How to Avoid Making the Energy Boom Go Bust

By Lawrence Mone

MITT ROMNEY'S energy plan, unveiled Thursday in New Mexico, is the first to deal with the new reality on the ground. It recognizes that the United States has accessible energy stores that could not only help resuscitate the American economy, but also transform global politics by taking energy leadership away from the perennially troubled Middle East. Mr. Romney and President Obama would serve voters well by making it the starting point for a serious energy-policy debate.

Already, the direction of U.S. energy policy is shifting dramatically. New extraction technologies—especially for natural gas and shale oil—have replaced the idea of energy scarcity with that of abundance. Just a few years ago, alternative energy—and the "green jobs" that were supposed to come with the development of biofuels and solar and wind power-dominated policy discussion in Washington.

But that agenda has been largely pushed aside by the understanding that low-cost natural gas can fuel domestic manufacturing, cut electricity-generation costs, and help revive the nation's industrial Midwest (where much of our shale gas resources are concentrated). And not just the Midwest: A recent study by Citigroup estimates that oil and gas extraction could, by 2020, add as many as 3.6 million net new jobs in the U.S. and Canada—and, through increased tax receipts, cut the U.S. budget deficit by 60%.

With such bright prospects, and such high stakes for a fragile economic recovery, it's crucial to avoid public policies that could slow or even stop this boom. In particular, four principles should guide us:

• First, there is no point in pitting renewables against hydrocarbons and nuclear energy. There is simply no way solar and wind energy can meet the economy's vast energy needs at an affordable price. Today, solar and wind energy combined provide 1% of our energy.

The latest projections from the U.S. Energy Information Administration's Annual Energy Outlook show that non-hydro renewables like solar and wind are not likely, absent technological breakthroughs, to rise beyond 8% of total U.S. energy needs by 2035. Mr. Romney's plan embraces that reality. Low-cost coal and natural gas, not renewables, are reducing costs. From 2003 to 2008, natural gas "spot" prices averaged about $7 per million British thermal units (BTUs). Today, the spot price of natural gas is about $3 per million BTUs, saving the U.S. economy some $264 million a day.

Those savings—combined with the royalties and taxes generated from the extraction and consumption of natural gas, oil and coal—could provide the funding the government needs to invest in the basic science and materials research that might help solar and wind eventually become cost-competitive. Unfortunately, the Obama administration seems not to understand this link between gas and oil today and solar tomorrow—as its decision to delay the Keystone XL pipeline linking Canadian oil with U.S. refineries indicated.

• Second, we need to avoid what Edward Morse, an energy economist and the global head of commodities research at Citigroup, has termed "resource nationalism"—a potential fight between energy exporters and domestic users. North American energy resources may enable this country to achieve self-sufficiency in a crisis, but it would be a mistake if this were to lead to protectionism.

It may seem counterintuitive to encourage energy exports—even when liquefied natural gas can be profitably shipped to energy-hungry global markets—but that is what we need to do if we are to become leaders in the world market.

Some energy-intensive U.S. manufacturers, especially chemical companies, benefit from low-cost oil and gas, and they worry about the impulse to ship hydrocarbon resources offshore. It is not surprising, then, to see Sen. Ron Wyden (D., Ore.) and Rep. ...
Edward Markey (D., Mass.) urges President Obama to use his executive authority to restrict exports of oil, natural gas and coal. Such restrictions cannot be justified economically or philosophically.

"Resource nationalism" is just one potential flashpoint that could slow a remarkable rise.

If domestic energy producers can profit from exports, they should be allowed to do so. As Mark Mills, founder and CEO of the Digital Power Group and Manhattan Institute fellow, has pointed out, accelerating rather than restricting hydrocarbon exports is a path to both greater jobs and economic benefits for America as well as a key to keeping the lid on energy prices that are set globally.

• Third, regulators should facilitate the energy boom by expediting the permitting process. Too much of our federal land and offshore waters are off-limits to oil and gas drilling. Even for onshore and offshore areas open to exploration, the permitting process is complex and protracted, taking months or even years and involving multiple federal and state agencies.

The U.S. should emulate Canada, where Stephen Harper's administration is pushing for a "one project, one review" process, whereby the federal government brings the request to the various relevant agencies—rather than asking an army of lawyers to do the work for firms and entrepreneurs.

Such a process—coupled with a time limit—would in no way eviscerate environmental regulation. Instead, it would allow appropriate projects to proceed without long delays and enable smaller players to get into the game along with big multinationals like Chevron and Shell.

• Finally, regulators should not dictate the U.S. energy mix. For proof of how excessive intervention can harm consumers, we need only look at how the corn-ethanol mandates have put pressure on grain prices and ignited the food versus fuel debate.

Despite this sorry history, the Environmental Protection Agency has proposed a rule that would prohibit construction of new coal-fired plants. This makes no sense.

The U.S. has more coal reserves than any other country. And the newest coal-fired power plants use technologies that are dramatically cleaner. Reducing emissions is important—but so is cheap, abundant and reliable electricity, especially in an economy that needs all the help it can get.

The reality of America's new-found energy abundance is upon us. Yet the public policies necessary to unleash its enormous potential have been slow in coming. Mr. Romney's energy plan is the ideal pivot around which to have this crucial debate.

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