

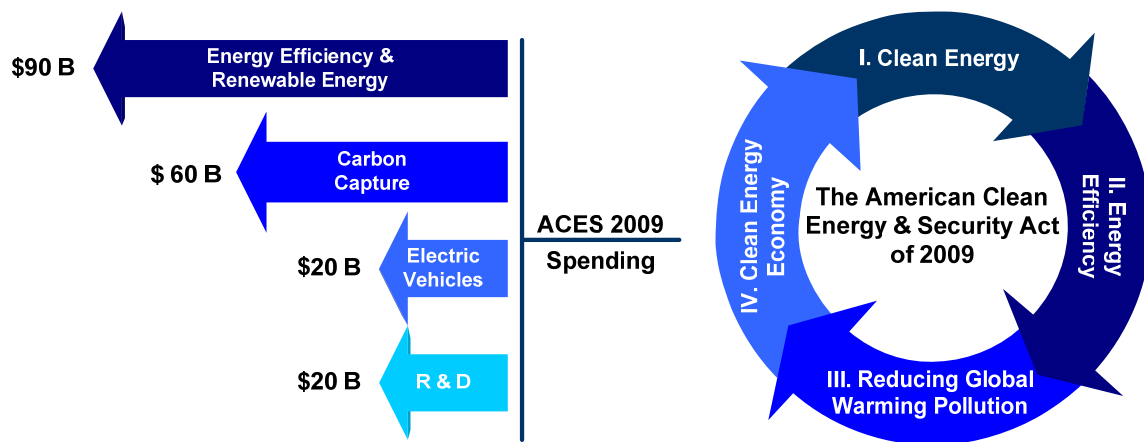
## No Country for Oil Men

The American Clean Energy and Security Act of 2009

In March, Henry A. Waxman of the Energy and Commerce Committee and Edward J. Markey of the Energy and Environment Subcommittee unleashed an 800 lb angry gorilla on the energy industry. The American Clean Energy and Security Act of 2009 (ACES), intended to plot the US and the world on a course towards cleaner energy, has incubated over the last few months, passed the House of Representatives in June and is now Senate bound. Approval of this Act will have long-lasting negative effects on the American public and industry at large.

The ACES in its entirety is over one-thousand pages, includes the four main titles mentioned below and includes legislation that will supposedly “create millions of new clean energy jobs, enhance America’s energy independence, and protect the environment.” If passed in the Senate, sweeping emissions-reduction requirements will be forced upon oil companies, power plants and the industrial and manufacturing sectors. In short, although the ACES is a sweeping piece of legislation that will impact nearly every facet of the American economy, as written, it places a disproportionate share of the new requirements on the petroleum industry.

As seen below, initial spending resulting from this Act, at just under \$200 billion, is more than a drop in the bucket.



Source: *The American Clean Energy and Security Act*

However appealing this document may outwardly seem, the ACES is packed with legislation to create greener energy by mandating carbon-emitting companies to cut emissions on a rigid time scale, at a significant cost to American business and the economic recovery. According to estimates from the Environmental Protection Agency (EPA), "the reductions in carbon pollution by the legislation will cost American families less than a postage stamp per day," or \$83 per year. It is important to recognize that this is not a one-time cost but merely a baseline estimate for the costs to households during first year under the proposed regulations.

