

Richard Matzke argues that the energy plan is in reality a climate change plan

The US administration's energy plan has attracted global attention not because it meets the energy needs of US industry and US consumers but rather, because it is a plan that will result in the reduction of climate changing CO₂ industrial emissions in the use of fuel to create energy. The plan is bold, aggressive, challenging, controversial, expensive, and long overdue. Its legislative version is greater than 1000 pages and should be referred to in its original form for those seeking a better understanding than can be presented in this brief article.

In the months preceding the November 2008 US presidential elections, the Obama website described what was then called the 'New Energy for America Plan'. Reportedly its primary goal was twofold: one, to reduce the quantity of energy being consumed by Americans, and two, to reduce the carbon content of the fuels used to create energy for Americans. A closer reading of this plan also reveals that it may have been designed to address both budget problems at the federal level and financial problems at the personal level. The initial idea of selling CO₂ emission permits (carbon credits) to those who produced CO₂ emissions or could not meet mandated CO₂ emission reductions was largely designed to generate funds to reduce the anticipated enormous federal budget deficit. At the personal level a windfall profits tax coupled with removal of all production incentives on the conventional oil and gas business was supposed to provide funding for a \$500 per person energy rebate as promised by Mr. Obama if elected. The latter of these has been characterised as a questionable effort to acquire votes at the expense of an industry that is often at odds with elements of the federal government.

The original plan consisted of the following proposals, all more or less designed to contribute to achieving

the two primary goals referred to above:

- 1 Reduce industrial greenhouse gas emissions 80 percent from 2005 levels by 2050.
- 2 Increase gasoline fuelled new auto/truck mileage to 35 mpg by 2016.
- 3 Increase biofuel consumption to 60 billion gallons by 2030.
- 4 Establish a low carbon fuel standard which will reduce the carbon in fuel by 10 percent in 2020.
- 5 Require 25 percent of electricity to come from renewable fuel sources by 2025.
- 6 Require that all new buildings be carbon neutral by 2030.
- 7 Require that all new vehicles have flexible fuel capacity by 2013.
- 8 Invest \$150 billion over ten years to create 5 million new jobs.
- 9 Eliminate all oil and gas tax incentives originally provided to increase domestic oil and gas production.

During the past six months, the Obama administration has aggressively pursued the popular acceptance and legislative implementation of many of these goals and has met with the normal and expected resistance. Geopolitics, recession, job losses, energy price changes, special interest and a global environmental meeting planned toward year end have all contributed to establishing priorities, the need for compromise, and substantial modification of many of the original goals. Based on the magnitude of reaction, it appears that industrial CO₂ emission, automobile fuel efficiency, and the elimination of oil and gas industry production incentives have attracted the greatest level of concern and interest.

As time passes and activity progresses it becomes ever more difficult to describe what is happening as the creation of an energy plan for the USA in a conventional sense. What is presently being debated is how US citizens can reduce CO₂ emissions as they consume fuel to create various forms of energy. The issues being actively promoted today are about how to reduce the carbon footprint in the

creation of energy not how to meet the energy needs and expectations of US consumers. And, as the cost of alternative approaches becomes well documented and more widely understood by elected officials, the financial consequences begin to measurably impact the goals and objectives of the original plan.

On June 26, 2009 the US House of Representatives passed historic legislation which very clearly addressed the threat of climate change. The bill passed by the House is titled the 'American Clean Energy and Security Act' and it mandated the creation of clean energy but did not address the sources, quantity or cost of the energy required to fuel the US economy or to meet the life styles desired of its citizens. The bill passed by the House of Representatives is what the Obama 'New Energy for America Plan' has morphed into or possibly it is a clarification of what the original authors of the Plan intended it to be.

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The primary component of the bill passed by the House is the description of the process by which the incentives to reduce CO₂ emissions will be administered, or alternatively, the penalties that will be applied if mandated CO₂ emission levels are not achieved. The goal of an 80 percent reduction of CO₂ emissions by 2050 from levels of 2005 is consistent with the original plan, but in the House passed version 85 percent of the required CO₂ emission permits will be given away free rather than sold. This obviously diminishes the revenue generating potential originally intended and creates tremendous industry anxiety as to how and to what industries the free CO₂ emission permits will be distributed. The bill also appears to allow for

the creation of a secondary market in tradable emission permits or carbon credits. This possibility has generated considerable concern as to how the market will be regulated in order to avoid financial disasters such as those recently experienced in other derivative markets in which non-principals were permitted to speculate.

