MARKETS • FEDERALISM

ALEC Energy Affordability Report – Second Edition
A Snapshot of Electricity Prices and Energy Policies by State

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ALEC Energy Affordability Report

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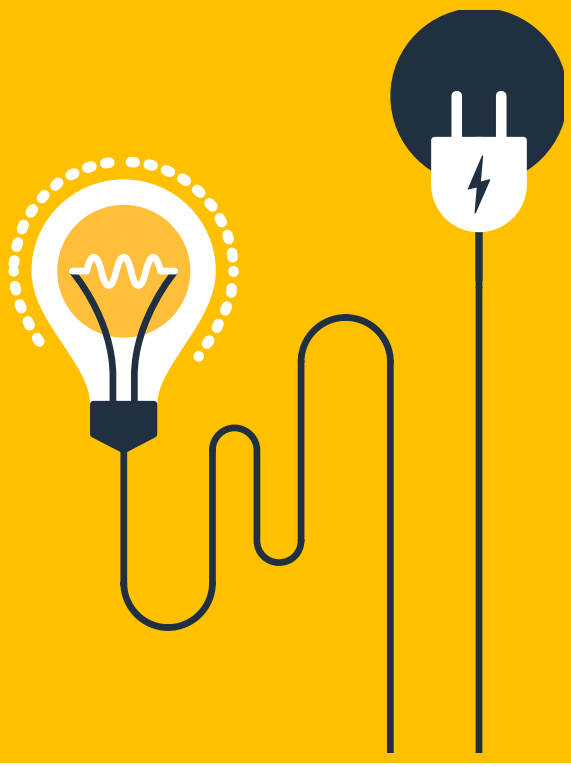
CHAPTER 1

A SNAPSHOT OF ELECTRICITY PRICES



INTRODUCTION

Energy, and electricity specifically, is essential for success in virtually every aspect of our daily lives. Electricity prices vary greatly by demand sector and generation source across all 50 states. These differences are often linked to the varying policy approaches by states as they balance the needs of consumers with the push to tackle the environmental challenges of today.

Some states rely on free market principles and innovation to limit manmade emissions into the atmosphere, while others use a more heavy-handed approach by implementing of standards, enacting mandates and pricing schemes that benefit specific types of technologies.

However, when the government inserts itself into the energy markets, taxpayers foot the bill. Inefficient government mandates driven by political interests often pick winners and losers in individual energy markets, causing, at best, skyrocketing costs through poor investment decisions. In some extreme cases, these regulatory regimes divert regular maintenance funds to shortsighted ideas that cause energy shortages, which can prove deadly.[1][2]

