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# U.S. Energy Policy: Three Things to Watch Going Forward

EPRI ENERGY AND CLIMATE CHANGE RESEARCH SEMINAR  
JUNE 18, 2012

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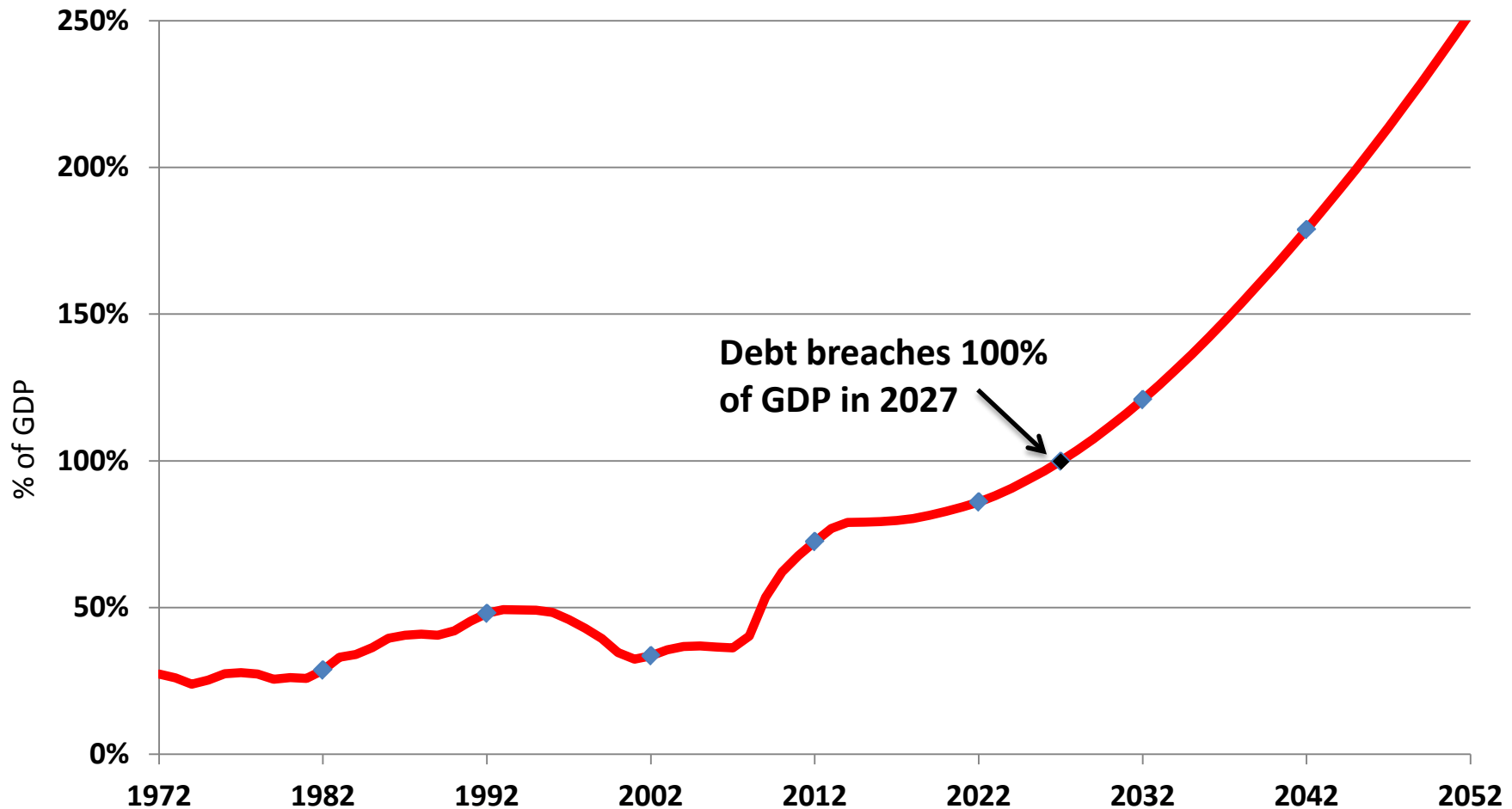
1. Energy and the politics of debt
2. Game change (natural gas)
3. EPA and the Clean Air Act



