

Seeking Alpha α

Obama Speech Puts Natural Gas Act in Play for Clean Energy Fuels

by: Psi Alpha

November 08, 2010 | about: [CLNE](#) / [CMI](#) / [UNG](#) / [WPRT](#)

Following Tuesday's election setback for the Democrats, President Obama's speech on the election results probably offered more insight on Energy Policy than on any other individual area of the policy agenda. As would be expected, the President clearly accepted that any progress at all in passing new legislation will require the need for significant compromise with the new Republican Congress. Asked in the Q&A to highlight those areas where he thought that agreement could be reached, he repeatedly pointed to the area of Energy Policy. It now seems to be increasingly clear that both the President and the Democratic leadership have accepted that an all-encompassing approach to Climate Change legislation, including Cap and Trade, is no longer possible. However, the President has clearly opened the door to a pragmatic focus on what can be achieved. And there seem to be some interesting areas for potential progress.

In an article in mid-October, 'Why Clean Energy Fuels Should Benefit From a Lame Duck Congress', I argued that the President was in the process of leaving Cap and Trade behind in order to open the door to a more achievable piece-meal approach to energy policy – and that this would particularly favor bipartisan action on the Natural Gas Act. In broad terms, the President's latest comments clearly suggest that this seems to have been the case. On Cap and Trade, the President had this to say in the Q&A:

Cap and Trade was just one way of skinning the cat; it was not the only way. It was a means not an end. And I'm going to be looking for other means to address this problem.

And:

So I think when it comes to something like energy, what we're probably going to have to do is say here are some areas where there's just too much disagreement between Democrats and Republicans, we can't get this done right now, but let's not wait. Let's go ahead and start making some progress on the things that we do agree on, and we can continue to have a strong and healthy debate about those areas where we don't.

In terms of the potential for agreement to be reached with a Republican Congress and therefore potential for progress on legislation, he pointed to three clear areas of opportunity –

- Aiding the development of the Electric Vehicle Industry
- Nuclear Power
- The Natural Gas Act

Here are the key quotes from the President's speech on these energy-related issues. Judge for yourself:

I don't think there's anybody in America who thinks that we've got an energy policy that works the way it needs to; that thinks that we shouldn't be working on energy independence. And that gives opportunities for Democrats and Republicans to come together and think about, whether it's natural gas or energy efficiency or how we can build electric cars in this country, how do we move forward on that agenda.

And:

We've got, I think, broad agreement that we've got terrific natural gas resources in this country. Are we doing everything we can to develop those? There's a lot of agreement around the need to make sure that electric cars are developed here in the United States... that we don't fall behind other countries. Are there things that we can do to encourage that? And there's already been bipartisan interest on

those issues. There's been discussion about how we can restart our nuclear industry as a means of reducing our dependence on foreign oil and reducing greenhouse gases. Is that an area where we can move forward?

Consequently, it seems reasonable to suggest that a bipartisan period of compromise may bring some success in delivering more limited, but more focused specific pieces of legislation that may make it through Congress.

Following on from my mid-October article, the focus of my attention for the moment is the Natural Gas Act, which will shortly become a live issue. Senate Majority Leader Harry Reid introduced legislation under the Natural Gas Act just before the recess on \$4.5bn of incentives to aid the deployment of natural gas-fueled vehicles and refueling stations (there are also some incentives for the electric car). These measures were previously embedded in broad legislation related to the Gulf oil-spill and were unfortunately lost when the debate over that legislation became heavily divisive and partisan.

The next staging post for the Natural Gas Act comes with a key vote on the issue on November 17th. So fairly soon, we'll get an indication of the extent to which bipartisan support is now genuinely possible on this question. However, the President now seems to be putting his weight behind this legislation. Moreover, it would represent a solid step forward that could be supported both by groups looking for progress on climate change and those concerned about America's reliance on foreign oil from a national security perspective. Importantly, there seems to be a reasonable degree of Republican support here.

As I argued in my last article, the two clearest beneficiaries from the eventual passing of the Natural Gas Act would be Clean Energy Fuels ([CLNE](#)) and Westport Innovations ([WPRT](#)). CLNE is of course the T. Boone Pickens-backed provider of natural gas refueling infrastructure. Meanwhile, Westport Innovations is the leading provider of natural gas engine technology for heavy trucks. Additionally, Cummins ([CMI](#)) should also benefit as a natural gas engine player with an interest in Westport.

In this article I have omitted to discuss either the business plans or the financials of these companies. However, in my opinion, it's probably best to accept that for now both Clean Energy Fuels and Westport are largely plays on the politics, in that the forward trajectory for their related stock prices is probably binary and dependent on whether or not the Natural Gas Act makes its way onto the statute books. If it fails both companies face a long journey ahead. If it passes, it is probably fair to say that they will both be handed good franchises in what will become a rapidly developing natural gas trucking business. They will not be the only beneficiaries but they will be the big ones.

Disclosure: Long CLNE, Long WPRT.

Comments on this article

micmaher

I was wondering where you got the \$4.5 bn figure for the Nat Gas act? I was looking for a dollar number earlier and could not find one. Thanks

Psi Alpha

Author's Reply

micmaher - I believe the number is a rough estimate of what the net incentives would be. That was the number that was being floated at the time Harry Reid decided to push the Act forward, immediately ahead of the recess. The Act itself just details the incentives to be offered. The actual cost depends on the uptake in terms of demand response - ie the number of truckers switching to Natural Gas etc. So there can be a wide variety of rough estimates of that cost.

Also, the vote on the 17th is obviously just the beginning of the process, so I'm sure there'll be a lot of room for that number to move around as it gets batted back and forward between the House and the Senate.