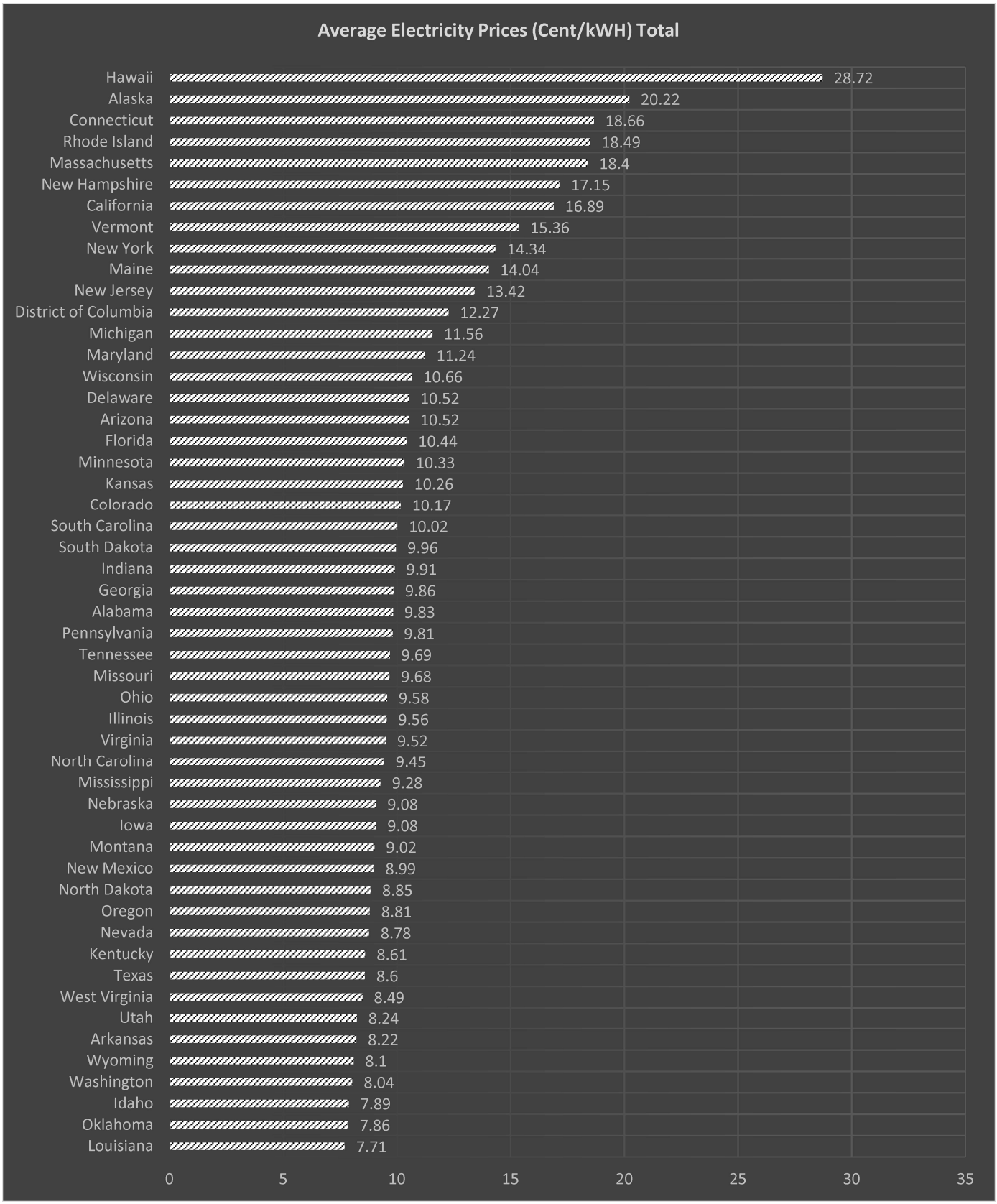
METHODOLOGY

For the purposes of this report, electricity prices and energy policies in the states were evaluated. First, pricing for each state was evaluated in cents per kilowatt-hour (kWh) for the year 2020 with data from the U.S. Energy Information Administration (EIA).[3] This included residential, commercial, industrial and transportation sectors. The weighted average price of electricity across all sectors was calculated, and then the states were ranked from lowest to highest average electricity price. This data can be seen in Table 1 in the Appendix. While the "total" price of electricity is the main focus of this report, the sector-specific prices are important to note because they can directly impact a state's economic competitiveness. Electricity prices in these sectors serve as important business inputs, helping to determine how many and which types of businesses choose to operate in that state.

Then, three primary energy policies were analyzed that have become common throughout the states. We examined the presence or absence of a Renewable Portfolio Standard (RPS), which dictates that a certain amount of a state's electricity generation comes from renewable sources, as well as whether the state is a part of the Regional Greenhouse Gas Initiative (RGGI), which is a CO_2 cap-and-trade program amongst 10 states in the mid-Atlantic and Northeast regions of the U.S. (or if they are a part of another cap-and-trade program, e.g., California). Finally, we took a look at whether or not a state has state-mandated rules for utilities regarding net metering, which is a process in which utility companies pay consumers who own rooftop solar panels for any excess electricity generation that these panels push back onto the electric grid. While there are many factors that can and do impact electricity prices, state policymakers can have a direct influence on these three policies.[4]

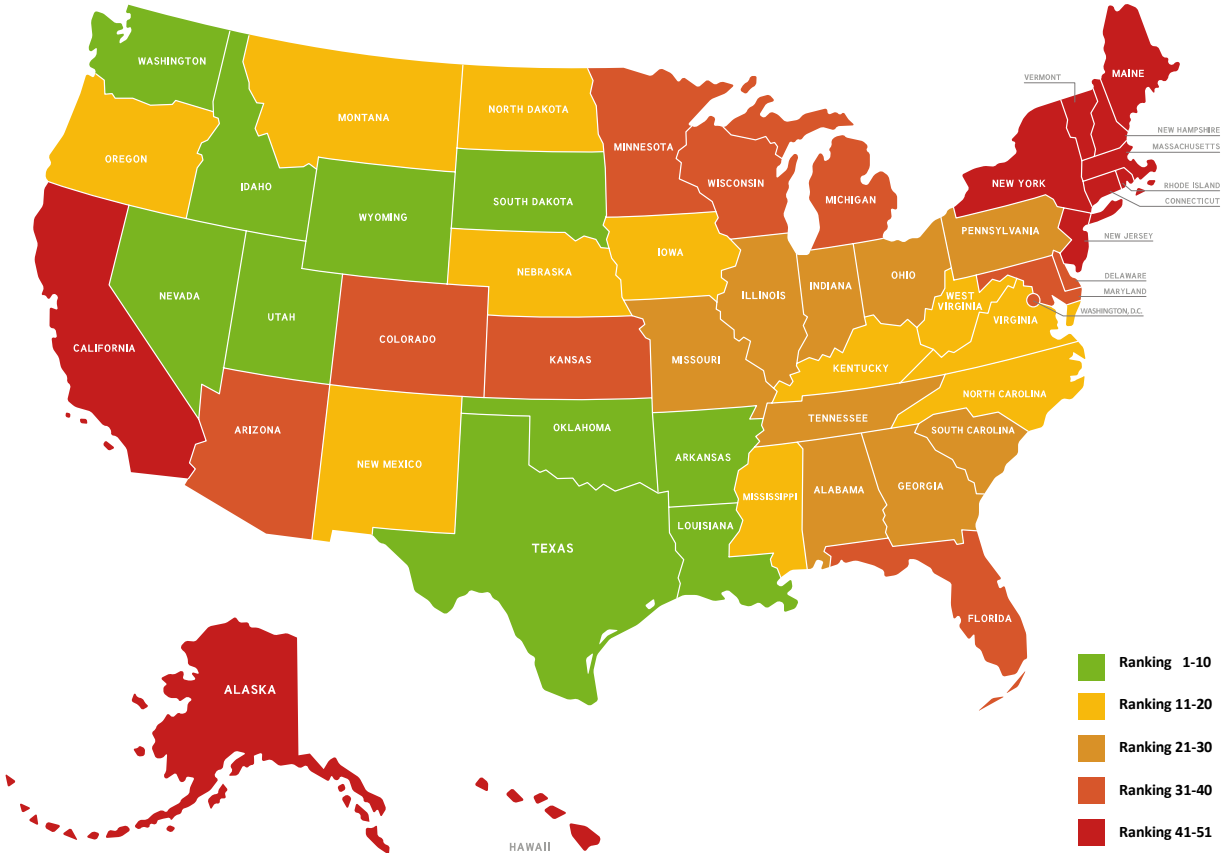
In this year's edition we also examine another vital element of energy affordability – fuel prices. Using a combination of AAA-reported gas costs and Federal Highway Administration, we look at which states have the highest pain at the gas pump.

