

# WebMemo



Published by The Heritage Foundation

No. 3126  
February 1, 2011

## A Good Energy Bill Can Make Gas Prices and Electricity Affordable

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Gasoline prices are steadily rising toward \$4 per gallon, the price that triggers public outcry and congressional response. In a recent interview, Senator Lindsay Graham (R-SC) said that at \$4 gasoline, “everybody is tripping over themselves to find an energy policy.”<sup>1</sup> Graham then mentioned he would start work on his clean energy standard (CES) bill that would mandate that a certain percentage of our nation’s electricity come from carbon-free sources. In a recent speech, Senate Energy and Natural Resources Committee chairman Jeff Bingaman (D-NM) renewed his interest in introducing a clean energy standard bill and for the first time supported nuclear’s inclusion so long as the bill provided additional incentives for renewable energy.<sup>2</sup>

There are prudent ideas to lower gas prices, but implementing a CES is not one of them. The only thing it would do is significantly increase Americans’ electricity bills. What America does need is a market-based energy policy that opens supply and prudently balances economics with environmental benefit.

**A Clean Energy Standard: No Effect on Gas, Real Effects on Electricity Prices.** Implementing a CES in response to high gas prices is a non sequitur, because a CES affects electricity generation. And since only about 1 percent of America’s electricity was generated from petroleum in 2009,<sup>3</sup> it is misleading to suggest that one would affect the other.

Indeed, a CES would do almost nothing to affect petroleum consumption or prices. The only thing it would do is drive up electricity prices, which ironi-

cally, would make electric vehicles less enticing. A CES would force Americans to use more expensive energy sources. If these energy sources were cost-competitive, they would not need a government-guaranteed share of the electricity market. The mandate may reward certain energy producers in the short term but would hurt both producers and consumers in the long run because it eliminates competition, reduces the incentives to lower costs, and encourages government dependence.

**Real Solutions.** If Congress really wants to tackle the rising prices of energy, it should focus on policies that would increase the supply of petroleum produced and coming into the United States and open the electricity market to competition, allowing consumers and producers to determine what type of power to buy.

**At the Pump.** The price of gasoline in the U.S. is gradually climbing and could rise to uncomfortably high levels, largely due to inflated crude oil prices in the face of strong demand for gasoline. Recent turmoil in Egypt could increase that upward pressure on crude oil prices if it causes shipment disruptions through the Suez Canal. Increasing access to oil reserves in the U.S., both onshore and offshore,

This paper, in its entirety, can be found at:  
<http://report.heritage.org/wm3126>

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

Published by The Heritage Foundation  
214 Massachusetts Avenue, NE  
Washington, DC 20002-4999  
(202) 546-4400 • [heritage.org](http://heritage.org)

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would not only help offset rising demand but also increase jobs and stimulate the economy. A Heritage Foundation analysis found that increasing domestic supply by 1 million barrels per day would create an additional 128,000 jobs and generate \$7.7 billion in economic activity.<sup>4</sup> The U.S. currently produces 5.3 million barrels of crude oil per day, so producing an additional 1 million barrels per day would be a nearly 20 percent increase.

- **Access offshore.** With 19 billion barrels of oil in the currently restricted Pacific and Atlantic coasts and the eastern Gulf of Mexico—and another 19 billion barrels estimated in the Chukchi Sea off the Alaskan coast—increasing production by a million barrels per day is an easily achievable number. However, the Obama Administration rescinded drilling permits already issued in the Chukchi Sea and, in December, announced that the eastern Gulf of Mexico and the Atlantic and Pacific coasts will not be part of the government's 2012–2017 Outer Continental Shelf program, effectively banning drilling in those areas for the next seven years. It makes no sense for America to be the only country to restrict access to reserves like this.
- **Access onshore.** Federal leasing of oil and gas exploration in the western United States has dropped significantly in the past two years. According to data compiled by the Western Energy Alliance, the Bureau of Land Management offered 79 percent fewer leases for oil and natural gas development in FY 2010 than in FY 2005 in the areas of Colorado, Montana, New Mexico, North Dakota, Utah, and Wyoming.<sup>5</sup> Another obvious and senseless onshore restriction is in the Arctic National Wildlife Reserve, where an estimated 10 billion barrels of oil lie beneath a few thousand acres that can be accessed with minimal environmental impact.
- **Access to easy imports.** The Keystone XL pipeline is a \$12 billion pipeline system that would increase the amount of petroleum the U.S. receives from Canada by over a million barrels per day. The Administration should not allow environmentalist and special interest motivations to prevent the construction of this valuable source of imports.<sup>6</sup>