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# Energy and the politics of debt

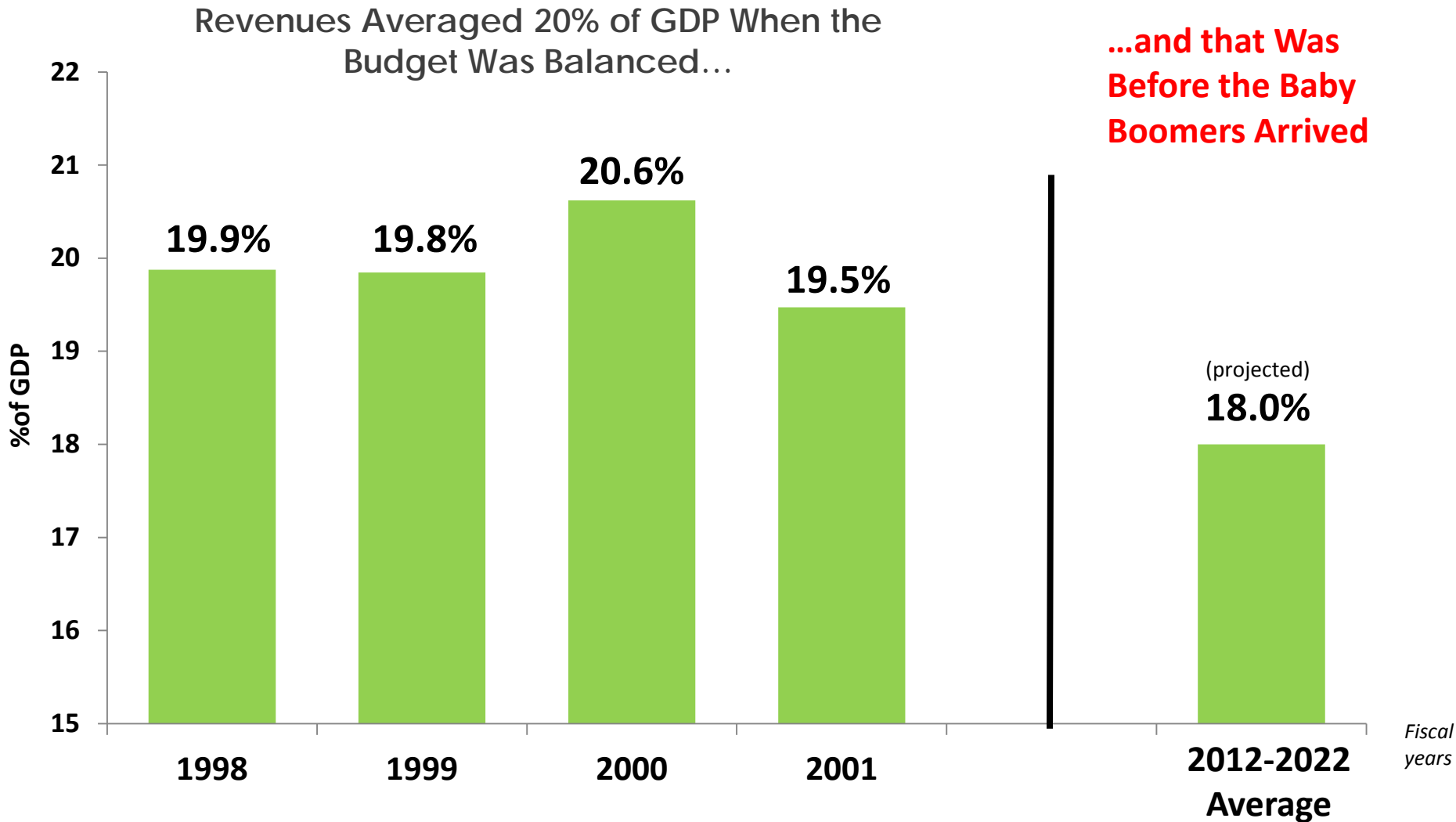
# ABSENT REFORMS, DEBT IS SET TO SKYROCKET IN THE COMING DECADES



*Note:* Unlike current law, the Bipartisan Policy Center’s Plausible Baseline assumes that the 2001, 2003, and 2010 tax cuts are extended, the AMT is indexed to inflation, Medicare’s physician payment rates are maintained at their current rate (the “doc fix”), the looming sequester from the Budget Control Act of 2011 is lifted, and troops stationed overseas decline to 45,000 by 2015

*Sources:* Congressional Budget Office (January 2012) and Bipartisan Policy Center extrapolations

# REVENUE UNDER CURRENT POLICIES SIMPLY WILL NOT BE ENOUGH 5



Source: Congressional Budget Office alternative fiscal scenario (January 2012)

## Upcoming Current Law Changes:

• Bush Tax Cuts, AMT, Doc Fix	\$325 b
• Payroll Tax Cut	\$110 b
• Unemployment Insurance	\$50 b
• Tax Extenders & business expensing	\$120 b
• The Sequester	\$75 b
• Affordable Care Act Taxes	\$22 b
• The Debt Ceiling	<u>!?!?!?</u>
<b>TOTAL:</b>	<b>\$702 b</b>

- A grand bargain on debt?
- Revenue neutral tax reform?
- If there is political agreement on need for new revenue, will there be agreement that a carbon tax is less objectionable than other taxes?



- Energy Subsidies
  - Do national goals align with existing subsidies?
  - Do subsidies have the intended impact?
  - Can subsidies be made more effective?
- Energy R&D
- Agency operating budgets

