

Question for the Record

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Mr. Roskam: Mr. Book, in your testimony, you reference the importance of “common metrics” to investors when considering investing in the certain types of alternative energy. A company in my district, Gas Technology Institute, recently did a study that showed no correlation between the amount of credit received, and actual efficiency achieved from various alternative energy sources. You have this issue reflected in your testimony as well. Can you describe whether there appears to be any overall national energy strategy driving the differences in value among the different federal energy tax credits?

Thank you for the question, Representative Roskam. The history of U.S. energy policy does not appear to reflect a well-coordinated national strategy to direct federal spending towards highest-performing fuels, technologies or behavioral initiatives. As I mentioned during my testimony before your Committee, this lack of a metrics-based standard for federal energy incentives may actually complicate even the best-conceived efforts to leverage taxpayer dollars for increased innovation, greater energy security and improved environmental performance. It is hard to know when one has met a goal that cannot be clearly quantified and readily measured.

The first metric I would consider is the amount spent per million British thermal units (Btu) of energy consumption, production or savings (\$/MMBtu), a ratio I referred to in my testimony as “incentive cost” of energy or efficiency. The Joint Committee staff included this calculation in their briefing memo prior to the hearing, as well. Measuring “bang for the buck” in this fashion is relatively straightforward, particularly when analysis spans multiple years to capture fluctuations due to economic or policy changes. I also suggested considering the amount spent per metric ton of greenhouse gas emissions reduction (\$/MtCO₂e) and the amount spent to displace imported petroleum either physically (\$/barrel) or in terms of actual energy content (\$/MMBtu).

Any of these metrics would help identify and optimize U.S. energy, environmental and economic benefits derived from federal energy outlays. Ultimately, I would suggest that the choice of metric should reflect the primary energy policy goal being pursued by the Congress. Whatever metric(s) one chooses, a well-reasoned policy should also consider (a) how long it will take to deliver the benefit in question; and (b) how much of the nation’s energy portfolio will be affected. A “reverse auction” intended to subsidize the cleanest, cheapest and most secure sources could also be structured to reward fuels and technologies that might deliver their benefits soonest and at the greatest scale.