

The Stakes for Energy Costs in Budget Reconciliation

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Work is underway in Congress to construct and pass a budget reconciliation bill or bills to meet an array of priorities and policy objectives set by President Trump. Most of these priorities focus on increasing spending on defense and border security as well as extending and possibly expanding the tax cuts enacted in Trump's first term. In this note, we estimate how much energy costs could rise for households and industry if Congress chooses to partially pay for these priorities through the rollback and repeal of key pollution regulations and energy tax credits. We find that on a national level, households see an increase in annual energy costs of \$184 in 2030 and \$371 in 2035. However, households in many states see much higher cost increases than the national average. This includes Arizona, Colorado, Nevada, New Mexico, and Texas, which, at the upper bound of our estimates, see annual cost increases of \$250-\$326 per household in 2030. In 2035, California, Oregon, and Washington all see estimated annual cost increases of over \$800 per household. The rollback and repeal of regulations and tax credits also increase costs for industrial manufacturers. We estimate an increase of \$8-14 billion in total energy spending across the industrial sector in 2030 and 2035. We provide impacts for each of the 50 states on the [ClimateDeck](#) as part of this analysis.

Congress is deep in the process of putting pen to paper on a budget reconciliation package. Whether they end up pursuing one bill or two, the main goals are to increase spending on defense and the border, expand energy production, and extend the soon-to-expire tax cuts first put in place in 2017. One often discussed option to pay for some of these new outlays is to repeal some or all of the energy tax credits that Congress extended and expanded in 2022. Repealing the credits has the effect of raising taxes on new power plants, carbon capture facilities, clean fuel producers, electric vehicles, refueling equipment, building heating equipment, new US energy technology factories, and a host of other investments. Congress is also exploring rolling back select regulations that also could have an impact on energy costs. In this note, we build on our [prior work](#) estimating

the national impact of regulatory rollbacks and tax credit repeal by assessing their impact on household and industrial consumer energy costs.

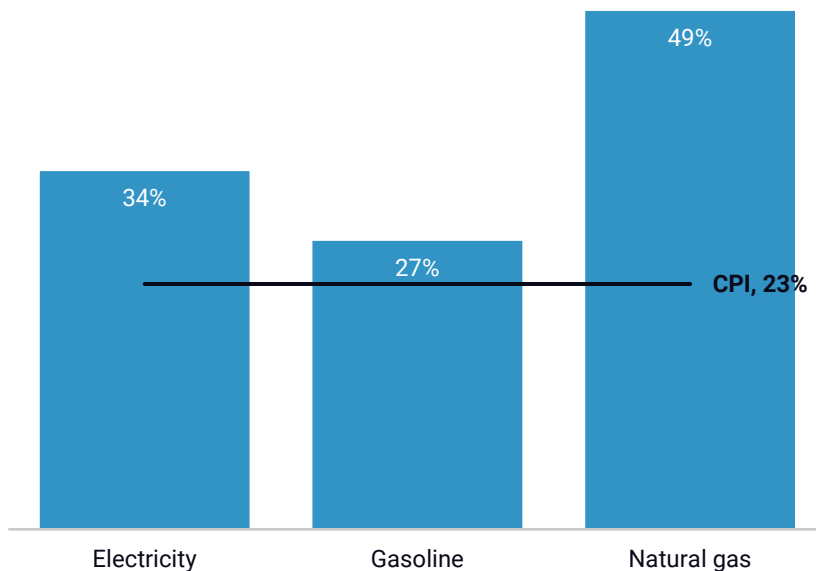
Energy costs are already elevated and uncertain

Inflation continues to loom over the US economy just as it has for several years. While the current rate of 2.5% is much lower than the 6-7% rates of a few years ago, it is not quite at the 2% target sought by the Federal Reserve. While consumers and businesses are still wrestling with elevated prices across the board, energy prices have increased faster than inflation since 2020. For the average US consumer, gasoline is 27% more expensive in nominal terms than it was in January 2020, even with recent declines over the past year (Figure 1). Consumers are also paying 34% more for retail electricity and nearly 50% more for retail natural gas. Prices for all three energy sources have grown faster than the 23% rise in the broad consumer price index. While there is some seasonal variability in these indicators, the pace and directional impacts are clear—today Americans are facing higher prices for the energy that powers the economy than they did in 2020.

