Insight

Energy Highlights of the President's 2016 Budget Proposal

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President Obama 2016 budget proposal doubles down on commitments to prioritize climate change and to shift tax preferences toward renewable energies and away from fossil fuels. What is surprising is a new tax on households that rely on nuclear power and reduced funding to improve crude-by-rail.

The 2016 proposal highlights the president's strong commitment to address climate change, with increased funding for regulatory proposals, his favorite low-carbon energy sources, and climate resilience and adaptation both at home and abroad. The proposal provides $279 million for climate programs at EPA, an increase of $89 million over the 2015 budget. This includes $25 million to help state governments implement the onerous greenhouse gas regulation that EPA is due to finalize in June 2015, but does not include a new $4 billion Clean Power State Incentive Fund that would pay states to go beyond the already stringent regulatory standards. Another $7.4 billion in spending at the Departments of Energy, Defense, Agriculture, and the National Science Foundation would bolster clean energy technologies, like advanced vehicles, renewable fuels, and carbon capture and storage. The Department of Interior will spend $100 million to hasten renewable energy permitting on federal lands. Finally, the president's budget highlights $863 million in spending for domestic climate resilience and another $500 million to support the international Green Climate Fund, which will help developing countries address and adapt to climate change.

President Obama has repeatedly requested that we increase tax subsidies for renewable power and pull them back from the fossil energy sources that keep the lights on and drive the economy. The 2016 budget proposal would make permanent the research and development incentives, renewable electricity tax credits, and energy efficiency deductions, and extend a number of subsidies for biofuels, advanced vehicles, and carbon capture and storage. Taken together, these incentives will cost taxpayers $176 billion over the next ten years. The budget partially pays for this expense by rolling back $50 billion in preferences for oil, natural gas, and coal over the same period, while increasing application and royalty fees for drilling on federal lands. The oil and gas industry has driven low fuel prices, declining carbon emissions, and job gains, but is castigated in the budget.

The administration is proposing to increase the costs to nuclear power customers by $2.3 billion over the next 10 years, charging them for the cleanup of government nuclear facilities. The Department of Energy operated three uranium enrichment plants until 1992, first to create weapons and then to produce commercial nuclear fuel. Utility customers paid for the shut down of these facilities in the price of fuel, and DOE charged customers an additional $2.25 billion for a separate Uranium Enrichment Decontamination and Decommissioning Fund. That fund currently holds $4 billion, but the Obama Administration is asking nuclear customers to pay again. Nuclear power currently provides 19 percent of the U.S. electricity supply and 63 percent of our carbon-free power supply. It's inconsistent with this administration's climate goals to increase the costs for this cheap, reliable source of power.

Lastly, the president's budget proposes a $5 million Department of Transportation effort to boost safety in the crude-by-rail industry. Last year, a similar proposal was estimated to cost $40 million. It's a mystery why the administration is stripping down support for such a program. Crude-by-rail can be a risky proposition – it's less regulated than pipelines, brings unstablecargo through densely populated areas, and is more subject to spills – but the energy boom has roughly tripled the amount of oil that travels by rail. Improved safety standards have been delayed, and the administration is dragging its feet on approving the Keystone XL pipeline, which could take some of the pressure off the railways. Now is a dangerous time to cut support for oil transportation safety.

The president's budget is not a surprising gambit. His policies and goals regularly reflect an incongruous vision of the energy market and a lack of appreciation for how much time and work we need to transform hundreds of billions of dollars in energy infrastructure. His vision will cost Americans billions in higher electricity prices, regulatory costs, subsidies, and risk if this budget moves forward as proposed.