

ENERGY

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NO POWER TO SPARE

Energy issues take center stage in a national tax debate

The Clinton administration's proposed energy tax has focused a spotlight on a little-understood issue that affects all Americans: the role of the energy sector in the economy.

Among the general public, the tax has created some confusion because it is a levy on the BTU content of energy sources, and most people know little about the relative merits of BTU heat values.

A BTU, or British thermal unit, measures the heat an energy source emits; one BTU is equivalent to a match tip. BTUs are used to evaluate on equal terms energy sources that are in different forms — coal (solid), oil (liquid) and natural gas (vapor).

Showing the BTU values of all energy forms in one diagram, as we have done on the right, forms a picture of an energy economy: the flow of energy produced and consumed in the U.S.

The left side of the diagram shows energy production, by resource, in quadrillion BTUs; the relative importance of each resource is evident from the size of the bars. The right side of the diagram shows energy consumption by resource and sector, in quadrillion BTUs.

The table and story below, along with the diagram, explain how the energy tax would work and how it would affect people's lives.

Energy Resources, 1991	Annual Production	Average Price	Value of Annual Production	Heat Content	Total BTUs	Tax Rate	Potential 1996 Tax Revenue	Dollar Value	1996 Tax as % of Annual Production
	billions of units	per typical unit	billions of dollars	BTUs	quadrillions	per million BTUs	billions of dollars	per million BTUs	%
Nuclear in kilowatt-hours	612.4	\$0.06	\$38.7	10,680 per kWh	6.54	\$0.26	\$1.4	\$5.92	8.62%
Hydroelectric in kilowatt-hours	278.7	\$0.06	\$17.6	10,335 per kWh	2.88	\$0.26	\$0.7	\$6.12	9.47%
Coal in short tons	1.0	\$21.75	\$21.6	21,690,000 per short ton	21.55	\$0.26	\$4.1	\$1.00	16.21%
Dry Natural Gas in cubic feet	17,866.1	\$1.59	\$28.4	1,031 per cubic ft	18.42	\$0.26	\$4.0	\$1.54	12.03%
Natural Gas (imports) in cubic feet	1,542.2	\$2.09	\$3.2	1,031 per cubic ft	1.59	\$0.26	\$0.3	\$2.03	7.95%
Natural Gas Plant Liquids in barrels	0.6	\$15.35	\$9.2	3,805,000 per barrel	2.29	\$0.26	\$1.3	\$4.03	12.02%
Crude Oil (domestic) in barrels	2.9	\$16.50	\$47.8	5,384,000 per barrel	15.61	\$0.60	\$7.9	\$3.07	14.11%
Crude Oil (imported) in barrels	2.6	\$18.08	\$47.4	5,384,000 per barrel	14.13	\$0.60	\$7.1	\$3.36	12.84%

Sources: Energy Information Administration; Gas Processors Report

Potential annual 1996 tax revenues: \$26.8 billion

Treasury Secretary Lloyd Bentsen wasn't surprised that President Clinton's energy-tax plan lit a fire under many of the president's critics when it was first proposed.

"Anything that would raise that much money was going to be controversial," Mr. Bentsen said when he was asked about the tax in March.

As much as \$26 billion a year could flow to the government's coffers by 1996 if the tax is approved by Congress. Overall, the tax is designed to raise \$71.44 billion over five years, revenues that are crucial to the administration's deficit-reduction plan.

The energy tax was designed to hit some industries much harder than others. Aluminum and paper could get socked especially hard, as could truckers, airlines and wholesale grocers. In the aluminum business, energy accounts for 30% to 40% of total costs. The trucking industry says the tax will raise its fuel bill by \$3 billion a year.

If the tax goes into effect as originally planned, energy producers would bear the initial brunt of the tax. However, consumers can expect eventually to see higher home utility bills and higher prices at the gas pump.

The Treasury has estimated the tax would add at least 7.5 cents to the price of a gallon of gasoline, 8.25 cents to a gallon of home heating oil and \$2.25 to monthly home electric bills.

When the energy-tax program was

announced, Treasury officials said the tax was designed to have the strongest impact on the energy sources that most hurt the environment and that are not as vital to national security.

Accordingly, they said, the tax should drive up the price of coal the most and natural gas the least. But in an apparent attempt to smooth out some of the disadvantage for the politically powerful coal industry, oil would face a higher tax rate than other fossil fuels.

A preliminary version of the plan was approved by the House and Senate in late March. The final details of the tax will be pinned down by congressional committees and sent to the House and Senate for approval by August. Here's a look at what the energy tax means and who will shoulder the tax burden:

Specifically, the tax would hit coal, natural gas, nuclear energy and hydroelectricity at a rate of 25.7 cents per million BTUs, and oil at a rate of 59.9 cents per million BTUs. Solar, wind and geothermal power would be exempt from the tax. Also, ethanol and methanol may get exemptions, because they can be used in alternative-fuel vehicles.

The levy penalizes coal the most because the BTU rating for a short ton of coal is about four times greater than the rating for a barrel of crude oil. In turn, the BTU rating of crude oil is nearly four times greater than the rating for the common market unit of natural gas: 1,000 cubic feet. (The table

above shows BTU factors for energy sources and annual taxes energy producers may have to pay by 1996.)