FIGURE 1

Cumulative change in nominal energy prices

% change from January 2020



Source: BLS, Rhodium Group

An uncertain road ahead for prices

While energy prices have climbed over the past few years, the initial months of the Trump administration have come with a barrage of tariffs on imports, including energy from major trading partners and in some cases triggering retaliatory tariffs. While short-term projections suggest price increases will slow down or stabilize, they don't include the impacts of trade actions and counter-actions. Tariffs and retaliatory measures have the potential to put upward pressure on energy prices in the short term. Import substitution and the impact on economic growth in response to trade measures make it hard to say how energy prices may change in the medium term. Deregulatory actions to speed up

approvals of new natural gas export capacity and the rush to build out the electric grid to meet a surge in demand also put upward pressure on prices in the medium to long term for natural gas and electricity.

Repealing tax credits raises energy costs for American households

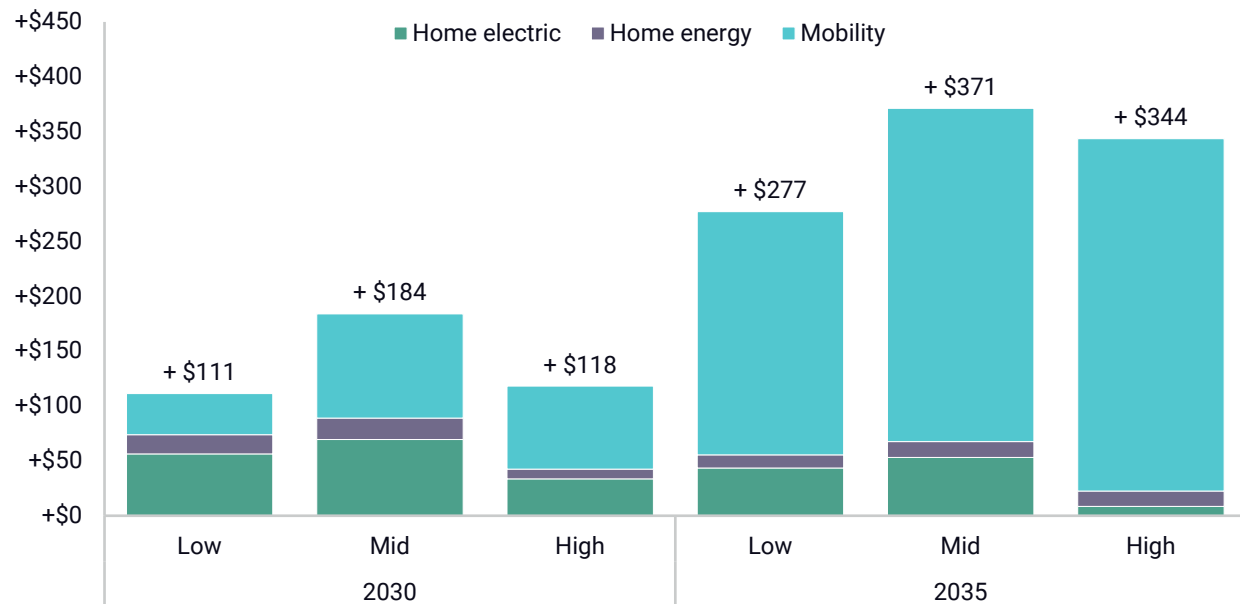
Repealing energy tax credits along with rolling back key greenhouse gas pollution regulations, such as the vehicle standards that Congress may try to remove as part of their budget reconciliation package, will increase costs for American households. In this analysis, we consider the full repeal of energy tax credits and rollback of regulations—the same policy environment we discussed in [our December 2024 note](#). Congressional negotiations on what will be in one or more budget reconciliation bills are underway. It's unclear if full rollback and repeal will be the path Congress chooses, though this case serves to bound potential energy market impacts and establish a range of what's at stake.

