Backgrounder

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Sound Policy for the Energy Bill

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In the aftermath of the worst power outage in the nation's history, Congress is rushing to get a comprehensive energy bill to the President's desk for his signature. To assure consumers that another massive blackout will *never* happen again, Members may feel compelled to pass an energy bill—any bill—just to demonstrate their concern.

The recent blackout, however, does not negate the need for a *responsible* energy plan—one that enhances the nation's domestic energy resources, corrects the existing imbalance between supply and demand, and ensures that families and businesses have abundant, affordable, and reliable energy for the future.

As the House and Senate conferees meet to reconcile separate versions of comprehensive energy legislation,[1] it is important that they stand firmly against energy-suppressing provisions that only advance the agendas of special-interest groups at the expense of American consumers. Among the most onerous energy-suppressing provisions that the conferees should rebuff are those described below.

Energy-Suppressing Provisions

Renewable Energy Scheme. In its *Annual Energy Outlook 2003*, the Energy Information Agency (EIA),

- Consumers need and deserve a *responsible* energy plan that enhances the nation's domestic energy resources, corrects the existing imbalance of supply and demand, and ensures the availability of abundant, affordable, and reliable energy for the future.
- Mandatory renewable portfolio standards, Kyoto-like climate change edicts, a taxpayer subsidy for ethanol, and congressional interference with the Alaska pipeline route have no place in a comprehensive energy bill.
- A sound energy policy would include exploration in ANWR, market-based policies to attract capital to the nation's electric grid to ensure reliability, removal of regulatory barriers to transmission, and responsible production of domestic resources.

1. The House passed its energy bill (H.R. 6) on April 11, 2003, by a vote of 247 to 175. The Senate debated S. 14 but substituted the 107th Congress's energy bill (S. 517) for its version of a comprehensive energy bill on July 31, 2003, by a vote of 84 to 14. The Senate-passed bill is also referred to as H.R. 6.

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an independent and analytical agency within the U.S. Department of Energy (DOE), projects that renewable fuels will remain merely minor contributors to U.S. electricity supply over the next two decades, increasing from 8 percent of total generation to only 8.5 percent in 2025. That percentage is substantially lower (2.1 percent of generation to 3.3 percent) if only "favored" non-hydroelectric renewables, such as wind, solar, and biomass, are represented.

The costs of generating electricity from renewable sources generally exceed the costs of generating electricity from traditional sources such as coal, natural gas, and hydropower.[2] In addition to being more costly on a per-unit basis, wind and solar power have low capacity factors and are site-constrained and intermittent.[3] To compensate for the unreliability of these renewables, suppliers of electricity need back-up capacity, which adds to the cost of production.[4]

Yet, despite this dismal record of market penetration, high costs, and site constraints, the Senate version of the energy bill would force retail electricity suppliers (utilities, excluding municipal and rural electric cooperatives) to obtain at least 10 percent of their power production from new renewable energy sources by 2020. Electricity suppliers will pass these higher costs on to consumers in the form of a hidden "tax"—higher monthly electric bills.

Instead of arbitrarily mandating that specific fuels be used to generate electricity, the conferees should follow the House's principled lead and let the marketplace determine the winners and losers.

Kyoto-Like Climate Change. Contrary to alarmist rhetoric, climate change science is not complete. There is no consensus—there are only significant uncertainties. This point was recently underscored in an article by James Schlesinger, Secretary of Energy in the Carter Administration. Mr. Schlesinger states that the current scientific knowledge of climate change is *not* settled and that uncertainties "must be reduced."[5] He further notes, "A premature commitment to a fixed policy can only proceed with fear and trembling."[6]

Dr. Sallie Baliunas, one of the nation's leading astrophysicists and an expert on climate change, reinforced these uncertainties during a recent lecture, stating that the scientific facts gathered over the past decade "do not support the notion of catastrophic human-made warming as a basis for drastic carbon dioxide emission cuts."[7]

Notwithstanding major scientific uncertainties, the Senate's energy bill adopts radical regulatory policies on climate change as though the science were settled. Energy policy should be based on sound scientific evidence—not global warming scare tactics. A responsible energy plan should encourage continued research on climate change and refrain from enacting hasty policies that are based on incomplete and faulty science. Otherwise, as Mr. Schlesinger cautions, "we are in danger of prematurely embracing certitudes and losing open-mindedness."[8]

Special-Interest Ethanol Subsidy. Disguised as an attempt to help struggling farmers and enhance environmental quality, a provision in both the Senate and House bills would double the use of ethanol in the nation's fuel supply by mandating that refiners increase ethanol use to at least 5 billion gallons per year by 2012. This mandate is nothing more than a "corporate welfare" scheme that will enrich a few big agribusinesses and burden consumers with

2. Glenn R. Schleede, "Renewable Portfolio Standards," Energy Market & Policy Analysis *Fact Sheet*, September 25, 2001, p. 1.
3. Robert L. Bradley, Jr., "The Increasing Sustainability of Conventional Energy," Cato Institute *Policy Analysis* No. 341, April 22, 1999, p. 19, footnote 107.
4. Jerry Taylor and Peter VanDoren, "Evaluating the Case for Renewable Energy: Is Government Support Warranted?" Cato Institute *Policy Analysis* No. 422, January 10, 2002, p. 7, at *www.cato.org/pubs/pas/pa-422es.html*.
5. James Schlesinger, "Climate Change: The Science Isn't Settled," *The Washington Post*, July 7, 2003, p. A17.
6. *Ibid.*
7. Sallie Baliunas, Ph.D., "Warming Up to the Truth: The Real Story About Climate Change," Heritage Foundation *Lecture* No. 758, June 19, 2002, p. 1.
8. Schlesinger, "Climate Change: The Science Isn't Settled."

a hidden tax. There is no place in a responsible energy policy for this misguided taxpayer subsidy.

