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FACT SHEET

The Energy Policy Act of 2003 Will Cost Americans over $140 Billion

Congress is expected to vote soon on final adoption of the Energy Policy Act of 2003. Although discussions of the costs of this pending energy bill have focused primarily on the tax title of the bill, tax subsidies for energy industries are only one of the ways in which the energy bill will increase the federal budget deficit or otherwise burden Americans with higher costs. In total, the energy bill will cost over **$140 billion** over the next decade — six times the cost of the tax provisions alone. These costs include industry subsidies, tax-breaks, authorizations for new government spending, and mandates that increase consumer prices for gasoline and electricity.[1]

Authorizations for Appropriations

The energy bill authorizes a huge amount of new and extended government spending. For example, the bill authorizes almost $3 billion for research and development for the benefit of profitable oil and coal industries. It authorizes another $2 billion to research fusion energy, which is not anticipated to be commercially available for another 50 years at the earliest. It authorizes $1.1 billion for an advanced nuclear reactor, and $18 billion in loan guarantees (estimated to cost $1.8 billion) for an Alaskan natural gas pipeline. The bill also authorizes loan guarantees to build two particular power plants fired by coal and petroleum coke, which will cost the government $600 million. It authorizes $2 billion to pay power plants to install required pollution controls. And the bill authorizes a whopping $5 billion for Louisiana, Texas and a few other coastal states to "mitigate" the effects of offshore energy development. The energy bill contains an estimated **$75.4 billion** in authorizations.[2]

Tax Breaks

The energy bill's numerous tax breaks most commonly take the form of tax credits or accelerated depreciation. The estimated total is over **$23.5 billion** in energy-related tax breaks — almost

1 This analysis is based on the provisions contained in the Chairmen's Proposed Conference Report (Nov. 17, 2003).

2 The level of most of these authorizations is specified in the bill. For a few provisions, the Congressional Budget Office estimated the expected costs of unquantified authorizations. *See* CBO, *Cost Estimate: H.R. 1644 Energy Policy Act of 2003* (May 1, 2003); CBO, *Cost Estimate: S. 14 Energy Policy Act of 2003* (May 7, 2003); CBO, *Cost Estimate: S. 791 Reliable Fuels Act* (May 6, 2003).

three times as much as the Bush Administration requested.[3] These include numerous tax breaks for oil production, natural gas production, refiners, pipelines, transmission lines, coal burning power plants, utilities, equipment for nuclear power plants, and ethanol.

Direct Spending

The energy bill also contains billions of dollars in mandated direct spending, which is spending that does not constitute a tax break and is not approved through the appropriations process. For example, the bill provides for over $136 million in reduced royalties for oil and gas extraction on public lands. It also requires the federal government to reimburse the oil industry an estimated $330 million for the cost of studying the environmental impacts of proposed drilling projects. And it gives the oil industry $1.5 billion of royalty revenues to research oil and gas drilling technology. The energy bill contains an estimated **$8.3 billion** in direct spending.[4]

Industry Give-Aways

The energy bill also makes policy changes that will increase costs to taxpayers and ratepayers, even though they will not directly increase the federal budget deficit. Industry give-aways include shifting liabilities from industries to taxpayers and increasing costs for ratepayers. The energy bill will protect oil companies and MTBE producers from liability for contaminating groundwater with MTBE. This provision is expected to cost taxpayers **$29 billion**.[5] Additionally, the ethanol mandate will raise gas prices, costing consumers an estimated **$6.9 billion**, according to the Energy Information Administration.[6] Finally, a provision in the electricity title granting a higher rate of return to electric utilities will likely cause FERC to raise electricity rates for all consumers in the country. The total rate increase is not yet known.

Total Cost

From what is known thus far, the total costs of the energy bill to the American public are estimated at **$142.3 billion**.[7] Final total costs are likely to be higher.

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3 Joint Committee on Taxation, *Estimated Budget Effects of the Conference Agreement for the "Energy Tax Policy Act of 2003"* (Nov. 18, 2003).

4 The direct spending numbers are based on a Congressional Budget Office estimate, as modified to reflect the final conference report reported from the Conference Committee on November 17, 2003. *See* CBO, *Estimated Impact of H.R. 6 on Direct Spending and Revenues* (Nov. 17, 2003). CBO's estimate of total direct spending includes a $2.9 billion reduction in federal spending on farm support programs, which is taken into account in the total cost estimate below. For estimates for specific provisions, *see* CBO, *Cost Estimate: H.R. 1644 Energy Policy Act of 2003* (May 1, 2003); CBO, *Cost Estimate: S. 14 Energy Policy Act of 2003* (May 7, 2003); and CBO, *Cost Estimate H.R. 6* (Apr. 8, 2003).

5 *MTBE Cleanup Cost $29 Billion, Study Says,* Los Angeles Times (Oct. 14, 2001).

6 Energy Information Administration, Office of Integrated Analysis and Forecasting, *Analyses of Selected Provisions of Proposed Energy Legislation: 2003* (Sept. 2003) (online at www.eia.doe.gov/oiaf/servicerpt/eleg/pdf/sroiaf(2003)04.pdf). EIA found that the renewable fuel standard would increase gasoline prices by not more than 0.5 cents per gallon. Since the U.S. consumes approximately 9 million barrels of gasoline per day, this amounts to an additional $1,890,000 each day. This amounts to $689,850,000 each year or almost $6.9 billion over ten years.

7 This total takes into account CBO's estimates of a $2.890 billion reduction in federal spending on farm support programs due to expected higher corn prices from the ethanol mandate, $885 million in projected revenue increases, and a $3.054 billion reduction in revenues from ethanol taxes.