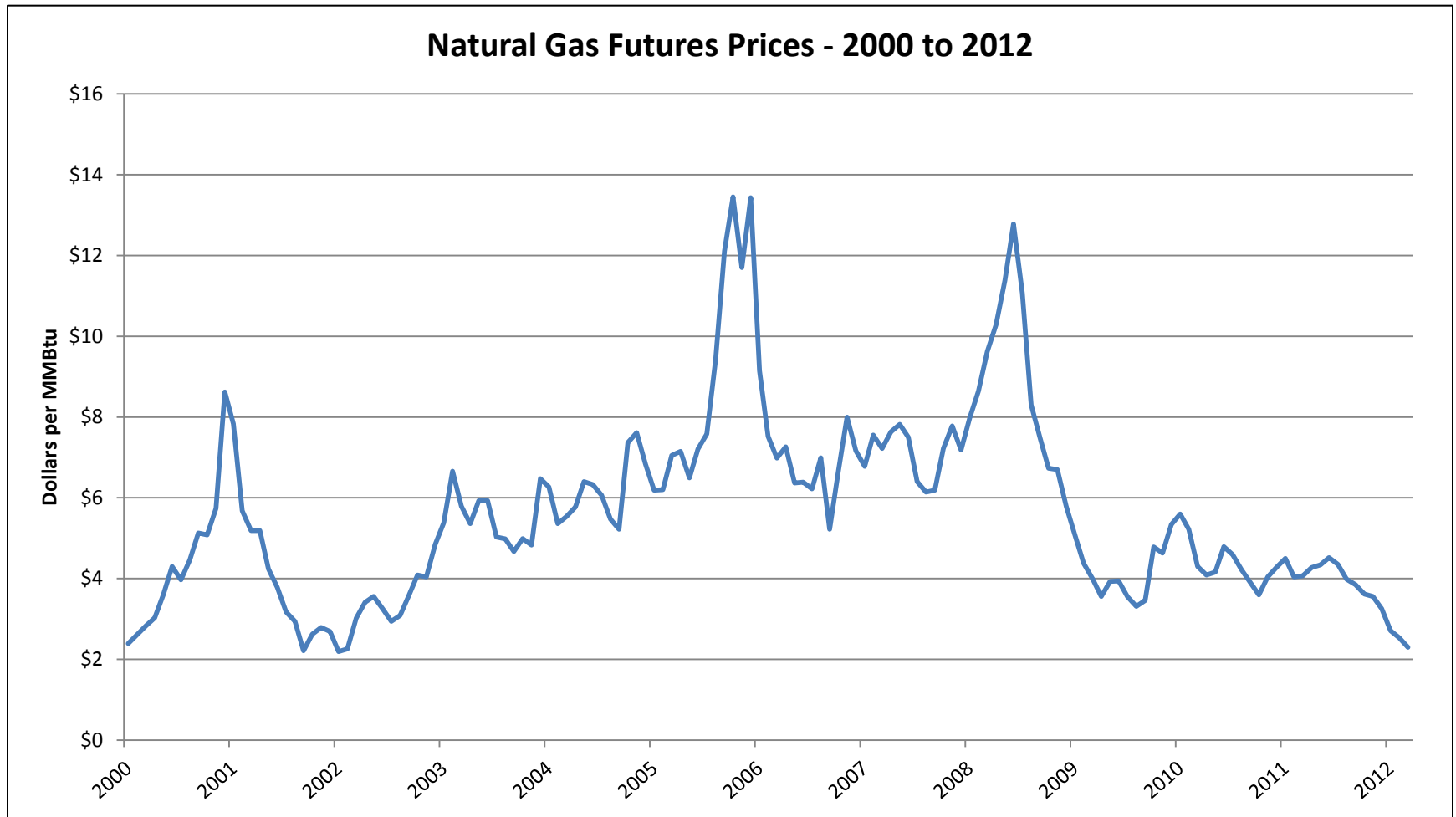




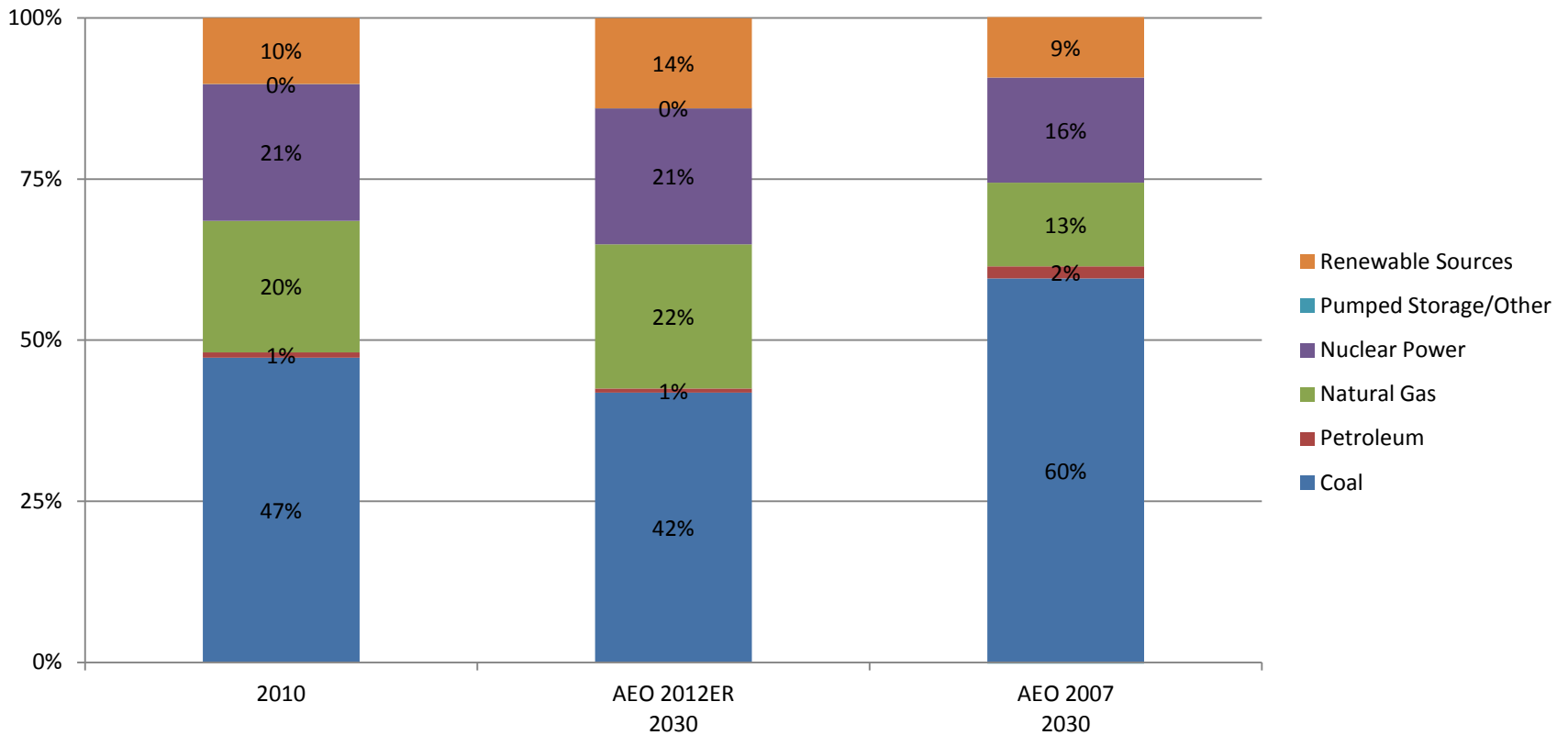
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# Game change (natural gas)