We have refined our initial estimates of the impacts of this “rollbacks + repeal” policy environment across low, mid, and high emissions scenarios that reflect uncertainty around future clean technology costs and energy markets. In this policy environment, we assume Congress repeals all clean energy components of the Inflation Reduction Act beginning in 2025 and that the Environmental Protection Agency and other federal agencies reverse regulations governing greenhouse gas emissions from power plants, vehicles, and oil and gas production. More information on those scenarios is available in the [previous note](#). We do not currently consider the potential impact of an increase in public lands leasing for energy development currently under discussion in Congress, or the impacts of recent executive actions that could have a material impact on energy prices.

On a national average basis, we find that rollbacks + repeal leads to an increase in total household energy costs by \$111-184 in 2030, compared to a scenario where energy tax increases and regulatory repeals are avoided, a 2-4% increase in total costs (Figure 2). Cost increases continue to rise over time, leading to \$277-371 in added costs per household in 2035, or a 6-9% increase relative to no rollbacks or repeal. Costs increase across the board for electricity, home energy (including natural gas and heating oil), and gasoline and electricity for mobility.

These increases happen for a couple of reasons. First, removing tax credits serves as an effective increase in costs for building new power capacity on the grid and buying new vehicles. Second, more gasoline vehicles on the road and more natural gas generation on the grid lead to increases in prices for those fuels. These trends are exacerbated by expectations for increasing demand for electricity at levels not seen in the past three decades driven by AI, onshoring of manufacturing, and secular economic growth. US natural gas production increases by 3-6% in 2035 while domestic crude oil production, which competes in a more global market, stays flat or sees modest production boosts in these scenarios. But this additional supply is not large enough or cheap enough to prevent increases in household energy costs.

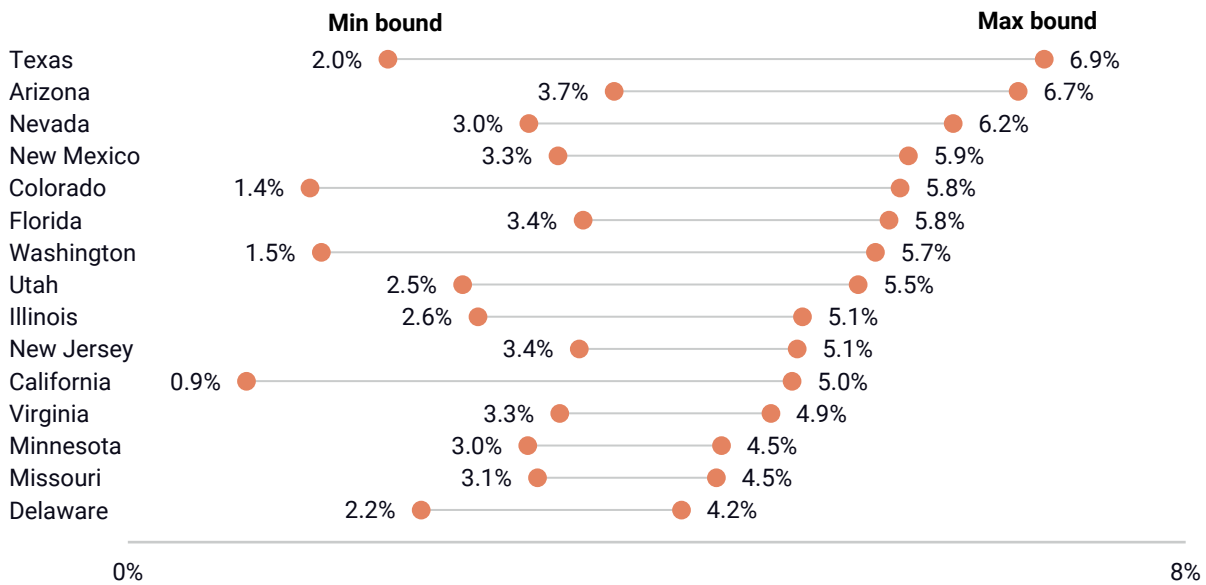
FIGURE 2
Change in national average household energy expenditure, rollbacks + repeal scenario compared to no rollback and repeals
 2022 USD