CHART 1 | AVERAGE ELECTRICITY RETAIL PRICE – CENTS PER KILOWATT HOUR



Source: U.S. Energy Information Administration, 2020

MAP 1 | STATES RANKED BY AVERAGE ELECTRICITY PRICES



Source: U.S. Energy Information Administration, 2020

ELECTRICITY PRICE RESULTS

Much like last year's data, the results show that the three states with the lowest prices, Louisiana, Oklahoma and Idaho, all have an average price of electricity under 8 cents per kWh, while Alaska and Hawaii had the highest prices at more than 20 cents per kWh.

Given their isolated geographic locations, it is unsurprising that Alaska and Hawaii have the highest electricity prices. Contiguous states have the advantage of being better able to share infrastructure, such as transmission lines, and have the capability to import or export electricity across state lines.

Outside of these two geographic outliers, the three states with the highest electricity prices are Maine, Rhode Island and Connecticut. All three of these states have in place an RPS and are part of the RGGI. Additionally, they impose state-mandated net metering policies on their utilities, which is where utility companies pay consumers who generate electricity from rooftop solar panels for any excess electricity these panels push back onto the electric grid.

In contrast, the three states with the lowest electricity prices – Louisiana, Oklahoma and Iowa – avoid RPS mandates and cap-and-trade programs. While Oklahoma and Louisiana do impose state-mandated net metering policies on utilities, Louisiana modified its regulations to only require utilities to accept net metering applications up to a certain cap.

The trend of government mandates being associated with higher prices is evident throughout this report. Table 2 shows which states have RPS mandates, which states are part of the RGGI (or another cap-and-trade program) and which states have net metering mandates.

STATES RANKED BY ELECTRICITY PRICES (HIGHEST- AND LOWEST-PRICED)

Highest Electricity Price	High Electricity Prices	Lowest Electricity Prices
Hawaii	California	Utah
Alaska	New Hampshire	Wyoming
Connecticut	Vermont	Iowa
Rhode Island	New York	Oklahoma
Maine	New Jersey	Louisiana

Source: *U.S. Energy Information Administration*

FINDINGS

Data shows that the states with government-mandated RPS or cap-and-trade programs have higher electricity prices. While this study gives a snapshot of 2020 prices, evidence shows that implementing an RPS or carbon pricing mechanism can also be *causal* in leading to higher prices over time – up to an 11% increase due to the implementation of an RPS alone. This study's data supports this assertion from a simple correlation standpoint.[5]

The 16 states with the highest electricity prices all have an RPS in place, as do 18 of the highest-priced 20 states. Similarly, each of the states in the RGGI or another cap-and-trade program is within the 15 states with the highest prices of electricity. While Virginia has not officially joined the RGGI as of December 2020, if Virginia Governor Glenn Youngkin is unable to complete his goal of withdrawing from the compact, Virginia's residents are going to pay significantly higher electricity prices as a result. Unless the decision is reversed, Virginia's State Corporation Commission expects additional costs on ratepayers to amount to $6 billion, solely for customers of the state's largest utility provider, Dominion Energy, should the state join the RGGI.[6]

Finally, the impact of state-mandated net metering data is not as clear cut. As depicted in Appendix Table 2, state net metering policies have become very common as rooftop solar technology has risen in popularity. Only five states do not have a net metering mandate in place or some form of compensation for other types of Distributed Energy Resources (DERs). This could be due to the fact that DERs are a fairly new technology and are still relatively rare among the states in terms of implementation. As more rooftop solar and other DERs emerge in homes across the U.S., the effect on market prices might become more relevant, and states might begin to opt out of these mandates over time.

CONCLUSION

Once again, these findings reveal a clear trend for state lawmakers to keep in mind. In general, there is a distinct relationship between bigger government and higher electricity costs. When crafting energy and environmental policies, lawmakers should avoid imposing more government control and instead allow markets adapt, innovate and improve. This is the more efficient, effective and cost-saving solution to the environmental challenges we face today.

Increased costs rarely lead to better results for consumers, especially low-income individuals and families. Market competition with reasonable regulatory environments that focus on protecting residents and empower industries to make conscientious environmental decisions allow this vital sector of the economy to flourish.

As policymakers look to the future, it is important to keep in mind that humanity stands on the cusp of a new energy revolution. Much in the same way oil wells used to burn off natural gas in the early oil boom years because it was considered an incidental byproduct, advancements in power plant reclamation technology stand to turn what was once considered polluting waste products into commercially useful materials. In fact, Stanford University researchers recently discovered a catalyst that has the potential to recycle carbon dioxide into synthetic, sustainable fuels on a commercial scale.[7]

Market innovation and technological advancement is essential to keeping costs low to consumers and our environment healthy. Focusing on facilitating a flexible and innovation-friendly regulatory environment will pay enormous dividends to the states that choose that path.

