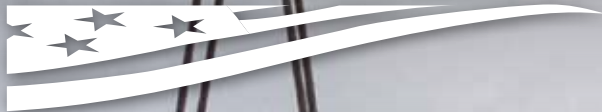


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Cutting the Cost of Clean Energy 1.0

Toward a Clean Energy Deployment Plan For Jobs, Security, and
Broad-based Economic Growth in 2011

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Introduction and summary

Members of the incoming 112th Congress will face very different political and economic circumstances when they take their seats in January. Any energy legislation the new Congress considers will require a fresh approach to match these new realities. Energy legislation proposed in the 111th Congress was tailored to an economic climate informed by the following facts *that are now superseded by new considerations*:

- Natural gas was \$10 per thousand cubic feet. *Natural gas is now at \$4 per thousand cubic feet*
- Gasoline at the pump was \$4 per gallon. *Now gas costs 33 percent less*
- Demand for electricity was growing on an average of 2 percent to 2.2 percent, compounded annually. *Now electricity demand is lower because of the state of the economy*
- The unemployment rate was 5 percent. *Unemployment now stands at 9.6 percent*
- China and the United States were both primed to be major industry competitors in a worldwide clean energy economy. *Now, China holds the commanding heights because its government ensures stable demand for clean energy and facilitates investments in the sector through the deployment of low-cost finance*

The political landscape has shifted as well. In the most recent congressional midterm elections, states where unemployment rates were oppressively high demanded immediate action on job creation. Across the American heartland, these states sent fresh faces to Congress and statehouses in droves, charging them with a simple mission: Solve the unemployment crisis.

It is time to respond to these new realities, not revisit the battles of the past.

Domestic American clean energy businesses, from solar to wind to nuclear to energy efficiency and everything in between, are currently plagued by:

- Unpredictable demand in their respective markets
- A lack of certainty in both the tax code and policy incentives
- Unavailable long-term, low-cost capital

Businesses need the new Congress to respond early next year to the challenges in all three of these areas. This paper provides a framework for further discussions to address these issues, putting several new policy proposals into play in the debate. Our paper is organized around three key pillars for a private sector-led investment policy in clean energy:

- **Financing and other policy incentives to lower the cost of clean energy.** This can be done by expanding access to low-cost financing to increase investment and reduce the cost of deployment, and through measures such as establishing a new Energy Independence Trust. The trust would be able to borrow from the U.S. Treasury Department—at no risk to taxpayers—to enable the private sector to help solve the capital-related issues that weigh down American clean energy businesses today relative to their Chinese counterparts.
- **Regulatory reform to create jobs and markets.** This should be done to spark increased demand for clean energy and energy efficiency, and provide greater certainty to investors and project developers through measures such as renewable energy targets and regulatory restructuring.
- **New competitive regional infrastructure to ensure sustained economic development.** This can be done by accelerating the deployment of strategic clean energy development and transmission infrastructure through improved policy and planning coordination across federal and state government and the private sector, and through tools such as accelerated depreciation for investments that build this strategic infrastructure.

Together, these three pillars of a new clean energy investment strategy for 2011 will prioritize the rapid deployment of existing advanced clean energy technologies, which will help our construction sector rebound from the ravages of the housing crisis and the Great Recession. By encouraging private investment and reforming the energy marketplace, Congress can immediately take action to drive down the cost of clean energy innovation for consumers, while improving American manufacturing competitiveness and technology leadership.

Further, this strategy does not depend on implementing a cap on carbon-based pollution, and places minimal additional strain on the federal budget through new direct appropriations. In short, such a deployment-based clean energy plan can help build a dramatically more prosperous, productive, dynamic, and efficient economy at a time when fiscal constraints are likely to limit public spending, and private investment will be paramount to sustain economic growth.

While a long-term research-and-development investment plan must be sustained as a foundation for innovation. This paper begins a national discussion to lay out a near-term deployment plan designed to bring this new clean energy technology to scale across our country. More detailed long-term proposals will be published in a separate report and in subsequent reports by the Coalition for Green Capital, with the expert assistance of its three pro-bono law firms: Skadden Arps, Covington & Burling, and Latham & Watkins.

Consequently, our proposals in this paper should all be designed to sunset after 10 years, along with other subsidies for mature energy industries. By that time, American ingenuity, backed by strong private-sector investment, will have brought new energy technologies to commercial scale, enabling America to move to the next level of clean and domestic-led energy generation.

In a decade, commodity prices will have shifted yet again, and the political landscape will have moved on to grapple with new concerns. Today, however, timely and efficient energy policies to promote rapid deployment of new clean energy and energy efficiency technologies can drive job creation and economic growth. In short, they are essential to enabling American businesses to successfully navigate this transition to a new energy future.

Our strategy and recommendations

In the main section of this report, we present a detailed framework for deploying clean energy across our country by transforming the energy marketplace. Here, though, we briefly sketch out our reasons for doing so and our broad recommendations.

