

FOUR ENERGY AND ENVIRONMENT INITIATIVES



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It's time for a fresh look at U.S. energy and environmental policy.

An agenda that maximizes the potential of America's natural resources while striking a better balance between industry and

environmental protection could unleash substantial economic growth and job creation at no cost to taxpayers. Here are four steps that Congress and the new Trump administration can take:

1. **Expedite permitting** processes for energy infrastructure by establishing fixed timelines, assigning a single agency responsible for coordination, and deeming pipelines and export terminals as "in the national interest."
2. **Open more public lands and waters to natural-resource development** and create a settled, reliable framework that encourages private investment.
3. **Suspend New Source Performance Standards** under the Clean Air Act, allowing industrial facilities to be built and expanded under the same standards that already apply to existing facilities.
4. **Refocus climate policy away from wind and solar**, toward more effective existing technologies and the development of new ones.

1.

Expedite Permitting

Unwinding the counterproductive, often unlawful, policies of the Obama administration will deliver significant value. But action should not stop there. Changed

circumstances of the past decade have left federal energy and environmental policy outdated and major opportunities undeveloped.

In 2015, America produced 85% more petroleum and 50% more natural gas than in 2005. This boom has produced extraordinary economic benefits for

¹For further discussion, see Oren Cass, "Step on the Gas: How to Extend America's Energy Advantage," Manhattan Institute, July 2015; "Testimony of Oren M. Cass," Senate Committee on Energy and Natural Resources, Apr. 19, 2016; Oren Cass, "Reform the Clean Air Act," *National Review*, Mar. 9, 2015; and Oren Cass, "Fracking, Not Solar Power, Is Reducing U.S. Carbon-Dioxide Emissions," Manhattan Institute, Nov. 4, 2015.

the U.S., but it has also been hindered by inadequate infrastructure to move the products from their source to their customers.

For instance, nearly 20% of America's growth in petroleum output during 2007–15 came from a nearly 800% increase in output from the Bakken field in North Dakota and Montana, which lacks adequate pipeline capacity. As a result, in 2015, the majority of oil production from the PADD 2 region, which includes North Dakota, was shipped via rail—a method that adds \$5–\$10 to the cost of each barrel

and greatly increases safety risks and environmental risks. (In 2015, rail shipments of petroleum were up more than 1,000% from five years earlier.)

The Keystone XL pipeline, blocked by the Obama administration, would have helped relieve this energy-infrastructure bottleneck. The Dakota Access pipeline, blocked by the Obama administration after the 2016 election, would provide even greater transportation capacity.

For natural gas, much of the opportunity lies in successful shipments to overseas customers, which requires America to

develop export-terminal capacity.

In October 2016, the landed price for liquefied natural gas (LNG) in Louisiana was less than half the price in Asian markets. Yet during 2010–14, the Department of Energy managed to approve only three of 35 applications to construct new LNG terminals. The Federal Energy Regulatory Commission, which must also approve the applications, approved only three of the 17 that reached it and specifically cited the “number of permits and reviews required by federal and state law” as a cause of delays.

2.

Open More Public Lands and Waters to Natural-Resource Development

Under federal lands and offshore, America has access to natural-resource reserves that may dwarf the ones fueling the current energy boom. The Arctic National Wildlife Refuge (ANWR) alone is estimated to contain greater reserves than the Bakken field. Estimates for offshore areas currently off-limits are many times larger still. While some estimates may prove overly optimistic, historical experience suggests that once development begins, the scale of the recoverable resource tends to increase.

Private industry is best positioned and incentivized to put its own capital behind its own judgments about

what investments make economic sense. Private industry will place bets efficiently as long as it can trust the regulatory environment in which it must act. Government must make clear that it is “open for business,” supportive of efforts to expand production, and committed to not whiplashing policy back and forth in response to changing market conditions.

The objective should not be simply to open as much land as quickly as possible. Industry lacks capacity to invest everywhere at once, and government lacks capacity to provide the requisite oversight. Rather, reforms should focus on the establishment of

a clear, legally binding (i.e., legislated) road map for the opening of new on- and offshore areas—including ANWR—over the coming five- and 10-year periods.