APPENDIX

TABLE 1 | AVERAGE PRICE RANKING (CENTS/kWH) BY STATE AND SECTOR

AVERAGE PRICE RANKING (CENTS/kWH) BY STATE AND SECTOR						
RANKING	STATE	RESIDENTIAL	COMMERCIAL	INDUSTRIAL	TRANSPORTATION	TOTAL
1	LA	9.67	8.85	4.88	8.77	**7.51**
2	OK	10.12	7.82	4.61	0	**7.63**
3	IA	12.46	9.96	6.43	0	**7.99**
4	UT	10.44	8.27	5.90	10.69	**8.27**
5	WY	11.11	9.65	6.88	0	**8.27**
6	AZ	12.27	10.11	6.07	9.38	**8.32**
7	ND	10.44	9.02	7.26	0	**8.33**
8	WA	9.87	8.92	5.08	9.93	**8.33**
9	TX	11.71	7.60	5.07	6.51	**8.36**
10	NY	18.36	14.56	5.54	12.14	**8.53**
11	KY	10.87	10.34	5.31	0	**8.58**
12	WI	14.32	10.75	7.29	14.64	**8.75**
13	OR	11.17	9.00	5.70	9.46	**8.82**
14	IN	12.83	11.21	6.98	10.22	**8.97**
15	NC	11.38	8.69	6.31	7.67	**8.97**
16	MO	11.22	8.93	6.84	7.83	**9.13**
17	MT	11.24	10.51	5.18	0	**9.13**
18	VT	19.54	16.39	11.20	0	**9.16**
19	NJ	16.03	12.35	10.01	9.19	**9.33**
20	NV	11.34	7.45	5.61	8.84	**9.43**
21	OH	12.29	9.53	6.16	6.71	**9.44**
22	TN	10.76	10.56	5.33	0	**9.52**
23	MS	11.17	10.38	5.63	0	**9.64**
24	PA	13.58	8.50	6.16	8.58	**9.70**
25	ID	9.95	7.75	6.23	0	**9.75**
26	AL	12.57	11.55	5.87	0	**9.84**
27	SC	12.78	10.35	5.98	0	**9.90**
28	IL	13.04	9.15	6.70	6.56	**9.92**
29	GA	12.02	10.08	5.77	5.39	**9.93**
30	FL	11.27	8.85	7.15	7.69	**10.06**
31	SD	11.75	9.65	7.79	0	**10.06**
32	DC	12.63	11.85	7.99	9.60	**10.24**
33	CO	12.36	10.29	7.48	8.64	**10.27**
34	KS	12.85	10.40	7.30	0	**10.38**
35	AR	10.41	8.61	5.89	13.57	**10.44**
36	MN	13.17	10.43	7.67	9.40	**10.57**
37	WV	11.80	9.40	6.09	0	**10.82**
38	MD	13.01	9.72	7.81	7.79	**11.15**
39	DE	12.56	9.18	6.70	0	**11.90**
40	MI	16.26	11.71	7.24	11.39	**12.21**
41	MA	21.97	16.03	14.51	6.24	**13.54**
42	NH	19.04	15.41	13.11	0	**13.63**
43	NM	12.94	10.28	5.58	0	**14.87**
44	VA	12.03	7.63	6.28	8.77	**16.33**
45	NE	10.80	8.89	7.38	0	**16.63**
46	CA	20.45	17.53	14.27	10.07	**18.00**
47	ME	16.81	12.56	8.86	0	**18.19**
48	RI	22.01	15.94	15.76	22.23	**18.54**
49	CT	22.71	16.58	13.07	13.35	**19.13**
50	AK	22.57	19.58	15.88	0	**19.82**
51	HI	30.28	28.41	24.45	0	**27.55**