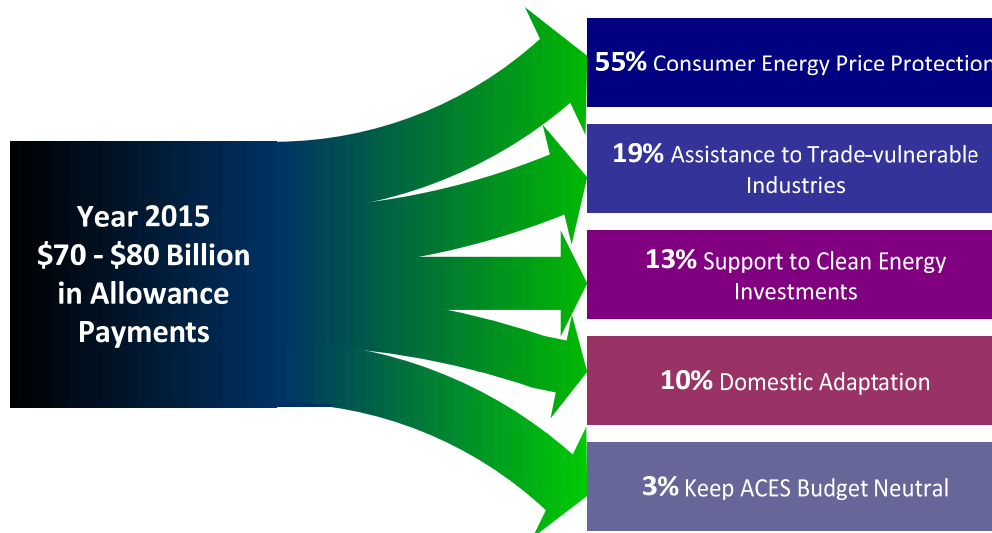
Even with the investment plan mapped out, the costs associated with restructuring major industries and infrastructure to accommodate the new regulations will be significant. Under the "Global Warming Provisions" readers are reminded of who the main carbon contributors are: "The draft establishes a market-based program for reducing global warming pollution from electric utilities, oil companies, large industrial sources, and other covered entities that collectively are responsible for 85% of US global warming emissions." Chairmen Waxman and Markey were kind enough to provide the major components of the US economy with a means to trade and offset their emissions; however the cost estimates in the "Allowance Provisions" place a heavy burden on these industries.

## Pricey Provisions

Under the ACES, companies qualifying as "major US sources of emissions" will obtain an allowance for each ton of carbon or carbon equivalent emitted into the atmosphere. The Congressional Budget Office (CBO) has projected that in 2005 dollars, the price to be paid to emit one ton of carbon will be \$16 in 2015 and more than double to \$36 by 2030. According to the timeline provided in the ACES legislation, the value of the allowances will be in the range of roughly \$70 - \$80 billion in 2015 and \$90 - \$120 billion by 2030.

US Power plants run by fossil fuels, which according to the Energy Information Administration (EIA) generate 70% of America's power, will see major increases in operating costs. Manufacturing plants will be forced to clean up even as they compete with unregulated competitors overseas.

The chart below provides an idea of how the revenues incurred from carbon emitters will be allocated.



Source: *The American Clean Energy and Security Act*

Oil companies and refiners will have to spend vast sums of money to retool infrastructure and continue providing fuel for America's automobiles, construction equipment and power generation. Under the plan, refiners will bear the cost for roughly one-third of the nation's greenhouse gas emissions while receiving just two percent of the allowances. Giving refiners the smallest amount of allowances delivers an extra blow to an already ailing industry at a time when declining demand threatens to derail upgrading projects.

## Talking Down 'Big Oil'

Energy legislation has taken a backseat to healthcare in recent weeks, but a series of upcoming rallies will bring the issue back into the political spotlight before a version of the ACES is considered by the Senate in the fall. Upcoming Energy Citizen rallies, planned for more than twenty cities across the country, offer an opportunity for a much-needed airing of the petroleum industry's concerns regarding the Waxman-Markey bill.

For all his undeniable skill as a communicator, the rising temperature of debate surrounding the American Clean Energy and Security Act highlights a major failure of outreach on the part of President Obama. After campaigning on a call for sweeping change in energy and environmental policy, the sacrifice required of the petroleum industry by the Administration's energy proposal has so far dwarfed the effort to explain the need for that sacrifice.

Among other stabs, the approval of this act further illustrates the Administrations efforts to blame Big Oil for the nation's ailments both fiscal and environmental and stick them with the hefty bill. Poisoning oil companies and refiners simply creates inefficiencies and weakens their ability to bring cheaper energy to the market.

Let's hope that the Energy Citizens rallies can spark an open exchange that results in a more equitable distribution of our nation's collective responsibilities. Taxing the petroleum industry is simply taxing the American consumer. Higher costs will not evaporate, as the Waxman-Markey camp would like us to believe, they will simply end up at the pump.

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