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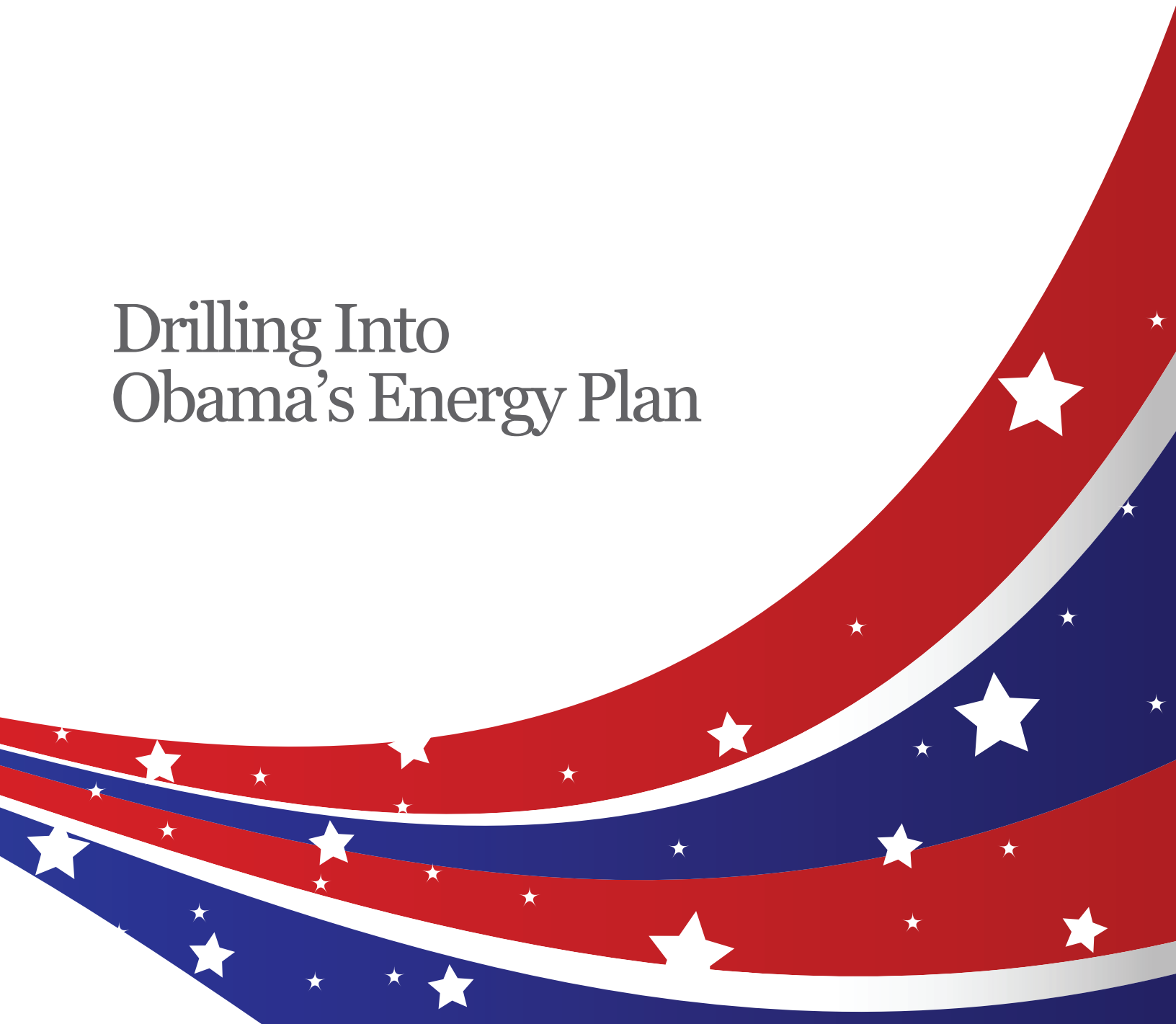
ISSUE GUIDE

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Drilling Into Obama's Energy Plan



Barack Obama's Energy Plans at a Glance

President-elect Barack Obama proposes a cap-and-trade program to reduce greenhouse gasses. Obama's regime hopes to be stringent -- he would require an 80 percent reduction from 1990 emissions levels by 2050. Moreover, Obama would encourage alternative energy supplies and efficiency through a combination of regulations as well as incentives and investments, which he would pay for by auctioning off CO2 emissions permits that constitute the cap-and-trade program. Obama also supports limited increases in domestic oil and natural gas production, and short-term relief for the present high-energy prices.

The Obama Agenda, in Detail

President-elect Barack Obama proposes several measures to provide relief from high energy prices. First, he'll offer an immediate, one-time "energy rebate" of \$500 per individual (\$1,000 per couple), paid for with a windfall profits tax levied over five years on oil companies. Next he wants to sell oil from the Strategic Petroleum Reserve to lower prices at the pump. Finally, he proposes additional regulation in commodities trading, to ensure transparency and to clamp down on the alleged excesses of speculation. Obama rejects drilling in both the Arctic National Wildlife Refuge and the outer continental shelf as a solution to high energy prices ("With three percent of the world's oil reserves, the U.S. cannot drill our way to energy security"), but he does support other measures to encourage oil and gas production, including drilling in some shale fields and the National Petroleum Reserve in Alaska. He supports building the Alaska Natural Gas Pipeline. He backs recovering stranded oil in exhausted fields, using a process that also sequesters carbon dioxide. Finally, Obama will require that energy companies commence drilling on the federal land they've leased or surrender their rights to those parcels, which would be redistributed.