The historic significance of the ‘American Clean Energy and Security Act’ results from the fact that it is the first time either branch of the US Congress has approved legislation designed to reduce, what are believed by many to be, climate changing CO₂ emissions. The vote count in the House of Representatives, 219 ‘yes’ votes to 212 ‘no’ votes including 44 ‘no’ votes by Democrats and only 8 ‘yes’ votes by Republicans, foretells considerable and aggressive future debate, difficult compromise, and probably lengthy delays in implementation.

In the near future the bill will move to the US Senate where its cost to US consumers and the resulting decline in US industrial competitiveness will be thoroughly debated. Both of these potentially fatal issues are addressed in the House bill but the mitigation analysis involves many unknowns and the uncertainty of the predicted results remains great, thus credibility is substantially lacking.

There are many knowledgeable people associated with the affected segments of US industry who are highly sceptical of the process by which the plan mandates CO₂ emission reduction. One seems worth quoting: Keith Rattie, CEO of Questar Corporation, said in a speech in Utah on April 2 2009: ‘If you do the math for the entire country, 80% by 2050 would require a reduction in America’s carbon footprint from about 20 tons per person today to less than 2 tons per person in 2050. America’s carbon footprint of 2 tons per person per year has not occurred since the Pilgrims arrived at Plymouth Rock in 1620.’

When the administration’s planning process began there existed something that resembled a viable US automobile industry. For years the industry’s spokespeople argued effectively against higher mandated

mileage requirements in spite of what non US auto manufacturers were able to achieve and what US consumers desired. With the advancing economic downturn the US auto industry became an early recipient of billions of dollars of taxpayer bailout funds which had only a marginal effect on the economy of the industry but did seem to salvage the industry from disappearing completely. In its present condition of near government ownership and monumental debt to the government the US auto industry has no choice but to support and achieve the mandated 2016 standards of 39 mpg for new cars and 30 mpg for new small trucks versus today’s standards of 27.5 mpg for cars and 23 mpg for small trucks. Accomplishing these mileage standards will be difficult but if achieved it will ultimately make a very significant contribution to realising the two goals of the Obama plan. Although significant improvements do not happen fast it is interesting to consider that if the average mileage of all autos and small trucks in the USA were doubled it would reduce US consumption by almost as much as all the oil currently produced in the country.

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The conventional US oil and gas industry received considerable unwanted attention in the original ‘New Energy for America Plan’ but was essentially left unmentioned in the House passed ‘American Clean Energy and Security Act’. Most observers believe this does not bode well for the industry and expect a series of substantial reductions of the existing incentives to find and produce domestic oil and gas. It is also anticipated that when legislation affecting the domestic industry is finally passed it will contain numerous elements not previously discussed

that will have a measurably negative impact on the financial health of the industry and will result in an accelerated decline in domestic oil and gas production. When considering the direction one would like to see taken by the domestic oil and gas industry it is significant to note that the combined effort of hundreds of small US companies investing and operating with the benefit of risk reducing incentives have found sufficient new onshore natural gas in the USA in the past few years to fuel the US economy at today’s rate of consumption for over 100 years. Natural gas is an abundant and clean fuel that presently generates almost 25 percent of the electricity in the USA and if desired, can be converted by existing technology to a nearly pollution free liquid transportation fuel. ‘Drill, baby, drill’.

The original plan called for the following punitive actions to be taken for the purpose of raising government revenue and discouraging the production and consumption of domestic oil and gas. Not all are of equal importance to every company but collectively they are the incentives that have made the US industry the most productive and efficient in the world. The proposed actions are:

- 1 Reduction of foreign tax credits
- 2 Repeal of manufacturing tax credits
- 3 Repeal of percentage depletion
- 4 New excise tax on Gulf of Mexico production
- 5 Repeal of tax credit for marginal fields and enhanced oil recovery
- 6 Repeal of intangible drilling cost deduction

Other actions now anticipated are:

- 1 Raise the royalty rate of onshore production to 50 percent
- 2 Reduce terms of federal leases from ten years to five years
- 3 End royalty-in-kind program

The negative consequences to the US oil and gas industry would be immeasurable if all these proposals were to be implemented. Many industry leaders have given their opinions and there is little doubt of a pending reduction

in domestic oil and gas production and a horrendous loss of jobs if the listed actions are enacted.

Coal which generates 50 percent of US electricity and nuclear which generates 20 percent of US electricity seemed only to be acknowledged as high risk fuels but received no particular role in either the original or the House passed plan. The USA contains possibly 30 percent of all the coal reserves in the world and it is the least expensive to produce of all energy sources today. A successful effort to solve the CO₂ problems associated with coal production and its combustion, which is not part of either plan, would make the USA much less dependent on foreign sources for fuel of any kind and would create an abundance of new US businesses and jobs.

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