

ENERGY
Budget Highlights
Fiscal Year 2007 Request

February 28, 2006

President's Advanced Energy Initiative

In his State of the Union address on January 31, 2006, President Bush announced the Advanced Energy Initiative that was touted as a 22 percent increase in clean-energy research at the Department of Energy (DOE) and part of an overall Administration goal to replace “more than 75 percent of our oil imports from the Middle East by 2025.” The President focused on increased spending in solar energy, wind energy, and biomass and/or cellulosic ethanol production.

For solar energy research the Administration is proposing to spend \$148 million, a \$65 million increase over the FY2006 enacted level of \$83.9 million. Wind energy receives a proposed increase of \$5 million over the FY2006 enacted level of \$39 million – a 5 percent increase. The biorefinery or biomass initiative received a proposed increase of \$59 million over the FY2006 enacted level for a total of \$150 million.

While these totals sound impressive and the focus on increased use of renewables is to be commended, the funding levels proposed amount to little more than a .02 percent increase in renewable spending overall, achieved through shuffling funds from various accounts. Further, many of these programs are proposed to be funding at amounts far below the levels authorized by the recently enacted Energy Policy Act of 2005 (EPACT). For example, overall proposed spending for renewable energy comes in at nearly \$300 million less than the amount authorized in EPACT.

Clean coal technology was also mentioned by the President as an important part of a diverse energy portfolio. Interestingly, the amount requested for the Clean Coal Power Initiative is only \$5 million, a \$44.5 million cut from the FY2006 appropriation and a \$43 million decrease from the Administration's FY2006 request. In contrast, EPACT authorized \$200 million for this program in FY2007; therefore, the Administration's request amounts to a mere 2.5 percent of the authorized level.

A week after the President highlighted the value of renewable energy research, DOE, citing a “budget shortfall,” announced the layoff of 32 employees of the National Renewable Energy Laboratory in Golden, Colorado. (These employees were later rehired just as President Bush was to visit the lab.) Reducing America's dependence on imports of Middle Eastern oil by 75 percent in 2025 is an aggressive goal that can only be met by an aggressive research and development initiative.

Energy Conservation and Efficiency

In 2005, Americans saw some of the highest energy prices ever recorded for gasoline, natural gas, and crude oil. The double tragedy of Hurricanes Katrina and Rita did substantial damage to the country's energy infrastructure and led to significant spikes in prices for the aforementioned commodities. One month after the hurricanes struck, the Department of Energy announced a national energy conservation campaign designed to teach Americans how to save energy and lessen their energy expenditures in the coming winter months.

Despite the importance of energy conservation, the FY2007 budget request falls short in two key programs that affect our Nation's conservation efforts: DOE's weatherization program and the EnergyStar program.

DOE's weatherization program is an important tool for increasing conservation by assisting low-income households in increasing the energy efficiency of their homes. The Administration's budget request for FY2007 is \$164 million, \$78 million below the amount appropriated for FY2006. In addition, the request is a full \$436 million below the level authorized by the recently-enacted Energy Policy Act of 2005, and \$66 million below the Administration's FY2006 request. If enacted, this cut could result in approximately 30,000 fewer homes receiving weatherization assistance.

The EnergyStar program is a joint initiative of the Department of Energy and the Environmental Protection Agency (EPA) designed to promote the use of energy-efficient products and appliances. The FY2007 budget request for the DOE portion of the program is \$5.8 million, or 3 percent below the FY2006 appropriations. The request for the EPA portion of the program in FY2007 is \$45.8 million, which is 9 percent below both the FY2006 request and actual appropriation.

Finally, despite increased responsibilities under EPACT 2005, such as administration of Energy Savings Performance Contracts, the FY2007 request for Federal Energy Management Programs is 11 percent less than the FY2006 appropriation.

Low-Income Home Energy Assistance Program

In addition, the budget request falls far short on another important program, the Low-Income Home Energy Assistance Program (LIHEAP). LIHEAP is a Federal program administered jointly by the Department of Energy and the Department of Health and Human Services and is designed primarily to assist low-income citizens with their heating and cooling bills. In extremely cold or hot weather, this program can literally become a lifeline. Despite the record high prices for natural gas in 2005, the Administration's request for LIHEAP funding was \$2.8 billion, \$2.3 billion less than the amount that was authorized for the program in EPACT. The amount requested for FY2007, however, assumes that \$1 billion in LIHEAP funds provided by the recently enacted budget reconciliation bill, will count towards the FY2007 request. If these funds are instead applied to the current fiscal year as they would under proposals currently pending in the Senate, then the amount requested for FY2007 would actually be \$1.8 billion – \$3.3 billion less than EPACT authorized.

Nuclear Energy

Yucca Mountain Repository Program. The Administration requested \$544.5 million for civilian nuclear waste disposal, which includes the repository program at Yucca Mountain, Nevada, a 10 percent increase over the FY2006 appropriation.

Of the roughly \$660 million that utility ratepayers are expected to contribute during FY2007 to the Nuclear Waste Fund, only about \$156 million is included in the Administration's request. The balance, \$388 million, comes from defense funds to account for cleanup of DOE weapons sites.

Unfortunately, the Administration has not taken the steps necessary to ensure that the roughly \$500 million in funds ratepayers will contribute during 2007 will actually be used for their intended purpose. Under the Nuclear Waste Policy Act of 1982, any unexpended balance in the Waste Fund is supposed to be reserved for future program costs. Although the Administration previously voiced support for taking the Waste Fund off budget, it has failed to send up legislation to accomplish this objective. As a consequence, it is unclear whether the balance of the Fund will either be available at the time it is needed for the repository program or whether ratepayers' contributions will be used for their intended purpose.

Global Nuclear Energy Partnership (GNEP). The Administration requested \$250 million in funding for a "Global Nuclear Energy Partnership" that would put the U.S. Government in the nuclear fuel reprocessing business, both for U.S. utility spent fuel and other countries' fuel. The purposes ascribed to this initiative are (1) to facilitate a new generation of nuclear power plants in the U.S.; (2) to reduce the volume of waste going to a potential repository at Yucca Mountain, Nevada; and (3) to prevent the proliferation of nuclear weapons materials in other countries.

Department of Energy Secretary Samuel Bodman testified that this program could cost as much as \$40 billion over a period of several decades. The proposal raises several concerns. First, the projected costs are very large and the DOE's track record in managing such large-scale projects is mixed at best. Second, GNEP is likely to divert managerial attention from DOE's Yucca Mountain program, which is years behind schedule and currently undergoing fundamental internal review. Third, there appears to be some risk that future budget requests might attempt to tap the Nuclear Waste Fund for GNEP, which would divert ratepayer assessments for a program only tangentially related to the Fund's original purposes. Fourth, the question of whether or not the U.S. should undertake reprocessing is a highly controversial and complex matter warranting closer scrutiny than a one year budget request affords.