(BN) Clean-Fuel Companies Left Behind by U.S. Energy Legislation

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By Jim Snyder and Kim Chipman

July 29 (Bloomberg) -- Jack Oswald, chief executive officer of the biofuel company SynGest Inc., says he planned to build at least 15 plants using corncobs to make nitrogen fertilizer. Now, he says he may be able to attract investors for as few as five.

The difference is Senate Majority Leader Harry Reid's decision to pull the plug on U.S. climate-change legislation containing a carbon emissions trading system, according to Oswald. The Democratic lawmaker from Nevada, facing resistance to measures that might increase household energy costs, said yesterday that he would push scaled-back legislation that provides energy conservation incentives and removes the liability cap for offshore oil leaks.

Encouraged by the White House, clean-energy advocates such as Oswald had been betting that Congress would pass a cap-and-trade bill, putting a price on carbon and spurring a new clean-energy economy of "green-collar" jobs, Bloomberg Businessweek reports in its Aug. 2 edition.

President Barack Obama campaigned for the creation of such a system, saying it would help rebuild the economy, reduce U.S. reliance on foreign oil and clean up the environment. A bill passed the House of Representatives in June 2009, and then stalled in the Senate.

As recently as last month, Rahm Emanuel, Obama's chief of staff, said the administration believed it could deliver climate-change legislation.

Obama is "willing to put in his political capital and the capital of the White House to getting this legislation through with the Senate," Emanuel said in a June 16 interview on the "Charlie Rose" program.

Reid's announcement dashed those prospects for this year, and possibly beyond, if Republicans end or reduce the Democrats' majorities in the November elections.

‘Money Would Flow’

“If we had this climate bill passed, the money would flow immediately,” Oswald says. “This is the biggest economic opportunity we have in front of our country, and for some reason our politicians can’t get their minds wrapped around it.”

Fertilizer is now made with natural gas, a process that releases more heat-trapping carbon into the atmosphere than corn-based products. A price on carbon emissions would take away some of the cost advantage of gas, enabling San Francisco-based SynGest to attract financial backing for a “rolling thunder of construction” across the Midwest, Oswald says.

Each SynGest plant would create 360 construction jobs, 40 permanent ones, and a local market for corncobs of as much as $10 million, he says.

Environmental Costs

Putting a price on carbon is “huge” because it would fairly account for the environmental costs of the emissions, says Sunil Paul of Spring Ventures LLC, a San Francisco-based investment fund that specializes in clean-tech companies.

Accounting for both capital and operating expenses, coal costs an average of $59 per megawatt hour, according to Milo Sjardin, an analyst with Bloomberg New Energy Finance. Onshore wind costs an average of $91 per megawatt hour, not including tax incentives.

If carbon costs $20 a ton in a trading market, as analysts have estimated it would under the House-passed bill, the price of coal would increase by $14 a megawatt hour, according to Sjardin, who says the cost difference would close as carbon prices inevitably rose.

In a cruel twist for cap-and-trade supporters, the oil gushing into the Gulf of Mexico from BP Plc’s ruptured well may have contributed to the bill’s undoing. Incentives for more offshore drilling were part of a compromise Senator Lindsey Graham, a South Carolina Republican, added in exchange for a cap on carbon. Once they were stripped out, some Republicans refused to support the measure.

Wind-Power Slows

The bill's travails have already affected renewable energy companies. U.S. wind-power additions in the first six months of 2010 sank 70 percent from a year earlier and fell behind new coal plants for the first time in three years, according to the American Wind Energy Association.

Lewis Hay, CEO of NextEra Energy Inc. of Juno Beach, Florida, the largest producer of wind and solar energy, says that, without a price on carbon and a mandate that utilities buy at least some renewable energy, his company won't be investing an additional $2 billion a year in wind, as it had planned to do.

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