



THE CATO INSTITUTE

HANDBOOK ON AFFORDABILITY

4. Energy

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America’s energy future is uncertain. Across much of the United States, electricity and natural gas prices are rising, with little relief in sight. The timelines for building new energy infrastructure—including natural gas pipelines, electric transmission lines, and power plants—extend into the next decade. Now, more than a year into President Trump’s second term, his 2024 campaign pledge to cut energy bills by half seems impossible.

In this critical moment when America needs more power, delivered quickly and at low cost, the heavily regulated power grid is proving sclerotic rather than dynamic. Artificial intelligence, data centers, advanced manufacturing, and electrification are driving the first sustained surge in electricity demand in a generation. Although average electricity prices are only slightly outpacing overall inflation, looking at averages downplays that utility customers in 17 states faced higher real electricity prices from 2019 to 2024. As a result, millions of American families were delinquent on utility bills in 2025. A harsh winter in the early weeks of 2026 has only deepened the affordability problems faced by many families and businesses.

Particularly in states seeing aggressive electricity price increases, policymakers are under pressure to do something. Newly elected governors such as Virginia’s Abigail Spanberger and New Jersey’s Mikie Sherrill have made the affordability of utility bills a major policy priority. Unfortunately, many of the energy policies embraced by state policymakers place upward pressure on prices, such as Governor Spanberger’s decision to rejoin a regional cap-and-trade system.

The price of gasoline fell from historic highs of about \$5 per gallon in June 2022 to just above \$3 per gallon in February 2026, improving transportation affordability.

Contrary to former President Barack Obama’s 2012 statement that “we can’t just drill our way out of the problem” of high gasoline prices, increasing domestic supply did in fact drive down the global price of oil and refined oil products like gasoline. Crude oil prices fell far enough through 2025 to cause some producers to scale back production. Since then, of course, the war with Iran has seen the oil price (and so gas prices) jump again.

To ensure that the energy sector can meet the demand of new industries without soaring costs for households, a similar liberalization agenda is needed to remove barriers to new energy supply. At the federal level, improving energy affordability requires restoring predictable permitting and regulation that will allow new investments to flourish. At the state level, it requires expanding the bounds of competition and removing supply constraints. None of this depends on discovering new fuels or inventing new machines: It depends on allowing markets to function without undue interference.

FEDERAL POLICIES TO IMPROVE ENERGY AFFORDABILITY

- **Ease permitting burdens.** Today’s energy affordability problems are institutional. Federal permitting processes add high costs through years of delay and significant litigation risk while offering little additional environmental benefit. The best-case scenario for major projects—particularly pipelines for hydrocarbons or transmission lines for electricity—is a multiyear permitting process that withstands judicial review and lawsuits. The median result is simply delay and administrative headaches. For example, transmission lines routinely take more

than a decade to plan, site, and place in service. However, in the worst-case scenario, developers abandon projects due to ongoing legal challenges, or permits are revoked by one administration after being granted by the previous one. President Trump has revoked permits for offshore wind facilities, for example, and former President Joe Biden revoked permits for pipelines.

- **End the executive power cycle of regulation.** The energy industry is capital-intensive and thrives under policy certainty and stable rules and regulations. Agencies in Washington must stop this game of political ping-pong. Because the executive branch under both parties seems willing to go tit for tat until projects of all types face cancellation, Congress should remove as much arbitrary permitting discretion as possible from the executive branch. The American people should connect their rising utility bills to Washington's obsession with executive power and demand an end to this cancel-happy dynamic. Fortunately, members of both major political parties are fed up with the status quo, so bipartisan, broad-based, and technology-neutral permitting reform appears to be on the table this year.
- **Finish rescinding the endangerment finding.** The Environmental Protection Agency (EPA) recently finalized a rule to reverse the endangerment finding, which was the EPA administrator's judgment in 2009 that greenhouse gases (GHGs) endanger public health or welfare. After multiple attempts to remake the automobile industry and the US power grid using GHG regulations—at great expense to American consumers—the Supreme Court in *West Virginia v. EPA* found that the EPA's regulatory proposals ran afoul of the major questions doctrine, meaning the agency had attempted too broad a reform without clear authorization from Congress. The GHG issue, however, could be teed up again before the Supreme Court, as challenges have already been filed against the Trump EPA's rescission of the endangerment finding. If the Supreme Court rules that the EPA does not have clear authority from Congress to regulate

GHGs, that will prevent the next administration from implementing costly regulations on automobiles and power plants. Likewise, Congress could amend the Clean Air Act to clarify that the EPA has no authority to regulate GHGs.

- **Eliminate tariffs on energy infrastructure inputs.** The Trump administration has ramped up tariffs on a wide variety of materials used by America's energy industry. For example, high tariffs on basic inputs such as steel, aluminum, and copper raise the cost of widely used equipment, including electric transmission lines and power transformers. By one estimate, the US power industry imports about 80 percent of the transformers used at power plants, meaning tariffs directly raise the cost of electric infrastructure components. Likewise, most utility-scale batteries deployed in the US are imported from China, so tariffs increase the cost of battery storage, one of the fastest-growing technologies on the grid. Overall, these tariffs could reduce energy security and slow American manufacturing growth, which relies on low-cost electricity. Finally, tariffs that have recently expired should remain expired.

STATE AND LOCAL POLICIES TO IMPROVE ENERGY AFFORDABILITY

- **Repeal all resource-specific mandates.** More than half of US states have renewable portfolio standards (RPS), which specify the amount of renewable energy that must be part of a state's electricity mix (typically as a percentage). These mandates, along with even more specific ones for offshore wind or other technologies such as rooftop solar, raise the cost of electricity. A recent study by Lawrence Berkeley National Laboratory concluded: "Behind-the-meter solar and renewables portfolio standards (RPS) increased prices." Moreover, the same study found that renewable energy does not increase prices per se—only that *binding mandates* increase electricity prices. These mandates should be repealed.

- **Repeal 100 percent clean-energy goals.** Presently, 24 states and the District of Columbia have goals to achieve either a 100 percent carbon-free electricity system or a net-zero economy by a certain date. These policies should be fully repealed because they limit the supply of energy and force consumers into higher-cost options. The US energy sector continues to decarbonize on its own, and using binding mandates to accelerate the pace of decarbonization would be costly for American families and businesses. States involved in carbon tax or cap-and-trade schemes should likewise repeal those policies if they want to prioritize affordability.
- **Maximize dynamic competition in electricity service.** Monopoly utility regulation creates perverse incentives to drive up costs and shifts risk to utility customers. Privately financed, contract-based electricity systems can serve customers separately from incumbent utilities. This approach—outlined in a recent Cato briefing paper and labeled “Consumer-Regulated Electricity”—would protect existing ratepayers, accelerate supply, and attract new industries without subsidies. The states of Ohio, New Hampshire, Utah, and Oklahoma are at the forefront of this trend, which continues to gain steam after the American Legislative Exchange Council approved model legislation.