Congress must move immediately to reduce the cost of clean energy and remove infrastructure and regulatory barriers to its deployment so that the private sector can invest with confidence in this critical sector of our economy. Faster, better, cheaper is a familiar rallying cry for entrepreneurial activity. We can't make electricity travel faster, but we can expedite the creation of new business models by lowering the cost

of capital for the production and distribution of clean energy coupled with sound tax policy and the use of federal power to rationalize and simplify regulation across regional energy markets. These steps would encourage businesses to provide clean energy for electricity generation and transportation.

Over the past several years, debate on energy innovation focused principally on increasing the costs of pollution through a carbon tax or carbon cap-and-trade system. The aim was to account for the costs of fossil fuels to our environment and energy security. At the same time, new federal investments were mobilized to boost early stage R&D and to subsidize the costs of clean energy projects. The incoming 112th Congress, however, is unlikely to embrace any legislation that makes current energy production more costly, due to fears about the strength of the nascent economic recovery. What's more, efforts to begin tackling the federal budget deficit mean that there will likely be little or no new federal dollars spent on clean energy, except perhaps for limited infrastructure repair.

Yet members of the incoming Congress will have an opportunity in 2011 to pass legislation that addresses deeply held industry concerns over the current state of energy policy in the United States while protecting consumers and taxpayers alike. The energy sector is seeking new venues for investment and expansion right now, but realizing the staggering growth opportunity of serving the potential domestic and global markets for clean energy depends on providing the U.S. energy market with strong and consistent financing, greater predictability in energy regulation, and improved certainty for investors in clean energy projects.

Making clean energy markets more predictable can be highly effective in increasing private-sector investment in new technologies to drive down costs and speed deployment. Limited policy innovations that do not draw heavily on the federal budget may also prove acceptable to members of Congress on both sides of the aisle. For these reasons, our principal proposal for a new "Energy Independence Trust," which could borrow from the federal treasury to provide low-cost financing to private-sector investments in clean energy, are more likely to meet with bipartisan support.

Our proposed Energy Independence Trust would hold sufficient reserves to protect the Treasury from loan losses, and would be able to offer a variety of debt- and equity-based financial instruments, loan guarantees, and tax incentives to draw a wave of private capital into the clean energy sector. Linking a low-cost financing vehicle with efforts to rationalize and simplify federal and state energy regulations and increase demand through bold clean energy standards could help to organize the broader energy market to increase demand and drive down costs for businesses and consumers.

Moreover, an investment-led strategy for upgrading America's energy infrastructure can align interests across industries and party lines so our nation can get on with the business of rebuilding our economy on a foundation of efficient, clean, and innovative technology.

The policy proposals outlined in this paper represent key elements of a strategy to begin immediately rebuilding the U.S. economy on a foundation of clean and efficient energy. This framework is not a replacement for comprehensive climate legislation, which we believe is still necessary for Congress to pass to meet our international obligations and protect the global environment. Instead, our proposal is designed to jump-start the growth of a new industry, fueled by private-sector investment in clean energy, to move our economy onto a new, more innovative and efficient footing.

The politics and economics of 2011 are aligned to pass an energy bill

There will no doubt be skeptics in Washington and around the country who will argue that any kind of energy legislation is unlikely to emerge from the 112th Congress. Yet as we demonstrate in this report, there is a precedent for this kind of bipartisan legislation moving through Congress to the desk of the president even amid bitter partisan rancor—the Telecommunications Act of 1996, which became law two years after the Republican Party swept to power in Congress during the Clinton administration.

We begin our analysis with a look at how telecommunications reform in the 1990s can offer a model that Congress can emulate today for clean energy reform—a model built on the three pillars of private sector-led investment presented above, and one that can address a broader range of strategic concerns for legislation. We then offer a template for how such a legislative proposal can be assembled today through broader bipartisan negotiation in Congress to craft a national clean energy innovation act.

Our goal is not to provide final answers on policy details, but rather launch a national discussion on swift clean energy deployment. This is our framework proposal.

This approach to energy market reform offers an efficient and effective way to attract significant private capital into expanding this key new sector of our economy, putting America back to work meeting our pressing energy and economic challenges. It is what Congress needs to do in 2011.

About the Center for American Progress

The Center for American Progress is a nonpartisan research and educational institute dedicated to promoting a strong, just and free America that ensures opportunity for all. We believe that Americans are bound together by a common commitment to these values and we aspire to ensure that our national policies reflect these values. We work to find progressive and pragmatic solutions to significant domestic and international problems and develop policy proposals that foster a government that is “of the people, by the people, and for the people.”

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About the Coalition for Green Capital

The Coalition for Green Capital is a nonprofit organization based in Washington, D.C. CGC advocates for tax and finance policies that support investment in energy efficiency and clean energy. We pursue such policies at the national, state, and international level.

Skadden Arps, Latham & Watkins, and Covington & Burling serve as our pro bono counsel.



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