Source: *U.S. Energy Information Administration*

APPENDIX

TABLE 2 | AVERAGE PRICE RANKING AND POLICIES BY STATE

AVERAGE PRICE RANKING AND POLICIES BY STATE					
RANKING	STATE	TOTAL (CENTS/KWH)	RENEWABLE PORTFOLIO STANDARD (RPS)	REGIONAL GREENHOUSE GAS INITIATIVE (RGGI)/CAP-AND-TRADE	STATE-MANDATED NET METERING
1	LA	7.51	No	None	State-mandated compensation other than net metering
2	OK	7.63	No	None	State-mandated rules for certain utilities
3	IA	7.99	Yes	None	State-mandated rules for certain utilities
4	UT	8.27	No	None	State-mandated compensation other than net metering
5	WY	8.27	No	None	State-mandated rules for certain utilities
6	AZ	8.32	Yes	None	State-mandated compensation other than net metering
7	ND	8.33	No	None	State-mandated rules for certain utilities
8	WA	8.33	Yes	None	State-mandated rules for certain utilities
9	TX	8.36	Yes	None	No state-wide rules, but some utilities do offer net metering
10	NY	8.53	Yes	RGGI	Transitioning to compensation other than net metering
11	KY	8.58	No	None	Transitioning to compensation other than net metering
12	WI	8.75	Yes	None	State-mandated rules for certain utilities
13	OR	8.82	Yes	None	State-mandated rules for certain utilities
14	IN	8.97	No	None	Transitioning to compensation other than net metering
15	NC	8.97	Yes	None	State-mandated rules for certain utilities
16	MO	9.13	Yes	None	State-mandated rules for certain utilities
17	MT	9.13	Yes	None	State-mandated rules for certain utilities
18	VT	9.16	Yes	RGGI	State-mandated rules for certain utilities
19	NJ	9.33	Yes	RGGI	State-mandated rules for certain utilities
20	NV	9.43	Yes	None	State-mandated rules for certain utilities
21	OH	9.44	Yes	None	State-mandated rules for certain utilities
22	TN	9.52	No	None	None
23	MS	9.64	No	None	State-mandated compensation other than net metering
24	PA	9.7	Yes	RGGI in 2022	State-mandated rules for certain utilities
25	ID	9.75	No	None	No state-wide rules, but some utilities do offer net metering
26	AL	9.84	No	None	None
27	SC	9.9	No	None	State-mandated rules for certain utilities
28	IL	9.92	Yes	None	Transitioning to compensation other than net metering
29	GA	9.93	No	None	State-mandated compensation other than net metering
30	FL	10.06	No	None	State-mandated rules for certain utilities
31	SD	10.06	No	None	None
32	DC	10.24	Yes	None	State-mandated rules for certain utilities
33	CO	10.27	Yes	None	State-mandated rules for certain utilities
34	KS	10.38	No	None	State-mandated rules for certain utilities
35	AR	10.44	No	None	State-mandated rules for certain utilities
36	MN	10.57	Yes	None	State-mandated rules for certain utilities
37	WV	10.82	No	None	State-mandated rules for certain utilities
38	MD	11.15	Yes	RGGI	State-mandated rules for certain utilities
39	DE	11.9	Yes	RGGI	State-mandated rules for certain utilities
40	MI	12.21	Yes	None	Transitioning to compensation other than net metering
41	MA	13.54	Yes	RGGI & Other	State-mandated rules for certain utilities
42	NH	13.63	Yes	RGGI	State-mandated rules for certain utilities
43	NM	14.87	Yes	None	State-mandated compensation other than net metering
44	VA	16.33	Yes	RGGI in 2021	State-mandated rules for certain utilities
45	NE	16.63	No	None	State-mandated rules for certain utilities
46	CA	18	Yes	Other	State-mandated rules for certain utilities
47	ME	18.19	Yes	RGGI	State-mandated rules for certain utilities
48	RI	18.54	Yes	RGGI	State-mandated rules for certain utilities
49	CT	19.13	Yes	RGGI	State-mandated rules for certain utilities
50	AK	19.82	Yes	None	State-mandated rules for certain utilities
51	HI	27.55	Yes	None	State-mandated compensation other than net metering

Source: *U.S. Energy Information Administration*

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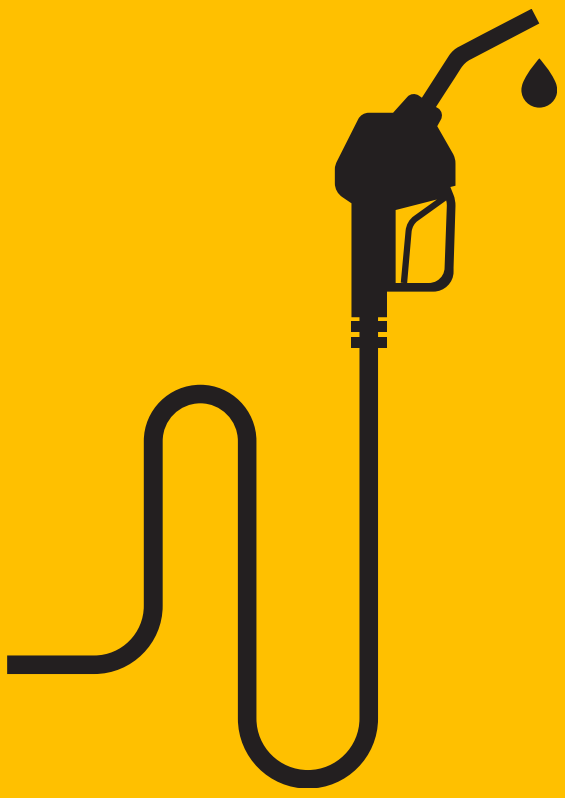
CHAPTER

2

A SNAPSHOT OF GASOLINE PRICES



INTRODUCTION

With rising instability in the global crude oil markets, high gasoline prices are a top concern for policymakers and consumers alike. Global instability triggered by Russia's invasion of Ukraine upended oil markets, adding additional costs to the already rising prices caused by domestic regulatory uncertainty and moves by President Biden's administration to curtail America's use of fossil fuels.

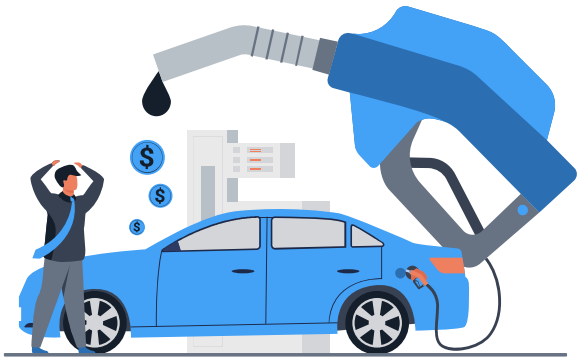
Developing future oil resources takes time and resources that producers cannot reasonably commit without some degree of certainty that their efforts will not be stymied by the heavy hand of government intervention. Regulatory actions, such as the Biden administration's cessation of leasing federal lands for energy development, shutting down pipeline projects, and proposed increases to fuel standards for vehicles, signal to producers that they need to be cautious about increasing their rates of growth. This is incredibly important to consumers, as the price of crude oil is the largest share of the final cost consumers pay for gasoline.

Federal regulations and global instability are only part of the equation. On the state level, regulations, permitting challenges, and tax environments also play a significant role in the pain consumers feel at the pump. Gasoline prices vary widely between the states and the District of Columbia, reflecting a variety of different factors, challenges, and government regulations.

