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President's FY 2016 Budget Request Prioritizes Clean Energy and Climate Action

President Obama's Budget Would Make Permanent Renewable Energy Tax Credits But Repeal Multiple Fossil Fuel Tax Preferences

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Policy Brief

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Key Takeaways:

- The president's FY 2016 budget would provide $7.4B to support clean energy R&D from solar, wind and low-carbon fossil fuels; and permanently extend the production tax credit and investment tax credit
- The proposal would repeal 13 tax preferences across coal, oil and natural gas industries, amounting to $49.8B in industry costs from 2016 to 2025
- Congress will dismiss many of the proposed reforms, but the measures will provide a basis for 2016 election debates

Entities Mentioned:

- Department of Energy
- Environmental Protection Agency
- National Science Foundation

Related Research

The 2015 Political Landscape Will Have Far-Reaching Energy Industry Implications

EPA Methane Rule Would Set Costly Bar for Oil and Gas Industry, Despite Current Reduction Efforts

The President's Budget Leaves a Legacy of Clean Energy and Climate Change Mitigation Support

The president's budget provides strong support for clean energy and addressing climate change. The proposal would allocate substantial funding for clean energy and climate initiatives, while removing favorable tax deductions for the fossil fuel exploration and production (E&P) industry.

The budget would also allot $8.6B to EPA – approximately six percent above the 2015 enacted level. The funding would provide $239M to support EPA efforts to address climate change, including $25M to help states develop Clean Power Plan (CPP) strategies. It also proposes a $4B Clean Power State Incentive Fund. The fund would be used to support states exceeding minimum requirements established in the CPP for the timing of state plans and the pace and extent of power sector emissions reductions.

Republicans Will Push Back on EPA Funding Proposal

In 2015, Republicans will use spending legislation aimed at defunding many of the same EPA programs, particularly those related to the Clean Power Plan and rules to reduce greenhouse gas emissions.

Sen. McConnell will aim to obstruct EPA's agenda

On February 2, Senate Majority Leader Mitch McConnell (R-KY) announced that he has joined the Senate Appropriations Subcommittee on Interior, Environment, and Related Agencies, the funding committee that has jurisdiction over the Environmental Protection Agency's (EPA) budget. Sen. McConnell, who has consistently attacked the administration's proposed climate regulations, would likely use limitation riders to obstruct the climate agenda. Limitation riders are provisions that ban agencies from spending for specific uses. A rider to prevent EPA from spending on carbon emissions could defund EPA. The move is largely symbolic, since, as Majority Leader, Sen. McConnell could add those provisions without membership on an appropriations committee. The move signals the priority the issue will be in the Senate.

Republicans have already introduced legislation in both chambers that would "rescind funds made available to the administrator of the Environmental Protection Agency if the administrator fails to meet certain deadlines." The Senate bill, S. 110, is sponsored by Sen. Dean Heller (R-NV). Its House companion bill, H.R. 352, is sponsored by Rep. Sean Duffy (R-WI).

In addition to legislation, a number of congressional committee chairs have indicated that EPA, DOI and other administration regulations will be a key committee focus in 2015 (Table 1). These committees are expected to hold multiple oversight hearings in 2015 to receive testimony from senior administration officials on the record. They are also expected to ensure regulatory policies are within the bounds of legislative intent and reflect the public interest.

Table 1 – Congressional Committee Chairs with Stated Emphasis on Oversight of Regulatory Actions

Congressional Committee	Chair	2015 Administration Oversight Actions
House Oversight and Government Reform Committee	Jason Chaffetz (R-UT)	• Created new Interior subcommittee to oversee Interior, EPA, and the Energy and Agriculture departments • Focus on DOI's new rules on hydraulic fracturing, methane emissions, and royalties • Focus on EPA's relationship with the NRDC, upcoming climate rules • Plans to work with House Appropriations subcommittees that oversee EPA budgets to collaborate on legislation that will oppose "these onerous, unilateral decisions by the Obama Administration."
House Natural Resources Committee	Rob Bishop (R-UT)	• Was previously the chairman of the Subcommittee on Public Lands • Overhauled his committee staff and created a new subcommittee on Oversight and Investigations • Stated there is an "increased need for congressional oversight of the Executive Branch's actions and regulations." • Placed the National Environmental Policy Act (NEPA) and the Endangered Species Act (ESA) under exclusive jurisdiction of the Full Committee
Senate Environment and Public Works	James Inhofe (R-OK)	• Included "aggressive oversight of EPA regulations" as a part of his announced 2015 committee agenda