For the longer term, Obama's energy policy centers on combating global warming. Obama would establish a cap-and-trade system with two crucial distinctions. First, Obama will demand more stringent reductions over time -- by 2050 emissions would total just one-fifth of what they were in 1990. Secondly, Obama wants to auction all the emissions permits from the outset, rather than give them away to polluters, and use the proceeds -- tens of billions of dollars a year, for 40 years -- primarily for rebates and other assistance to individuals, businesses, and communities, to soften the impact of transitioning to a "new energy, low carbon economy."

Rather than leave it to the market to sort out the innovations for new fuels and energy efficiency, Obama looks to set a major role for the federal government, with both new regulations and a vast amount of money. He would "strategically invest" \$150 billion over ten years, money generated by auctioning emissions permits. This "green economy" would create five million jobs, and Obama would fund green job training, particularly for veterans from the wars in Iraq and Afghanistan. Obama would locate some of that economy in former manufacturing centers with a grant program investing, through state governments, \$1 billion annually in small and mid-sized clean-tech firms.

The rest of the funding, like the regulatory initiatives, would be directed toward specific aspects of supply and demand in the transportation and utility sectors. What follows are highlights taken from a much more elaborate agenda posted at his website.

Transportation Sector

Obama would use tax incentives and government contracts to develop the next generation of biofuels and the infrastructure to deliver them to the gas pump. Meanwhile, he'll establish a "low-carbon fuel standard" that requires increasing mixtures of biofuels and mandates that all new cars be flex-fuel vehicles within four years. He'd support hybrids and electric vehicles with 1) R&D in advanced battery technology; 2) a \$7,000 tax credit for buying an advanced technology vehicle; and 3) \$4 billion in "retooling" tax credits and loan guarantees for the U.S. auto industry. For internal combustion engines, he'd increase fuel economy standards 40 percent over ten years.

Utility Sector

Obama would require that a portion of U.S. electricity be generated from renewable fuels (a so-called "renewable portfolio standard"): ten percent in 2012 and 25 percent by 2025. He would extend the [production tax credit](#) for renewable power generation (typically renewed annually and currently stalled in the Senate) for five years. He aims to reduce electricity demand 15 percent by 2020 through a variety of measures, including tough efficiency requirements for buildings and appliances, making federal offices up to 40 percent more efficient in five years (and new government buildings zero-emission by 2025). Obama would bring utilities on board by "flipping" their incentives -- decoupling profits from increased energy use.

Obama supports clean coal technology, and would partner with the private sector to build five first-generation coal plants that capture and sequester CO₂. (He is [less enthusiastic](#) about technology that turns coal to liquid fuel.) He also backs nuclear power in principle -- provided the U.S. addresses the "security of nuclear fuel and waste, waste storage, and proliferation."

How He's Voted

Barack Obama's "lifetime" score (for four years in the Senate) on environmental issues from the League of Conservation Voters is 86 percent, and the League's David Sandretti says it would be higher but for missing four votes last year while campaigning for president. He voted in favor of the 2005 energy bill, which provided huge investments in renewable fuels and large subsidies for the oil and gas industry alike, but later voted to repeal the fossil fuel subsidies. The League of Conservation Voters [endorsed](#) Obama's campaign for president.

What the Experts Say

Economists are not thrilled with Obama's windfall profits tax plan. A 1980s version of the tax didn't raise much money and appeared to depress domestic production. And the "use-it-or-lose-it" proposal for federal oil leases isn't taken seriously by industry analysts. Most federal leases already require activity within five or ten years, according to the [American Petroleum Institute](#). A lease doesn't guarantee an oil deposit, and technical or logistic hurdles often make extraction impossible. "The last thing you want to do is sit on potential oil production or natural gas production," API spokeswoman Karen Matusic [told](#) CBS News.

Scientists appear to be arriving at a [consensus](#) that the world must reduce carbon emissions by 80 percent in 2050 to ward off a serious change in the climate, a goal Obama meets. Economists are [divided](#), though, about whether a cap-and-trade system is more efficient than a straight-up tax on carbon emissions -- cap-and-trade systems are difficult to administer and produce uncertain results, often rewarding middlemen and brokers. On the other hand, as the [Union of Concerned Scientists](#) points out, "a carbon tax by itself cannot guarantee any particular level of emissions reductions."

Obama's plan to dole out \$15 billion a year in investment and subsidies for new energy technologies -- and billions more in transition assistance -- is bound to create a new, enormous federal bureaucracy. But the Union of Concerned Scientists argues that merely setting up an emissions trading program and then stepping back will fall short of delivering the technological advances required to reduce carbon usage. "The government must implement parallel policies alongside a cap-and-trade regime to ensure development and deployment of the full range of clean technologies," [writes](#) UCS economist Rachel Cleetus. "Studies have shown that a comprehensive approach including these parallel policies would lower the price for allowances, cut emissions, and save consumers money by lowering their electric and gasoline bills."

Finally, the Congressional Budget Office [concludes](#) that consumers will pay higher energy prices under a cap-and-trade system regardless of whether the government auctions the permits to polluters, as in Obama's plan, or grants them outright. "Giving away allowances could yield windfall profits for the producers that received them by effectively transferring income from consumers to firms' owners and shareholders," according to the CBO. Shareholders would lose some value in a carbon-constrained world, but the CBO finds they would be fully compensated with just 15 percent of the permits.