As an aside, some of the Republicans have raised an issue with regard to how the incentives will be financed. At the moment, the Act intends the incentives to be paid for by an increase in the tax on imported oil, which some see as overly onerous for Corporates in the current climate. There has been some discussion on looking for alternatives. The end result might be a smaller increase in the oil import tax, some other funding but also some reduction in the incentives themselves.

OilFinder

So, it takes a landslide election by the republicans to get Obama to finally focus on something half the country has been screaming for him to do for the past 2 years.

As the saying goes, "Whatever it takes . . ."

micmaher

Increasing the tax on oil is not a good idea right now

learnmoney

So what is please?

micmaher

Tax increases provide a negative shock to the economy and take money out of the hands of consumers and businesses, which is the exact opposite of what the Fed is trying to do right now. Fiscal and monetary policy should be working together, not in opposition.

MudEngineer

How about burning natural gas to generate electricity for electric cars using small power plants set up at large employers so that cars can be recharged while people are at work.

j.william.moore

Someone please show me where November 17th comes from.

Psi Alpha

Author's Reply j.william - the act has the official nomenclature - S.3815: Promoting Natural Gas and Electric Vehicles Act of 2010. You can track it at - www.govtrack.us/congre...

The date of Nov 17th was floated before the recess under Harry Reid. However, this can change when Congress gets back because we now have a new majority leadership. govtrack adds the following on the issue -

'This bill was considered in committee which has recommended it be considered by the Senate as a whole. Although it has been placed on a calendar of business, the order in which legislation is considered and voted on is determined by the majority party leadership'.

However, people in the industry seem to think that the date will hold. Andrew Littlefair, CEO of Clean Energy Fuels, mentioned the date in his Q&A following their earnings announcement yesterday. This is what he said exactly-

'and let me say, regardless of the November 17th date and the lame-duck, I think there is enough momentum that the Nat Gas Act in some form that is, the natural gas being promoted by the Federal Government, in some sort of incentive, with some sort of incentive, is going to happen'.

Well, you get the sense of what he meant.

zefrum

Nice Article, and def like the follow ups to reader's questions; keep it up!

Psi Alpha

Author's Reply

thanks zefrum! much appreciated.

481086

I don't like taxes. I don't like tax increases. I really, really don't like tax complexity. But increasing the imported oil tax seems to me the only way to cut the gordian knot. So I say this: tax the snot out of imported oil. Slash and simplify the host of other taxes, so that the net effect on business is zero or even net positive. If we do this, all the alternative energies will feel a boost...

Psi Alpha

Author's Reply

481086 - Good point. I understand that some kind of give will have to take place to convince a group of Republicans in the Senate to support the bill. Politics in the Senate is obviously less than easy these days given that we now have a position where just one recalcitrant Senator can hold up the whole process. However, apparently T Boone Pickens has been discussing some adjustment to how exactly the incentives will be paid for. But nothing seems concrete yet. Still, I think the prospects are good.

micmaher

Financial crisis or oil price shocks have been the causes of the last several recessions, so i do not think raising a tax on oil right now is a good idea. I dont see how people on here think that raising the price of energy right now will do anything but hurt the economy. Tightening fiscal policy is the opposite of what the government should be doing to get the economy growing. You increase taxes on a healthy economy, when it can overcome the tax increases. Its basic economics.

I understand that some of you are making the point that a higher price of oil is the only way the US will stop using oil, and I agree with that. The timing, however, is terrible.

481086

That's certainly a very valid consideration, and is the reason I try to emphasize offsetting reductions in tax burdens elsewhere...so that the net effect is stimulative not depressive. Also, such a realignment need not be abrupt and shocking, but rather phased-in and predictable (ie a ratcheting floor). In fact, predictable (somewhat higher) energy prices will go a long way towards fostering the alternatives we all know are necessary for the long term...

micmaher

The tax system we currently have in the US is so massive and complicated that I'm sure your idea can work, but I do not know how. I think providing an incentive to use natural gas (ie tax credits or rebates) is more favorable then a disincentive to use oil (tax or tariff), but either way we agree the way the US uses oil must change. People will only switch their behavior if it is easier or cheaper, and with the boom in recoverable natural gas supplies, it looks like natural gas will be the cheapest fuel for both transportation and electricity for a long time. A little push from the US government, either by an oil tax or a natural gas vehicle rebate, will go a long way to cutting oil use.

Psi Alpha

Author's Reply

481086 / micmaher - In a way I agree with both of you. In today's current economic climate the tax issue is a tough call and requires a pragmatic solution.

What's obvious is that the trucking fleets know that natural gas is much cheaper than gasoline. However , the up front cost of converting their fleets is prohibitive. That barrier to entry for nat gas distribution is a sound reason for initial government subsidies for truckers who are prepared to spend the capital to convert their fleets.

Given the situation with the deficit it has to be paid for somehow and an increase in the oil import tax is one way that makes sense.

But no new tax is good right now. At least we know that the depressive affect of the increased tax will be offset with a an increase in capital expenditure - since the incentives will largely go straight into truck conversions / infrastructure build etc.

It'll be too complex to put an offsetting range of measures reducing the tax burden elsewhere in the Nat Gas Act - although I agree on your overall view in a broader sense. Consequently, to get this through Congress, we'll probably need to accept an increase in the oil import tax combined with bit and pieces of other revenue raising measures.

However it's paid for the bottom line is that it's clearly a very effective measure to take. And we need it.

.....



Spell Checker

X

Not Found

Options

Replace With

- Delete
- Replace
- Ignore

Suggestions

Learn

Replace All

Ignore All

