

Federal energy incentives disincentives

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Federal Energy Incentives/Disincentives

Federal Energy Incentives/Disincentives Energy is a very important part of the US economy. The federal government is responsible for formulating national policies to regulate how energy is produced, distributed and used. These policies can promote as well as restrict energy consumption in the country. Federal incentives for the production and distribution of energy comes in the form of regulation, market support, tax incentives, direct subsidies, technology transfer, procurement mandates and demonstration programmes (Geri and McNabb, 2011). The most widely used incentive mechanism that the government uses is tax policy. The oil and gas industries have benefited from various forms of tax incentives. A case in point is the Federal tax code which includes provisions for intangible drilling and percentage depletion, which have enabled exploration and development of oil and gas. Federal tax incentives have also been used to promote the use of renewable energy in domestic and commercial entities (Metcalf 2010). Some critics argue that although the federal government may offer energy incentives, it has too much control over production and distribution. The critics could be right, considering the level of control that the government exercises over the energy sector.

Hydroelectric power has been at the center of the economic development of the United States for the longest time. However, the emergence of oil and renewable energy sources has shifted much of the federal government's attention from hydroelectricity. One of the most visible incentives for hydroelectric energy has been the government's involvement in market activities. These incentives include support for construction of dams and

their operations. These government investments in the hydroelectric energy sub-sector have resulted in more regulated hydroelectric power production, flood control and regional development. Up to 2003, the hydroelectric power industry had enjoyed huge subsidies on the development of the energy as a result of exemption from tax on revenue (Metcalf, 2010).

Although all these incentives exist in the hydro-electricity sector, there are a number of disincentives that are quite outstanding. Due to environmental issues, the government has been forced to look for and develop alternative sources of energy that can serve the same purpose as hydroelectric power (Geri and McNabb, 2011). This has meant that the government has had to tighten its regulatory actions so as to ensure that the production of this energy does not exceed certain levels which could be harmful to the environment. Although it may seem that the government has put in place measures to ensure that there is a level playing field in the energy market, the hydro energy sub-sector is at a disadvantaged position since other energy sources attract better incentives. Oil and renewable energy sub-sectors enjoy more subsidies than hydro power generation and distribution does. Most of the tax incentives afforded to the hydro energy industry are not as helpful as they should be since the government has a mechanism of regaining its money through added taxation of hydro-electric systems. The government also exercises control on the distribution of hydroelectricity, which has meant that the industry cannot gain as much penetration in the market as other energy companies (Geri and McNabb, 2011).

Although the policy of the federal government on energy is meant to streamline the industry, the rules do not apply equally everywhere. Some of

the critics who argue that the government has its foot on the gas pedal and brake at the same time have a point because the subsidies and tax incentives that are given to hydro-electric producers and distributors always go back to the government through added taxation in other areas. The government's control of distribution also shuts out hydroelectric energy in large parts of the market place where other energy source entities are free to operate as they wish.

Work Cited

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