

The Truth About Energy Subsidies

Special Report

Every now and then, I get an e-mail or comment from some hostile reader who feels the need to rant about how renewable energy can't compete without subsidies.

It's basically the old stand-by of excuses for those who still refuse to accept the fact that renewable energy *will* play a major role in future energy production.

But the fact of the matter is *all* forms of energy are subsidized - both renewable and non-renewable.

And while there are still plenty of talk show bullies and armchair analysts who are quick to point out the latest subsidies for renewable energy, rarely do we hear them talk about how much money tax payers pony up every year to subsidize conventional fossil fuels.

Let me tell you now: It's a massive amount.

In fact, in a 2009 report issued by the Environmental Law Institute, researchers found that from 2002 to 2008, subsidies for fossil fuels totaled approximately \$72 billion - while subsidies for renewable energy during that time period rang up at \$29 billion. That's quite a difference!

Whether you're a fan of renewable energy or not, there's no denying that, as an investor, you need to know this stuff.

That's why I've listed some of the specific subsidies that were listed in that report.

Take a look . . .

Fossil Fuel Subsidies

The Institute broke the subsidies down into two categories:

1. - Tax expenditures and other foregone revenues
2. - Direct expenditures.

The following is taken directly from the Institute's report. . .

Tax Expenditures and other Foregone Revenues

- 1.) Foreign Tax Credit (\$15,300,000,000)
- 2.) Credit for Production of Non-conventional Fuels (\$14,097,000)
- 3.) Oil and Gas Exploration & Development Expensing (\$7,100,000,000)
- 4.) Oil and Gas Excess Percentage over Cost Depletion (\$5,441,000,000)
- 5.) Credit for Enhanced Oil Recovery Costs (\$1,575,000,000)
- 6.) Characterizing Coal Royalty Payments as Capital Gains (\$986,000,000)
- 7.) Exclusion of Benefit Payments to Disabled Miners (\$438,000,000)
- 8.) Exclusion of Alternative Fuels from Fuel Excise Tax (\$343,000,000)
- 9.) Other-Fuel Exploration & Development Expensing (\$342,000,000)
- 10.) Other-Fuel Excess of Percentage over Cost Depletion (\$323,000,000)
- 11.) Deduction for Clean Fuel Vehicles and Refueling Property-Fossil Fuels (\$209,000,000)
- 12.) Exception from Passive Loss Limitations for Oil and Gas (\$190,000,000)
- 13.) Credit for Clean Coal Investment (\$186,000,000)
- 14.) Expensing Liquid Fuel Refineries (\$164,000,000)
- 15.) Special Rules for Mining Reclamation Reserves (\$159,000,000)
- 16.) Natural Gas Distribution Lines Treated as Fifteen-Year Modified Accelerated Cost Recovery System Property (\$138,000,000)
- 17.) Sulfur Regulatory Compliance Incentives for Small Diesel Refiners (Combined) (\$109,000,000)
- 18.) 84-month Amortization Period for Coal Pollution Control (\$102,000,000)
- 19.) Expensing Advanced Mine Safety Equipment (\$32,000,000)
- 20.) Credit for Clean Fuel Vehicles and Refueling Property-Fossil Fuels (\$14,000,000)
- 21.) Natural Gas Gathering Lines Treated as Seven-year Property with Alternative Minimum Tax Relief (\$6,000,000)

- 22.) Natural Gas Arbitrage Exemption (\$6,000,000)
- 23.) Foreign Tax Credit (\$15,300,000,000)
- 24.) Reduced Government Take from Federal Oil and Gas Leasing (\$7,049,000,000)

Grants and Other Direct Payments

- 1.) Low Income Home Energy Assistance Program (\$6,358,000,000)
- 2.) Strategic Petroleum Reserve (\$6,183,000,000)
- 3.) Black Lung Disability Trust Fund (\$1,035,000,000)
- 4.) Highway Trust Fund (\$500,000,000)
- 5.) Northeast Home Heating Oil Reserve (\$50,000,000)
- 6.) National Petroleum and Oil Shale Reserves (\$28,000,000)

The report also identifies items that are not counted as subsidies. These include. . .

- 1.) The Oil Spill Liability Trust Fund
- 2.) Commuter Benefits Exclusion from Income
- 3.) Water Infrastructure
- 4.) LNG Terminals

Of course none of these take into account the military costs associated with our oil dependence.

From protecting the shipping lanes to move Mideast oil (which incidentally came to about \$44 billion in 2007), to the wars fought over the stuff - our reliance on oil is a massive drain on our economy, our environment, and our overall fiscal health.

Renewable Energy Subsidies

Now let's take a look at renewable energy subsidies.

These are also broken down into two categories:

1. - Tax Expenditures and other foregone revenues
2. - Direct Expenditures

Tax Expenditures and other Foregone Revenues

- 1.) Alcohol Credit for Fuel Excise Tax (\$11,577,000,000)
- 2.) Renewable Electricity Production Credit (\$5,224,000,000)
- 3.) Renewable Energy Investment Credit (\$259,000,000)
- 4.) Five-Year Modified Accelerated Cost Recovery System Period for Solar, Wind, Biomass, and Ocean Thermal (\$200,000,000)
- 5.) Alcohol Fuel Blender Credit (\$198,000,000)
- 6.) Biodiesel Blenders Credit and Biodiesel Excise Credit (Combined) (\$182,000,000)
- 7.) Deduction for Clean Fuel Vehicles and Refueling Property - Biofuels (\$165,000,000)
- 8.) Credit for Clean Renewable Energy Bond Holders (\$85,000,000)
- 9.) Credit for Residential Solar Electric, Heating, and Fuel Cell Property (\$39,000,000)
- 10.) Credit for Clean Fuel Vehicles and Refueling Property - Biofuels (\$10,000,000)
- 11.) Special Depreciation for Cellulosic Plant Property (\$1,000,000)

Grants and Other Direct Payments

- 1.) Corn-Based Ethanol (\$5,007,000,000)

Although relevant, financial assistance for efforts to improve energy efficiency and decrease energy demand in buildings was not counted as a subsidy in the report.

A complete list and detailed descriptions of each subsidy can be found [here](#).

You can view the HTML version here: [The Truth About Energy Subsidies](#)

only after reviewing the prospectus or financial statements of the company in question.