The Heritage Foundation
Executive Memorandum

No. 894 July 25, 2003

A Responsible Energy Policy Enhances—Not Suppresses—Domestic Supplies

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Over the past decade, growth in the nation's demand for energy has outpaced production. The U.S. Department of Energy's Energy Information Administration (EIA) projects that by 2025, consumption will increase by 43 percent and production by only 23 percent.

As the Senate resumes floor debate on a comprehensive energy bill (S. 14), its members have the opportunity to adopt responsible policies that enhance domestic energy supplies. They also, however, could pander to special-interest groups and pass measures that exacerbate the gap between supply and demand, aggravate an already sluggish economy, and jeopardize national security.

S. 14 includes helpful provisions that would boost domestic energy supplies, such as sensible improvements in the hydropower licensing process and repeal of the antiquated Public Utility Holding Company Act. Other measures, however, would interfere with energy markets, reward special-interest groups, and prolong the existing imbalance between supply and demand.

Market-distorting provisions and energy-suppressing amendments have no place in a responsible energy policy. For example:

Loan Guarantees. When a project is deemed economic by the marketplace, there is no need for any special government incentive or subsidy. Conversely, if market conditions do not support a project, the financial risks should not be shifted to taxpayers.

- **Alaska Natural Gas Pipeline.** S. 14 provides a federal loan guarantee for construction of a pipeline to deliver natural gas from Alaska's North Slope to the lower 48 states. It also places restrictions on the selection of a route for the pipeline. Market forces, not political interference from Congress, should determine the pipeline's route.
- **Nuclear Power Plants.** Loan guarantees are also provided for up to seven new nuclear power plants. The Congressional Budget Office (CBO) estimates that a plant could cost up to $3 billion. The CBO also considers the risk of default to be above 50 percent. The financial risk of a new plant should be shouldered by the private sector—not shifted to taxpayers.
- **Indian Lands.** Encouraging energy development projects on Indian lands is laudable. Forcing taxpayers to bear the financial risk is not. The CBO estimates that this loan program would cost taxpayers about $30 million in 2004, $140

Produced by the
Thomas A. Roe Institute fo
Economic Policy Studies

Published by
The Heritage Foundation
214 Massachusetts Ave., NE
Washington, D.C.
20002–4999
(202) 546-4400
heritage.org

This paper, in its entirety, can be found at: *www.heritage.org/research/energy/em894.cfm*

million over the 2004–2008 period, and $200 million over the next 10 years.

Ethanol Subsidy. The Senate approved a floor amendment that would nearly triple the amount of ethanol in the nation's fuel supply by mandating that refiners use 5 billion gallons of ethanol by 2012. Disguised as a bill to help struggling farmers and enhance environmental quality, this mandate is nothing more than a "corporate welfare" scheme that will enrich a few large agribusinesses and burden consumers with a hidden tax. The Senate should remove this misguided taxpayer subsidy.

Market-Distorting Floor Amendments. Senators plan to offer amendments during consideration of S. 14. Some of these measures are very ill-advised.

- **Renewable Portfolio Standard.** Despite two decades of billion-dollar funding from taxpayers, renewable energy is projected to remain a minor contributor to U.S. electricity supply. EIA estimates that electricity generation from renewables will increase to only 8.5 percent in 2025, and only 3.3 percent if just non-hydroelectric renewables are counted.

  Despite this dismal record of market penetration, some Senators want to force retail electricity suppliers to generate a specified portion of their production from new renewable energy resources. Families and businesses need reliable—not intermittent—sources of electricity. The marketplace—not big government mandates—should decide the most efficient way to generate electricity.

- **Climate Change.** James Schlesinger, Secretary of Energy in the Carter Administration, in a recent article in *The Washington Post* noted that the current scientific knowledge of climate change is *not* settled and uncertainties "must be reduced." Notwithstanding major scientific uncertainties, some Senators want to adopt radical regulatory policies on climate change.

  One expected amendment would force U.S. electricity, transportation, industrial and commercial sectors to drastically reduce their greenhouse gas emissions. This proposal is nothing more than a stealth energy tax on the use of fossil fuels. It would raise the price of energy for consumers, cause job losses, and undermine the nation's economic and national security.

  Another amendment may create a so-called voluntary registry for greenhouse gas emissions. It would become mandatory, however, after five years under an automatic trigger provision. A mandatory program would be particularly burdensome for small businesses, which would be required to record and report their emissions or face stiff penalties. Moreover, this provision is redundant. A voluntary greenhouse gas program already exists and is being improved as ordered by the President.

- **CAFE (Corporate Average Fuel Economy).** Amendments to statutorily raise fuel efficiency standards for vehicles are also expected. Instead of trying to improve this ineffective program, the Senate should repeal CAFE and let consumers respond to market signals. That is the effective way to foster energy conservation.

- **Tax Package.** An energy tax "incentives" package of over $15 billion will be considered as a separate amendment. Many of these so-called incentives distort the marketplace and give taxpayer subsidies to special interests. A particularly onerous provision would guarantee a price floor for natural gas from Alaska's North Slope. Taxpayers should not be burdened with assuring the profitability of energy producers. Such taxpayer giveaways distort the market and send the wrong price signals to consumers.

Conclusion. Abundant, reliable, and affordable energy is essential for a strong economy and national security. Instead of passing more market-distorting mandates, Congress should enhance domestic energy supplies by removing impediments to oil and natural gas production on federal lands, including the Arctic National Wildlife Refuge (ANWR), streamline bureaucratic regulations, and let the marketplace—not political interference—determine the nation's energy winners and losers.

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