The tax has been a catalyst of concern for the energy industries since the levy could substantially increase their operating costs.

The coal industry, for example, produces about one billion short tons of coal each year; in 1991, this production was valued at \$21.6 billion. By 1996, coal producers would be paying \$4.1 billion in energy taxes — an amount equal to 16% of coal's annual production value.

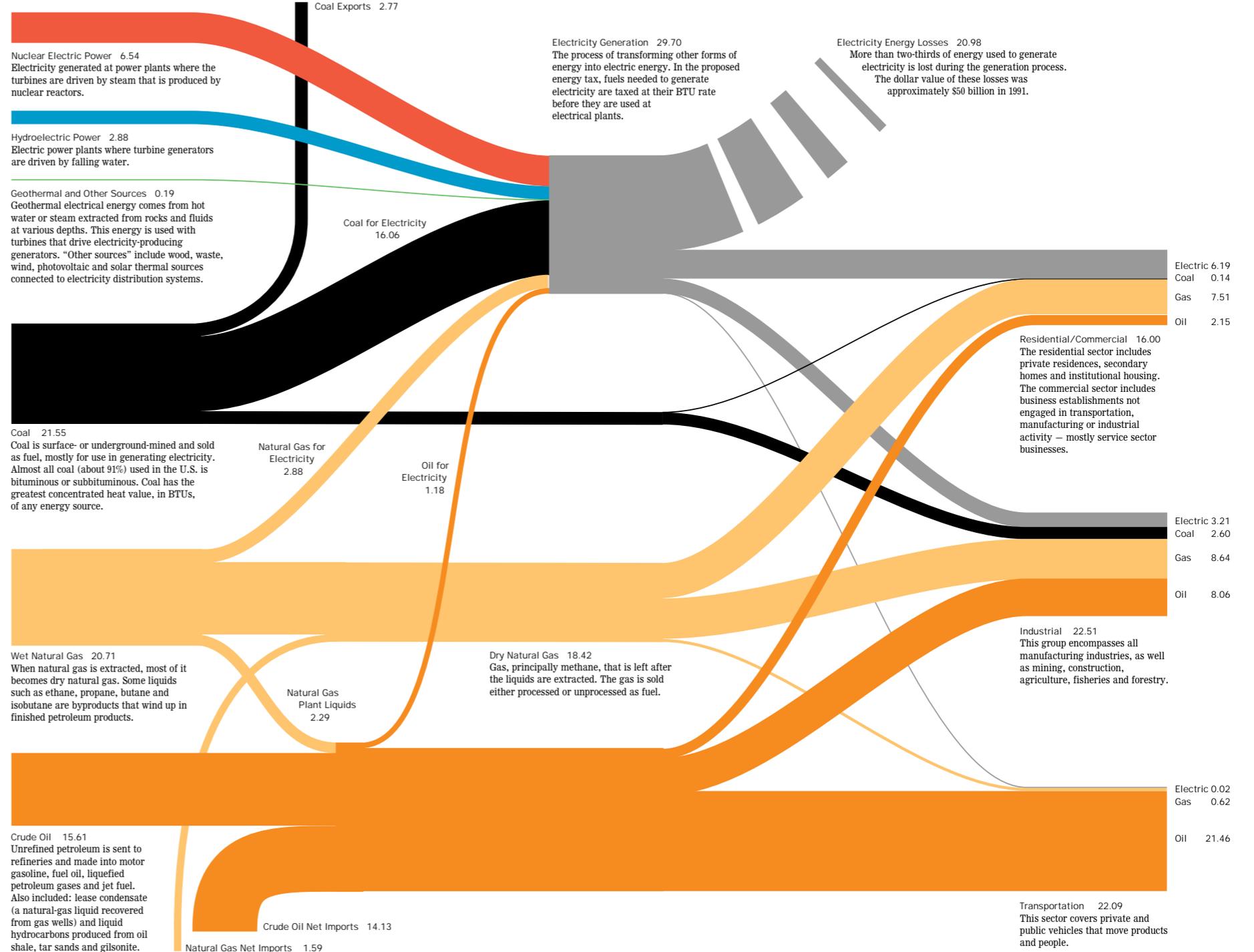
In addition, the tax struck a nerve with energy producers because it would be collected at the site of production. Therefore, energy companies would have to pay the entire tax, and pass it on to consumers by increasing prices.

For the oil industry, consumer prices easily could be increased to pay for the tax. But electric and natural gas utilities must get price increases approved at public-rate hearings. They would have to pay their taxes, and then hope to recoup the money if and when the rate increases were approved.

Thus, many energy interests want the tax shifted to consumers from producers, forcing the government to collect the tax directly from consumers as an excise or value-added tax. Much of the battle in Congress this spring and summer will be over such specifics as the collection point of the tax and exemptions for different fuels.

ENERGY PRODUCTION, 1991

The production and extraction of natural power sources that are converted into accessible energy. All values are annual 1991 figures given in quadrillion BTUs. Once energy is produced, it is refined into other products or used directly in electrical power plants to generate electricity.



ENERGY CONSUMPTION, 1991

The ultimate consumption of energy by three economic end-use sectors and the electrical power industry.