



Free markets. Real solutions.

R STREET SHORTS NO. 32
July 2016

SIX ENERGY-POLICY REFORMS CONSERVATIVES SHOULD EMBRACE

Catrina Rorke

INTRODUCTION

The U.S. House demonstrated last month that the politics of climate solutions remain intractable. With bipartisan support, lawmakers overwhelmingly passed a resolution describing a carbon tax as, “not in the best interest of the United States.”¹

While R Street considers the vote an unwise obstacle to future debate on how best to repeal damaging Environmental Protection Agency regulations, it’s clear the appetite for legislative activity explicitly to rein in carbon emissions isn’t yet here.

Supporters of a carbon tax tout the incentive for innovation such a tax would provide. But even without an explicit price on carbon, there’s plenty for Congress to do. Our cumbersome, piecemeal energy policies hold back competition, creativity and progress. While many Republicans are understandably skeptical of plans to layer a carbon tax on top of

this quagmire, cleaning out the muck and modernizing our energy sector will ensure the market is better equipped to deal with a carbon-constrained future.

American energy policy largely was devised when the United States feared energy scarcity and mainstream renewable alternatives were too risky and expensive to attract investment. These policies are now hopelessly outdated. American ingenuity in oil-and-gas development has caused a worldwide oil glut² and wind-and-solar executives now say they can do without government subsidies.³ There are a few obvious places to start to clean up energy policy, and none of them have to do with carbon.

Here are six items the House and Senate could take up to make energy markets healthier, expand consumer choice and get government out of the way of our innovative energy sector.

END TAX EXTENDERS ONCE AND FOR ALL

The threat of renewable tax extenders has again reared its head. Energy tax extenders include provisions for biodiesel, residential energy equipment, electric vehicles and a dozen other special interests, which amount to \$7.4 billion in lost revenue this year alone.⁴ Cutting these would be a great start, but Congress can go further and strip out energy incentives across the board that have found a permanent home in the tax code. Sure, we can quibble about which tax provisions are special breaks for energy, but Congress can and should put a stop to wasteful, unnecessary, market-distorting spending across the energy sector.

CURB THE DOE’S EFFICIENCY STANDARDS

The U.S. Department of Energy establishes minimum efficiency standards for more than 60 categories of appliances that Americans use in their households and businesses.⁵ Operating under statutory authority granted when the United States was plagued by concerns about energy scarcity, the DOE uses these standards to ensure appliances don’t use more power than needed. But the standards also limit consumer choices and restrict the availability of appliances that are inexpensive and reliable.⁶ Labeling programs like the EPA’s Energy Star enable consumers to make informed choices without taking preferred products off the shelves.⁷ It will take Congress to stop the continuous flood of new standards.

REPEAL THE RENEWABLE FUEL STANDARD

Initially conceived as a policy to replace imported oil with domestically produced ethanol from agricultural products,⁸ the RFS is now a prime example of unintended consequences. The fuel-blend requirements cannot be achieved without sacrificing the safety of older engines;⁹ diverting agricultural

products to the fuel supply has increased food prices;¹⁰ ethanol is more expensive and less energy-dense than gasoline;¹¹ and elevated prices for corn are converting more and more prairies and wetlands to agricultural products, sacrificing conservation goals.¹² The 114th Congress, which convened in January 2015, has held seven hearings to date on the RFS, but has not yet taken action to reform substantially or eliminate completely this wasteful program.¹³

EXTEND MASTER LIMITED PARTNERSHIPS

The MLP structure is unique, in that it allows pass-through partnerships to be traded publicly. MLPs have enabled oil-and-gas companies that engage in exploration, development, mining, production, processing, refining, transportation or marketing to attract capital and drive investment.¹⁴ But a lot of other energy sources have income streams akin to oil and gas. Hydro, wind and solar, among others, are all intuitively similar to pipelines (the most common type of energy MLP) in that they are capital-intensive but passively involved in generating business income. It'll take an act of Congress to allow the Internal Revenue Service to extend this tax structure beyond the exclusive list of what qualifies today.

CUT ENVIRONMENTALLY HARMFUL SPENDING

Green Scissors – a coalition of Friends of the Earth, Taxpayers for Common Sense and R Street – has identified tens of billions of dollars in annual wasteful spending across public lands, energy, transportation, insurance and agriculture. The coalition's report offers an itemized list of provisions that should be repealed to clean up the environment and shrink the size and reach of government.¹⁵

STREAMLINE SITING AND PERMITTING FOR CRITICAL INFRASTRUCTURE

Regulatory requirements designed to protect Americans and the environment have grown so burdensome that they restrict our ability to make necessary investments in energy infrastructure. Congress has advanced several necessary provisions to improve these requirements, especially in streamlining the permitting-approval process for modern hydroelectric facilities¹⁶ and siting needed pipeline infrastructure for clean-burning natural gas.¹⁷ The slow approval process for energy facilities tethers the U.S. economy to old and dated technology and infrastructure; it'll take Congress to move us into the future.