In general, the cost of gasoline is broken down into the price of crude oil, the cost of refining, the cost of transportation, and taxes. In addition to an 18.4 cent per gallon federal tax, consumers are subject to each state's individual gas tax. Final sale prices are also a reflection of other government regulations and taxes, such as property, income, and employment taxes, paid by gas stations. Gas stations have a low profit margin on the sale of gasoline, with the average profit margin being only about 1.4%.

By and large, the price consumers pay at the pump are a direct reflection of the cost, both in terms of the product and additional fees imposed by government regulation, paid by the gas stations themselves.

Oil is refined into gasoline in the majority of states. In some cases, this nearby production greatly benefits consumers, who do not pay a premium reflecting the costs of transporting fuel into other areas of the country. However, this effect is not universal. In some localities, despite high production, nearby consumers pay some of the highest costs per gallon in the United States due to state and federal laws and regulation. Some states, such as California and Arizona, have stringent state-level requirements for fuel composition, which drives up cost.



METHODOLOGY

Yearly consumer cost was calculated using a variety of data. Gasoline costs were approximated using snapshot of the current prices of regular gasoline supplied by AAA's average price calculator on April 4th, 2022. Our data specifically looks at the cost of regular gas, which is by far the most common fuel used for private automobiles.

The most popular automobile in the United States, the Ford F-150, uses approximately one gallon of gasoline for every twenty-five miles. The number of miles driven on average in each state was supplied by the most recent data available by the Federal Highway Administration.

Using each of these data points, we were able to find an approximation of how much an average driver would spend each year on gasoline in each state.

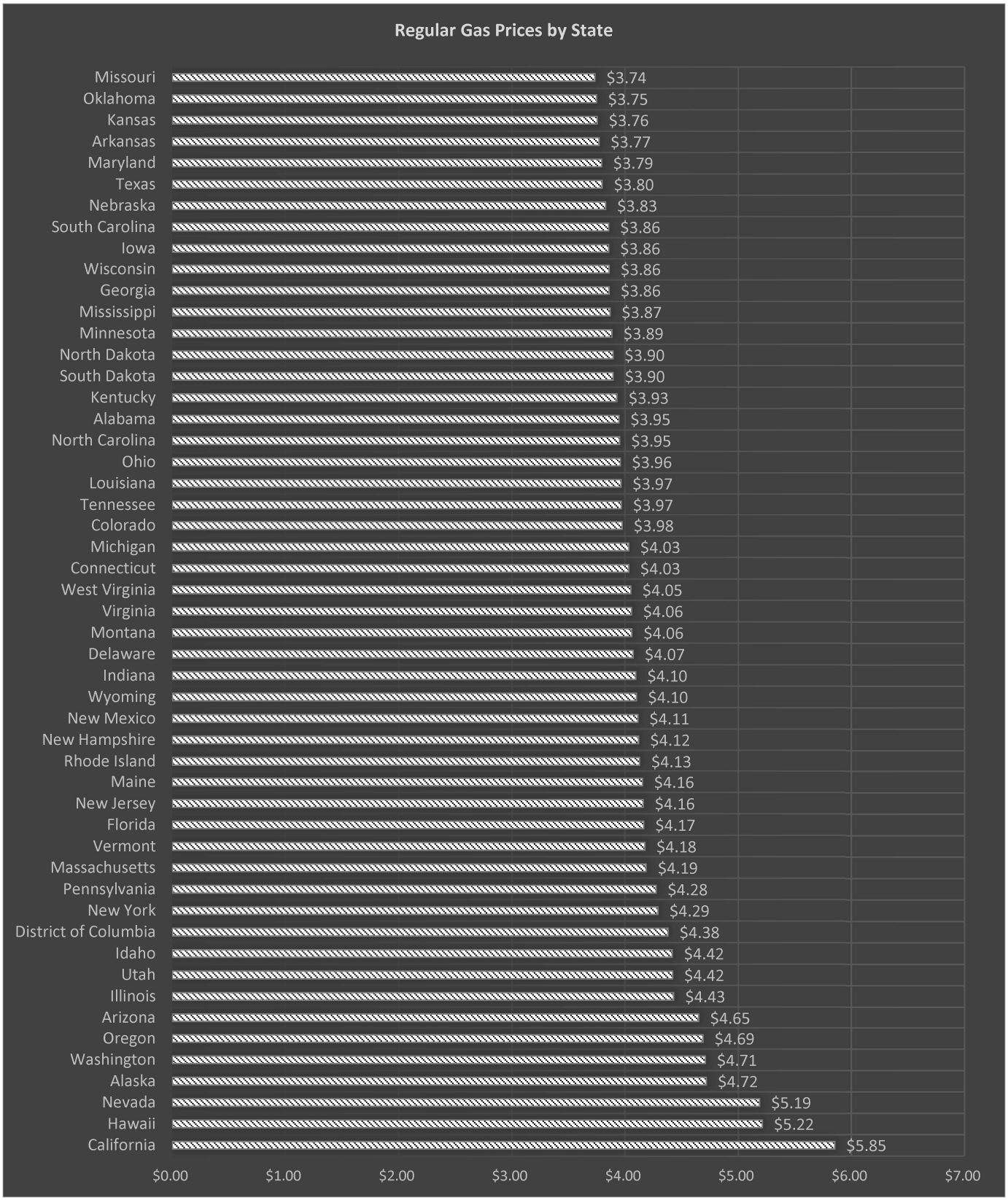
TABLE 1 | STATE AVERAGE MILE DRIVEN PER YEAR BY STATE