Source: EPA, BLM, EnerKnol Data

Extended Renewable Energy Tax Credits Would Bolster Industry at $31.5B Cost to Taxpayers

The president's budget would support clean energy investments through making permanent the Research and Experimentation Tax Credit, Production Tax Credit (PTC) and Investment Tax Credit (ITC). The budget would make the renewable energy PTC refundable, which benefits small companies with low tax equity. It would also create a single formula to calculate the Research and Experimentation Tax Credit, which is currently calculated under a "traditional" or "alternative simplified research credit." A permanent PTC and ITC would give wind and solar energy industries additional fiscal support to continue their trend towards cost parity with traditional generation sources. The wind energy industry would benefit most, as the applicable PTC is currently expired. The PTC and ITC extensions would cost a combined $31.5B from 2016 to 2025.

Wind energy would benefit most from the budget proposal

The budget proposal would also provide about $7.4B to directly support clean energy technology research, development and deployment efforts. The funding would aim to stimulate the evolution and use of clean energy sources such as solar, wind and low-carbon fossil fuels; and energy-efficient technologies, products and process improvements. The Department of Energy (DOE) provides approximately 75 percent of federal clean energy technology funding, including initiatives to reduce costs and the use of clean energy technologies. The budget would provide $30B to DOE – approximately nine percent above the FY 2015 enacted level, including $5.3B for research and development (R&D). The proposal would also allot $7.7B to the National Science Foundation (NSF) for R&D. The DOE funding supports various departments for advancements in clean energy, climate response, nuclear security, environmental cleanup and scientific innovation (Table 2).

Table 2 – Department of Energy Proposed FY 2016 Funding Breakdown

Office/Initiative	Amount	Description
Energy Efficiency and Renewable Energy (EERE)	$2.72B	Support renewable generation technologies, sustainable transportation technologies, manufacturing technologies, and enhanced energy efficiency
Advanced Research Projects Agency—Energy (ARPA-E)	$325M	Support transformational clean energy technologies
Nuclear Energy	$908M	Research and development in advanced reactor and fuel cycle technologies and small modular reactor licensing technical support
Fossil Energy Research and Development	$560M	Advance carbon capture and storage and natural gas technologies
Electricity Delivery and Energy Reliability	$270M	Grid modernization activities, critical emergency response, and grid security capabilities
Strategic Petroleum Reserve	$257M	Enhance the system's durability and reliability and address the backlog of deferred maintenance
Science	$5.34B	Continue research in physical sciences, develop cutting-edge scientific user facilities, and enhance fundamental science and technology innovation connections
Weapons Activities	$1.9B	Sustain nuclear security research and development
Nuclear Nonproliferation Activities	$1.9B	Reduce global stocks of weapons-usable nuclear materials
Environmental Management	$5.8B	Address the environmental legacy of the Cold War

Source: whitehouse.gov, EnerKnol Data

Fossil Fuels Tax Deduction Repeals Would Cost Industry $50B by 2025

The president's budget proposes to repeal 13 tax preferences across coal, oil and natural gas industries. The tax preferences would add to industry financial challenges if currently low oil and gas prices sustain past 2015. The preferences will amount to $49.8B in industry costs from 2016 to 2025. Several of these oil and gas tax repeals and their associated 10-year industry costs include expensing intangible drilling costs ($15.5B), oil and natural gas well percentage depletion ($13.3B) and the domestic manufacturing deduction ($11.9B).

Budget proposal would repeal 13 oil & gas industry tax preferences

At a September 2014 U.S. Senate Committee on Finance Tax Code Reform hearing, former Senator Don Nickles (R-OK) stressed the importance of supporting continued investment in oil and gas exploration through tax-deductible expensing (reporting costs in the year incurred) of intangible drilling costs (IDCs), wages and other costs. Dr. David Kreutzer of the Heritage Foundation similarly testified that "expensing is preferable for things you want to promote," and that "IDCs are the ordinary and necessary business expenses of this industry, and they should remain immediately deductible."

President's Energy Provisions Set the Tone for Coming Funding Debates

The president's $3.99T budget will face a hard fight from the Republican-held Congress. While many of the more controversial energy provisions (such as those targeting fossil fuels) will not be a part of the final package, the budget will provide a platform for Democrat candidates during the 2016 elections. Amended versions of the PTC and ITC permanent tax provision could be a part of the final compromise. Provisions such as a grandfathering clause or scaled sunset, would directly benefit solar and wind industries. Lawmakers will submit their own budget in early spring, with final budget resolutions slated for mid-April.

Disclosures Section

RESEARCH RISKS

Regulatory and Legislative agendas are subject to change.

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