

# IRET Congressional Advisory

INSTITUTE FOR RESEARCH ON THE ECONOMICS OF TAXATION

*IRET is a non-profit 501(c)(3) economic policy research and educational organization devoted to informing the public about policies that will promote growth and efficient operation of the market economy.*

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## ENERGY BILL A WASTE OF ENERGY

The energy bill conference agreement has been passed by the House and is now before the Senate. The energy bill contains a handful of economically beneficial provisions that remove legal and tax barriers to efficient energy production and distribution. These merit passage. Unfortunately, the rest of the bill is a grab bag of expensive subsidies and credits to prop up uneconomical activities, resulting in higher than necessary energy costs for the nation. The bill should be returned to the conference with instructions that it be stripped of these subsidies and credits. The meritorious provisions should be then be passed on their own.

### *Provisions that remove barriers to efficient production and distribution of energy:*

The electricity provisions would repeal the Public Utility Holding Company Act of 1935 to facilitate mergers and acquisitions, permitting a broader range of investors to participate in improving the nation's transmission grid, strengthening the industry's finances, and achieving economies of scale in management and production. Other provisions, somewhat watered down from previous efforts, would improve the reliability of the power grids by strengthening the authority of the regional grid operators.

Several tax provisions would reduce distorting excise taxes and would reduce tax penalties stemming from lengthy depreciation periods (moving closer to expensing, the economically optimal write-off arrangement). The bill would repeal the rail diesel fuel excise tax, and the portion of the inland waterway barge fuels excise tax in excess of amounts devoted to maintaining the waterways. It would shorten recovery periods for various classes of gas transmission lines and electricity transmission property. It would permit small producers to expense capital costs incurred complying with EPA sulfur regulations.

### *Provisions that foster inefficient energy production or use:*

Almost everything else in the bill promotes economic inefficiencies that we can ill-afford at any time, but especially when we face budget deficits and international conflict. These inefficiencies include artificial subsidies and credits for uneconomical conservation outlays, for uncompetitive alternative fuels, and for research and demonstration programs that could be funded by the industries involved if they were worth doing. The bill would be better without them.

Stephen J. Entin  
President and Executive Director

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*Note: Nothing here is to be construed as necessarily reflecting the views of IRET or as an attempt to aid or hinder the passage of any bill before the Congress.*