**At the Plug.** If Congress wants to create pro-energy legislation, it should also focus on reforms that would produce affordable electricity without mandates, special tax breaks, or subsidies. This would allow companies to rely on innovation and market signals, not government handouts, to remain competitive. Such an approach to promoting new, cleaner energy sources and increased energy production should include:

- **Real nuclear energy reform.** Streamlining the onerous regulatory process for nuclear energy plants would allow plants to come online quicker, creating predictability and opening competition for new technologies.<sup>7</sup>
- **Predictable and sensible coal regulations.** Although some new coal plants are coming online, it is not nearly the number of what it could be. Instead of making it exceedingly diffi-

1. Katherine Ling, "Rising Gasoline Prices Will 'Reignite' CES Debate—Graham," *E&E News*, January 5, 2011, at <http://www.eenews.net/public/eenewspm/2011/01/05/1> (January 21, 2011).
2. Frederic J. Frommer, "Key senator backs nuclear in clean energy proposal," *The Washington Post*, January 31, 2011, at <http://www.washingtonpost.com/wp-dyn/content/article/2011/01/31/AR2011013103812.html> (January 31, 2011).
3. U.S. Energy Information Administration, "Annual Energy Review 2009," at <http://www.eia.doe.gov/aer/pdf/aer.pdf> (January 31, 2011).
4. David Kreutzer, "The Economic Case for Drilling Oil Reserves," Heritage Foundation *WebMemo* No. 2093, October 1, 2008, at <http://www.heritage.org/research/reports/2008/10/the-economic-case-for-drilling-oil-reserves>.
5. Western Energy Alliance, "Western Oil and Natural Gas Dashboard," December 9, 2010, at <http://westernenergyalliance.org/resources/dashboard> (January 22, 2011).
6. David W. Kreutzer, "Three Policy Changes to Help with Gasoline Prices," Heritage Foundation *WebMemo* No. 3096, January 12, 2011, at <http://www.heritage.org/Research/Reports/2011/01/Three-Policy-Changes-to-Help-with-Gasoline-Prices>.
7. Jack Spencer, "Pitts Bill Could Be Nuclear Energy Game Changer," Heritage Foundation *WebMemo* No. 2571, July 31, 2009, at <http://www.heritage.org/Research/Reports/2009/07/Pitts-Bill-Could-Be-Nuclear-Energy-Game-Changer>.

cult for new, more efficient coal plants to come online—which causes the less efficient ones to stay online longer—the Environmental Protection Agency (EPA) should not over-regulate to kill existing coal plants while preventing new ones from being built.<sup>8</sup>

- **Peeling back regulations on renewable energy.** Unnecessary regulatory red tape holds up renewable energy ventures, makes them prohibitively more expensive, and deters investment. Reducing this bureaucracy would allow the free market to develop new energy technologies more quickly.
- **Ending energy subsidies.** Subsidies create complacency within the industry and reduce the incentive to innovate. In most cases, subsidies either transfer part of the cost for a market-viable investment to the public or divert direct investment away from more efficient projects.
- **Limiting litigation.** Environmental activists delay new energy projects by filing endless administra-

tive appeals and lawsuits. Creating a manageable timeframe for groups or individuals contesting energy plans would avert potentially cost-effective ventures from being tied up for years in litigation.

**Gas Prices as an Excuse.** Congress should be wary of Members using steadily rising gas prices as an excuse to pass energy legislation that would not address the problem, such as a CES. A CES would only cause Americans more economic pain as they see the costs of their electricity prices rise. If Congress wants to pass an energy bill that is economically and environmentally sensible, it should refrain from increasing subsidies and create a regulatory framework that allows free enterprise to increase the supply of energy in the U.S.

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8. For instance, pending EPA rules—including the Cooling Tower Rule, the Maximum Available Control Technology Rule, the Clean Air Transport Rule, and the Coal Combustion Residuals Rule (coal ash)—could unreasonably increase compliance costs for existing coal plants, which would increase the cost of electricity and kill jobs. Power-Gen Worldwide, “EPA Rules Could Spark \$180bn in Upgrades, 67,000 MW of Coal-Fired Retirements,” October 26, 2010, at <http://www.powergenworldwide.com/index/display/articledisplay.8008682880.articles.powergenworldwide.emissions-and-environment.regulation.2010.10.NERC-EPA-assessment.html> (January 24, 2011).