STATE	MILES
Alabama	17,817
Alaska	11,111
Arizona	13,090
Arkansas	17,224
California	12,524
Colorado	12,899
Connecticut	12,117
Delaware	12,609
District of Columbia	7,013
Florida	14,557
Georgia	18,334
Hawaii	11,688
Idaho	14,417
Illinois	12,581
Indiana	18,024
Iowa	14,745
Kansas	14,781
Kentucky	16,305
Louisiana	14,951
Maine	14,215
Maryland	13,490
Massachusetts	13,109
Michigan	14,307
Minnesota	17,909
Mississippi	19,966
Missouri	18,521

STATE	MILES
Montana	15,880
Nebraska	14,846
Nevada	14,016
New Hampshire	11,570
New Jersey	12,263
New Mexico	19,157
New York	10,167
North Carolina	16,073
North Dakota	17,671
Ohio	14,278
Oklahoma	17,699
Oregon	12,218
Pennsylvania	11,445
Rhode Island	9,961
South Carolina	14,941
South Dakota	15,541
Tennessee	15,287
Texas	16,172
Utah	15,516
Vermont	13,004
Virginia	14,509
Washington	10,949
West Virginia	16,876
Wisconsin	15,442
Wyoming	24,069

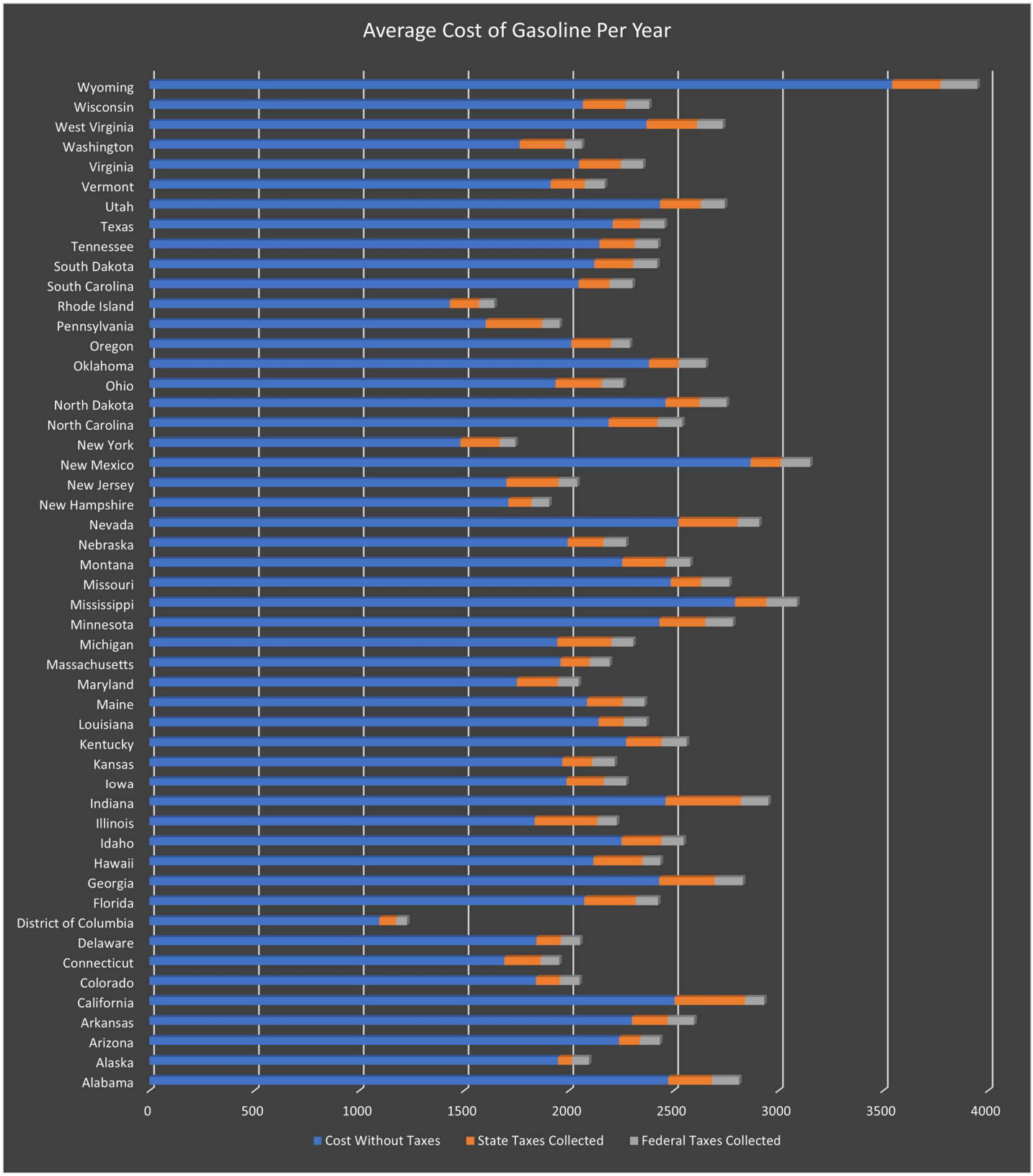
Source: *U.S. Department of Transportation Federal Highway Administration*

CHART 1 | REGULAR GAS PRICES – APRIL 4th, 2022



Source: *AAA Gas Price Averages, April 4th, 2022*

CHART 2 | AVERAGE COST PER YEAR – INCLUDING TAXES



FINDINGS

The top five highest cost states for gasoline are California, Hawaii, Nevada, Alaska, and Washington.[1] These states also rank at or near the top of having the highest gas taxes in the nation, with California taking the top spot. Hawaii has the sixth highest gas tax, while Nevada has the fifth, and Washington has the eighth. Interestingly, Alaska has the lowest gas tax in the United States.