CONCLUSION

The House and Senate are about to go to conference on a sweeping energy package for the first time since 2007.¹⁸ The appetite for energy legislation is greater than it's been in a decade. If that momentum can't be focused to

limit the EPA's damaging regulatory overreach in carbon, it should push for commonsense steps that will encourage the market to solve our biggest energy challenges.

ABOUT THE AUTHOR

Catrina Rorke is director of energy policy and a senior fellow at the R Street Institute, where she promotes smart, small-government solutions to energy and climate challenges.

Prior to joining R Street, Catrina founded the energy program at the American Action Forum, a center-right policy institute that specializes in actionable research and analysis. While at AAF, she emphasized free-market policies and critiqued administration regulatory efforts.

ENDNOTES

1. Timothy Cama, "House votes to condemn carbon," *The Hill*, June 10, 2016. <http://thehill.com/policy/energy-environment/283029-house-condemns-carbon-tax>
2. Clifford Krauss, "New Balance of Power," *The New York Times*, April 22, 2015. http://www.nytimes.com/2015/04/23/business/energy-environment/new-balance-of-power.html?_r=0
3. Camilo Patrignani, "A Solar CEO Wants To End The Investment Tax Credit. Why?," *CleanTechnica*, Jan. 13, 2015. <http://cleantechnica.com/2015/01/13/a-solar-ceo-wants-to-end-the-investment-tax-credit-why/>
4. Scott Greenberg, "Which Tax Extenders are Left?," Tax Foundation, Jan. 11, 2016. <http://taxfoundation.org/blog/which-tax-extenders-are-left>
5. Office of Energy Efficiency and Renewable Energy, "APPLIANCE AND EQUIPMENT STANDARDS PROGRAM," U.S. Department of Energy, accessed July 19, 2016. <http://energy.gov/eere/buildings/appliance-and-equipment-standards-program>
6. Sherzod Abdukadirov, "Who Are You Calling Irrational?," *U.S. News & World Report*, June 1, 2015. <http://www.usnews.com/opinion/economic-intelligence/2015/06/01/does-proposed-energy-efficiency-standards-are-anything-but-rational>
7. Energy Star, "History & Accomplishments," U.S. Environmental Protection Agency, accessed July 19, 2016. <https://www.energystar.gov/about/history>
8. Jim Lane, "EPA bumps up US Renewable Fuel Standard volumes for 2015-2016, in final ruling," *Biofuels Digest*, Nov. 30, 2015. <http://www.biofuelsdigest.com/bdigest/2015/11/30/epa-bumps-up-us-renewable-fuel-standard-volumes-for-2015-2016-in-final-ruling/>
9. Office of Transportation and Air Quality, "Regulation to Mitigate the Misfueling of Vehicles and Engines with Gasoline Containing Greater Than Ten Volume Percent Ethanol and Modifications to the Reformulated and Conventional Gasoline Programs: Summary of Public Comments and Supplemental Response to Comments," U.S. Environmental Protection Agency, June 2011. <https://www.epa.gov/sites/production/files/2015-08/documents/420r11006.pdf>
10. Bruce A. Babcock, "Breaking the Link between Food and Biofuels," *Iowa Ag Review*, Vol. 14, No. 3, Summer 2008. http://www.card.iastate.edu/iowa_ag_review/summer_08/article1.aspx
11. U.S. Energy Information Administration, "Few transportation fuels surpass the energy densities of gasoline and diesel," U.S. Department of Energy, Feb. 14, 2013. <http://www.eia.gov/todayinenergy/detail.cfm?id=9991>
12. Christopher K. Wright and Michael C. Wimberly, "Recent land use change in the Western Corn Belt threatens grasslands and wetlands," *Proceedings of the National Academy of Sciences*, 110(10): 4134-4139, Feb. 19, 2013. <http://www.ncbi.nlm.nih.gov/pmc/articles/PMC3593829/>
13. Kelsi Bracmort, "The Renewable Fuel Standard (RFS): In Brief," Congressional Research Service, Feb. 4, 2016. <http://nationalaglawcenter.org/wp-content/uploads/assets/crs/R43325.pdf>
14. Oppenheimer Funds, "What Is a Master Limited Partnership?," March 16, 2015. <https://www.oppenheimerfunds.com/investors/article/what-is-a-master-limited-partnership>

15. Autumn Hanna, Benjamin Schreiber and Eli Lehrer, "Green Scissors 2012," Green Scissors Coalition, June 2012. http://greenscissors.taxpayer.net/assets/documents/Green_Scissors_Report_2012_August.pdf
16. Regina Cline, "Hydropower in U.S. Gets Boost from New Laws. Will Congress So More?," BNA Energy and Environment Blog, Jan. 14, 2014. <http://www.bna.com/hydropower-us-gets-b17179881735/>
17. Nick Snow, "US House passes natural gas pipeline permitting reform bill," *Oil & Gas Journal*, Jan. 22, 2015. <http://www.ogj.com/articles/2015/01/us-house-passes-natural-gas-pipeline-permitting-reform-bill.html>
18. Timothy Cama, "Senators strike deal to move forward on sweeping energy bill," *The Hill*, July 11, 2016. <http://thehill.com/policy/energy-environment/287276-senate-to-vote-on-moving-toward-house-compromise-on-energy-bill>