What We Might Expect From Changes in the Nation's Capital

Paul A. DeCotis

With the coming changes in Washington, with Republicans controlling the White House and both houses of Congress, one might expect drastic changes in federal energy and environmental policy. Given the president-elect's campaign rhetoric, voters were led to believe change would be swift and impactful.

Watching the nomination and appointments process for cabinet members and other executive branch leadership, there is a belief by many media outlets and pundits that we will see radical change and policy reversals roll out very quickly.

There would be an almost immediate reversal of decades of progress made in advancing technological development and creating new jobs, and spurring whole new industries to address environmental issues and a transition to a clean energy economy. Watching the nomination and appointments process for cabinet members and other executive branch leadership, there is a belief by many media outlets and pundits that we will see radical change and policy reversals roll out very quickly. While this is a possibility, we should look at the process and facts surrounding our democracy and transition of power in Washington before jumping to conclusions.

First, let's look at the process. While the Senate Republican leadership has great sway over cabinet appointments, many Senate Republicans are expressing concern over some nominations. This could simply be for show or very real—only time will tell. Nonetheless, we can expect a full hearing on the nominees and trust that the process will work in appointing qualified and capable people, able to work with the executive branch and Congress, and with state and local and foreign governments, while representing the collective best interests of the United States.

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The process will be ugly as usual, and some nominees will make it and some might not. And because the country is divided, some voters will be pleased and, likely, an equal number won't be.

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There is solace in the fact that midterm congressional elections are only two years away. We have seen time and time again that midterms can be quite disruptive, paralyzing Washington with greater opposition to the executive branch and congressional leadership, or reinforcing alignment with the executive branch to strengthen the administration's resolve and priorities. But the process will work as intended—providing the necessary checks and balances to power in Washington.

We have seen pendulums swing before and we will see them swing again. A large group of citizens feel disenfranchised and neglected and they take back power, only to be in the minority again when the pendulum swings too far in their favor. The United States is a very resilient country with a proud and capable people, and is composed of great diversity of religion, culture, and beliefs. While many might feel threatened and disillusioned, many also feel exuberant and empowered. While change is imminent, as it is with all such transitions of power, the speed and magnitude of change is still in question.

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Now let's look at the facts. With states leading the energy debate, and pursuing their own aggressive strategies to promote clean and distributed energy resource use and policies to support a growing clean energy economy, it's apparent that little if anything will change soon. Even if the incoming administration changes energy and environmental strategy and policy radically, it will take some time to trickle down to the states or to impact the investment portfolios of businesses in the energy and environmental industries.

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MOST ELECTRIC AND GAS POLICIES ARE AT STATE, NOT FEDERAL, LEVEL

The states regulate retail electric and gas utilities, and most policy innovations and infrastructure investment are taking place in the states and directed by the states.

While the Federal Energy Regulatory Commission (FERC) has considerable influence on and oversight of interstate and wholesale energy projects, and the Environmental Protection Agency (EPA), directly or by delegation to the states, sets direction and oversees compliance with environmental laws and regulations, states will continue to have an important role. While we will likely see some squabbling over jurisdiction between FERC and the EPA versus the states, such issues will likely not be resolved quickly—there is just too much at stake.

First and foremost, states are responsible for ensuring that the electric grid and natural gas systems are reliable and affordable, and that customers have access to such services. Thus, even if cabinet appointees and executive agency leadership are fossil-fuel supporters and climate-change deniers, it is difficult to go backward on decades of progress already embedded in our markets and regulatory systems. And, as mentioned, midterm elections are only two years away. We can, however, expect some chaos, uncertainty, testing of authority and boundaries, and some high-level policy changes that will trickle down to the states.

Yet many states are already signaling they will not stand by idly and instead will sue and use other power that states have to chart their own course.

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TAX CODE SHOULD PROVE USEFUL TOOL

Perhaps the most interesting policy changes affecting the energy sector and environment will be through changes to the tax code.

The tax code has historically been used to advantage industry and business investments, and promote policy changes. Accelerated depreciation, tax credits, excise taxes, capital gains tax rates, and other mechanisms direct investment to adminis-

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tration and congressional priorities and away from discarded policies of previous leadership. While the tax code has been proven very effective at directing investment and bringing about change, it is cumbersome and difficult to negotiate and legislate. Yet it represents perhaps the best instrument the incoming administration has to implement change quickly.

While executive orders can be undone with the stroke of a pen, they are also only marginally impactful—nowhere near as much as often believed.

STATES TO CONTINUE PUSH TOWARD RENEWABLES

Regardless of the policy changes we might see germinating in Washington, the states' interest in supporting technology innovations, energy efficiency, demand management, and renewable energy development, and in curbing greenhouse gas emissions, will continue.

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Let's dissect further. The coal, oil, and nuclear industries are depressed not because of federal or state energy policy, but because of current market economics. We have plentiful supplies of natural gas due in large part to federal research and development spending and state policies supporting drilling and low world oil prices from the lingering hangover of the 2008 global recession.

Renewable energy in many parts of the country is already competitive with wholesale electricity prices and will continue to penetrate the market regardless of federal energy policy.

The overabundance of oil and gas supplies nationally and in world markets continues to depress prices, and cause electricity markets to favor gas use over coal or nuclear—resulting in coal plants closing and nuclear plants being threatened. This said, while supplies of natural gas and oil are abundant, delivery capability is constrained in some parts of the country—in particular, the Northeast.

The incoming administration has signaled its intention to support more infrastructure investment, which will bring more product to market and likely increase exports because domestic demand is remaining fairly flat. The impact of any federal policy change on oil and coal will be minimal, except to the extent the incoming administration begins an aggressive push to export our domestic energy resources. Many other parts of the world have their own supplies of oil and coal to export, thereby creating a glut on world markets and keeping prices of our energy exports low. Renewable energy in many parts of the country is already competitive with wholesale electricity prices and will continue to penetrate the market regardless of federal energy policy.

Coal continues to lag, oil and gas proposer, and the environmental benefits of moving to a cleaner energy economy will continue unabated.

Coal will continue to struggle due to market economics and local resistance to siting new coal plants in local communities. If pipeline and delivery infrastructure expands, oil and gas can reach more customers to enable fuel switching from coal to oil or gas in electric generation or industrial use, and from oil to gas for commercial and residential use. In either case, coal continues to lag, oil and gas proposer, and the environmental benefits of moving to a cleaner energy economy will continue unabated.

Whether environmental regulations are decimated or not, or coal is somehow advantaged, unless the economics or market dynamics drastically change, the incoming administration will be limited.

CONCLUSION

Whether environmental regulations are decimated or not, or coal is somehow advantaged, unless the economics or market dynamics drastically change, the incoming administration will be limited in its ability to move the needle significantly anytime soon.

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