The 11th-Hour Budget Deal on February 9th

- Congress passed a two-year budget deal last Friday to avert another government shutdown.
- On top of over $300 billion in new spending during 2018-2019, several provisions affect many different segments of the energy sector.
- Combined with the Tax Cuts and Jobs Act, this magnitude of fiscal stimulus in the ninth year of economic expansion is not what your economics professor would have recommended.

Warning label: Read with caution. Energy policy is being made in piecemeal fashion and on the back of large deficit spending.

- In the fiscal year ending last September, the federal government spent $666 billion more than it took in from revenue and other sources.
- This year will be worse. Just when we have an economy that logging sequential gains — for 9 years in a row come this July — Congress and the Administration have enacted laws which will widen this gap. Typically, fiscal deficits fall as expansions lengthen in stature and time.
- We are in uncharted waters with emerging risks, especially given the degree of funding shortfall.

Let’s turn to the budget deal which was signed into law last Friday and how it affects the energy sector.

- The deal included a new tax credit for carbon capture projects.
- The U.S. Strategic Petroleum Reserve (SPR) will be drawn down and sold off. The SPR currently holds 667 million barrels of crude oil in 4 storage sites (see table) managed by the Department of Energy. The budget deal calls for a 30 million barrel sell down during FY 2022-2025. At today’s market price of $60 per barrel, that would yield approximately $1.8 billion in government revenue.
- Extensions of energy-related tax credits were included in the new budget law. There is a tax break for advanced nuclear energy, tax breaks for small wind turbines and geothermal heat pumps for homes and businesses.
- Tax breaks for biodiesel producers was limited, with a benefit for fuel produced in 2017, but no such break in the future.
- The residential energy efficiency credit is extended for property placed in service through December 31, 2021.
- The 30% energy tax credit for certain solar, thermal, fuel cell and wind energy property has been extended to qualified property the construction of which begins before January 1, 2022. Even with this extension, the law includes a phase-down to 22% in 2021 and then zeroed out in 2024.

Key Provisions of the Bipartisan Budget Act of 2018

- Increase government spending by $150 billion in fiscal year 2018 and an additional $150 billion in 2019.
- Of this increase, $80 billion will be allocated to defense spending and $63 billion to nondefense spending.
- Provides for $90 billion in disaster relief for areas stricken by last year’s hurricanes and wildfires.
- The federal government’s debt limit was suspended until March 1, 2019, and would be “reinstated” at $22 trillion at that time, up from $20.5 trillion.
- Federal budget deficit would increase from $666 billion in FY 2017 to $800 billion in 2018, and then possibly in excess of $1 trillion in 2019.

Do Tax Credits Really Work? A research paper by Borenstein and Davis (2015) points out that they may help, but not as much as more “first order” policies like a carbon tax.