The U.S. Geological Survey should regularly update inventories of federal lands and waters. The Energy Information Administration should forecast development timelines and peak output levels that can form a baseline against which to measure achieved production increases. States should be granted permitting authority over lands within their borders. And clear procedures and timelines should be established for permitting processes that remain at the federal level.

3.

Suspend New Source Performance Standards

Major environmental laws, such as the Clean Air Act (CAA), operate by requiring large facilities to use the best available technology to control their pollution. New facilities—or major expansions of existing facilities—are held to higher standards than existing facilities, which ensures that, over time, the quality of pollution control continues to improve.

This framework made sense at the time of CAA's passage in 1970, when pollution was out of control and the existing machinery of the industrial economy could not be suddenly ground to a halt in response. But those conditions no longer hold. Nearly 50 years later, America has made extraordinary improvements in environmental quality.

Aggregate emissions from the six major air pollutants targeted by CAA have fallen by 70%. Yet pollution-control requirements continue to increase, and

the Environmental Protection Agency continues to tighten its safety standards. The EPA now sets the safety threshold for fine-particulate matter (perhaps the most harmful form of air pollution) at less than half the level tolerated by the European Union. It has established a standard for ozone with which many national parks are unable to comply, and proposes tightening it even further.

These requirements impose enormous economic costs. For instance, in CAA's first 15 years, counties facing tighter requirements because their pollution levels exceeded EPA thresholds lost nearly 600,000 jobs when compared with other U.S. counties; the former have also experienced a 26%–45% reduction in the establishment of new industrial facilities. After CAA was further tightened in 1990, workers in affected industries saw their earnings decline by 20%.

America's current approach to environmental regulation involves imposing economic costs that it cannot afford in return for marginal improvements in air quality that it does not need. By suspending CAA's New Source Performance Standards, America can achieve a better balance that preserves the environmental gains made while emphasizing economic growth and job creation for the future.

This policy change would unleash a wave of investment in facilities and infrastructure that were unaffordable with the heightened new source requirements but can be profitable under the standards for existing-facilities. Because existing-facility standards would remain in force, new facilities would not erase past gains.

4.

Refocus Climate Policy Away from Wind and Solar

The Obama administration's climate policy has focused overwhelmingly on the promotion of wind and solar energy production—through aggressive subsidies for production and through regulations, such as the Clean Power Plan, aimed at rapidly increasing demand. Likewise, the signature climate policy of Democratic Party nominee Hillary Clinton was her proposal to

“have more than half a billion solar panels installed across the country by the end of [her] first term.”

Solar and wind power have made impressive technological progress, and there are situations in which they are economically feasible. But neither offers a plausible long-term substitute for fossil-fuel power, especially in

a developing world still building its baseload infrastructure.

The growth rate for U.S. wind and solar power has stalled, despite generous subsidies, falling in every year but one of the Obama administration, to only 9% in 2015. Globally, clean-energy investment has plummeted 30% during the three fiscal quarters since the Paris

climate-change agreement was signed in December 2015. Total third-quarter clean-energy investment for 2016 was at its lowest level since 2007.

America has succeeded in reducing its carbon-dioxide emissions in recent years. Yet the decline has come less from wind and solar power than from America's natural-gas boom. During 2007–14, the substitution of natural gas for coal reduced emissions 13 times faster than did the substitution of solar for coal.

A more plausible, cost-effective plan for reducing the world's greenhouse-gas emissions should support continued growth of natural gas in the U.S. as well as abroad. China, for instance, may have the world's largest shale-gas reserves but has struggled to tap them. A U.S. partnership with China to develop that country's resources could offer economic benefits to both sides. Similarly, renewed U.S. support for nuclear power would yield far greater dividends domestically and in the developing world than would more wind and solar subsidies.

To promote new technologies, the U.S. should redirect its wind and solar subsidies toward a program that provides support only for newly commercialized technologies and only for a limited period of time. Entrepreneurs bringing new ideas to the market should understand that they will receive some initial support but should be prepared to sink or swim quickly. Open-ended, multi-decade support that insulates industries permanently from market competition must become a thing of the past.