

Putting Knowledge Into Action

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Now is the Time for Energy and Environmental Leadership

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With great electoral change and promise comes the heavy lifting. When election day euphoria settles down, and reality sets in, the heavy lifting must begin. In the interim, it is helpful to outline what can be done and what must be done on energy and environmental policy. The United States imports \$700 billion of oil, and American consumers will get a slight tax cut through currently lower oil prices. We consume 21 million barrels per day of oil. And we have over 900,000 MW of power on our grid. The point is that size matters. The United States is the largest consumer of energy on the planet. As the United States embarks on a path to reduce carbon intensity in the economy, the global reverberations will transform the global markets just like subprime has done. It's time for the United States to lead boldly.

What Looks Likely From Day One

There are economic issues that must be addressed from Day One of the Obama Administration, but what can be accomplished quickly are national Renewable Portfolio Standards (RPS). We can't have 27 different states with 27 different standards. It is madness and creates dysfunctional markets. The votes are now there to do a national portfolio standard. Hopefully, they will set the bar high for 20 percent renewables by 2020. That means that electric utilities that are currently canceling renewable projects ought to think twice about going in that direction.

The second easy step is to extend production tax credits for solar, wind, geothermal for 20 years. It took us 30 years to get into this energy mess, and its going to take us 15 to 20 years to get out of it. So, we need long-term regulatory certainty to provide financial certainty in deploying more capital for renewables.

Energy independence is a nice buzz word that tests well with focus groups, but the reality is that energy projects take time to site, permit and build. Long-term is something America has forgotten, and we must now implement. So, step two is the tax credit program that investors love and Wall Street knows how to monetize.

Moving Away From Farm Dominated Energy Policy

The third piece is more problematic and will require group rethink. We cannot go forward on a 60 billion biofuels program. That is lunacy. No one seems to remember the Synfuels fiasco. The zero emission vehicle program in California that came to naught. The Hydrogen Highway nonsense. The CNG hubris (there are only 150,000 CNG vehicles in the United States after 20 years). The flexfuel hoopla (six million of these puppies).

Let's get real about energy transportation. You can't put ethanol in pipelines, and we can't grow our way out of energy insecurity. Stop the nonsense, and accept that reality that we have an existing energy infrastructure that runs on oil and gas that is highly efficient in delivering the fuels, but highly inefficient in using them. Let's move energy efficiency for transport to the top of the list of energy priorities. That means taxes on gas guzzlers, retirement of clunkers, and a massive deployment of plug and play hybrids. Make it a patriotic priority to buy hybrids and plug and play hybrids. The time is now to bargain with Detroit if you want money for a bailout then make hybrids—not the Volt!

Use the energy infrastructure in place and fine tune it to reduce oil consumption for gasoline and diesel by four million b/d and reduce tailpipe emissions at the same time. We need large impacts not short-term myopia ineffective biofuels mania! This leads to boom and bust, and I told you so. It doesn't solve the problem. That is not the right direction to move the United States away from oil import dependency. You trade one dependency with another. It takes energy to plant, harvest and transport these crops for biofuels.

What is Necessary: The Price for Carbon

The big battle will be greenhouse gas laws. This is now the reality that must be addressed, and we can't listen to the naysayers that we can't afford to do it. We actually can't afford not to do it. Has anyone reasoned that greenhouse gas emissions impact our high healthcare costs?

We need the long term program with measurable and verifiable greenhouse gas cuts for 2020 and 2080. In the best of all possible worlds, it would be 25 percent reduction from 1990 levels in 2020 and 80 percent in 2050. That is probably not possible in the short term, but Congressman Dingell, the most powerful parliamentarian in the House, has thrown down the floor at 6 percent reduction by 2020, and California has set up the high side at 25 percent. It's now going to be hard ball politics along K Street and on Capitol Hill that likes of which you have never seen. The outcome must be greenhouse gas laws in 18 months. That will bring the United States into a North American market with Canada and Mexico, signal to China and India to come on board, and link to the EU and Japanese trading schemes. Remember carbon trading is just the facilitator for the renewable and cleantech future everyone wants. But we need a price for carbon on every

energy project finance *pro forma* and every cleantech start up. We can do this, but the battle is just beginning.

Remember one thing, throughout my career in the energy industry, I have been told that industry couldn't do it. That began with taking the lead out of gasoline in 1976 when I was told that there would be gasoline shortages with lead phase down. There were no shortages. The energy industry is more resilient and flexible than one imagines. It can get the job done with engineering and technology solutions, but it needs the regulatory framework that works to get the job done. That means no market failures like that of the EU ETS and California power deregulation.

How Long Will This Take?

It took the United States over 30 years to get into this energy quagmire, so it not going to take five years to get out of it. Anyway, energy project finance usually takes four to seven years (sometimes as long as 10) to get deployed. America must now think long-term about energy efficiency, renewables, and fossil fuel use. We can do it if we set up the parameters to reduce our dependence on foreign oil from beyond a campaign slogan to an energy reality.

Peter Fusaro is holding his next “Introduction to Carbon Markets & Finance” seminar at the law firm of Brown Rudnick on November 18th in New York City (go to <http://www.global-change.com/catalog/events>.)



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