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House to Vote Today on Energy Bill

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The House is scheduled to vote today on their latest incarnation of an energy bill:

Energy bill vote pushed to today amid opposition

> WASHINGTON -- Congressional Democratic leaders pushed back a vote on an energy bill with a historic increase in fuel economy standards until today, in the face of growing opposition from Senate Republicans, President George W. Bush and even some Democrats.
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> As outlined by House Speaker Nancy Pelosi, the bill would include new requirements for renewable fuels, the elimination of $21 billion tax breaks to oil companies and other sources of revenue, and require electric utilities to generate 15% of their energy from renewable sources by 2020.

The key points, per the AP:

> **Car Mileage:** Requires automakers to increase the fuel economy of cars and small trucks, including SUVs, by 40 percent to an industry average of 35 miles per gallon by 2020.
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> **Renewable motor fuels:** Requires a sevenfold increase in the use of ethanol as a motor fuel to 36 billion gallons a year by 2022, with two-thirds to be cellulosic ethanol from such feedstock as prairie grass and wood chips. Has tax incentives for renewable fuels plants.
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> **Taxes:** Includes a $21 billion tax package, including a rollback of $13.5 billion in tax breaks for the five largest oil companies. The revenue is to be used for tax incentives to promote renewable fuels and energy efficiency.
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> **Electricity:** Requires electric utilities to produce 15 percent of their power from renewable energy such as wind, solar or biomass. Some of the mandate could be satisfied by utilities promoting efficiency or buying renewable energy credits.
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> **Energy efficiency:** Requires increased energy efficient appliances and improvements in energy efficiency of federal and commercial buildings. Also requires faster approval of

> federal energy efficiency standards.
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> **Hybrid cars**: Creates tax incentives to develop plug-in hybrid electric cars and establishes tax credits for buying the vehicles.

There are pieces I like, and pieces I don't. I like the hybrid incentive, but I think the renewable fuels mandate is a joke. That may be because in general I like incentives, but I hate mandates. With an incentive, you say "Here's $X million, try to make this work." With a mandate, you say "Consequences be damned, just go and do it." I don't like that.

And if you are wondering exactly what the rollback of tax breaks involves, here is the interpretation according to one site:

> (i) Denies the oil industry a $10 billion tax break over the next decade. This subsidy came as a result of 2004 legislation that created a sweeping new deduction for domestic manufacturing. As a result, for the first time, oil and natural gas production was classified as a manufactured good, treating it the same as domestically produced cars or other items made in a factory. This legislation would repeal the deduction for all large, integrated oil companies, while still retaining the 6 percent deduction for smaller ones.
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> (ii) Extends from five to seven years the period of time over which oil companies can claim a tax deduction for geological and geophysical expenses. Deducting the expenses more slowly will save Americans $100 million over the next decade. This alters the tax break granted to Big Oil in the 2005 energy bill.
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> (iii) Limits the ability of oil companies drilling in foreign countries to manipulate their drilling income in ways to reduce U.S. tax liability. Closing this loophole will save Americans $3.2 billion over the next 10 years.
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> (iv) Extends from 15 to 20 years the period of time over which owners of natural gas distribution lines can deduct the depreciation of their pipelines. Deducting the expenses more slowly will save Americans $500 million over the next decade.

The problem, as I have said before, is that we have no consistent, long-term energy policy. If we are going to get a new energy bill every other year - in which tax breaks are granted and then repealed - it makes it difficult to execute long-term projects. Imagine that two years ago you started in on a five-year project, you based the project economics on the rules in place at that time, and then half way through the project the rules are changed on you. This creates a climate that discourages investment in the U.S., because the rules are apt to change at any time.