Source: Rhodium Group

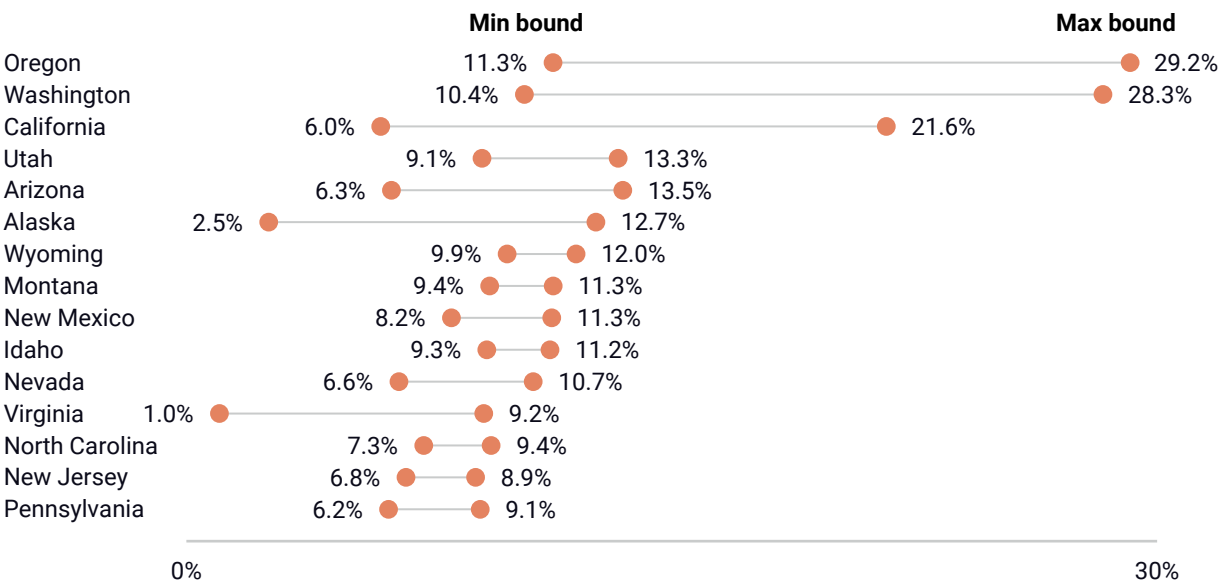
Examining these results on a state-by-state basis reveals important regional variation—the impacts are not evenly distributed, and they shift over time. We break our results down for all 50 states, with complete state data available on [the ClimateDeck](#). We find the largest cost increase on households relative to no rollbacks or repeal occurs in the Southwest, where Texas, Arizona, Nevada, New Mexico, and Colorado see up to a 6-8% or \$250-\$326 increase in household energy costs in 2030 (Figure 3). In 2035, cost increases magnify and shift, with Oregon, Washington, and California seeing upper-bound estimated cost increases of 22-29% or \$800-\$1000 per year in additional costs (Figure 4). Alaska, Utah, and Arizona see upper-bound cost increases of 13% or \$530-\$680 per year. We estimate the minimum increase across these six states to be \$147-\$427 per year.