The average consumer will pay around $2,932.62 for gas per year in California, $2,909.16 per year in Nevada, $2,438.12 per year in Hawaii, $2,097.31 per year in Alaska, and $2,063.23 per year in Washington. With the average American spending approximately $2,417.99 on gas per year, California, Hawaii, and Nevada drivers are likely to spend significantly more than average, while consumers in Alaska and Nevada spend less due to the relatively low number of miles driven each year.

Meanwhile, the lowest cost states for gasoline are Missouri, Oklahoma, Kansas, Arkansas, and Maryland. Missouri has the fifth lowest gas tax in the nation, while Oklahoma has the sixth, Kansas is 13th, and Arkansas is 15th. Maryland is an outlier from this group, ranking the 36th in the nation.

Drivers in Missouri pay about $2,767.04 per year for gasoline, while Oklahoma drivers pay $2,654.85. Kansas drivers pay about $2,220.11, while Arkansas and Maryland drivers pay about $2,598.76 and $2047.24 per year respectively. Despite having the average cheapest cost for gasoline in the nation, these numbers are relatively high due to the above-average distances drivers in these states drive per year.

Interestingly, gas prices in states with immediate access to significant refining infrastructure did not always have significantly lower prices than those that did not. Despite containing a substantial portion of the east coast's refining and distribution capacity, New Jersey ranked 34th in terms of lowest gas prices.[2] California, which has the highest prices of any state, also has a high concentration of refineries.[3] However, the composition of fuel refined in California is highly regulated, leading to significantly higher costs for consumers. Ohio, which has the sixth-largest refining capacity in the country, ranked 18th.[4] Texas, which leads the nation in terms of oil refining, barely missed making the top five states in terms of lowest gas prices, coming in sixth for both gas costs and taxes.

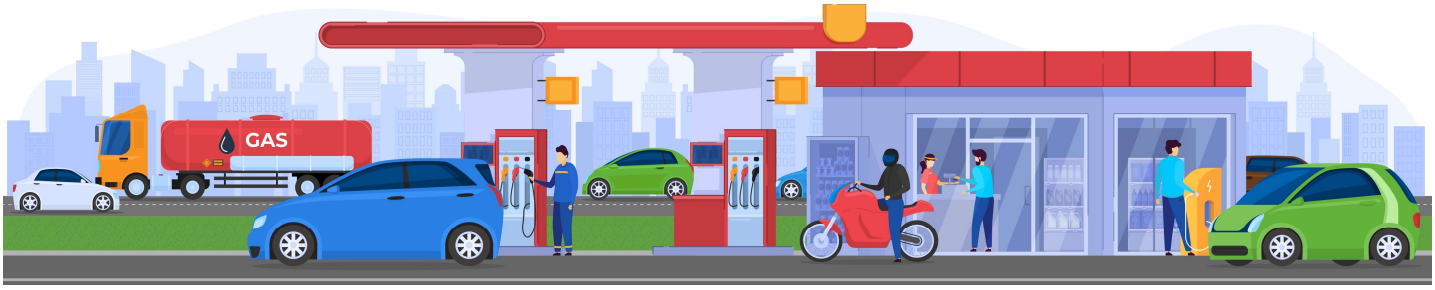
The top five states in terms of average miles driven per year are Wyoming (24,069 miles), Mississippi (19,966 miles), New Mexico (19,157 miles), Missouri (18,521 miles), and Georgia (18,334 miles). All five of these states rank in the top ten for overall amount of money spent on fuel each year. Interestingly, although Wyoming and Georgia drivers pay significantly more in gas taxes than average, Mississippi, New Mexico, and Missouri drivers tend to pay significantly less per year on average.

CONCLUSION

The confluence of international instability and misguided domestic policies have driven gasoline prices to record highs. Given the enormous impact gas prices have on almost every industry and consumer, state legislators need to remain cognizant of how their state's laws and policies impact their constituents. States with more stringent fuel content requirements, more regulations, and above-average taxes generally have higher gas prices than those that do not.

Lawmakers should carefully examine California's regulatory regime as a case study in how a high regulatory environment leads to higher gas prices for consumers. California Air Review Board (CARB) sets very particular standards for fuel sold in the state, which require custom refining processes and mixtures. Other states, such as Arizona, which ranked 44th in terms of cost, also have a significant regulatory environment with stringent fuel composition standards that drive up prices.

Although taxes and fuel mix regulation are the most direct way state lawmakers can impact gas prices, any measures that lower the price of crude oil will also help ease burdens on consumers. The cost of crude oil is the most significant variable in the prices consumers pay at the pump, so eliminating red tape and encouraging increased production domestically goes a long way to keeping costs low.



[1] "HazMat Analysis: Petroleum Supply Chain." Cambridge Systematics, Inc. March 14, 2019.

[2] "New Jersey: Profile Analysis." U.S. Energy Information Administration. October 21, 2021. https://www.eia.gov/state/analysis.php?sid=NJ

[3] "California: Profile Analysis." U.S. Energy Information Administration. March 17, 2022. https://www.eia.gov/state/analysis.php?sid=CA

[4] "Ohio: Profile Overview." U.S. Energy Information Administration. August 18, 2022. https://www.eia.gov/state/?sid=OH