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3 ENERGY TRENDS TO WATCH IN 2012

The lack of a true federal energy policy has been a source of frustration for policymakers on all sides of the ideological spectrum. Unfortunately, Washington will provide little clarity any time soon as the pattern of fits and starts and conflicting messages on energy policy will continue as gas prices climb.

But there is some good news despite the gloom. Oil and natural gas production is booming domestically, with states directing 96 percent of the increase in production since 2007. Solar installations doubled and installed wind energy increased by 31 percent over the past year.

The economics of alternative energy development, however, rely heavily on federal tax incentives and low-interest loans that have come under fire over their cost and charges of political favoritism by picking winners and losers.

Expect to see a contentious debate in Congress as the alternative energy production tax credit and a cash grant program designed to reduce financing risks are set to expire by the end of the year.

Here are three trends state leaders should follow in 2012.

1. Incredibly low natural gas prices and substantial supplies present a paradigm shift in U.S. energy markets.

Natural gas futures prices dropped to $2.28, their lowest prices in nearly 10 years, on the New York Mercantile Exchange in mid-March; prices were nearly double that last spring. After Hurricane Katrina, natural gas prices were more than $15, which pummeled energy intensive industries and consumers.

Historically low prices may save consumers more than $16 billion on their energy bills, according to a study conducted by the Federal Reserve Bank of Dallas. Growing supplies spurred by increased hydraulic fracturing have driven down operating costs for industries heavily reliant on natural gas prices, thereby driving a domestic manufacturing renaissance. Reserves have increased so substantially the U.S. may become an exporter of natural gas—something unimaginable just a few years ago.

Cheap prices also may make the short-term financing of new renewable, nuclear and coal-fired power plants economically unattractive. Expect to see states implement new environmental regulation and production fees on hydraulic fracturing to direct more money to impacted communities to hedge against boom/bust cycles and to fill budget gaps.

2. States must be more creative as federal incentives for alternative energy development will diminish.

Renewable energy development has relied largely on a predictable suite of financial incentives like tax credits and loan guarantee programs to fuel growth. Support for continuing these federal inducements is declining and many analysts expect the production tax credit for renewable energy to expire this year.

If states want to continue down this path of development, they must get more creative and look for regulatory or policy changes to encourage desired outcomes. Virginia, for instance, passed legislation to allow private businesses to purchase electricity directly from utilities and sell it to consumers as a way to expand the infrastructure for plug-in electric hybrids without spending taxpayer dollars. Big box chains or a local hardware store can now sell power to a customer to charge up a vehicle while shopping; previously, state regulations allowed only public utilities to sell electricity to consumers.

3. As if consumers need more bad news, the pain at the pump will likely continue.

The largest refinery on the East Coast is expected to close this summer; that would eliminate nearly 25 percent of the region's gasoline refining capacity. Two other refineries are expected to shutter their doors in the Northeast due to decreasing domestic fuel demand and poor economic margins. More than half the region's refining capacity will be eliminated if all three facilities close, thus increasing reliance on foreign supplies when prices are approaching $4 per gallon.

What can states really do when the value of crude is largely determined by the world market? Immediate policy solutions are fraught with controversy. Industry advocates have urged the suspension of expanding EPA Clean Air regulations and state boutique fuels mandates, in addition to providing waivers to the Jones Act to allow foreign-flagged vessels to bring additional refined gasoline from the Gulf Coast to the Northeast.