# NEW GAS SUPPLIES HAVE DRAMATICALLY LOWERED PRICES...



## Fuel Mix in the Electric Power Sector: Comparing AEO2007 and AEO2012ER (Share of Net Generation)



- Regulatory Regime
- Local Impacts
- Life-Cycle Emissions
  - Howarth, 2011: “Compared to coal, the footprint of shale gas is at least 20% greater and perhaps more than twice as great on the 20-year horizon and is comparable when compared over 100 years.”
  - Carnegie Mellon, 2011: “Natural gas from Marcellus shale has generally lower life cycle emissions than coal for production of electricity in the absence of any effective carbon capture and storage processes, by 20-50% depending upon plant efficiencies and natural gas emissions variability.”

## Manufacturing Benefits



## LNG Exports





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# EPA and the Clean Air Act

## Electricity Sector

### **Air:** Clean Air Act 1990

- Cross State Air Pollution Rule (Transport Rule): Final 7/11, stayed
- Air Toxics Standards (Utility MATS): Final December 2011
- GHG New Source Performance Standards: Proposed March 2012

### **Water:** Clean Water Act 1970s

- Cooling Water Intake §316(b): Proposed 3/11, Final expected 7/12?

### **Waste:** Resource Conservation and Recovery Act 1970-84

- Coal Ash: Proposed 6/10, Notice of Data Availability 10/11, Final TBD

MATS: Mercury and Air Toxics Standards for Power Plants

GHG: Greenhouse Gas

NSPS: New Source Performance Standard

- New EPA ghg NSPS proposed standard: bold, modest, or both?
- Ultimately, NSPS ghg emission reductions will likely be modest and gradual due to
  - The NSPS program structure
  - The nature of the regulatory process
  - The time lag between EPA regulation of new sources, and state follow-on regulation of existing sources



**The CAA has been enormously beneficial but issues remain.**

- Piecemeal regulation
- State vs. Federal Roles
- Lack of Flexibility
- Perverse Incentives
- Uncertainty about GHGs
- Constant Litigation Threat

**Is Clean Air Act Reauthorization Possible?**