FIGURE 3
Percent increase in annual residential energy bills in 2030 in the rollbacks + repeal policy environment for the top 15 states with the largest impacts
 Percent change from no rollbacks or repeal



Source: Rhodium Group

FIGURE 4
Percent increase in annual residential energy bills in 2035 in a rollbacks + repeal scenario for the top 15 states with the largest impacts
 Percent change from no rollbacks or repeal



Source: Rhodium Group

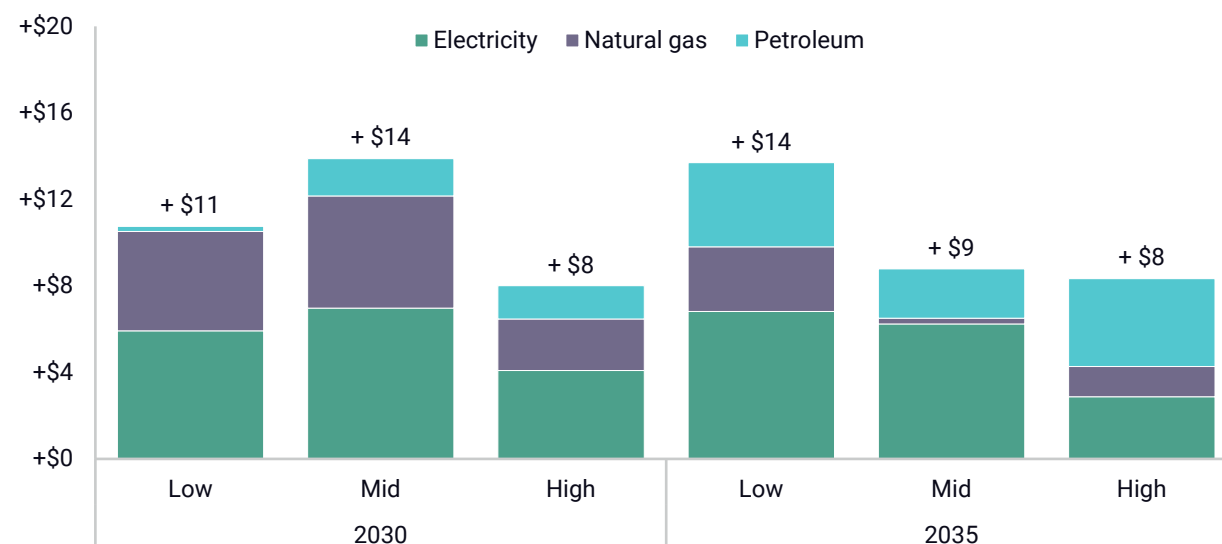
Repealing tax credits creates headwinds for industrial competitiveness

Affordable, reliable energy is a key requirement for US industrial competitiveness. Since 2020, manufacturers have seen production prices for all inputs increase by nearly 28%. We find that the rollback of regulations and repeal of tax credits lead to higher energy costs for the industrial sector. In 2030, US industrial producers spend \$8-14 billion or 4-6% more per year for energy, primarily electricity, in a rollbacks + repeal policy environment (Figure 5). We see similar cost increases in 2035, though increases in petroleum products become a bigger driver alongside electricity cost increases. Though we find removal of tax credits results in somewhat lower installation of clean energy technologies in industry, most of the increases in energy expenditures come from higher economy-wide prices for fossil fuels driven by higher demand.

FIGURE 5

Change in total industrial energy expenditures, rollbacks + repeal scenario compared to no rollbacks or repeal

Billion 2022 USD



Source: Rhodium Group

A bumpy road ahead

The pathway for budget reconciliation is highly uncertain. It's also not clear whether a full repeal of energy tax credits will be pursued or if Congress will take a more surgical approach. This analysis shows that if Congress is aggressive in rolling back regulations and repealing tax credits, household energy costs will increase even more, after enduring a recent surge in costs. The same holds true for manufacturers and industrial facilities that have also contended with recent higher energy costs, adding to the challenges they face in competing in the global economy. As Congress moves forward, we will assess proposals and events as they develop.

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