



ML Strategies Legislative Update

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In Time of Austerity, President's 2014 Budget Prioritizes Clean Energy Funding

After two months of delay, the Obama Administration released its proposed 2014 budget on April 10. The 244-page document outlines the President's spending priorities for the coming fiscal year. The proposal calls for \$1 trillion in government-wide savings, while also proposing \$580 billion in new taxes. While the President supports revenue-neutral corporate tax reform, he said such reform should be done separately from the effort his budget makes toward reducing the deficit with new tax revenues.

The budget outlines several broad goals for clean energy:

- Doubling the economic output per unit of energy consumed by 2030.
- Cutting net oil imports in half by 2020, relative to 2008 levels.
- Cutting greenhouse gas emissions by 17 percent below 2005 levels by 2020
- Making permanent tax incentives for renewable electricity and energy efficiency (at an estimated cost of \$23 billion over the next 10 years).
- Transforming the Section 45 renewable electricity production tax credit into a refundable credit.
- Raising revenues by \$44 billion over 10 years by repealing tax provisions for oil, gas and coal products (such as the deduction for intangible drilling costs, tax credits for marginal wells, Section 199 manufacturing tax deduction for oil and gas); the budget also calls for increased royalties and lease payments from traditional energy extraction on federal lands.
- Establishing an Energy Security Trust Fund with \$60 million in FY 2014, increasing to \$200 million per year by 2018.
- Calling for a one-time \$1 billion appropriation from Congress to establish up to 15 manufacturing innovation institutes. Using existing authorities, the President this year will set up three institutes focusing on manufacturing technologies that address critical national security and energy needs.

Many of these proposals are not new, and some have been rejected. The repeal of \$40 billion in tax provisions for fossil fuel extraction and refining is opposed by most Republicans and oil-state Democrats. In light of these realities, the budget remains an aspirational document highlighting the Administration's priorities, since the actual appropriation levels depend on Congress. The sections

below detail how the President's budget would impact relevant agency programs focused on energy.

Department of Agriculture (USDA)

Overall USDA funding would remain relatively flat at \$22.6 billion. While direct payments and crop insurance subsidies would be sharply cut, the budget contains new spending for clean energy investments. The President's budget proposes \$4 billion in loans to rural electric cooperatives and utilities to clean-energy generation projects. USDA's Rural Energy for America Program (REAP), which provides grants and loan guarantees to renewable energy and efficiency projects, would have a budget authority of \$238 million. Competitive research grants targeting human nutrition, bioenergy, sustainable agriculture, and climate change under the Agriculture and Food Research Initiative would see an increase of \$119 million (over 2012 enacted levels) to \$383 million.

Department of Energy (DOE)

The DOE fares particularly well in the 2014 budget. An eight percent increase from fiscal 2012 levels would help cancel out the effects of sequestration by bringing DOE appropriations to \$28.4 billion next year, up from about \$26 billion today.

The budget directs \$379 million for the Advanced Research Projects Agency-Energy and \$735 million to the Office of Nuclear Energy, which includes funding for small modular reactors. The budget also directs \$153 million for research and development into smart grids, cybersecurity, and energy control systems.

Within DOE, the Office of Energy Efficiency and Renewable Energy is the significant winner, with a 40 percent increase compared to fiscal 2012 levels. Specifically, the budget proposes spending:

- \$615 million for renewable electricity programs, a 29 percent increase over 2012 levels;
- \$575 million for vehicle technologies, a 75 percent increase over 2012 levels;
- \$282 million for next-generation advanced biofuels, a 46 percent increase over 2012 levels.

The 2014 budget proposes \$421 million for the Fossil Energy Research and Development program, with \$266 million earmarked for R&D primarily dedicated to developing carbon capture and storage and advanced power systems.

The President also proposes funding his recently announced Energy Security Trust with \$2 billion of mandatory funding over ten years.

Environmental Protection Agency (EPA)

EPA would see its budget decrease by 3.5 percent under the President's proposal, to \$8.5 billion. The budget acknowledges this would result in "workforce restructuring" and "consolidating positions." Still, the budget states that EPA will continue to implement existing regulations lowering emissions from light and heavy duty mobile sources.

State Revolving Funds, which are used to fund water infrastructure projects, would see a significant cut to \$1.9 billion, a reduction of \$472 million compared to 2012 levels.

The full budget can be accessed here: <http://www.whitehouse.gov/omb/budget/Overview>. For additional information on the budgetary process or the Administration's energy initiatives, please feel free to contact ML Strategies.

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