Imprudent Meddling with Alaska Pipeline Route. The EIA estimates that Alaska North Slope natural gas reserves total 35 trillion cubic feet (tcf) and that another 16 tcf is expected to be found and developed, making the North Slope one of the largest known natural gas reserves in the United States.[9] Given the increasing demand for natural gas in the U.S., construction of a pipeline to bring this gas to the lower 48 states would certainly benefit the nation's consumers. Congress can play an important role in moving this project forward by expediting the cumbersome regulatory process, but the marketplace—not congressional interference that prohibits a specific route, as provided for in the House and Senate bills—should determine the best route for this project.

Prudent Energy-Enhancing Provisions

While the misguided provisions described above have no place in a responsible energy plan, there are some prudent provisions that could be implemented.

Sensible Exploration in ANWR. Unlike the House version of the energy bill, the Senate version panders to environmental alarmists and does not authorize oil and gas exploration in Section 1002 of the Arctic National Wildlife Refuge (ANWR). This area has been described as "the largest unexplored, potential productive onshore basin in the United States"[10] and could produce oil equivalent to half of all U.S. imports from Persian Gulf countries for 30 years.[11] Moreover, only 2,000 acres would be needed to tap into this source—leaving 99.99 percent of the 19 million acres of ANWR untouched by exploration.

The conferees can enhance the nation's energy security by following the House's principled lead and including ANWR exploration in the final energy bill.

Sensible Electricity Reforms. While the exact cause of the blackout remains undetermined, experts agree that investment in the nation's infrastructure has not kept up with increased demand for energy. For example, over the past decade, demand for power has risen by 30 percent, but transmission capacity has grown by only 15 percent.[12] Further, handling the expected demands on the transmission system over the next 10 years will require about 27,000 gigawatt-miles, yet only 6,000 gigawatt-miles are planned.[13]

If Congress is serious about preventing a recurrence of the recent massive power outage, it needs to adopt policies that will attract investment in the nation's transmission network. It will take significant investment—not burdensome big-government regulations—to update the transmission system.

What the Conferees Should Do

Current policies discourage investment in the nation's electric grid. The conferees can remove many of the barriers by doing the following:

- Repeal PUHCA. The Public Utility Holding Company Act (PUHCA) makes it difficult for firms to acquire and divest power assets and interferes with the ability of firms to enter new markets. The Securities and Exchange Commission, which administers PUHCA, has been calling for its repeal for two decades. Repeal is both long overdue and necessary to make the electricity sector more competitive and beneficial to consumers.

9. U.S. Department of Energy, Energy Information Administration, *Annual Energy Outlook 2003*, DOE/EIA-0383 (2003), January 2003, p. 40.
10. U.S. Department of Energy, Energy Information Administration, "Potential Oil Production from the Coastal Plain of the Arctic National Wildlife Refuge," updated assessment, May 2000, p. vii.
11. National Center for Public Policy Research, "Ten-Second Response: Teamster Chief James Hoffa Warns Politicians in Both Parties Not to Stand in the Way of Oil Exploration in Alaska," Fast Facts on the Environment, at *www.nationalcenter.org/TSR32902a.html* (April 5, 2002).
12. Ken Silverstein, "Blackouts Were Crystal Clear," Reason Public Policy Institute, originally published in UtiliPoint *Issue Alert*, August 15, 2003, p. 2, at *www.rppi.org/blackoutswerecrystalclear.html*.
13. *Ibid.*

- Reform FERC transmission rate policies. The rate of return that the Federal Energy Regulatory Commission (FERC) allows transmission owners to earn on investments in transmission systems is low when compared to the risk of completing a project. Congress should direct FERC to utilize innovative transmission pricing incentives, including performance-based rates and higher rates of return, to attract much-needed capital.
- Revise the tax code. Under existing law, transmission assets receive less favorable tax treatment than other critical infrastructure and technologies.[14] To increase investment in the transmission infrastructure, Congress needs to rectify the current disparity in the recovery period for transmission assets relative to other capital-intensive industries.[15]
- Give FERC backstop transmission siting authority to help build transmission lines in areas designated by the DOE as "interstate congestion areas" if states have been unable to agree or move forward with such siting within a reasonable time.
- Streamline and simplify the transmission permitting process on federal lands by designating the DOE as the lead agency to coordinate and set deadlines for the federal environmental and permitting process as well as establish deadlines for the designation of transmission corridors across federal lands.

Massive big-government regulation is not necessary to ensure grid reliability. Instead, commonsense solutions are needed to attract capital investment in the network system.

Conclusion

The EIA predicts that total energy consumption will outpace domestic energy production through 2025. It is clear that now, more than ever, Congress must adopt policies that correct this imbalance. To do so, Congress must enhance the nation's domestic resources, and remove regulatory barriers to responsible production, upgrade the antiquated electric grid, and let the marketplace—not political interference—determine fuel winners and losers.

The House–Senate conferees have an opportunity to deliver what the nation's consumers deserve and want—a balanced long-term energy bill that provides abundant, affordable, and reliable supplies of energy for themselves as well as future generations. Anything short of this is both counterproductive and unacceptable.

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14. Margo Thorning, Ph.D., "Leveling the Playing Field for Investments in Electric Transmission Systems," American Council for Capital Formation, Center for Policy Research *Special Report*, August, 2002.
15. *Ibid.*